

# **EXHIBIT A**

Affidavit of Letitia James in Support of Order to Show Cause,  
dated February 7, 2006  
[pp. 264 - 272]

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

-----X  
In the Matter of

DEVELOP DON'T DESTROY BROOKLYN;  
DANIEL GOLDSTEIN;  
ATLANTIC AVENUE BETTERMENT ASSOCIATION;  
FORT GREENE ASSOCIATION;  
BOERUM HILL ASSOCIATION;  
FIFTH AVENUE COMMITTEE;  
EAST PACIFIC BLOCK ASSOCIATION;  
PROSPECT HEIGHTS ACTION COALITION  
by its President PAT H HAGAN;  
PRAIT AREA COMMUNITY COUNCIL;  
SOCIETY FOR CLINTON HILL;  
DEAN STREET BLOCK ASSOCIATION (4<sup>th</sup> to 5<sup>th</sup> Ave.)  
by its President JUDY SACKOFF;  
PROSPECT HEIGHTS NEIGHBORHOOD  
DEVELOPMENT COUNCIL; ELISELLE ANDERSON,  
DAVID SHEETS, KEN DIAMONDSTONE; and  
PACIFIC CARLTON DEVELOPMENT CORP.;

Index No. 100686/06

Petitioners - Plaintiffs

For a Judgment Pursuant to Article 78 of the CPLR and  
Declaratory Judgment

- against -

EMPIRE STATE DEVELOPMENT CORPORATION and  
FOREST CITY RATNER COMPANIES,

Respondents - Defendants  
-----X

AFFIDAVIT OF LETITIA JAMES

STATE OF NEW YORK)

ss.:

COUNTY OF KINGS )

LETITIA JAMES, being duly sworn, deposes and says:

1. I am a member of the New York City Council, representing District 35, which includes areas of Fort Greene, Clinton Hill, and Prospect Heights in Brooklyn. District 35 includes the footprint of, and is most directly affected by, Forest City Ratner Companies' (FCRC) proposed publicly subsidized, mixed-use redevelopment plan known as the Atlantic Yards Arena and Redevelopment Project.

2. The Project would cover 22 acres of land in my District with a sports arena, a 180-room hotel, and 16 high-rise apartment and office towers, and would replace existing residences and businesses through the use of eminent domain.

3. I respectfully submit this Affidavit in support of my motion to appear as amicus curiae in the petitioners-plaintiffs' motion to preliminarily enjoin the demolition of 12 buildings in my District within the footprint of the Project, pending an independent review of the developer's claims that the buildings are imminently dangerous.

4. Although the Project has not yet been subjected to any of the necessary reviews under the applicable New York State laws, the lead state agency on the Project, the Empire State Development Corporation ("ESDC"), has nevertheless approved FCRC's application to begin demolishing within the Project footprint, based on FCRC's claims that 12 buildings it owns there – some of which FCRC has owned for more than one and one half years – are so structurally unsound that they present an imminent danger to the public.

5. Neither FCRC nor ESDC has permitted me or anyone else to have an independent engineer inspect the buildings, and the same attorney who represented FCRC with respect to the Project also represents ESDC with respect to its approval of FCRC's application to demolish these buildings.

6. I am very concerned that ESDC granted the demolition application without independent review and in the presence of a conflict of interest. The demolition of these buildings before the Project has even been reviewed will give the appearance that the Project is going forward regardless of the outcome of the review process, and will thereby serve to discourage further opposition to the Project from those residents, business and property owners in the footprint who do not wish to move or sell their properties and businesses, as well as from others in my District who oppose the Project.

7. Just as significant, the "rubber-stamping" of the developer's demolition application by an agency represented by the developer's own attorney will give the impression that the New York State laws which mandate and govern the review and potential approval of the Project are meaningless, and that the fate of my District and of the people who live, work and own property here has already been determined by ESDC and FCRC.

#### **The Matter of Public Interest at Stake**

8. This case involves a matter of important public interest. As a representative of the District most affected by the Project, I have uniquely relevant and immediate concerns. I believe that my participation in this case as amicus curiae would be of special assistance to the Court

9. The Project would require the closing of City streets, would rely on eminent domain to force residential and commercial property owners to sell their properties for transfer to a private developer, and would thrust a massive real estate development, including 60-story-tall skyscrapers, into the midst of thriving, vibrant and historically low-rise neighborhoods.

10. Many residents within my District believe that the Project would have a substantially

detrimental impact on the community environment and have been exercising their rights to voice opposition to the Project in its current form and to lobby governmental officials to alter or defeat the Project. A number of residents and property owners within the proposed Project's footprint, including some of the petitioners herein, do not wish to sell their homes or properties to FCRC and are adamantly opposed to the State's use of eminent domain to compel them to do so.

11. I have many serious reservations about the process, scope, and scale of the Project. I share the concerns of the individuals and community groups who are petitioners-plaintiffs in this action. But my perspective as a member of the local governing body will bring to the Court's attention arguments that might not otherwise be presented.

12. I am paying particular attention to the Project because it usurps the local political process. ESDC has declared it a "State project" under the Urban Development Corporation Act, giving ESDC the power to review and approve it, overriding both the New York City Uniform Land Use Review Procedures and the New York City Zoning Resolution.

13. Because the Project circumvents local review, I have a special duty as a local representative to monitor its review by ESDC under the State Environmental Quality Review Act ("SEQRA") to ensure that it is an open and deliberative process, as the law requires.

14. Of great concern to me is the authority granted to ESDC to exercise the power of eminent domain to acquire private property which the developer needs for the Project, but does not own or control. As the Court is no doubt aware, the abuse of the power of eminent domain is of growing concern to localities across the country, especially after the U.S. Supreme Court's recent and controversial decision in Kelo v. City of New London, Conn., 125 S. Ct. 2655 (2005).

15. I believe that FCRC is already abusing the power of eminent domain by using it as a

strong-arm negotiating tactic, even though the Project is only in the earliest stages of review. A battery of lawyers has descended on homeowners and businesses in the area, telling them they should accept FCRC's offer to purchase their property at FCRC's given price, or suffer condemnation. FCRC's demolition of buildings in the footprint will likely intimidate these property owners further and destroy any faith they may have in the ability of their government to protect their interests adequately.

16. My staff and I have been meeting with property owners in the proposed footprint. Many feel coerced to sell their property. A majority of those who have not already sold do not want to sell. Yet they understandably do not want to risk having their properties taken by the State, under the law of eminent domain. The threat of eminent domain is being used to force unwilling owners to take what the developer offers, as well as sign an order that they will not speak against the Project, nor attend community meetings. The Project has not even been reviewed, let alone approved, and yet already owners are being pressured to sell their homes and businesses.

17. On December 19, 2005, I requested an opportunity to inspect the buildings at issue with an independent engineer, in order to determine whether demolition is truly necessary to protect public safety. FCRC agreed at first, and an inspection was scheduled for December 20, 2005.

18. That inspection was cancelled without explanation, and a subsequent inspection scheduled for December 21<sup>st</sup> or December 22<sup>nd</sup>. However, FCRC informed me that it would not allow me to bring an engineer into the buildings, although I could still inspect on my own. Since my own visual inspection as a lay person would be meaningless to the question of whether the

buildings need to be demolished, I declined the inspection.

19. There is a serious question as to whether the application to demolish is *bona fide*. The fact that FCRC refuses to allow a second engineer's inspection raises sufficiently serious doubts. Add to this the fact that FCRC has owned these properties for some time and may have allowed them to deteriorate, and the existence of earlier inspection reports suggesting that the buildings were not then imminently dangerous -- there is more than ample reason to suspect that public safety is not the real purpose of the proposed demolition.

20. Demolishing buildings within the footprint of the project before the project has even been reviewed, while using the threat of eminent domain to pressure local property owners to sell, will send a clear message to those property owners that the approval of the project is a foregone conclusion and they had better sell their properties to the developer before the State takes them away.

21. An environmental review process is not an open and deliberative process in the presence of coercion and fear.

22. Moreover, ESDC, in granting FCRC's application to demolish without taking the requisite "hard look" under SEQRA, sends the wrong message to the public at large: that the environmental review process is a sham and any opposition an exercise in futility.

23. The erosion of public confidence in the integrity of the environmental review process mandated by SEQRA is a serious injury and, I submit, an irreparable one.

The Presence of the Same Attorney  
on Both Sides of This Issue Gives the  
Appearance that the State's Review Process is a Sham.

24. When the same attorney represents both the developer seeking approval and the agency from which approval is sought, there is not only the very real possibility of conflicted interest and favoritism, there is a virtual certainty that it will appear so.

25. An environmental review process cannot be open and deliberative when there is even an appearance of bias or favoritism.

26. David Paget, Esq., a partner of the law firm Sive Paget & Reisel, P.C., has represented both FCRC and ESDC with respect to the Project. In fact, it is my understanding that Mr. Paget has had direct responsibility for ESDC's approval of FCRC's application to demolish the 12 buildings in the footprint, despite the fact that he has also represented FCRC on this project.

27. Attached hereto as Exhibit "A" is a copy of a letter from Mr. Paget, writing on behalf of ESDC, to Jeffrey Baker, Esq., an attorney representing one of the plaintiffs herein, explaining that ESDC has approved FCRC's application to demolish the 12 buildings.

28. Attached hereto as Exhibit "B" is a copy of Mr. Paget's bio from his law firm's web site, as it appeared on February 6, 2006 - well after ESDC approved FCRC's application to begin demolition. Mr. Paget's bio unambiguously identifies his involvement with the Project on behalf of FCRC, as follows:

Among his current engagements, David represents the Forest City Companies regarding the development of a basketball arena and major mixed-use development in Brooklyn[.]

Moreover, the same bio identifies this project as being

[a]mong the many projects and undertakings which David has been a central participant in the preparation of environmental impact statements and in obtaining related permits and approvals, and, most commonly, successfully defending legal challenges to those projects[.]

(emphasis added)

29. How can the same attorney who advertises to the public that he was charged with “obtaining related permits and approvals” for and “defending legal challenges to” the Project on behalf of FCRC, now hold himself out to the public as the lawyer for the State agency charged with granting “permits and approvals” for the same Project? How can the residents of District 35 whom I represent have any confidence in these circumstances that the legally mandated review process is truly open and deliberative, and free from bias and favoritism?

30. Not only has ESDC, a public benefit corporation, failed to exercise independence in reviewing the demolition application, but its independence with respect to the entire Project is compromised by the fact that it is represented by FCRC’s own attorney. ESDC has extraordinary powers here – the power to override local law and local political processes and to condemn private property. As a public benefit corporation, ESDC holds its power in trust for the benefit of the public.

31. At the very least, this apparent conflict requires the scrutiny of this Court before any further action by ESDC with respect to the Project is allowed to proceed

Conclusion

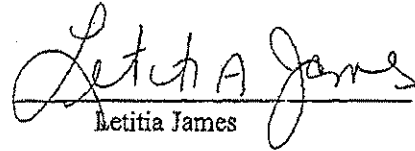
32. The demolition of 12 buildings within the proposed Project site will begin the process of forever changing my District, even though this massive redevelopment project has not yet been reviewed or approved. FCRC has already created an atmosphere of fear and intimidation through the threat of eminent domain, and there are serious questions as to the *bona fides* of the demolition application and the independence of the public agency approving the demolition application.

33. A preliminary injunction to postpone demolition, pending an inspection and further review of the application, will cause no prejudice whatsoever to FCRC. Once the buildings are torn down, however, they cannot be put back, and the injury to the community -- an altered landscape and a loss of faith in the integrity of the environmental review process -- is irreparable.

34. A copy of the proposed amicus brief is attached as Exhibit C.

35. No prior application for the relief requested herein has been made.

WHEREFORE, it is respectfully requested that my motion for leave to appear as amicus curiae be granted, and that the petitioners-plaintiffs' motion for a preliminary injunction be granted.

  
Letitia James

Sworn to before me this  
7<sup>th</sup> day of February, 2006.



Notary Public  
LYNN ARMENTROUT  
Notary Public, State of New York  
No. 24-4780215  
Qualified in Kings County 2007  
Commission Expires March 30, 2007

# **EXHIBIT B**

Affidavit of Velmanette Montgomery in Support of Order to  
Show Cause, dated February 6, 2006  
[pp. 281 - 283]

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

-----X  
In the Matter of

DEVELOP DON'T DESTROY BROOKLYN;  
DANIEL GOLDSTEIN;  
ATLANTIC AVENUE BETTERMENT ASSOCIATION;  
FORT GREENE ASSOCIATION;  
BOERUM HILL ASSOCIATION;  
FIFTH AVENUE COMMITTEE;  
EAST PACIFIC BLOCK ASSOCIATION;  
PROSPECT HEIGHTS ACTION COALITION  
by its President PATTI HAGAN;  
PRATT AREA COMMUNITY COUNCIL;  
SOCIETY FOR CLINTON HILL;  
DEAN STREET BLOCK ASSOCIATION (4<sup>th</sup> to 5<sup>th</sup> Ave.)  
by its President JUDY SACKOFF;  
PROSPECT HEIGHTS NEIGHBORHOOD  
DEVELOPMENT COUNCIL; ELISELLE ANDERSON,  
DAVID SHEETS, KEN DIAMONDSTONE; and  
PACIFIC CARLTON DEVELOPMENT CORP ,

Index No. 100686/06

Petitioners - Plaintiffs

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- against -

EMPIRE STATE DEVELOPMENT CORPORATION and  
FOREST CITY RATNER COMPANIES,

Respondents - Defendants  
-----X

AFFIDAVIT OF VELMANETTE MONTGOMERY

STATE OF NEW YORK)

ss.:

COUNTY OF ALBANY )

VELMANETTE MONTGOMERY, being duly sworn, deposes and says:

1. I am a New York State Senator, representing the 18<sup>th</sup> Senate District. My District includes the areas of Brooklyn which lie in the footprint of Forest City Ratner Companies' proposed publicly subsidized, mixed-use redevelopment plan known as the Atlantic Yards Arena and Redevelopment Project.
2. I share the concerns Letitia James expresses in her affidavit about the impact of the Project on our Districts, and the integrity of the process of environmental review.
3. As I said in my written comments to Charles Gargano, chairman of the Empire State Development Corporation ("ESDC"), regarding the Draft Scope of Analysis for an Environmental Impact Statement, the development plan, as proposed, will change the character of certain Brooklyn neighborhoods forever. The building of 17 towers, ranging from 30 to 60 stories, and a 20,000 seat arena in the heart of five historically landmarked, ethnically and economically mixed brownstone neighborhoods would be like having a volcano erupt in the middle of Prospect Park.
4. It is of particular concern to me that this plan was developed without any input by residents and organizations representing the surrounding neighborhoods.
5. To permit FCRC to start demolishing buildings before the Project has been reviewed, let alone approved, particularly when the approval of the demolition application is tainted by the appearance of a conflict of interest, would send the wrong message to the constituents of these communities and exacerbate the atmosphere of fear and intimidation that the developer has already helped create.

6. No one would be harmed, and the public good would be served, by delaying demolition until a second engineer, who is independent from the developer, inspects and renders a second opinion as to whether the buildings are truly so structurally unsound as to represent a danger to the public.

7. I have reviewed the brief of the proposed amici curiae and I agree with the arguments it makes.

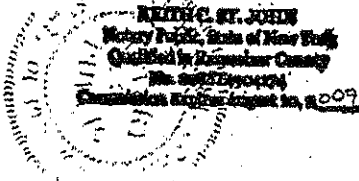
8. No prior application for the relief requested herein has been made.

WHEREFORE, it is respectfully requested that my motion for leave to appear as amicus curiae be granted, and that the petitioners-plaintiffs' motion for a preliminary injunction be granted.

  
Veimanche Montgomery

Sworn to before me this  
6<sup>th</sup> day of February, 2006.

  
Notary Public



# **EXHIBIT C**

Affidavit of Major R. Owens in Support of Order to Show Cause,  
dated February 6, 2006  
[pp. 278 - 280]

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

-----X  
In the Matter of

DEVELOP DON'T DESTROY BROOKLYN;  
DANIEL GOLDSTEIN;  
ATLANTIC AVENUE BETTERMENT ASSOCIATION;  
FORT GREENE ASSOCIATION;  
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PROSPECT HEIGHTS NEIGHBORHOOD  
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Petitioners - Plaintiffs

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- against -

EMPIRE STATE DEVELOPMENT CORPORATION and  
FOREST CITY RATNER COMPANIES,

Respondents - Defendants  
-----X

AFFIDAVIT OF MAJOR R. OWENS

WASHINGTON, D.C. ss.:

MAJOR R. OWENS, being duly sworn, deposes and says:

1. I am a member of the United States Congress, representing the 11<sup>th</sup> Congressional District of New York. My District includes the areas of Brooklyn which lie in the footprint of Forest City Ratner Companies' proposed publicly subsidized, mixed-use redevelopment plan known as the Atlantic Yards Arena and Redevelopment Project.

2. I share the concerns Letitia James expresses in her affidavit about the impact of the Project on our Districts, and the integrity of the process of environmental review.

3. It is of particular concern to me that this plan was developed without any input by residents and organizations representing the surrounding neighborhoods.

4. To permit FCRC to start demolishing buildings before the Project has been reviewed, let alone approved, particularly when the approval of the demolition application is tainted by the appearance of a conflict of interest, would send the wrong message to the constituents of these communities and exacerbate the atmosphere of fear and intimidation that the developer has already helped create.

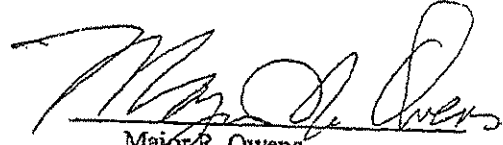
5. No one would be harmed, and the public good would be served, by delaying demolition until a second engineer, who is independent from the developer, inspects and renders a second opinion as to whether the buildings are truly so structurally unsound as to represent a danger to the public.

6. I have reviewed the brief of the proposed amici curiae and I agree with the arguments it makes.

7. No prior application for the relief requested herein has been made.

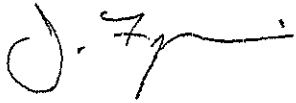
WHEREFORE, it is respectfully requested that my motion for leave to appear as amicus curiae be granted, and that the petitioners-plaintiffs' motion for a preliminary injunction be

granted.



Major R. Owens

Sworn to before me this  
6<sup>th</sup> day of February, 2006.



Jon Forgiome  
Notary Public, District of Columbia  
My Commission Expires 12-14-2009

# **EXHIBIT D**

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

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

For the fiscal year ended January 31, 2007

**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

(State or other jurisdiction of incorporation or organization)

34-0863886

(I.R.S. Employer Identification No.)

Terminal Tower  
Suite 110050 Public Square  
Cleveland, Ohio

(Address of principal executive offices)

44113

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Class A Common Stock (\$.33 1/3 par value)  
 Class B Common Stock (\$.33 1/3 par value)  
 \$100,000,000 Aggregate Principal Amount of 7.375% Senior Notes  
 Due 2034

New York Stock Exchange  
 New York Stock Exchange  
 New York Stock Exchange

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

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO 

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO 

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

YES  NO Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 

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

Large accelerated filer Accelerated filer Non-accelerated filer 

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Table of Contents**PART I****Item 1. Business**

Founded in 1920 and publicly traded since 1960, Forest City Enterprises, Inc. (with its subsidiaries, the “Company” or “Forest City”) is principally engaged in the ownership, development, management and acquisition of commercial and residential real estate properties in 26 states and the District of Columbia. At January 31, 2007, the Company had approximately \$9.0 billion in consolidated assets, of which approximately \$8.2 billion was invested in real estate, at cost. The Company’s core markets include the New York City/Philadelphia metropolitan area, Denver, Boston, the Greater Washington D.C./Baltimore metropolitan area, Chicago and the state of California. The Company has offices in Boston, Chicago, Denver, Los Angeles, New York City, San Francisco, Washington, D.C., and the Company’s headquarters are in Cleveland, Ohio. The Company’s portfolio of real estate assets is diversified both geographically and among property types.

The Company operates through three primary strategic business units:

- 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.
- Residential Group owns, develops, acquires and operates residential rental properties, including upscale and middle-market apartments, adaptive re-use developments and supported-living communities. It also develops for-sale condominium projects and owns, develops and manages military family housing.
- Land Development Group acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects.

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

Segments of Business

The Company currently has five segments: Commercial Group, Residential Group, Land Development Group and the New Jersey Nets (the “Nets”), in addition to Corporate Activities. Financial information about industry segments required by this item is included in Item 8. Financial Statements and Supplementary Data, pages 108-110, Note L — Segment Information.

**Commercial Group**

The Company has developed retail projects for more than 50 years and office and mixed-use projects for more than 30 years. The Commercial Group owns a diverse portfolio in both urban and suburban locations in 16 states and the District of Columbia. The Commercial Group targets densely populated markets where it uses its expertise to develop complex projects, often employing public or private partnerships. As of January 31, 2007, the Commercial Group owned interests in 90 completed projects, including 43 retail properties (approximately 12.4 million gross leasable square feet), 41 office properties (approximately 10.3 million gross leasable square feet) and 6 hotels (2,033 rooms). The Commercial Group includes the New York City office operations.

The Company opened its first community retail center in 1948 and its first enclosed regional mall in 1962. Since then, it has developed regional retail centers and specialty retail centers. The specialty retail centers include urban retail centers, entertainment-based centers, community centers and power centers (collectively, “specialty retail centers”). As of January 31, 2007, the Commercial Group’s retail portfolio consisted of 17 regional retail centers (3 under construction) with gross leasable area (“GLA”) of 7.5 million square feet and 31 specialty retail centers (2 under construction) with a total GLA of 6.9 million square feet.

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

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

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

**Residential Group**

The Company's Residential Group owns, develops, acquires, leases and manages residential rental property in 19 states and the District of Columbia. The Company has been engaged in apartment community development for over 50 years beginning in Northeast Ohio and gradually expanding nationally. Its residential portfolio includes middle-market apartments, upscale urban properties and adaptive re-use developments. The Company also owns a select number of supported-living facilities located primarily in the New York City metropolitan area. Additionally, the Residential Group develops for-sale condominium projects and also owns, develops and manages military family housing.

At January 31, 2007, the Residential Group's operating portfolio consisted of 32,189 units in 118 properties in which Forest City has an ownership interest. In addition, the Company owns a residual interest in and manages 10 properties containing 1,765 units of syndicated senior citizen subsidized housing.

**Land Development Group**

The Company has been in the land development business since the 1930s. The Land Development Group acquires and sells raw land and sells fully-entitled developed lots to residential, commercial and industrial customers. The Land Development Group also owns and develops raw land into master-planned communities, mixed-use projects and other residential developments. As of January 31, 2007, the Company owned more than 12,090 acres of undeveloped land for these commercial and residential development purposes. The Company has an option to purchase 1,661 acres of developable land at its Stapleton project in Denver, Colorado, and 6,580 acres of developable land at its Mesa del Sol project in Albuquerque, New Mexico. The Company has land development projects in 11 states.

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

As of the end of fiscal 2006, the Company had purchased 1,274 acres at Stapleton, leaving a balance of 1,661 acres to be acquired for additional development over the course of the next 10 to 15 years. Over and above the developable land to be purchased by the Company, 1,116 acres of Stapleton are reserved for regional parks and open space. Aside from land sales activities, Stapleton currently has over 2,000,000 square feet of retail space, 48,000 square feet of office space and 298 apartment units in place.

Additionally, as of the end of fiscal 2006, the Company had purchased 3,082 acres at Mesa del Sol, leaving a balance of 6,580 acres to be acquired for additional development over the course of the next 25 to 50 years. Aside from land sales activities, Mesa del Sol currently has 88,000 square feet of office space, in place, which is included in the Commercial Group segment.

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

**The Nets**

On August 16, 2004 the Company purchased an ownership interest in the Nets, a franchise of the National Basketball Association ("NBA"). The Company accounts for its investment on the equity method of accounting. Although the Company has an ownership interest of approximately 21% in the Nets, the Company currently recognized approximately 17%, 31% and 38% of the net loss for the years ended January 31, 2007, 2006 and 2005, 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.

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The purchase of the interest in the Nets is the first step in the Company's efforts to pursue development projects, which include a new entertainment arena complex and adjacent urban developments combining housing, offices, shops and public open space. The Nets segment is primarily comprised of and reports on the sports operations of the basketball team.

Competition

The real estate industry is highly competitive in many of the markets in which the Company operates. Competition could over-saturate any market, and as a result the Company may not have sufficient cash to meet the debt service requirements on certain of its properties. Although the Company may attempt to negotiate a restructuring with the mortgagee, it may not be successful, which could cause a property to be transferred to the mortgagee.

There are numerous other developers, managers and owners of commercial and residential real estate that compete with us nationally, regionally and/or locally, some of whom may have greater financial resources. They compete with the Company for management and leasing revenues, land for development, properties for acquisition and disposition, for anchor department stores and tenants for properties. The Company may not be able to successfully compete in these areas.

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

In addition to real estate competition, the Company faces competition related to the operation of the Nets, a professional sports franchise. Specifically, the Nets are in competition with other major league sports, college athletics, other sports-related and non-sports related entertainment. If the Company is not able to successfully manage this risk, it may incur its share of operating losses, which are allocated to each member based on an analysis of the respective members' net book equity assuming a sale of the assets at depreciated historical cost at the end of the accounting period without regard to unrealized appreciation, if any, in the value of the Nets.

Number of Employees

The Company had 4,484 employees as of January 31, 2007, of which 3,604 were full-time and 880 were part-time.

Available Information

Forest City Enterprises, Inc. is an Ohio corporation and its executive offices are located at Suite 1100, 50 Public Square, Cleveland, Ohio 44113. The Company makes available, free of charge, on its website at [www.forestcity.net](http://www.forestcity.net), its annual, quarterly and current reports, including amendments to such reports, as soon as practicable after the Company electronically files such material with, or furnishes such material to, the SEC. The Company's SEC filings can also be obtained from the SEC website at [www.sec.gov](http://www.sec.gov). The Company's filings can be read and copied at the SEC's Public Reference Room office at 100 F Street N.E., Washington, D.C. 20549. Information on the operation of the SEC's Public Reference Room can be obtained by calling 1-800-SEC-0330.

The Company's corporate governance guidelines including the Company's code of ethics and committee charters are also available on the Company's website at [www.forestcity.net](http://www.forestcity.net) or in print to any stockholder upon written request addressed to Corporate Secretary, Forest City Enterprises, Inc., Suite 1100, 50 Public Square, Cleveland, Ohio 44113.

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

**Item 1A. Risk Factors**We are Subject to Risks Associated with Investments in Real Estate

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

- Increases in interest rates;
- A general tightening of the availability of credit;
- A decline in the economic conditions in one or more of our primary markets;

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- An increase in competition for tenants and customers or a decrease in demand by tenants and customers;
- An increase in supply of our property types in our primary markets;
- A continuation of terrorist activities or other acts of violence or war in the United States of America or abroad or the occurrence of such activities or acts that impact properties in our real estate portfolios or that may impact the general economy;
- Continuation or escalation of tensions in the Middle East;
- Declines in consumer spending during an economic recession that adversely affect our revenue from our retail centers;
- Declines in housing markets that adversely affect our revenue from our land segment; and
- The adoption on the national, state or local level of more restrictive laws and governmental regulations, including more restrictive zoning, land use or environmental regulations and increased real estate taxes.

In addition, there are factors that may adversely affect the value of, and our income from, specific properties, including:

- Adverse changes in the perceptions of prospective tenants or purchasers of the attractiveness of the property;
- Opposition from local community or political groups with respect to development, construction or operations at a particular site;
- Our inability to provide adequate management and maintenance or to obtain adequate insurance;
- The investigation, removal or remediation of hazardous materials or toxic substances at a site;
- Our inability to collect rent or other receivables;
- An increase in operating costs;
- Introduction of a competitor's property in or in close proximity to one of our current markets; and
- Earthquakes, floods, hurricanes or underinsured or uninsured natural disasters.

The occurrence of one or more of the above risks could result in significant delays or unexpected expenses. If any of these occur, we may not achieve our projected returns on our properties and we could lose some or all of our investments in those properties.

We are Subject to Real Estate Development Risks

Our development projects are subject to significant risks relating to our ability to complete our projects on time and on budget. Factors that may result in a development project exceeding budget or being prevented from completion include:

- An inability to secure sufficient financing on favorable terms, including an inability to refinance construction loans;
- Construction delays or cost overruns, either of which may increase project development costs;
- An increase in commodity costs;
- An inability to obtain zoning, occupancy and other required governmental permits and authorizations;
- An inability to secure tenants or anchors necessary to support the project; and
- Failure to achieve or sustain anticipated occupancy or sales levels.

If any of these occur, we may not achieve our projected returns on properties under development and we could lose some or all of our investments in those properties.

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

We periodically serve as either the construction manager or the general contractor for our development projects. The construction of real estate projects entails unique risks, including risks that the project will fail to conform to building plans, specifications and timetables. These failures could be caused by strikes, weather, government regulations and other conditions beyond our control. In addition, we may become liable for injuries and accidents occurring during the construction process that are not insured.

In the construction of new projects, we generally guarantee the lender of the construction loan the lien-free completion of the project. This guaranty is recourse to us and places the risk of construction delays and cost overruns on us. In addition, from time to time we guarantee our construction obligations to a major tenant. These types of guarantees are released upon completion of the project, as defined. Furthermore, as the general partner of certain limited partnerships, we guarantee the funding of operating deficits of newly-opened apartment projects for an average of five years. We may have to make significant expenditures in the future in order to comply with our lien-free completion obligations and funding of operating deficits.

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

- *Brooklyn Atlantic Yards.* We are in the process of developing Brooklyn Atlantic Yards, a \$4.0 billion mixed-use project in downtown Brooklyn expected to feature an 850,000 square foot sports and entertainment arena for the Nets basketball team, a franchise of the NBA. The acquisition and development of Brooklyn Atlantic Yards has been formally approved by the required state governmental authorities but final documentation of the transactions are subject to the completion of negotiations with local and state governmental authorities, including negotiation of the applicable development documentation. There is also the possibility that condemnation of the land will be needed for the development and potential removal, remediation or other activities to address environmental contamination at, on, under or emanating to or from the land. There are also various lawsuits filed challenging the approval process and use of eminent domain which may not be resolved in our favor resulting in Brooklyn Atlantic Yards not being developed with the features we anticipate. There is also the potential for increased costs and delays to the project as a result of (i) increasing construction costs, (ii) scarcity of labor and supplies, (iii) our inability to obtain tax exempt financing or the availability of financing generally, (iv) increasing rates for financing, and (v) other potential litigation seeking to enjoin or prevent the project for which there may not be insurance coverage. The development of Brooklyn Atlantic Yards is being done in connection with the proposed move of the Nets to the planned arena. While we are part of an ownership group that acquired the Nets on August 16, 2004, the Arena itself (and its plans) along with any movement of the team is subject to approval by the NBA. If we do not receive this approval, we may not be able to develop Brooklyn Atlantic Yards to the extent intended or at all. Even if we are able to continue with the development, we would likely not be able to do so as quickly as originally planned.
- *Military Family Housing.* Hawaii Military Communities, LLC, a wholly owned subsidiary of ours, has been selected to form a partnership to be known as Ohana Military Communities, LLC with the United States Department of the Navy. Ohana Military Communities, LLC will own, redevelop and operate United States Navy and United States Marine Corp military family housing communities comprising approximately 5,750 units on the islands of Oahu and Kauai, Hawaii. Midwest Military Communities, LLC, a wholly owned subsidiary of ours, has been selected to form a partnership to be known as Midwest Family Housing, LLC with the United States Department of the Navy. Midwest Family Housing, LLC will own, redevelop, and operate United States Navy military family housing communities, comprising approximately 1,650 units located primarily in the Chicago, Illinois area. We have not engaged in projects of this type before, and we cannot assure you we will be able to complete them successfully.
- *For-Sale Condominiums.* We are pursuing the development of condominiums in selected markets. Current condominium projects include *1100 Wilshire* and *Mercury*, both previously unfinished office buildings in Los Angeles. While we have previously developed for-sale condominium projects with partners, we are developing some of these projects without the development assistance of one or more partners. We may not be able to sell the units at the projected sales prices for a number of reasons, including, without limitation, a rise in interest rates and the softening of the housing market.

Table of ContentsAn Economic Decline in One or More of Our Primary Markets May Adversely Affect Our Results of Operations and Cash Flows

Our core markets include the New York City/Philadelphia metropolitan area, Denver, Boston, the Greater Washington D.C./Baltimore metropolitan area, Chicago and the state of California. We also have a concentration of real estate assets in Cleveland, Ohio. A downturn in any of these markets may impair or continue to impair:

- The ability of our tenants to make lease payments;
- Our ability to successfully market new developments to prospective purchasers and tenants;
- Our rental and lease rates;
- Hotel occupancy and room rates;
- Land sales; and
- Occupancy rates for commercial and residential properties.

Adverse economic conditions may negatively impact our results of operations and cash flows. In addition, local real estate market conditions have been, and may continue to be, significantly impacted by one or more of the following events:

- Business layoffs and downsizing;
- Industry slowdowns;
- Relocations or closings of businesses;
- Changing demographics; and
- Any oversupply of or reduced demand for real estate.

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

Our results of operations and cash flows may be adversely affected if we are unable to continue leasing a significant portion of our commercial and residential real estate portfolio. We depend on commercial and residential tenants in order to collect rents and other charges. Our ability to sustain our current and historical occupancy levels depends on many factors that are discussed elsewhere in this section.

A Downturn in the Housing Market May Adversely Affect Our Results of Operations and Cash Flows

Our results of operations and cash flows may be adversely affected if we are unable to continue selling our land held for sale. We depend on sales to homebuilders and condominium buyers. Our ability to sustain our current and historical sales levels depends in part on the strength of the housing market. Our failure to successfully sell our land held for sale on favorable terms would adversely affect our results of operations and cash flows.

Our Properties and Businesses Face Significant Competition

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

There are numerous other developers, managers and owners of commercial and residential real estate and undeveloped land that compete with us nationally, regionally and/or locally, some of whom have greater financial resources than us. They compete with us for management and leasing opportunities, land for development, properties for acquisition and disposition, and for anchor department stores and tenants for properties. We may not be able to successfully compete in these areas.

Tenants at our retail properties face continual competition in attracting customers from retailers at other shopping centers, catalogue companies, online merchants, warehouse stores, large discounters, outlet malls, wholesale clubs, direct mail and telemarketers. Our competitors and those of our tenants could have a material adverse effect on our ability to lease space in

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our properties and on the rents we can charge or the concessions we can grant. This in turn could materially and adversely affect our results of operations and cash flows, and could affect the realizable value of our assets upon sale.

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

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

Our Results of Operations and Cash Flows May Be Adversely Affected by Tenant Defaults or the Closing or Bankruptcy of Non-Tenant Anchors

Our results of operations and cash flows may be adversely affected if a significant number of our tenants are unable to meet their obligations or do not renew their leases, or if we are unable to lease a significant amount of space on economically favorable terms. In the event of a default by a tenant, we may experience delays in payments and incur substantial costs in recovering our losses. Our ability to collect rents and other charges will be even more difficult if the tenant is bankrupt or insolvent. Our tenants have from time to time filed for bankruptcy or been involved in insolvency proceedings and others may in the future, which could make it more difficult to enforce our rights as lessor and protect our investment.

Based on tenants with net base rent of greater than 2% of total net base rent as of January 31, 2007, our five largest office tenants by leased square feet were the City of New York, Millennium Pharmaceuticals Inc., the U.S. Government, Morgan Stanley & Co. and Securities Industry Automation Corp. Based on tenants with net base rent of greater than 1% of total net base rent as of January 31, 2007, our five largest retail tenants by leased square feet were AMC Entertainment Inc., Regal Entertainment Group, The Gap, The Home Depot and TJX Companies.

Current bankruptcies of some of our tenants and the potential bankruptcies of other tenants in the future could make it difficult for us to enforce our rights as lessor and protect our investment. With respect to our retail centers, we also could be adversely affected if one or more non-tenant anchors were to close or enter into bankruptcy. Although non-tenant anchors generally do not pay us rent, they typically contribute towards common area maintenance and other expenses. The loss of these revenues could adversely affect our results of operations and cash flows. Further, the temporary or permanent loss of an anchor likely would reduce customer traffic in the retail center, which could reduce the percentage of rent paid by retail center tenants or cause retail center tenants to close or to enter into bankruptcy. Rents obtained from other tenants may be adversely impacted. One or more of these factors could cause the retail center to fail to meet its debt service requirements.

We May Be Negatively Impacted by Department Store Consolidations

Department store consolidations may result in the closure of existing department stores. With respect to existing department stores, we may be unable to re-lease this area or to re-lease it on comparable terms. Additionally, department store closures could result in decreased customer traffic, which could lead to decreased sales at other stores. Rents obtained from other tenants may also be adversely impacted as a result of co-tenancy clauses in their leases. Consolidations may also negatively affect current and future development and redevelopment projects.

Terrorist Attacks and Other Armed Conflicts May Adversely Affect Our Business

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

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

Table of ContentsWe Have Limited Experience Participating in the Operation and Management of a Professional Basketball Team, and Future Losses Are Expected for the Nets

On August 16, 2004, we purchased a legal ownership interest in the Nets. This interest is reported on the equity method of accounting as a separate segment. The purchase of the interest in the Nets is the first step in our efforts to pursue development projects at Brooklyn Atlantic Yards, which are expected to include a new entertainment arena complex and adjacent developments combining housing, offices, shops and public open space. The relocation of the Nets is, among other items, subject to various approvals by the NBA, and we cannot assure you we will receive these approvals on a timely basis or at all. If we are unable to or delayed in moving the Nets to Brooklyn, we may be unable to achieve our projected returns on the related development projects, which could result in a delay in the return of, termination of, or losses on our investment. The Nets are currently operating at a loss and are projected to continue to operate at a loss at least as long as they remain in New Jersey. Even if we are able to relocate the Nets to Brooklyn, there can be no assurance that the Nets will be profitable in the future. Losses are allocated to each member of the limited liability company that owns the Nets based on an analysis of the respective member's claim on the net book equity assuming a liquidation at book value at the end of each accounting period without regard to unrealized appreciation (if any) in the fair value of the Nets. Therefore, losses allocated to us may exceed our legal ownership interest.

The Operation of a Professional Sports Franchise Involves Certain Risks

Our investment in the Nets is subject to a number of operational risks, including risks associated with operating conditions, competitive factors, economic conditions and industry conditions. If we are not able to successfully manage the following operational risks, we may incur additional operating losses, which are allocated to each member based on an analysis of the respective members' 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:

- Competition with other major league sports, college athletics and other sports-related and non sports-related entertainment;
- Dependence on competitive success of the Nets;
- Fluctuations in the amount of revenues from advertising, sponsorships, concessions, merchandise, parking and season and other ticket sales, which are tied to the popularity and success of the Nets;
- Uncertainties of increases in players' salaries;
- Dependence on talented players;
- Risk of injuries to key players;
- Risk of labor actions or work stoppages by the players' union; and
- Dependence on television and cable network, radio and other media contracts.

We Are Controlled by the Ratner, Miller and Shafran Families, Whose Interests May Differ from Those of Other Shareholders

Our authorized common stock consists of Class A common stock and Class B common stock. The economic rights of each Class of common stock are identical, but the voting rights differ. The Class A common stock, voting as a separate Class, is entitled to elect 25% of the members of our board of directors, while the Class B common stock, voting as a separate Class, is entitled to elect the remaining 75% of our board of directors. On all other matters, the Class A common stock and Class B common stock vote together as a single Class, with each share of our Class A common stock entitled to one vote per share and each share of Class B common stock entitled to ten votes per share.

At March 1, 2007, members of the Ratner, Miller and Shafran families, which include members of our current board of directors and executive officers, owned 76.0% of the Class B common stock. RMS, Limited Partnership ("RMS LP"), which owned 75.6% of the Class B common stock, is a limited partnership, comprised of interests of these families, with eight individual general partners, currently consisting of:

- Samuel H. Miller, Treasurer of Forest City and Co-Chairman of our Board of Directors;
- Charles A. Ratner, President and Chief Executive Officer of Forest City and a Director;
- Ronald A. Ratner, Executive Vice President of Forest City and a Director;

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- Brian J. Ratner, Executive Vice President of Forest City and a Director;
- Deborah Ratner Salzberg, President of Forest City Washington, Inc., a subsidiary of Forest City, and a Director;
- Joan K. Shafran, a Director;
- Joseph Shafran; and
- Abraham Miller.

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

In addition, at March 1, 2007, members of these families collectively owned 17.3% of the Class A common stock. As a result of their ownership in Forest City, these family members and RMS LP have the ability to elect a majority of our board of directors and to control the management and policies of Forest City. Generally, they may also determine, without the consent of our other shareholders, the outcome of any corporate transaction or other matters submitted to our shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets and prevent or cause a change in control of Forest City.

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

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

We paid approximately \$446,000 and \$343,000 as total compensation during the years ended January 31, 2007 and 2006, respectively, to RMS Investment Corp. for property management and leasing services. RMS Investment Corp. is controlled by members of the Ratner, Miller and Shafran families, some of whom are our directors and executive officers.

RMS Investment Corp. manages and provides leasing services to our Cleveland-area specialty retail center, Golden Gate, which has 362,000 square feet. The current rate of compensation for this management service is 4% of all rental income, plus a leasing fee of generally 3% to 4% of rental income. Management believes these fees are comparable to those other management companies would charge to non-affiliated third parties. Additionally, RMS Investment Corp. managed and provided leasing services to Midtown Plaza, our other Cleveland-area retail center, under the same compensation structure until its sale on June 9, 2006.

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

Under our current policy, no director or executive officer, including any member of the Ratner, Miller and Shafran families, is allowed to invest in a competing real estate opportunity without first obtaining the approval of the audit committee of our board of directors. We do not have non-compete agreements with any director, officer or employee, other than Charles Ratner, James Ratner, Ronald Ratner and Bruce Ratner who entered into non-compete agreements on November 9, 2006. Upon leaving Forest City any other director, officer or employee could compete with us. Notwithstanding our policy, we permit our principal shareholders who are officers and employees to own, alone or in conjunction with others, certain commercial, industrial and residential properties that may be developed, expanded, operated and sold independently of our business. As a result of their ownership of these properties, a conflict of interest may arise between them and Forest City, which may not be resolved in our favor. The conflict may involve the development or expansion of properties that may compete with our properties and the solicitation of tenants to lease these properties.

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

Our high degree of debt leverage could limit our ability to obtain additional financing or adversely affect our liquidity and financial condition. We have a relatively high ratio of debt, which consists of nonrecourse mortgage debt, a revolving credit