CEDAR SHOPPING CENTERS INC
Form 10-Q
November 09, 2006
Click here for Index

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-14510

CEDAR SHOPPING CENTERS, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**42-1241468** (I.R.S. Employer Identification No.)
44 South Bayles Avenue, Port Washington, New York (Address of principal executive offices)	**11050-3765** (Zip Code)

(516) 767-6492

(Registrant s telephone number, including area code)

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

Yes No

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

Yes No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: At November 6, 2006, there were 35,544,252 shares of Common Stock, $0.06 par value, outstanding.

CEDAR SHOPPING CENTERS, INC.

INDEX

Back to Index

Forward-Looking Statements

Certain statements made or incorporated by reference in this Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements containing the words anticipates , believes , expects , intends , future , and words of similar import which express the Company s beliefs, expectations or intentions regarding future performance or future events or trends. While forward-looking statements reflect good faith beliefs, expectations or intentions, they are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements as a result of factors outside of the Company s control. Certain factors that might cause such differences include, but are not limited to, the following: real estate investment considerations, such as the effect of economic and other conditions in general and in the Company s market areas in particular; the financial viability of the Company s tenants; the continuing availability of suitable acquisitions, and development and redevelopment opportunities, on favorable terms; the availability of equity and debt capital in the public and private markets; changes in interest rates; the fact that returns from development, redevelopment and acquisition activities may not be at expected levels or at expected times; inherent risks in ongoing development and redevelopment projects including, but not limited to, cost overruns resulting from weather delays, changes in the nature and scope of development and redevelopment efforts, and market factors involved in the pricing of material and labor; the need to renew leases or re-let space upon the expiration of current leases; and the financial flexibility to repay or refinance debt obligations when due.

Back to Index

CEDAR SHOPPING CENTERS, INC.

Consolidated Balance Sheets

	September 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Real estate:		
Land	$230,777,000	$ 180,951,000
Buildings and improvements	960,963,000	800,005,000
	1,191,740,000	980,956,000
Less accumulated depreciation	(56,394,000)	(34,499,000)
Real estate, net	1,135,346,000	946,457,000
Cash and cash equivalents	15,918,000	8,601,000
Cash at joint ventures and restricted cash	11,290,000	10,415,000
Rents and other receivables, net	12,433,000	9,093,000
Other assets	9,430,000	4,051,000
Deferred charges, net	21,347,000	17,639,000
Total assets	$1,205,764,000	$ 996,256,000
Liabilities and shareholders equity		
Mortgage loans payable	$441,538,000	$ 380,311,000
Secured revolving credit facility	215,130,000	147,480,000
Accounts payable, accrued expenses, and other	16,055,000	16,462,000
Unamortized intangible lease liabilities	50,742,000	27,943,000
Total liabilities	723,465,000	572,196,000
Minority interests in consolidated joint ventures	9,143,000	12,339,000
Limited partners interest in Operating Partnership	23,658,000	20,586,000
Shareholders equity:		
Preferred stock ($.01 par value, $25.00 per share liquidation value, 5,000,000 shares authorized, 3,550,000 shares issued and outstanding)	88,750,000	88,750,000
Common stock ($.06 par value, 50,000,000 shares authorized, 34,944,000 and 29,618,000 shares issued and outstanding)	2,097,000	1,777,000
Treasury stock (454,000 and 443,000 shares, at cost)	(5,570,000)	(5,416,000)
Additional paid-in capital	430,431,000	357,000,000
Cumulative distributions in excess of net income	(66,357,000)	(49,956,000)
Accumulated other comprehensive income	147,000	138,000
Unamortized deferred compensation plans		(1,158,000)

Total shareholders equity	449,498,000	391,135,000
Total liabilities and shareholders equity	$1,205,764,000	$ 996,256,000

See accompanying notes to consolidated financial statements.

Back to Index

CEDAR SHOPPING CENTERS, INC.

Consolidated Statements of Income

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Rents	$26,187,000	$16,386,000	$74,726,000	$42,920,000
Expense recoveries	5,496,000	4,011,000	16,764,000	10,902,000
Other	246,000	154,000	739,000	298,000
Total revenues	31,929,000	20,551,000	92,229,000	54,120,000
Expenses:				
Operating, maintenance and management	5,258,000	3,661,000	16,760,000	10,233,000
Real estate and other property-related taxes	3,323,000	1,961,000	9,394,000	5,351,000
General and administrative	1,431,000	1,317,000	4,220,000	3,483,000
Depreciation and amortization	9,002,000	5,643,000	25,659,000	13,574,000
Total expenses	19,014,000	12,582,000	56,033,000	32,641,000
Operating income	12,915,000	7,969,000	36,196,000	21,479,000
Non-operating income and expense:				
Interest expense	(8,556,000)	(3,517,000)	(23,655,000)	(9,798,000)
Amortization of deferred financing costs	(341,000)	(335,000)	(1,003,000)	(771,000)
Interest income	155,000	19,000	392,000	51,000
Equity in (loss) of unconsolidated joint venture			(40,000)	
Gain on sale of interest in unconsolidated joint venture			141,000	
Total non-operating income and expense	(8,742,000)	(3,833,000)	(24,165,000)	(10,518,000)
Income before minority and limited partners interests	4,173,000	4,136,000	12,031,000	10,961,000
Minority interests in consolidated joint ventures	(324,000)	(307,000)	(943,000)	(950,000)
Limited partners interest in Operating Partnership	(95,000)	(224,000)	(262,000)	(338,000)
Net income	3,754,000	3,605,000	10,826,000	9,673,000
Preferred distribution requirements	(1,969,000)	(1,969,000)	(5,907,000)	(5,217,000)
Net income applicable to common shareholders	$1,785,000	$1,636,000	$4,919,000	$4,456,000

Per common share:				
Basic	$0.05	$0.06	$0.16	$0.20
Diluted	$0.05	$0.06	$0.15	$0.20
Dividends to common shareholders	$7,752,000	$5,049,000	$21,320,000	$14,430,000
Per common share	$0.225	$0.225	$0.675	$0.675
Weighted average number of common shares outstanding:				
Basic	34,484,000	25,390,000	31,660,000	22,305,000
Diluted	34,489,000	25,475,000	31,832,000	22,336,000

See accompanying notes to consolidated financial statements.

Back to Index

CEDAR SHOPPING CENTERS, INC.

Condolidated Statement of Shareholders Equity

Nine months ended September 30, 2006

(unaudited)

	Preferred stock		**Common stock**						
	Shares	**$25.00 Liquidation value**	**Shares**	**$0.06 Par value**	**Treasury stock, at cost**	**Additional paid-in capital**	**Cumulative distribution in excess of net income**	**Accumulated other comprehensive income**	**Unar defe comp**
Balance, December 31, 2005	3,550,000	$88,750,000	29,618,000	$1,777,000	$(5,416,000)	$357,000,000	$(49,956,000)	$138,000	$(1,1
Adoption of SFAS No. 123R						(1,158,000)			1,15
Net income							10,826,000		
Unrealized gain on change in fair value of cash flow hedges								9,000	
Total comprehensive income									
Deferred compensation activity, net			15,000	1,000	(154,000)	516,000			
Net proceeds from common stock sales			5,311,000	319,000		73,734,000			
Preferred distribution requirements							(5,907,000)		
Dividends to common shareholders							(21,320,000)		
Reallocation adjustment of limited partners									

interest						339,000			
Balance, September 30, 2006	3,550,000	$88,750,000	34,944,000	$2,097,000	$(5,570,000)	$430,431,000	$(66,357,000)	$147,000	$

See accompanying notes to consolidated financial statements.

Back to Index

CEDAR SHOPPING CENTERS, INC.

Consolidated Statements of Cash Flows

(unaudited)

	Nine months ended September 30,	
	2006	**2005**
Cash flow from operating activities:		
Net income	$10,826,000	$9,673,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash provisions:		
Minority interests earnings in excess of distributions from consolidated joint ventures	118,000	147,000
Equity in loss of unconsolidated joint venture	40,000	
Gain on sale of interest in unconsolidated joint venture	(141,000)	
Limited partners interest	262,000	338,000
Straight-line rents	(2,452,000)	(1,669,000)
Depreciation and amortization	25,659,000	13,574,000
Amortization of intangible lease liabilities	(7,713,000)	(2,918,000)
Other	1,450,000	927,000
Increases/decreases in operating assets and liabilities:		
Joint venture cash	652,000	(12,000)
Rents and other receivables	(1,087,000)	(1,832,000)
Other assets	(4,270,000)	(4,343,000)
Accounts payable and accrued expenses	(399,000)	2,698,000
Net cash provided by operating activities	22,945,000	16,583,000
Cash flow from investing activities:		
Expenditures for real estate and improvements	(146,806,000)	(193,368,000)
Proceeds from sale of interest in unconsolidated joint venture	1,466,000	
Construction escrows and other	(3,621,000)	494,000
Net cash (used in) investing activities	(148,961,000)	(192,874,000)
Cash flow from financing activities:		
Line of credit, net	67,650,000	(7,800,000)
Proceeds from sales of preferred and common stock	74,053,000	153,431,000
Proceeds from mortgage financings	26,333,000	62,817,000
Mortgage repayments	(5,263,000)	(7,764,000)
Contribution from minority interest partner		962,000
Distributions to minority interest partners in excess of earnings	(176,000)	(701,000)
Distributions to limited partners	(1,111,000)	(461,000)

Preferred distribution requirements	(5,907,000)	(5,242,000)
Distributions to common shareholders	(21,320,000)	(14,430,000)
Deferred financing costs	(926,000)	(2,288,000)
Net cash provided by financing activities	133,333,000	178,524,000
Net increase in cash and cash equivalents	7,317,000	2,233,000
Cash and cash equivalents at beginning of period	8,601,000	8,457,000
Cash and cash equivalents at end of period	$15,918,000	$10,690,000

See accompanying notes to consolidated financial statements.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

Note 1. Organization

Cedar Shopping Centers, Inc. (the Company) was organized in 1984 and elected to be taxed as a real estate investment trust (REIT) in 1986. The Company has focused primarily on the ownership, operation, development and redevelopment of supermarket-anchored community shopping centers and drug store-anchored convenience centers located in nine states, largely in the Northeast and mid-Atlantic regions. At September 30, 2006, the Company owned 93 properties, aggregating approximately 9.9 million square feet of gross leasable area (GLA).

Cedar Shopping Centers Partnership, L.P. (the Operating Partnership) is the entity through which the Company conducts substantially all of its business and owns (either directly or through subsidiaries) substantially all of its assets. At September 30, 2006 and December 31, 2005, respectively, the Company owned a 95.0% economic interest in, and is the sole general partner of, the Operating Partnership. The limited partners interest in the Operating Partnership (5.0% at September 30, 2006 and December 31, 2005, respectively) is represented by Operating Partnership Units (OP Units), and is adjusted at the end of each reporting period to an amount equal to the limited partners ownership percentage of the Operating Partnership s net equity. The approximately 1,837,000 OP Units outstanding at September 30, 2006 are economically equivalent to the Company s common stock and are convertible into the Company s common stock at the option of the holders on a one-to-one basis.

As used herein, the Company refers to Cedar Shopping Centers, Inc. and its subsidiaries on a consolidated basis, including the Operating Partnership or, where the context so requires, Cedar Shopping Centers, Inc. only.

Note 2. Basis of Presentation and Consolidation Policy

The accompanying interim unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) may have been condensed or omitted pursuant to such rules and regulations. The unaudited financial statements as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The 2005 financial statements have been reclassified where necessary to conform to the 2006 presentation. The results of operations for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The financial statements should be read in conjunction with the Company s audited financial statements and the notes thereto included in the Company s Form 10-K for the year ended December 31, 2005.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

In 2005, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) No. 04-05, Determining Whether a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights , which provides a framework for determining whether a general partner controls, and should consolidate, a limited partnership or similar entity in which it owns a minority interest. EITF 04-05 became effective on June 29, 2005 for all newly formed or modified limited partnership arrangements and on January 1, 2006 for all existing limited partnership arrangements. In this connection, the Company deconsolidated the Red Lion joint venture as of January 1, 2006 and recognized its share of the venture s results under the equity method from that date through May 23, 2006, when its partnership interest was sold.

The consolidated financial statements include the accounts and operations of the Company, the Operating Partnership, its subsidiaries, and joint venture partnerships in which it participates. With respect to its consolidated joint ventures, the Company has general partnership interests of 25% and 30% and, (1) as the Company is the sole general partner and exercises substantial operating control over these entities pursuant to EITF 04-05, and (2) such entities are not variable-interest entities pursuant to FASB Interpretation No. 46, Consolidation of Variable Interest Entities , the Company has determined that such partnerships should be consolidated for financial statement purposes.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which provides guidance for using fair value to measure assets and liabilities, and clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing assets or liabilities. The statement establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data, and applies whenever other standards require assets or liabilities to be measured at fair value. The Company does not expect the adoption of SFAS No. 157, which becomes effective for fiscal years beginning after November 15, 2007, to have a material effect on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), which provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. If a misstatement is material to the current year financial statements, the prior year financial statements should also be corrected, even though such revision was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require previously-filed reports to be amended; such correction should be made in the current period filings. Although still evaluating the impact of adopting the bulletin, which becomes effective on January 1, 2008, the Company does not expect the adoption of SAB 108 to have a material effect on its consolidated financial statements.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

The accompanying financial statements are prepared on the accrual basis in accordance with GAAP, which requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities, the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the periods covered by the financial statements. Actual results could differ from these estimates.

Note 3. Supplemental Consolidated Statement of Cash Flows Information

	Nine months ended September 30,	
	2006	**2005**
Supplemental disclosure of cash activities:		
Interest paid (including interest capitalized of $2,625,000 and $2,449,000, respectively)	$24,644,000	$11,964,000
Supplemental disclosure of non-cash activities:		
Additions to deferred compensation plans	228,000	1,089,000
Assumption of mortgage loans payable	(55,983,000)	(69,500,000)
Issuance of OP Units	(4,260,000)	(16,021,000)
Purchase accounting allocations:		
Intangible lease assets	25,826,000	15,047,000
Intangible lease liabilities	(30,532,000)	(3,267,000)
Net valuation increases in assumed mortgage loans payable (a)	(484,000)	(5,014,000)
Deconsolidation of Red Lion joint venture:		
Real estate, net	$18,365,000	
Mortgage loans payable	(16,310,000)	
Other assets/liabilities, net	1,721,000	
Minority interest	(2,411,000)	
Investment in and advances to unconsolidated joint venture, as of January 1, 2006	$1,365,000	

(a) The net valuation increases in assumed mortgage loans payable result from adjusting the contract rates of interest (ranging from 5.6% to 7.3% per annum) to market rates of interest (ranging from 5.7% to 6.0% per annum) in 2006, and from contract rates of interest (ranging from 5.5% to 8.0% per annum) to market rates of interest (ranging from 5.0% to 5.2% per annum) in 2005.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

Note 4. Capital Stock Issuances

In connection with a public offering consummated in August 2005, the Company entered into a forward sales agreement with the lead underwriter, whereby the Company had the right to deliver up to 4,350,000 shares of its common stock, in whole or in part, at any time, through August 17, 2006. Pursuant to the agreement, upon delivery of the shares, the Company would receive $13.87 per share, subject to certain interest and dividend adjustments. In November 2005, the Company issued 1,100,000 shares of its common stock pursuant to the forward sales agreement. The 3,250,000 shares remaining under the agreement were settled on June 29, 2006 at approximately $13.60 per share, as adjusted pursuant to the terms of the agreement, and the Company received net proceeds of approximately $44.2 million.

Pursuant to a registration statement filed in June 2005 and prospectus supplements thereto (applicable to a total of 7,000,000 shares), the Company is authorized to sell shares of its common stock through registered deferred offering programs. Pursuant to these programs, the Company sold 2,061,000 shares of its common stock during the nine months ended September 30, 2006, at an average price of $15.00 per share, resulting in net proceeds to the Company, after issuance expenses, of approximately $29.9 million.

Note 5. Stock-Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payments , effective January 1, 2006. SFAS No. 123R established financial accounting and reporting standards for stock-based employee compensation plans, including all arrangements by which employees receive shares of stock or other equity instruments of the employer, or the employer incurs liabilities to employees in amounts based on the price of the employer s stock. The statement also defined a fair value based method of accounting for an employee stock option or similar equity instrument. The implementation of the statement has not had a material effect on the consolidated financial statements.

The Company s 2004 Stock Incentive Plan (the Incentive Plan) provides for the granting of incentive stock options, stock appreciation rights, restricted shares, performance units and performance shares. The maximum number of shares of the Company s common stock that may be issued pursuant to the Incentive Plan is 850,000, and the maximum number of shares that may be subject to grants to any single participant is 250,000. Substantially all grants issued pursuant to the Incentive Plan are restricted stock grants , are valued at the fair value as of the date of grant, and specify vesting upon the third anniversary of the date of grant. The value of such grants is initially deferred (recorded in Additional Paid In Capital), and amortization of amounts deferred is being charged to operations on a straight-line basis over the respective vesting periods.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Restricted share grants	4,000	75,000	15,000	75,000
Average per share grant price	$14.89	$14.48	$14.72	$14.48
Recorded as deferred compensation	$63,000	$1,089,000	$228,000	$1,089,000
Total charge to operations	$176,000	$62,000	$447,000	$155,000
Non-vested shares:				
Non-vested, beginning of period	108,000	14,000	97,000	20,000
Grants	4,000	75,000	15,000	75,000
Vested during period	(3,000)	(1,000)	(3,000)	(7,000)
Forfeitures				
Non-vested, end of period	109,000	88,000	109,000	88,000
Value of shares vested during the period (based on grant price)	$40,000	$20,000	$40,000	$90,000

Substantially all grants of restricted shares are transferred to Rabbi Trusts, have been classified as treasury stock in the Company s consolidated balance sheet, and are accounted for pursuant to EITF No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested . At September 30, 2006, approximately 730,000 shares remained available for grants pursuant to the Incentive Plan, and approximately $1,023,000 remained as deferred compensation, to be amortized over various periods ending in July 2009.

During 2001, pursuant to the 1998 Stock Option Plan (the Option Plan), the Company granted to directors options to purchase an aggregate of approximately 17,000 shares of common stock at $10.50 per share, the market value of the Company s common stock on the date of the grant. The options are fully exercisable and expire in 2011. In connection with the adoption of the 2004 Stock Incentive Plan, the Company agreed that it would not grant any more options under the Option Plan.

In connection with an acquisition of a shopping center in 2002, the Operating Partnership issued warrants to purchase approximately 83,000 OP Units to a minority interest partner in the property. Such warrants have an exercise price of $13.50 per unit, subject to certain anti-dilution adjustments, are fully vested, and expire in 2012.

Note 6. Earnings Per Share

In accordance with SFAS No. 128, Earnings Per Share , basic earnings per share (EPS) is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding for the period (including shares held by the Rabbi Trusts). Fully diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

Note 7. Cash in Joint Ventures and Restricted Cash

Joint venture partnership agreements require, among other things, that the Company maintain separate cash accounts for the operation of the joint ventures, and that distributions to the general and minority interest partners be strictly controlled. Cash at joint ventures amounted to $466,000 and $1,385,000 at September 30, 2006 and December 31, 2005, respectively.

The terms of several of the Company s mortgage loans payable require the Company to deposit certain replacement and other reserves with its lenders. Such restricted cash is generally available only for property-level requirements for which the reserve was established; it is not available to fund other property-level or Company-level obligations. Restricted cash amounted to $10,824,000 and $9,030,000 at September 30, 2006 and December 31, 2005, respectively.

Note 8. Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. A REIT will generally not be subject to federal income taxation on that portion of its income that qualifies as REIT taxable income, to the extent that it distributes at least 90% of its taxable income to its shareholders and complies with certain other requirements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48), regarding accounting for and disclosure of uncertain tax positions. This interpretation prescribes a recognition threshold and measurement in the financial statements of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance as to its application and related transition, and is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have a material effect on the Company s consolidated financial statements.

Note 9. Acquisition/Disposition Activity

On January 31, 2006, the Company acquired the Shore Mall in Egg Harbor Township, NJ, a 621,000 sq. ft. shopping center, together with an adjacent 50 acres of undeveloped land, for an aggregate purchase price of approximately $37.8 million, including closing costs. The total acquisition cost for the shopping center and the land was financed by (1) the assumption of approximately $30.9 million of existing financing bearing interest at a rate of 7.01% per annum and maturing in August 2008, (2) the assumption of approximately $3.1 million in preferred partnership payments through January 2009, (3) the issuance of approximately 19,000 OP Units to the Company s Chairman (having a value of approximately $287,000), and (4) approximately $3.5 million funded from the Company s secured revolving credit facility. The Company s Chairman had approximately an 8% limited partnership interest in the selling entities. In connection with the acquisition, the independent members of the Company s Board of Directors obtained an appraisal in support of the purchase price and the consideration given. The Company had previously held an option to acquire the property, and had, together with its predecessor companies, been providing property management, leasing, construction management and legal services to the property since 1986.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

On May 23, 2006, the Company sold its 20% interest in the unconsolidated joint venture partnership which owned the Red Lion shopping center, located in Philadelphia, PA, for net proceeds of approximately $1.5 million and the transfer of the mortgage loan on the property of approximately $16.2 million. In connection with the transaction, the Company recognized a gain of approximately $141,000. On May 23, 2006, the Company acquired the remaining 50% interest in the LA Fitness facility, located in Fort Washington, PA, for a purchase price of $2.5 million, plus certain costs and adjustments; the total outstanding mortgage loan on the property was approximately $4.9 million at the time. The excess of the purchase price and adjustments over the carrying value of the minority interest partner s account (approximately $1.8 million) was recorded in the Company s real estate asset account. The minority interests in both the Red Lion and LA Fitness facility partnerships were sponsored by the same corporate entity.

On June 9, 2006, the Company acquired the Gold Star Plaza shopping center in Shenandoah, PA, an approximately 72,000 sq. ft. shopping center, for a purchase price of approximately $8.2 million, including closing costs. The acquisition cost for the shopping center was financed by (1) the assumption of approximately $2.8 million of existing financing bearing interest at a rate of 7.25% per annum and maturing in May 2019, (2) the issuance of approximately 270,000 OP Units (having a value of approximately $4.0 million), and (3) approximately $1.4 million funded from the Company s secured revolving credit facility.

On July 19, 2006, the Company acquired the Trexlertown Plaza shopping center in Trexlertown, PA, an approximately 241,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $34.3 million, including closing costs. The acquisition also includes development land parcels aggregating approximately 35 acres. The Trexlertown Plaza shopping center and the development land parcels are adjacent to the Company s Trexlertown Mall property acquired in 2005. The acquisition cost was funded from the Company s secured revolving credit facility.

On July 19, 2006, the Company acquired the Shaw s Plaza shopping center in Raynham, MA, an approximately 177,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $29.2 million, including closing costs. The acquisition cost was funded from (1) the assumption of approximately $14.2 million of existing financing bearing interest at a rate of 5.58% per annum and maturing in March 2014, and (2) approximately $15.0 million from the Company s secured revolving credit facility.

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

On July 21, 2006, the Company acquired the Stonehedge Square shopping center in Carlisle, PA, an approximately 89,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $13.7 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

On July 26, 2006, the Company acquired the Oakhurst Plaza shopping center in Harrisburg, PA, an approximately 111,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $22.7 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

On August 23, 2006, the Company acquired the Annie Land Plaza shopping center in Lovingston, VA, an approximately 43,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $4.1 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

On September 27, 2006, the Company acquired the Long Reach Village shopping center in Columbia, MD, an approximately 105,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $8.6 million, including closing costs. The acquisition cost was funded from (1) the assumption of approximately $4.9 million of existing financing bearing interest at a rate of 5.69% per annum and maturing in March 2014, and (2) approximately $3.7 million from the Company s secured revolving credit facility.

On September 28, 2006, the Company acquired the Hannaford Plaza shopping center in Norwood, MA, an approximately 102,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $9.4 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

The Company also acquired five additional tracts of land for future development during the nine months ended September 30, 2006. The parcels, located in Pennsylvania (four) and New York (one), aggregated approximately 58 acres, and cost an aggregate of approximately $7.1 million, including closing costs. The acquisition costs were funded from the Company s secured revolving credit facility.

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the three and nine months ended September 30, 2006 and 2005 as if all property acquisitions/dispositions and preferred stock offerings from January 1, 2005 through September 30, 2006 were all completed as of January 1, 2005. This unaudited pro forma information does not purport to represent what the actual results of operations of the Company would have been had all the above occurred as of January 1, 2005, nor do they purport to predict the results of operations for future periods.

	Three months ended September 30,		**Nine months ended September 30,**	
	2006	**2005**	**2006**	**2005**

Revenues	$32,849,000	$29,907,000	$99,738,000	$89,055,000
Net income applicable to common shareholders	$1,528,000	$1,905,000	$4,229,000	$5,775,000
Per common share (basic and diluted)	$0.04	$0.08	$0.13	$0.26
Weighted average number of common shares outstanding	34,484,000	25,390,000	31,660,000	22,305,000

Back to Index

Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements

September 30, 2006

(unaudited)

Note 10. Secured Revolving Credit Facility

The Company has a $300 million secured revolving credit facility with Bank of America, N.A. (as agent) and several other banks, pursuant to which the Company has pledged certain of its shopping center properties as collateral for borrowings thereunder. The facility, as amended (including the latest amendment effective as of October 20, 2006), is expandable to $400 million, subject to certain conditions, and will expire in January 2009, subject to a one-year extension option. Borrowings outstanding under the facility aggregated $215.1 million at September 30, 2006 (including the bridge loan facility described below), and such borrowings bore interest at an average rate of 6.68% per annum (the average rate, reflecting the October 20, 2006 amendment, would have been 6.58% per annum). Borrowings under the facility incurred interest at a rate of LIBOR plus 135 basis points (bps) for the nine months ended September 30, 2006; the bps spread under the terms of the facility, as amended, will range from 110 bps to 145 bps over LIBOR depending upon the Company s leverage ratio, as defined. The facility also requires an unused portion fee of 15 bps. Based on covenants and collateral in place as of September 30, 2006 (and reflecting the October 20, 2006 amendment and additional collateral pledged at that time), the Company was permitted to draw up to approximately $254.3 million, of which approximately $39.2 million remained available at that date.

In connection with the aforementioned amendment, the Company arranged a bridge loan facility with Bank of America, N.A. for an aggregate amount of $57.4 million, bearing interest at the same rate as the Company s secured revolving credit facility, which amount remained outstanding from July 27, 2006 until it was repaid on October 20, 2006.

The credit facility is used to fund acquisitions, development/redevelopment activities, capital expenditures, mortgage repayments, dividend distributions, working capital and other general corporate purposes. The facility is subject to customary financial covenants, including limits on leverage and distributions (limited to 95% of funds from operations, as defined), and other financial statement ratios. The Company plans to add additional properties, when available,