

CEDAR SHOPPING CENTERS INC

Form 10-Q

August 09, 2007

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**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 JUNE 30, 2007
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER: 001-31817
CEDAR SHOPPING CENTERS, INC.
(Exact name of registrant as specified in its charter)**

Maryland 42-1241468

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

44 South Bayles Avenue, Port Washington, New York 11050-3765

(Address of principal executive offices) (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 August 3, 2007, there were 44,230,866 shares of Common Stock, \$0.06 par value, outstanding.

CEDAR SHOPPING CENTERS, INC.
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Forward-Looking Statements

Certain statements contained 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; the availability of suitable joint venture partners; changes in interest rates; returns from development, redevelopment and acquisition activities may not be at expected levels or at expected times; risks inherent 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, changes in governmental regulations related thereto, 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.

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CEDAR SHOPPING CENTERS, INC.
Consolidated Balance Sheets

	June 30 2007 (unaudited)	December 31, 2006
Assets		
Real estate:		
Land	\$ 271,915,000	\$ 248,108,000
Buildings and improvements	1,098,290,000	982,294,000
	1,370,205,000	1,230,402,000
Less accumulated depreciation	(82,495,000)	(64,458,000)
Real estate, net	1,287,710,000	1,165,944,000
Property and related assets held for sale, net of accumulated depreciation	11,838,000	11,493,000
Investment in unconsolidated joint venture	3,700,000	3,644,000
Cash and cash equivalents	18,258,000	17,885,000
Restricted cash	12,268,000	11,507,000
Rents and other receivables, net	4,640,000	4,187,000
Straight-line rents receivable	9,632,000	7,870,000
Other assets	5,878,000	6,921,000
Deferred charges, net	25,811,000	22,268,000
Total assets	\$ 1,379,735,000	\$ 1,251,719,000
Liabilities and shareholders' equity		
Mortgage loans payable	\$ 561,762,000	\$ 499,603,000
Secured revolving credit facility	138,990,000	68,470,000
Accounts payable, accrued expenses, and other	17,333,000	17,435,000
Unamortized intangible lease liabilities	55,789,000	53,160,000
Total liabilities	773,874,000	638,668,000
Minority interests in consolidated joint ventures	10,363,000	9,132,000
Limited partners' interest in Operating Partnership	25,606,000	25,969,000
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, 44,231,000 and 43,773,000 shares, respectively, issued and outstanding)	2,654,000	2,626,000
Treasury stock (616,000 and 502,000 shares, respectively, at cost)	(8,189,000)	(6,378,000)
Additional paid-in capital	571,649,000	564,637,000
Cumulative distributions in excess of net income	(85,126,000)	(71,831,000)

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Accumulated other comprehensive income	154,000	146,000
Total shareholders' equity	569,892,000	577,950,000
Total liabilities and shareholders' equity	\$ 1,379,735,000	\$ 1,251,719,000

See accompanying notes to consolidated financial statements.

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CEDAR SHOPPING CENTERS, INC.
Consolidated Statements of Income
(unaudited)

	Three months ended June		Six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Rents	\$ 29,725,000	\$ 24,078,000	\$ 57,999,000	\$ 47,961,000
Expense recoveries	6,755,000	5,595,000	13,947,000	11,124,000
Other	101,000	287,000	453,000	493,000
Total revenues	36,581,000	29,960,000	72,399,000	59,578,000
Expenses:				
Operating, maintenance and management	5,658,000	5,305,000	12,657,000	11,435,000
Real estate and other property-related taxes	3,552,000	3,076,000	7,059,000	5,954,000
General and administrative	3,220,000	1,410,000	5,218,000	2,789,000
Depreciation and amortization	9,821,000	7,981,000	19,631,000	16,505,000
Total expenses	22,251,000	17,772,000	44,565,000	36,683,000
Operating income	14,330,000	12,188,000	27,834,000	22,895,000
Non-operating income and expense:				
Interest expense	(9,185,000)	(7,742,000)	(16,753,000)	(15,099,000)
Amortization of deferred financing costs	(377,000)	(333,000)	(729,000)	(662,000)
Interest income	223,000	121,000	498,000	237,000
Equity in income (loss) of unconsolidated joint ventures	157,000	(15,000)	313,000	(40,000)
Gain on sale of interest in unconsolidated joint venture		141,000		141,000
Total non-operating income and expense	(9,182,000)	(7,828,000)	(16,671,000)	(15,423,000)
Income before minority and limited partners interests and discontinued operations	5,148,000	4,360,000	11,163,000	7,472,000
Minority interests in consolidated joint ventures	(300,000)	(309,000)	(695,000)	(619,000)
Limited partners interest in Operating Partnership	(125,000)	(105,000)	(281,000)	(148,000)
Income from continuing operations	4,723,000	3,946,000	10,187,000	6,705,000
Discontinued operations, net of limited partners interest	182,000	172,000	327,000	367,000
Net income	4,905,000	4,118,000	10,514,000	7,072,000
Preferred distribution requirements	(1,984,000)	(1,984,000)	(3,938,000)	(3,938,000)
	\$ 2,921,000	\$ 2,134,000	\$ 6,576,000	\$ 3,134,000

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Net income applicable to common shareholders

Per common share (basic):

Income from continuing operations, net of preferred distribution requirements	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.09
Discontinued operations, net of limited partners interest			\$ 0.01	0.01

Net income applicable to common shareholders

\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.10
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Per common share (diluted)

Income from continuing operations, net of preferred distribution requirements	\$ 0.07	\$ 0.07	\$ 0.14	\$ 0.09
Discontinued operations, net of limited partners interest			\$ 0.01	0.01

Net income applicable to common shareholders

\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.10
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Dividends to common shareholders

\$ 9,942,000	\$ 6,867,000	\$ 19,871,000	\$ 13,568,000
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Per common share

\$ 0.225	\$ 0.225	\$ 0.450	\$ 0.450
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Weighted average number of common shares outstanding:

Basic	44,194,000	30,618,000	44,153,000	30,248,000
Diluted	44,198,000	30,863,000	44,158,000	30,504,000

See accompanying notes to consolidated financial statements.

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CEDAR SHOPPING CENTERS, INC.
Consolidated Statement of Shareholders' Equity
Six months ended June 30, 2007
(unaudited)

	Preferred stock \$25.00 Liquidation value	Common stock \$0.06 Par value	Treasury stock, at cost	Additional paid-in capital	Cumulative distributions in excess of net income	Accumul other comprehe incom		
June 30, 2006	3,550,000	\$ 88,750,000	43,773,000	\$ 2,626,000	\$ (6,378,000)	\$ 564,637,000	\$ (71,831,000)	\$ 146,010,514,000
Change in fair value								8,000
Net income								
Retirement activity, net			179,000	11,000	(1,811,000)	3,111,000		
Common stock sales			275,000	17,000		4,115,000		
Units into common stock			4,000			45,000		
Share requirements							(3,938,000)	
Shareholders							(19,871,000)	
Retirement of limited partners						(259,000)		
June 30, 2007	3,550,000	\$ 88,750,000	44,231,000	\$ 2,654,000	\$ (8,189,000)	\$ 571,649,000	\$ (85,126,000)	\$ 154,000

See accompanying notes to consolidated financial statements.

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CEDAR SHOPPING CENTERS, INC.
Consolidated Statements of Cash Flows
(unaudited)

	Six months ended June 30,	
	2007	2006
Cash flow from operating activities:		
Net income	\$ 10,514,000	\$ 7,072,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash provisions:		
Earnings in excess of distributions of consolidated joint venture minority interests	163,000	59,000
Equity in (income) loss of unconsolidated joint ventures	(313,000)	40,000
Distributions from unconsolidated joint venture	265,000	
Gain on sale of interest in unconsolidated joint venture		(141,000)
Limited partners interest in Operating Partnership	295,000	167,000
Straight-line rents receivable	(1,806,000)	(1,751,000)
Depreciation and amortization	19,781,000	16,657,000
Amortization of intangible lease liabilities	(5,098,000)	(4,671,000)
Amortization relating to stock-based compensation	1,154,000	271,000
Amortization of deferred financing costs	729,000	662,000
Increases/decreases in operating assets and liabilities:		
Cash at consolidated joint ventures	87,000	671,000
Rents and other receivables, net	(453,000)	(290,000)
Other assets	(23,000)	(610,000)
Accounts payable, accrued expenses and other	(395,000)	(727,000)
Net cash provided by operating activities	24,900,000	17,409,000
Cash flow from investing activities:		
Expenditures for real estate and improvements	(92,646,000)	(43,696,000)
Investment in unconsolidated joint ventures	(8,000)	
Proceeds from sale of interest in unconsolidated joint venture		1,466,000
Construction escrows and other	(474,000)	(2,759,000)
Net cash (used in) investing activities	(93,128,000)	(44,989,000)
Cash flow from financing activities:		
Net advances (repayments) from line of credit	70,520,000	(23,000,000)
Proceeds from sales of common stock	3,910,000	61,560,000
Proceeds from mortgage financings	23,000,000	14,588,000
Mortgage repayments	(4,125,000)	(3,552,000)
Contribution from minority interest partner	1,048,000	
Distributions in excess of earnings from consolidated joint venture minority interests		(176,000)
Distributions to limited partners	(890,000)	(698,000)

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Preferred distribution requirements	(3,938,000)	(3,938,000)
Distributions to common shareholders	(19,871,000)	(13,568,000)
Payment of deferred financing costs	(1,053,000)	(482,000)
Net cash provided by financing activities	68,601,000	30,734,000
Net increase in cash and cash equivalents	373,000	3,154,000
Cash and cash equivalents at beginning of period	17,885,000	8,601,000
Cash and cash equivalents at end of period	\$ 18,258,000	\$ 11,755,000

See accompanying notes to consolidated financial statements.

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Cedar Shopping Centers, Inc.
Notes to Consolidated Financial Statements
June 30, 2007
(unaudited)

Note 1. Organization and Basis of Preparation

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 June 30, 2007, the Company owned 106 properties, aggregating approximately 10.6 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 June 30, 2007 and December 31, 2006, the Company owned a 95.7% economic interest in, and is the sole general partner of, the Operating Partnership. The limited partners' interest in the Operating Partnership (4.3% at June 30, 2007 and December 31, 2006) 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 1,982,000 OP Units outstanding at June 30, 2007 are economically equivalent to the Company's common stock and are convertible into the Company's common stock at the option of the respective holders on a one-to-one basis.

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 four consolidated joint ventures, the Company has general partnership interests of 25% and 30% and, (1) as such entities are not variable-interest entities pursuant to the Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), and (2) as the Company is the sole general partner and exercises substantial operating control over these entities pursuant to Emerging Issues Task Force (EITF) 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, the Company has determined that such partnerships should be consolidated for financial statement purposes. EITF 04-05 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. The Company also has a 49% interest, acquired in 2006, in an unconsolidated joint venture which owns a single-tenant office property, and which the Company has determined is not a variable-interest entity pursuant to FIN 46R. Although the Company exercises influence over this joint venture, it does not have operating control; accordingly, it accounts for its investment under the equity method.

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

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Cedar Shopping Centers, Inc.
Notes to Consolidated Financial Statements
June 30, 2007
(unaudited)

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 June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The 2006 financial statements have been revised where necessary to conform to the 2007 presentation, relating principally to the discontinued operation and the consolidated statement of cash flows. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

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. Summary of Significant Accounting Policies

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.

Real Estate Investments and Discontinued Operations

Real estate investments are carried at cost less accumulated depreciation. The provision for depreciation is calculated using the straight-line method based upon the estimated useful lives of the respective assets. Expenditures for betterments that substantially extend the useful lives of the properties are capitalized. Expenditures for maintenance, repairs, and betterments that do not materially prolong the normal useful life of an asset are charged to operations as incurred.

Upon the sale or other disposition of assets, the cost and related accumulated depreciation and amortization would be removed from the accounts and the resulting gain or loss, if any, would be reflected as discontinued operations. In addition, prior periods financial statements would be reclassified to eliminate the operations of sold properties. Real estate investments include costs of development and redevelopment activities, and construction in progress. Capitalized costs, including interest and other carrying costs during the development and/or renovation periods, are included in the costs of the related assets and charged to operations through depreciation over the respective assets estimated useful lives.

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Cedar Shopping Centers, Inc.
Notes to Consolidated Financial Statements
June 30, 2007
(unaudited)

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , requires that management review each real estate investment for impairment whenever events or circumstances indicate that the carrying value of a real estate investment may not be recoverable. The review of recoverability is based on an estimate of the future cash flows that are expected to result from the real estate investment s use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If an impairment event exists due to the projected inability to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds estimated fair value. A real estate investment held for sale is carried at the lower of its carrying amount or estimated fair value, less the cost of a potential sale. Depreciation and amortization are suspended during the period the property is held for sale.

In May 2007, the Company decided to dispose of Stadium Plaza, located in East Lansing, Michigan. The property, with 78,000 sq. ft. of GLA, is being actively marketed, is expected to be sold within one year from the date classified as held for sale, and, in accordance with SFAS No. 144, the carrying value of the property s assets (principally the net book value of the real estate) have been classified as held for sale on the Company s consolidated balance sheets at June 30, 2007 and December 31, 2006 (there were no related held for sale liabilities associated with the property). In addition, the property s results of operations have been classified as discontinued operations for all periods presented in the consolidated statements of income. No impairment provision was required as of June 30, 2007. The following is a summary of the components of income from discontinued operations for the three and six months ended June 30, 2007 and 2006, respectively:

	Three months ended June		Six months ended June	
	30,		30,	
	2007	2006	2007	2006
Revenues:				
Rents	\$ 290,000	\$ 289,000	\$ 580,000	\$ 578,000
Expense recoveries	79,000	59,000	162,000	144,000
Total revenues	369,000	348,000	742,000	722,000
Expenses:				
Operating, maintenance and management	32,000	29,000	110,000	67,000
Real estate and other property-related taxes	71,000	59,000	141,000	117,000
Depreciation and amortization	77,000	79,000	150,000	152,000