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

þ	**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

o	**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 þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

Indicate the number of shares outstanding 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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CERTIFICATION OF CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICERS
CERTIFICATION OF CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICERS--SECTION 906

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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)

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 30,		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

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
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
Dividends to common shareholders	$ 9,942,000	$ 6,867,000	$ 19,871,000	$ 13,568,000
Per common share	$ 0.225	$ 0.225	$ 0.450	$ 0.450
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		Common stock					
	Shares	$25.00 Liquidation value	Shares	$0.06 Par value	Treasury stock, at cost	Additional paid-in capital	Cumulative distributions in excess of net income	Accumul other comprehe incom
31, 2006	3,550,000	$ 88,750,000	43,773,000	$ 2,626,000	$ (6,378,000)	$ 564,637,000	$ (71,831,000)	$ 146,0
							10,514,000	
ss) on change in fair								
hedges								8,0
ve income								
tion 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		
on requirements							(3,938,000)	
on shareholders							(19,871,000)	
ment of limited partners								
						(259,000)		
007	3,550,000	$ 88,750,000	44,231,000	$ 2,654,000	$ (8,189,000)	$ 571,649,000	$ (85,126,000)	$ 154,0

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)

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

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.

Cedar Shopping Centers, Inc.
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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 30,		Six months ended June 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
	180,000	167,000	401,000	336,000
Operating income	189,000	181,000	341,000	386,000
Limited partners interest	(7,000)	(9,000)	(14,000)	(19,000)
Income from discontinued operations	$ 182,000	$ 172,000	$ 327,000	$ 367,000

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

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations , provides clarification of the term conditional asset retirement obligation as used in SFAS No. 143, Asset Retirement Obligations , to be a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. The Interpretation requires that the Company record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. Environmental studies generally conducted at the time of acquisition with respect to substantially all of the Company s properties did not reveal any material environmental liabilities, and the Company is unaware of any subsequent environmental matters that would have created a material liability. The Company believes that its properties are currently in material compliance with applicable environmental, as well as non-environmental, statutory and regulatory requirements.

Intangible Lease Asset/Liability

SFAS No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangibles , require that management allocate the fair value of real estate acquired to land, buildings and improvements. In addition, the fair value of in-place leases is allocated to intangible lease assets and liabilities.

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, which value is then allocated to land, buildings and improvements based on management s determination of the relative fair values of these assets. In valuing an acquired property s intangibles, factors considered by management include an estimate of carrying costs during the expected lease-up periods, such as real estate taxes, insurance, other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on its evaluation of current market demand. Management also estimates costs to execute similar leases, including leasing commissions, tenant improvements, legal and other related costs.

The value of in-place leases is measured by the excess of (1) the purchase price paid for a property after adjusting existing in-place leases to market rental rates, over (2) the estimated fair value of the property as if vacant. Above-market and below-market in-place lease values are recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received and management s estimate of market lease rates, measured over the non-cancelable terms of the respective leases. The value of other intangibles is amortized to expense, and the above-market and below-market lease values are amortized to rental income, over the remaining non-cancelable terms of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recognized in operations at that time.

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

With respect to all of the Company s acquisitions through June 30, 2007, the fair value of in-place leases and other intangibles has been allocated, on a preliminary basis where applicable, to the intangible asset and liability accounts. Unamortized intangible lease liabilities relate primarily to below-market leases, and amounted to $55,789,000 and $53,160,000 at June 30, 2007 and December 31, 2006, respectively.

As a result of recording the intangible lease assets and liabilities, (1) revenues were increased by $2,509,000 and $2,043,000 for the three months ended June 30 2007 and 2006, respectively, relating to the amortization of intangible lease liabilities, and (2) depreciation and amortization expense was increased correspondingly by $3,473,000 and $2,635,000 for the respective three-month periods. For the six months ended June 30, 2007 and 2006, (1) revenues were increased by $5,098,000 and $4,671,000, respectively, relating to the amortization of intangible lease liabilities, and (2) depreciation and amortization expense was increased correspondingly by $6,769,000 and $5,552,000 for the respective six-month periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and short-term investments with original maturities of less than ninety days.

Restricted Cash

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, is not available to fund other property-level or Company-level obligations, and amounted to $11,757,000 and $10,909,000 at June 30, 2007 and December 31, 2006, respectively. In addition, 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 consolidated joint ventures amounted to $511,000 and $598,000 at June 30, 2007 and December 31, 2006, respectively.

Rents and Other Receivables

Management has determined that all of the Company s leases with its various tenants are operating leases. Rental income with scheduled rent increases is recognized using the straight-line method over the respective terms of the leases. The aggregate excess of rental revenue recognized on a straight-line basis over base rents under applicable lease provisions is included in rents and other receivables on the consolidated balance sheet. Leases also generally contain provisions under which the tenants reimburse the Company for a portion of property operating expenses and real estate taxes incurred; such income is recognized in the periods earned. In addition, certain operating leases contain contingent rent provisions under which tenants are

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(unaudited)

required to pay a percentage of their sales in excess of a specified amount as additional rent. The Company defers recognition of contingent rental income until those specified targets are met.

The Company must make estimates as to the collectibility of its accounts receivable related to base rent, straight-line rent, expense reimbursements and other revenues. Management analyzes accounts receivable and the allowance for bad debts by considering historical bad debts, tenant creditworthiness, current economic trends, and changes in tenants payment patterns when evaluating the adequacy of the allowance for doubtful accounts receivable. The allowance for doubtful accounts was $1,292,000 and $1,439,000 at June 30, 2007 and December 31, 2006, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents in excess of insured amounts and tenant receivables. The Company places its cash equivalents with high quality financial institutions. Management performs ongoing credit evaluations of its tenants and requires certain tenants to provide security deposits. Although these security deposits are insufficient to meet the terminal value of a tenant s lease obligations, they are a measure of good faith and a source of funds to offset at least in part the economic costs associated with lost rents and other charges, and the costs associated with releasing the premises.

Deferred Charges, Net

Deferred charges at June 30, 2007 and December 31, 2006 are net of accumulated amortization and are comprised of the following:

	Jun 30, 2007	**Dec 31, 2006**
Deferred lease origination costs (1)	$16,044,000	$14,877,000
Deferred financing costs (2)	6,263,000	5,939,000
Other deferred charges	3,504,000	1,452,000
	$25,811,000	$22,268,000

(1) Deferred lease origination costs include intangible lease assets resulting from purchase accounting allocations of $11,726,000 and $11,523,000, respectively.

(2) Deferred financing costs are incurred in connection with

the Company s
secured
revolving credit
facility and
other long-term
debt.

Such costs are amortized over the terms of the related agreements. Amortization expense related to deferred charges (including amortization of deferred charges applicable to

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discontinued operations) and amortization of deferred financing costs included in non-operating income and expense amounted to $1,117,000 and $958,000 for the three months ended June 30, 2007 and 2006, respectively, and $2,329,000 and $2,100,000 for the six months ended June 30, 2007 and 2006, respectively.

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 adoption of FIN 48 as of January 1, 2007 did not have a material effect on the Company s consolidated financial statements.

Fair Value of Financial Assets and Liabilities

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 February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement does not eliminate the disclosure requirements of other accounting standards, including requirements for disclosures about fair value measurements in SFAS No. 107, Disclosures about Fair Value of Financial Instruments , and SFAS No. 157. The Company is currently evaluating the effect of

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adopting the statement, which becomes effective for fiscal years beginning after November 15, 2007.

Earnings Per Share

In accordance with SFAS No. 128, Earnings Per Share , basic earnings per share (EPS) is computed by dividing net income available 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 shares of common stock; such additional dilutive shares amounted to 4,000 and 245,000, respectively, for the three months ended June 30, 2007 and 2006, and 5,000 and 256,000, respectively, for the six months ended June 30, 2007 and 2006.

Stock-Based Compensation

The Company adopted the provisions of 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 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 which specify vesting (1) upon the third anniversary of the date of grant for time-based grants, or (2) upon the completion of a designated period of performance for performance-based grants. Time-based grants are valued according to the market price for the Company s common stock at the date of grant. For performance-based grants, the Company engages an independent appraisal company to determine the value of the shares at the date of grant, taking into account the underlying contingency risks associated with the performance criteria. In February 2007, the Company issued 37,000 shares of common stock as performance-based grants, which will vest if the total annual return on an investment in the Company s common stock over the three-year period ending December 31, 2009 is equal to or greater than an average of 8% per year. The independent appraisal determined the value of the performance-based shares to be $10.09 per share, compared to a market price at the date of grant of $16.45 per share. The 142,000 additional restricted shares issued during the six months ended June 30, 2007 were time-based

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grants. The value of such grants is being amortized on a straight-line basis over the respective vesting periods. Those grants of restricted shares that are transferred to Rabbi Trusts are 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 . The following table sets forth certain stock-based compensation information for the three and six months ended June 30, 2007 and 2006:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Restricted share grants	39,000	11,000	179,000	11,000
Average fair value per share	$ 14.35	$ 14.66	$ 14.52	$ 14.66
Recorded as deferred compensation	$562,000	$165,000	$2,606,000	$165,000
Total charged to operations	$714,000	$158,000	$1,154,000	$271,000
Non-vested shares:				
Non-vested, beginning of period	343,000	96,000	203,000	96,000
Grants	39,000	11,000	179,000	11,000
Vested during period				
Forfeitures				
Non-vested, end of period	382,000	107,000	382,000	107,000
Value of shares vested during the period (based on grant date fair value)	$	$	$	$

At June 30, 2007, 456,000 shares remained available for grants pursuant to the Incentive Plan, and $3,525,000 remained as deferred compensation, to be amortized over various periods ending in June 2010.

During 2001, pursuant to the 1998 Stock Option Plan (the Option Plan), the Company granted to directors options to purchase an aggregate of approximately 13,000 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 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

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adjustments, are folly vested, and expire in 2012.

SAB 108

In September 2006, the SEC 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. The adoption of SAB 108 as of December 31, 2006 did not have a material effect on the Company s consolidated financial statements.

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Supplemental consolidated statement of cash flows information

	Six months ended June 30, 2007	2006
Supplemental disclosure of cash activities:		
Interest paid (including interest capitalized of $1,865,000 and $1,547,000, respectively)	$ 18,358,000	$ 16,628,000
Supplemental disclosure of non-cash activities:		
Additions to deferred compensation plans	2,606,000	165,000
Assumption of mortgage loans payable	(42,812,000)	(36,844,000)
Issuance of OP Units	(18,000)	(4,260,000)
Conversion of OP Units into common stock	45,000	
Purchase accounting allocations:		
Intangible lease assets	15,951,000	17,945,000
Intangible lease liabilities	(7,727,000)	(23,116,000)
Net valuation increases in assumed mortgage loans payable (a)	(472,000)	(809,000)
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 4.9% to 5.9% per annum in 2007 and from 7.0% to 7.3% per annum in 2006) to market

rates of interest
(5.5% in 2007
and ranging
from 5.7 to
6.0% per annum
in 2006).

In connection with preparation of the Company s consolidated financial statements for inclusion in this period s Form 10-Q, the Company determined that cash flows from changes in accounts payable and accrued expenses relating to real estate expenditures should have been included in investing, rather than operating, cash flow activities. Accordingly, the consolidated statement of cash flows for the six months ended June 30, 2006 has been revised by (1) cash flows provided by operating activities being changed from $ 13,747,000 to $17,409,000, and (2) cash flows from investing activities being changed from ($41,327,000) to ($44,989,000).

Note 3. Common/ Preferred Stock Issuances

The Company s 8-7/8% Series A Cumulative Redeemable Preferred Stock has no stated maturity, is not convertible into any other security of the Company, and is redeemable at the

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Company s option on or after July 28, 2009 at a price of $25.00 per share, plus accrued and unpaid distributions.

In December 2006, the Company sold 7,500,000 shares of its common stock at a price of $16.00 per share, and realized net proceeds, after underwriting fees and offering costs, of approximately $ 113.8 million, substantially all of which were used initially to repay amounts outstanding under the Company s secured revolving credit facility (in January 2007, the underwriters exercised their over-allotment option to the extent of 275,000 shares, and the Company realized additional net proceeds of $4.1 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 3,295,000 shares of its common stock during 2006, at an average price of $15.64 per share, resulting in net proceeds to the Company, after issuance expenses, of approximately $49.9 million. The Company has not authorized any sales under these programs during 2007.

Note 4. Real Estate

On January 18, 2007, the Company acquired the Fairview Commons shopping center in New Cumberland, Pennsylvania, an approximately 60,000 sq. ft. shopping center adjacent to its Fairview Plaza shopping center , for a purchase price of approximately $4.3 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

On January 30, 2007, the Company acquired the Oakland Commons shopping center in Bristol, Connecticut, an approximately 90,000 sq. ft. supermarket-anchored shopping center, for a purchase price of approximately $ 12.5 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

Effective April 2, 2007, the Company entered into an agreement to form a joint venture with a wholly-owned U.S. subsidiary of Homburg Invest Inc., a publicly-traded Canadian corporation listed on the Toronto and Euronext Amsterdam Stock Exchanges (Homburg), with respect to four shopping centers then owned and managed by the Company and the five shopping centers acquired by the Company on April 4, 2007 as described below; the aggregate valuation for the nine properties was approximately $170 million. Richard Homburg, a director of the Company, is Chairman and CEO of Homburg. In connection with the joint venture investment, the independent members of the Company s Board of Directors obtained appraisals in support of the transfer values of the then-owned properties. The Company will hold a 20% interest in, and be the sole general partner of, the joint venture and Homburg, through such subsidiary, will acquire the remaining 80% interest. The joint venture is structured in limited partnerships such that, at Homburg s election, it may sell a portion of its ownership interests to individual investors

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in Europe, and Homburg will be entitled to certain fees with respect thereto, payable by the Company. The Company will be entitled to a promote structure, applicable separately to each property, which, if certain targets are met, will permit the Company to receive at least 40% of the returns in excess of a leveraged 9.25% threshold. Additionally, the Company will receive fees for ongoing property management, leasing, construction management, acquisitions, dispositions, financings and refinancings. Closing of the sale of the Company s interests in the nine properties to the joint venture is expected prior to December 31, 2007. The transactions contemplated by this joint venture do not qualify as a sale for financial reporting purposes; accordingly, the Company will continue to consolidate the properties.

On April 4, 2007, the Company acquired five supermarket-anchored shopping centers located in Eastern Pennsylvania, aggregating approximately 354,000 sq. ft. of GLA. The aggregate purchase price was approximately $91.9 million, including closing costs, financed by (1) the assumption of approximately $42.8 million of existing first-mortgage financing bearing interest at rates ranging from 4.94% to 5.89% per annum, a weighted average of 5.62% per annum, and maturing over periods ending principally in 2015, (2) new financing of approximately $14.3 million bearing interest at 5.53% per annum and maturing in 2017, and (3) approximately $34.8 million from the Company s secured revolving credit facility.

Effective April 5, 2007, the Company entered into a joint venture agreement for the construction and development of an estimated 700,000 sq. ft. shopping center in Pottsgrove, Pennsylvania, approximately 40 miles northwest of Philadelphia. Total project costs, including purchase of the land parcels, are estimated at $105 million. The Company is committed to provide up to $ 17.5 million of equity capital for a 60% interest in the joint venture, with a preferred rate of return of 9.25% per annum.

On June 7, 2007, the Company acquired Grove City Discount Drug Mart Plaza in Grove City, Ohio, an approximately 41,000 sq. ft. convenience center, for a purchase price of approximately $4.4 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

At June 30, 2007, a substantial number of the Company s real estate properties were pledged as collateral for either property-specific mortgage loans payable or for the secured revolving credit facility.

Pro Forma Financial Information (unaudited)

During the period January 1, 2006 through June 30, 2007, the Company acquired 21 shopping and convenience centers aggregating approximately 2.3 million sq. ft. of GLA, approximately 179 acres of land for expansion and/or future development, and a 49% interest in an unconsolidated joint venture which owns a single-tenant office property, for a total cost of approximately $326.5 million. The following table summarizes, on an unaudited pro forma basis,

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the combined results of operations of the Company for the three and six months ended June 30, 2007 and 2006 as if all of these property acquisitions were completed as of January 1, 2006. 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, 2006, nor do they purport to predict the results of operations for future periods.

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenues	$ 36,735,000	$ 35,787,000	$ 74,642,000	$ 72,071,000
Net income applicable to common shareholders	$ 2,899,000	$ 1,494,000	$ 6,222,000	$ 2,334,000
Per common share:				
Basic	$ 0.07	$ 0.05	$ 0.14	$ 0.08
Diluted	$ 0.07	$ 0.05	$ 0.14	$ 0.08
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

Note 5. Mortgage Loans Payable and Secured Revolving Credit Facility

Secured debt consisted of the following at June 30, 2007 and December 31, 2006:

	At June 30, 2007			At December 31, 2006		
		Interest rates			Interest rates	
Description	**Balance outstanding**	**Weighted average**	**Range**	**Balance outstanding**	**Weighted average**	**Range**
Fixed-rate mortgages	$ 556,964,000	5.7%	4.8% - 7.6%	$ 494,764,000	5.7%	4.8% - 7.6%
Variable-rate mortgage	4,798,000	8.1%	8.1	4,839,000	8.1%	8.1
	561,762,000	5.7%		499,603,000	5.7%	
Secured revolving credit facility	138,990,000	6.4%		68,470,000	6.6%	
	$ 700,752,000	5.8%		$ 568,073,000	5.8%	

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, 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 $ 139.0 million at June 30, 2007, and such borrowings bore interest at an average rate of 6.4% per annum. Borrowings under the facility bear interest at a rate of LIBOR plus a basis point (bps) spread ranging from 110 bps to 145 bps depending upon the Company s leverage ratio, as

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defined (the spread as of June 30, 2007 was 110 bps). The facility also requires an unused portion fee of 15 bps. Based on covenant measurements and collateral in place as of June 30, 2007, the Company was permitted to draw up to approximately $278.8 million, of which approximately $139.8 million remained available as of that date.

The credit facility is used to fund acquisitions, development and 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, to the collateral pool with the intent of making the full facility available.

Note 6. Subsequent Events

On July 18, 2007, the Company acquired Circle Plaza in Shamokin Dam, Pennsylvania, an approximately 92,000 sq. ft. shopping center, for a purchase price of approximately $2.8 million, including closing costs. The acquisition cost was funded from the Company s secured revolving credit facility.

On July 19, 2007, the Company s Board of Directors approved a dividend of $0.225 per share with respect to its common stock as well as an equal distribution per unit on its outstanding OP Units. At the same time, the Board approved a dividend of $0.554688 per share with respect to the Company s 8-7/8% Series A Cumulative Redeemable Preferred Stock. The distributions are payable on August 20, 2007 to shareholders of record on August 10, 2007.

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

The following discussion should be read in conjunction with the Company s consolidated financial statements and related notes thereto included elsewhere in this report.

Executive Summary

The Company is a fully-integrated real estate company which focuses primarily on ownership, operation, development and redevelopment of supermarket-anchored community shopping centers and drug store-anchored convenience centers. The Company s existing properties are located in nine states, largely in the Northeast and Mid-Atlantic regions. At June 30, 2007, the Company had a portfolio of 106 properties totaling approximately 10.6 million square feet of GLA, including 102 wholly-owned properties comprising approximately 10.1 million square feet and four properties owned in joint venture comprising approximately 485,000 square feet. At June 30, 2007, the portfolio of wholly-owned properties was comprised of (1) 93 stabilized properties (those properties at least 80% leased and not designated as development/redevelopment properties as of June 30, 2007), with an aggregate of 8.9 million square feet of GLA, which were approximately 96% leased, (2) four development/redevelopment properties with an aggregate of 890,000 square feet of GLA, which were approximately 67% leased, (3) four non-stabilized properties with an aggregate of 308,000 square feet of GLA, which are presently being re-tenanted and which were approximately 71% leased, and (4) one property held for sale with an aggregate of 78,000 square feet of GLA, which was 100% leased. The four properties owned in joint venture are all stabilized properties and are 100.0% leased. The entire 106 property portfolio was approximately 93% leased at June 30, 2007. In addition, the Company has a 49% interest in an unconsolidated joint venture which owns a single-tenant office property.

The Company, organized as a Maryland corporation, has established an umbrella partnership structure through the contribution of substantially all of its assets to the Operating Partnership, organized as a limited partnership under the laws of Delaware. The Company conducts substantially all of its business through the Operating Partnership. At June 30, 2007, the Company owned a 95.7% economic interest in, and is the sole general partner of, the Operating Partnership. OP Units 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 Company derives substantially all of its revenues from rents and operating expense reimbursements received pursuant to long-term leases. The Company s operating results therefore depend on the ability of its tenants to make the payments required by the terms of their leases. The Company focuses its investment activities on supermarket-anchored community shopping centers and drug store-anchored convenience centers. The Company believes, because of the need of consumers to purchase food and other staple goods and services generally available at such centers, that the nature of its investments provide relatively stable revenue flows even during difficult economic times.

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The Company continues to seek opportunities to acquire stabilized properties and properties suited for development and/or redevelopment where it can utilize its experience in shopping center development, renovation, expansion, re-leasing and re-merchandising to achieve long-term cash flow growth and favorable investment returns. The Company would consider investment opportunities in regions beyond its present markets only in the event such opportunities were consistent with its focus, could be effectively controlled and managed, have the potential for favorable investment returns, and would contribute to increased shareholder value.

Summary of Critical Accounting Policies

The preparation of the consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition and the allowance for doubtful accounts receivable, real estate investments and purchase accounting allocations related thereto, asset impairment, and derivatives used to hedge interest-rate risks. Management s estimates are based both on information that is currently available and on various other assumptions management believes to be reasonable under the circumstances. Actual results could differ from those estimates and those estimates could be different under varying assumptions or conditions.

The Company has identified the following critical accounting policies, the application of which requires significant judgments and estimates:

Revenue Recognition

Rental income with scheduled rent increases is recognized using the straight-line method over the respective terms of the leases. The aggregate excess of rental revenue recognized on a straight-line basis over base rents under applicable lease provisions is included in rents and other receivables on the consolidated balance sheet. Leases also generally contain provisions under which the tenants reimburse the Company for a portion of property operating expenses and real estate taxes incurred; such income is recognized in the periods earned. In addition, certain operating leases contain contingent rent provisions under which tenants are required to pay a percentage of their sales in excess of a specified amount as additional rent. The Company defers recognition of contingent rental income until those specified targets are met.

The Company must make estimates as to the collectibility of its accounts receivable related to base rent, straight-line rent, expense reimbursements and other revenues. Management analyzes accounts receivable by considering tenant creditworthiness, current economic conditions, and changes in tenants payment patterns when evaluating the adequacy of the allowance for doubtful accounts receivable. These estimates have a direct impact on net income, because a higher bad debt allowance would result in lower net income, whereas a lower bad debt allowance would result in higher net income.

Real Estate Investments

Real estate investments are carried at cost less accumulated depreciation. The provision for depreciation is calculated using the straight-line method based on estimated useful lives. Expenditures for maintenance, repairs and betterments that do not materially prolong the normal useful life of an asset are charged to operations as incurred. Expenditures for betterments that substantially extend the useful lives of real estate assets are capitalized. Real estate investments include costs of development and redevelopment activities, and construction in progress. Capitalized costs, including interest and other carrying costs during the construction and/or renovation periods, are included in the cost of the related asset and charged to operations through depreciation over the asset s estimated useful life. The Company is required to make subjective estimates as to the useful lives of its real estate assets for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on net income. A shorter estimate of the useful life of an asset would have the effect of increasing depreciation expense and lowering net income, whereas a longer estimate of the useful life of an asset would have the effect of reducing depreciation expense and increasing net income.

The Company applies SFAS No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangibles , in valuing real estate acquisitions. In connection therewith, the fair value of real estate acquired is allocated to land, buildings and improvements. In addition, the fair value of in-place leases is allocated to intangible lease assets and liabilities. The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, which value is then allocated to land, buildings and improvements based on management s determination of the relative fair values of such assets. In valuing an acquired property s intangibles, factors considered by management include an estimate of carrying costs during the expected lease-up periods, such as real estate taxes, insurance, other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on its evaluation of current market demand. Management also estimates costs to execute similar leases, including leasing commissions, tenant improvements, legal and other related costs.

The value of in-place leases is measured by the excess of (1) the purchase price paid for a property after adjusting existing in-place leases to market rental rates, over (2) the estimated fair value of the property as if vacant. Above-market and below-market in-place lease values are recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received and management s estimate of market lease rates, measured over the non-cancelable terms of the respective leases. The value of other intangibles is amortized to expense, and the above-market and below-market lease values are amortized to rental income, over the remaining non-cancelable terms of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recognized in operations at that time.

Management is required to make subjective assessments in connection with its valuation of real estate acquisitions. These assessments have a direct impact on net income, because (1) above-market and below-market lease intangibles are amortized to rental income, and (2) the value of other intangibles is amortized to expense. Accordingly, higher allocations to below-

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market lease liability and other intangibles would result in higher rental income and amortization expense, whereas lower allocations to below-market lease liability and other intangibles would result in lower rental income and amortization expense.

The Company applies SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , to recognize and measure impairment of long-lived assets. Management reviews 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. Management is required to make subjective assessments as to whether there are impairments in the value of its real estate properties. These assessments have a direct impact on net income, because an impairment loss is recognized in the period that the assessment is made.

Stock-Based Compensation

The Company adopted the provisions of 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 Company s 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 which specify vesting (1) upon the third anniversary of the date of grant for time-based grants, or (2) upon the completion of a designated period of performance for performance-based grants. Time-based grants are valued according to the market price for the Company s common stock at the date of grant. For performance-based grants, the Company engages an independent appraisal company to determine the value of the shares at the date of grant, taking into account the underlying contingency risks associated with the performance criteria. The value of such grants is being amortized on a straight-line basis over the respective vesting periods. These value estimates have a direct impact on net income, because higher valuations would result in lower net income, where lower valuations would result in higher net income.

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Results of Operations

Differences in results of operations between 2007 and 2006, respectively, were primarily the result of the Company s property acquisition program and continuing development/redevelopment activities. During the period January 1, 2006 through June 30, 2007, the Company acquired 21 shopping and convenience centers aggregating approximately 2.3 million sq. ft. of GLA, approximately 179 acres of land for expansion and/or future development, and a 49% interest in an unconsolidated joint venture which owns a single-tenant office property, for a total cost of approximately $326.5 million. In addition, the Company completed and placed into service two ground-up developments having an aggregate cost of approximately $8.4 million. Income from continuing operations before minority and limited partners interests and preferred distribution requirements increased to $5.1 million during the three months ended June 30, 2007 from $4.4 million during the three months ended June 30, 2006. Income from continuing operations before minority and limited partners interests and preferred distribution requirements increased to $11.2 million during the six months ended June 30, 2007 from $7.5 million during the six months ended June 30, 2006.

Comparison of the quarter ended June 30, 2007 to the quarter ended June 30, 2006

	Three months ended June 30, 2007	Three months ended June 30, 2006	Increase	Percentage change	Acquisitions/ dispositions	Properties held throughout both periods
Rents and expense recoveries	$36,480,000	$29,673,000	$6,807,000	23%	$6,561,000	$ 246,000
Property operating expenses	9,210,000	8,381,000	829,000	10%	986,000	(157,000)
Depreciation and amortization	9,821,000	7,981,000	1,840,000	23%	2,130,000	(290,000)
General and administrative	3,220,000	1,410,000	1,810,000	128%	n/a	n/a
Non-operating (income) and expense, net (1)	9,182,000	7,828,000	1,354,000	17%	n/a	n/a

(1) Non-operating income and expense consists principally of interest expense, amortization of deferred financing costs, and equity in income (loss) of unconsolidated joint ventures.

Properties held throughout both periods. The Company held 83 properties throughout the three months ended June 30, 2007 and 2006. Rents and expense recoveries increased primarily as a result of (1) lease commencements at the Company s development, redevelopment and stabilized properties ($926,000) and (2) an increase in expense recoveries ($133,000), partially offset by (3) a decrease in the amortization of intangible lease liabilities ($136,000),

resulting from acceleration of amortization in 2006 relating to prematurely-terminated leases (which also resulted in a decrease in depreciation and amortization expense), (4) a decrease in straight-line rents ($243,000), and (5) a decrease in percentage rents ($434,000), resulting from the timing of percentage rent income accruals. Property operating expenses decreased as a result of (1) a decrease in the provision for doubtful accounts ($371,000) and (2) a decrease in insurance expense ($117,000), partially offset by (3) an increase in snow removal costs ($201,000), (4) an increase in real estate taxes ($114,000), and (5) an increase in other operating expenses ($16,000).

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General and administrative expenses. General and administrative expenses increased primarily as a result of costs associated with the retirement of a senior executive and the initial compensation/relocation costs of his replacement ($1,535,000).

Non-operating income and expense, net. Non-operating income and expense, net, increased primarily as a result of (1) increased interest costs (a) from borrowings related to property acquisitions, as reduced by (b) the impact on interest costs of proceeds from common stock sales throughout 2006 used initially to reduce outstanding borrowings under the Company s secured revolving credit facility, offset by (2) earnings from an unconsolidated joint venture acquired in November 2006.

Comparison of the six months ended June 30, 2007 to the six months ended June 30, 2006

	Six months ended June 30,			Percentage	Acquisitions/	Properties held throughout both
	2007	2006	Increase	change	dispositions	periods
Rents and expense recoveries	$71,946,000	$59,085,000	$12,861,000	22%	$11,779,000	$1,082,000
Property operating expenses	19,716,000	17,389,000	2,327,000	13%	2,258,000	69,000
Depreciation and amortization	19,631,000	16,505,000	3,126,000	19%	3,772,000	(646,000)
General and administrative	5,218,000	2,789,000	2,429,000	87%	n/a	n/a
Non-operating (income) and expense, net (1)	16,671,000	15,423,000	1,248,000	8%	n/a	n/a

(1) Non-operating income and expense consists principally of interest expense, amortization of deferred financing costs, and equity in income (loss) of unconsolidated joint ventures.

Properties held throughout both periods. The Company held 82 properties throughout the six months ended June 30, 2007 and 2006. Rents and expense recoveries increased primarily as a result of (1) lease commencements at the Company s development, redevelopment and stabilized properties ($1,615,000) and (2) an increase in expense recoveries ($1,013,000), partially offset by (3) a decrease in the amortization of intangible lease liabilities ($809,000), resulting from (a) the impact of purchase accounting allocations in the first quarter of 2006 applicable to properties acquired during 2005 (which also resulted in a decrease in depreciation and amortization expense) and (b) acceleration of amortization in 2006 relating to prematurely-terminated leases, (4) a decrease in straight-line rents ($542,000), and (5) a decrease in percentage rents ($195,000), resulting from the timing of percentage rent income accruals. Property operating expenses increased as a result of (1) an increase in snow removal costs ($539,000), (2) an increase in real

estate taxes ($249,000), (3) an increase in other operating expenses ($191,000), offset by (4) a decrease in the provision for doubtful accounts ($776,000) and (5) a decrease in insurance expense ($134,000).

General and administrative expenses. General and administrative expenses increased primarily as a result of costs associated with the retirement of a senior executive and the initial compensation/relocation costs of his replacement ($1,535,000), increased compensation costs, and the Company s continued growth.

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Non-operating income and expense, net. Non-operating income and expense, net, increased primarily as a result of (1) increased interest costs (a) from borrowings related to property acquisitions, as reduced by (b) the impact on interest costs of proceeds from common stock sales throughout 2006 used initially to reduce outstanding borrowings under the Company s secured revolving credit facility, offset by (2) earnings from an unconsolidated joint venture acquired in November 2006.

Liquidity and Capital Resources

The Company funds operating expenses and other short-term liquidity requirements, including debt service, tenant improvements, leasing commissions, and preferred and common dividend distributions, primarily from operating cash flows; the Company has also used its secured revolving credit facility for these purposes. The Company expects to fund long-term liquidity requirements for property acquisitions, development and/or redevelopment costs, capital improvements, and maturing debt initially with the secured revolving credit facility and property-specific construction financing, and ultimately through a combination of issuing and/or assuming additional mortgage debt, the sale of equity securities, the issuance of additional OP Units, and the sale of properties or interest therein (including joint venture arrangements).

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, is expandable to $400 million, subject to certain conditions, and will expire in January 2009, subject to a one-year extension option. As of June 30, 2007, based on covenant measurements and collateral in place, the Company was permitted to draw up to approximately $278.8 million, of which approximately $139.8 million remained available as of that date. The credit facility is used to fund acquisitions, development and 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, to the collateral pool with the intent of making the full facility available.

At June 30, 2007, the Company s financial liquidity was provided principally by (1) $18.3 million in cash and cash equivalents, and (2) $139.8 million available under the secured revolving credit facility. Mortgage loans payable at June 30, 2007 consisted of fixed-rate notes totaling $557.0 million (with a weighted average interest rate of 5.7%) and variable-rate notes totaling $143.8 million, including $139.0 million under the secured revolving credit facility (with a combined weighted average interest rate of 6.5%). Total mortgage loans payable have an overall weighted average interest rate of 5.8% and mature at various dates through 2021.

In December 2006, the Company sold 7,500,000 shares of its common stock at a price of $16.00 per share, and realized net proceeds, after underwriting fees and offering costs, of approximately $113.8 million; in January 2007, the underwriters exercised their over-allotment option to the extent of 275,000 shares, and the Company realized additional net proceeds of $4.1 million. Pursuant to a registration statement filed in June 2005 and prospectus supplements

related 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. No shares were sold pursuant to the current program during the six months ended June 30, 2007.

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, and is not available to fund other property-level or Company-level obligations. In addition, 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.

Net Cash Flows

In connection with preparation of the Company s consolidated financial statements for inclusion in this period s Form 10-Q, the Company determined that cash flows from changes in accounts payable and accrued expenses relating to real estate expenditures should have been included in investing, rather than operating, cash flow activities. As a result, the consolidated statement of cash flows for the six months ended June 30, 2006 has been revised by (1) cash flows provided by operating activities being changed from $13,747,000 to $17,409,000, and (2) cash flows from investing activities being changed from ($41,327,000) to ($44,989,000).

Operating Activities

Net cash flows provided by operating activities amounted to $24.9 million during the six months ended June 30, 2007, compared to net cash flows provided by operating activities of $17.4 million during the six months ended June 30, 2006. The increase in operating cash flows during the first six months of 2007, as compared with the first six months of 2006, was primarily the result of (1) property acquisitions, and (2) the impact of the common stock offering in December 2006.

Investing Activities

Net cash flows used in investing activities were $93.1 million during the six months ended June 30, 2007 and $45.0 million during the six months ended June 30, 2006, and were primarily the result of the Company s property acquisition program and continuing development/redevelopment activities. During the first six months of 2007, the Company acquired eight shopping and convenience centers. During the first six months of 2006, the Company acquired two shopping centers, the remaining 50% interest in a third, land for future expansion, and sold its interest in an unconsolidated joint venture.

Financing Activities

Net cash flows provided by financing activities were $68.6 million during the six months ended June 30, 2007 and $30.7 million during the six months ended June 30, 2006. During the first six months of 2007, the Company received net borrowings of $70.0 million under the

Company s secured revolving credit facility, $23.0 million in net proceeds from mortgage financings, and $3.9 million in net proceeds from sales of common stock, offset by preferred and common stock dividend distributions of $23.8 million, repayment of mortgage obligations of $4.1 million, distributions paid with respect to limited partners interests of $1.0 million, and payment of deferred financing costs of $1.0 million. During the first six months of 2006, the Company received $61.6 million in net proceeds from the settlement of a forward sales agreement relating to an August 2005 public offering and sales of common stock under registered deferred offering programs, and $14.6 million in net proceeds from mortgage financings, offset by net repayments of $23.0 million under the Company s secured revolving credit facility, preferred and common stock dividend distributions of $17.5 million, repayment of mortgage obligations of $3.6 million, distributions paid with respect to minority and limited partners interests of $0.9 million, and payment of deferred financing costs of $0.5 million.

Funds From Operations

Funds From Operations (FFO) is a widely-recognized non-GAAP financial measure for REITs that the Company believes, when considered with financial statements determined in accordance with GAAP, is useful to investors in understanding financial performance and providing a relevant basis for comparison among REITs. In addition, FFO is useful to investors as it captures features particular to real estate performance by recognizing that real estate generally appreciates over time or maintains residual value to a much greater extent than do other depreciable assets. Investors should review FFO, along with GAAP net income, when trying to understand an equity REIT s operating performance. The Company presents FFO because the Company considers it an important supplemental measure of its operating performance and believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs. Among other things, the Company uses FFO or an FFO-based measure (1) as one of several criteria to determine performance-based bonuses for members of senior management, (2) in performance comparisons with other shopping center REITs, and (3) to measure compliance with certain financial covenants under the terms of the Loan Agreement relating to the Company s secured revolving credit facility.

The Company computes FFO in accordance with the White Paper on FFO published by the National Association of Real Estate Investment Trusts (NAREIT), which defines FFO as net income applicable to common shareholders (determined in accordance with GAAP), excluding gains or losses from debt restructurings and sales of properties, plus real estate-related depreciation and amortization, and after adjustments for partnerships and joint ventures (which are computed to reflect FFO on the same basis).

FFO does not represent cash generated from operating activities and should not be considered as an alternative to net income applicable to common shareholders or to cash flow from operating activities. FFO is not indicative of cash available to fund ongoing cash needs, including the ability to make cash distributions. Although FFO is a measure used for comparability in assessing the performance of REITs, as the NAREIT White Paper only provides guidelines for computing FFO, the computation of FFO may vary from one company to another.

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The following table sets forth the Company s calculations of FFO for the three and six months ended June 30, 2007 and 2006:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net income applicable to common shareholders	$ 2,921,000	$ 2,134,000	$ 6,576,000	$ 3,134,000
Add (deduct):				
Real estate depreciation and amortization	9,837,000	8,029,000	19,667,000	16,600,000
Limited partners interest	132,000	114,000	295,000	167,000
Minority interests in consolidated joint ventures	300,000	309,000	695,000	619,000
Minority interests share of FFO applicable to consolidated joint ventures	(426,000)	(446,000)	(917,000)	(912,000)
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)
FFO from unconsolidated joint ventures	234,000	(2,000)	468,000	(5,000)
Funds from operations	$12,841,000	$10,012,000	$26,471,000	$19,502,000
FFO per common share (assuming conversion of OP Units):				
Basic	$ 0.28	$ 0.31	$ 0.57	$ 0.61
Diluted	$ 0.28	$ 0.31	$ 0.57	$ 0.61
Weighted average number of common shares:				
Shares used in determination of basic earnings per share	44,194,000	30,618,000	44,153,000	30,248,000
Additional shares assuming conversion of OP Units (basic)	1,984,000	1,632,000	1,985,000	1,594,000
Shares used in determination of basic FFO per share	46,178,000	32,250,000	46,138,000	31,842,000
Shares used in determination of diluted earnings per share	44,198,000	30,863,000	44,158,000	30,504,000
Additional shares assuming conversion of OP Units (diluted)	1,997,000	1,638,000	1,998,000	1,601,000

Shares used in determination of diluted FFO per share	46,195,000	32,501,000	46,156,000	32,105,000

Inflation

Low to moderate levels of inflation during the past several years have favorably impacted the Company s operations by stabilizing operating expenses. At the same time, low inflation has had the indirect effect of reducing the Company s ability to increase tenant rents. However, the Company s properties have tenants whose leases include expense reimbursements and other provisions to minimize the effect of inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk facing the Company is interest rate risk on its variable-rate mortgage loan payable and secured revolving credit facility. The Company will, when

advantageous, hedge its interest rate risk using derivative financial instruments. The Company is not subject to foreign currency risk.

The Company is exposed to interest rate changes primarily through (1) the secured floating-rate revolving credit facility used to maintain liquidity, fund capital expenditures and expand its real estate investment portfolio, and (2) floating-rate construction financing. The Company s objectives with respect to interest rate risk are to limit the impact of interest rate changes on operations and cash flows, and to lower its overall borrowing costs. To achieve these objectives, the Company may borrow at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and/or treasury locks in order to mitigate its interest rate risk on a related variable-rate financial instrument. The Company does not enter into derivative or interest rate transactions for speculative purposes.

At June 30, 2007, long-term debt consisted of fixed and variable-rate mortgage loans payable, and the variable-rate secured revolving credit facility. The average interest rate on the $557.0 million of fixed rate indebtedness outstanding was 5.7%, with maturities at various dates through 2021. The average interest rate on the Company s $143.8 million of variable-rate debt was 6.5%, with maturities at various dates through 2009. Based on the amount of variable-rate debt outstanding at June 30, 2007, if interest rates either increase or decrease by 1%, the Company s net income would decrease or increase respectively by approximately $1,438,000 per annum.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures and internal controls designed to ensure that information required to be disclosed in its filings under the Securities Exchange Act of 1934 is reported within the time periods specified in the Securities and Exchange Commission s (SEC) rules and forms. In this regard, the Company has formed a Disclosure Committee currently comprised of several of the Company s executive officers as well as certain other employees with knowledge of information that may be considered in the SEC reporting process. The Committee has responsibility for the development and assessment of the financial and non-financial information to be included in the reports filed with the SEC, and assists the Company s Chief Executive Officer and Chief Financial Officer in connection with their certifications contained in the Company s SEC filings. The Committee meets regularly and reports to the Audit Committee on a quarterly or more frequent basis. The Company s principal executive and financial officers have evaluated its disclosure controls and procedures as of June 30, 2007, and have determined that such disclosure controls and procedures are effective.

During the three months ended June 30, 2007, there have been no changes in the internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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Part II Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of stockholders on June 12, 2007, at which the following matters were voted upon:

1. The election of seven directors.

2. The approval of an amendment to the Company s Articles of Incorporation to increase the number of authorized shares of common and preferred stock.

3. The approval of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2007.

The results of the vote were as follows:

	For	Withheld/ Against	Abstain	Broker Non-Votes
1. Directors:				
James J. Burns	40,797,007	750,367		
Richard Homburg	40,100,733	1,446,641		
Paul G. Kirk, Jr.	40,804,884	742,490		
Everett B. Miller, III	40,808,536	738,838		
Leo S. Ullman	40,703,038	844,336		
Brenda J. Walker	40,704,527	842,847		
Roger M. Widmann	40,807,784	739,590		
2. Increasing authorized shares of common and preferred stock	21,986,672	13,824,347	78,630	5,657,725
3. Independent registered public accounting firm	41,343,297	183,716	20,361	

Proposal 2 was not approved since it did not receive the requisite approval of at least two-thirds of the outstanding shares of common stock.

Item 6. Exhibits

Exhibit 31 Section 302 Certifications

Exhibit 32 Section 906 Certifications

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CEDAR SHOPPING CENTERS, INC.

By: /s/ LEO S. ULLMAN	By: /s/ LAWRENCE E. KREIDER, JR.
Leo S. Ullman Chairman of the Board, Chief Executive Officer and President (Principal executive officer)	Lawrence E. Kreider, Jr. Chief Financial Officer (Principal financial officer)

August 9, 2007