

CEDAR SHOPPING CENTERS INC

Form 10-K/A

March 27, 2006

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

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**FORM 10-K/A**

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

**For the fiscal year ended December 31, 2005**

**OR**

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

**COMMISSION FILE NUMBER: 0-14510**

**CEDAR SHOPPING CENTERS,  
INC.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of incorporation or organization)

**42-1241468**  
(I.R.S. Employer Identification Number)

**44 South Bayles Avenue, Port Washington, NY**  
(Address of principal executive offices)

**11050-3765**  
(Zip Code)

**Registrant's telephone number, including area code: (516) 767-6492**  
**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of each class</b>   | <b>Name of each exchange on which registered</b> |
|--|--|
| Common Stock, \$0.06 par value   | New York Stock Exchange                          |
| 8-7/8% Series A Cumulative Redeemable Preferred Stock, \$25.00 Liquidation Value | New York Stock Exchange                          |

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

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

Yes      No

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

Yes      No

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

Yes      No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form

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10-K or any amendment to this Form 10-K.

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

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

Yes              No  
Based on the closing sales price on June 30, 2005 of \$14.75 per share, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$319,635,000.

The number of shares outstanding of the registrant's Common Stock \$.06 par value was 29,972,535 on February 28, 2006.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's definitive proxy statement relating to its 2006 annual meeting of shareholders are incorporated herein by reference.

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[Back to Contents](#)

**CEDAR SHOPPING CENTERS, INC.**

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

**Part II. Financial Information:**

**Item 8. Financial Statements and Supplementary Data:**

1. The Pro Forma Financial Information (unaudited) appearing in Note 4 Real Estate and Acquisitions of Notes to Consolidated Financial Statements is being revised to amend the text and to correct the amounts shown in the table included therein.

**Item 8. Financial Statements and Supplementary Data**

|  |              |
|--|--------------|
| <u>Reports of Independent Registered Public Accounting Firm</u>                                      | <u>5-6</u>   |
| <u>Consolidated Balance Sheets, December 31, 2005 and 2004</u>                                       | <u>7</u>     |
| <u>Consolidated Statements of Operations, years ended December 31, 2005, 2004 and 2003</u>           | <u>8</u>     |
| <u>Consolidated Statements of Shareholders' Equity, years ended December 31, 2005, 2004 and 2003</u> | <u>9</u>     |
| <u>Consolidated Statements of Cash Flows, years ended December 31, 2005, 2004 and 2003</u>           | <u>10</u>    |
| <u>Notes to Consolidated Financial Statements</u>  | <u>11-25</u> |

[Back to Contents](#)

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders  
Cedar Shopping Centers, Inc.**

We have audited the accompanying consolidated balance sheets of Cedar Shopping Centers, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. We have also audited the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cedar Shopping Centers, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cedar Shopping Centers, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

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New York, New York  
March 2, 2006

[Back to Contents](#)

## Report of Independent Registered Public Accounting Firm

### The Board of Directors and Shareholders Cedar Shopping Centers, Inc.

We have audited management's assessment, included in the accompanying Item 9A. Controls and Procedures - Management Report on Internal Control Over Financial Reporting, that Cedar Shopping Centers, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Cedar Shopping Centers, Inc. maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Cedar Shopping Centers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of Cedar Shopping Centers, Inc. and our report dated March 2, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York  
March 2, 2006

[Back to Contents](#)

## CEDAR SHOPPING CENTERS, INC.

## Consolidated Balance Sheets

|   | December 31,       |                    |
|---|--------------------|--------------------|
|   | 2005               | 2004               |
| Assets  |                    |                    |
| Real estate:  |                    |                    |
| Land  | \$ 180,951,000     | \$ 97,617,000      |
| Buildings and improvements  | 800,005,000        | 423,735,000        |
|   | <u>980,956,000</u> | <u>521,352,000</u> |
| Less accumulated depreciation   | (34,499,000)       | (16,027,000)       |
| Real estate, net  | 946,457,000        | 505,325,000        |
| Cash and cash equivalents   | 8,601,000          | 8,457,000          |
| Cash at joint ventures and restricted cash  | 10,415,000         | 7,105,000          |
| Rents and other receivables, net  | 9,093,000          | 4,483,000          |
| Other assets  | 4,051,000          | 2,379,000          |
| Deferred charges, net   | 17,639,000         | 9,411,000          |
|   | <u>996,256,000</u> | <u>537,160,000</u> |
| Total assets  | \$ 996,256,000     | \$ 537,160,000     |
| Liabilities and shareholders' equity  |                    |                    |
| Mortgage loans payable  | \$ 380,311,000     | \$ 180,430,000     |
| Secured revolving credit facility   | 147,480,000        | 68,200,000         |
| Accounts payable, accrued expenses, and other   | 16,462,000         | 9,012,000          |
| Unamortized intangible lease liabilities  | 27,943,000         | 25,227,000         |
|   | <u>572,196,000</u> | <u>282,869,000</u> |
| Total liabilities   | 572,196,000        | 282,869,000        |
| Minority interests  | 12,339,000         | 11,995,000         |
| Limited partners' interest in Operating Partnership   | 20,586,000         | 6,542,000          |
| Shareholders' equity:   |                    |                    |
| Preferred stock (\$.01 par value, \$25.00 per share liquidation value, 5,000,000 shares authorized, 3,550,000 and 2,350,000 shares, respectively, issued and outstanding) | 88,750,000         | 58,750,000         |
| Common stock (\$.06 par value, 50,000,000 shares authorized, 29,618,000 and 19,351,000 shares, respectively, issued and outstanding)                                      | 1,777,000          | 1,161,000          |
| Treasury stock (443,000 and 339,000 shares, respectively, at cost)  | (5,416,000)        | (3,919,000)        |
| Additional paid-in capital  | 357,000,000        | 215,271,000        |
| Cumulative distributions in excess of net income  | (49,956,000)       | (35,139,000)       |
| Accumulated other comprehensive income (loss)   | 138,000            | (165,000)          |
| Unamortized deferred compensation plans   | (1,158,000)        | (205,000)          |
|   | <u>391,135,000</u> | <u>235,754,000</u> |
| Total shareholders' equity  | 391,135,000        | 235,754,000        |



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|  |                       |                       |
|--|-----------------------|-----------------------|
| Total liabilities and shareholders' equity | <u>\$ 996,256,000</u> | <u>\$ 537,160,000</u> |
|--|-----------------------|-----------------------|

See accompanying notes to consolidated financial statements.

[Back to Contents](#)**CEDAR SHOPPING CENTERS, INC.****Consolidated Statements of Operations**

|   | Years ended December 31, |                      |                        |
|---|--------------------------|----------------------|------------------------|
|   | 2005                     | 2004                 | 2003                   |
| <b>Revenues:</b>  |                          |                      |                        |
| Rents   | \$ 62,748,000            | \$ 40,110,000        | \$ 20,943,000          |
| Expense recoveries  | 15,764,000               | 10,565,000           | 5,509,000              |
| Other   | 429,000                  | 403,000              | 215,000                |
| <b>Total revenues</b>   | <b>78,941,000</b>        | <b>51,078,000</b>    | <b>26,667,000</b>      |
| <b>Expenses:</b>  |                          |                      |                        |
| Operating, maintenance and management                                 | 14,298,000               | 10,751,000           | 7,190,000              |
| Real estate and other property-related taxes                          | 7,965,000                | 4,872,000            | 2,861,000              |
| General and administrative  | 5,132,000                | 3,575,000            | 3,161,000              |
| Depreciation and amortization   | 20,606,000               | 11,376,000           | 4,139,000              |
| <b>Total expenses</b>   | <b>48,001,000</b>        | <b>30,574,000</b>    | <b>17,351,000</b>      |
| <b>Operating income</b>   | <b>30,940,000</b>        | <b>20,504,000</b>    | <b>9,316,000</b>       |
| <b>Non-operating income and expense:</b>                              |                          |                      |                        |
| Interest expense  | (15,178,000)             | (10,239,000)         | (9,412,000)            |
| Amortization of deferred financing costs                              | (1,071,000)              | (1,025,000)          | (1,057,000)            |
| Interest income   | 91,000                   | 66,000               | 12,000                 |
| Costs incurred in acquiring external advisor and related transactions |                          |                      | (20,788,000)           |
| <b>Total non-operating income and expense</b>                         | <b>(16,158,000)</b>      | <b>(11,198,000)</b>  | <b>(31,245,000)</b>    |
| <b>Income (loss) before minority and limited partners' interests</b>  | <b>14,782,000</b>        | <b>9,306,000</b>     | <b>(21,929,000)</b>    |
| Minority interests  | (1,270,000)              | (1,229,000)          | (983,000)              |
| Limited partners' interest in Operating Partnership                   | (299,000)                | (157,000)            | 1,815,000              |
| <b>Net income (loss)</b>  | <b>13,213,000</b>        | <b>7,920,000</b>     | <b>(21,097,000)</b>    |
| Preferred distribution requirements                                   | (7,186,000)              | (2,218,000)          | (254,000)              |
| <b>Net income (loss) applicable to common shareholders</b>            | <b>\$ 6,027,000</b>      | <b>\$ 5,702,000</b>  | <b>\$ (21,351,000)</b> |
| <b>Per common share (basic and diluted)</b>                           | <b>\$ 0.25</b>           | <b>\$ 0.34</b>       | <b>\$ (7.09)</b>       |
| <b>Dividends to common shareholders</b>                               | <b>\$ 20,844,000</b>     | <b>\$ 13,750,000</b> | <b>\$</b>              |
| <b>Per common share</b>   | <b>\$ 0.90</b>           | <b>\$ 0.835</b>      | <b>\$</b>              |
| <b>Weighted average number of common shares outstanding</b>           | <b>23,988,000</b>        | <b>16,681,000</b>    | <b>3,010,000</b>       |

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See accompanying notes to consolidated financial statements.

[Back to Contents](#)

## CEDAR SHOPPING CENTERS, INC.

Consolidated Statement of Shareholders' Equity  
Years ended December 31, 2005, 2004 and 2003

|   | Preferred stock |                      | Common stock |                     |                               | Accumulated                      |   |  | Total |  |
|---|-----------------|----------------------|--------------|---------------------|-------------------------------|----------------------------------|---|--|-------|--|
|   | Shares          | \$25.00              | Shares       | \$0.06<br>Par value | Treasury<br>stock,<br>at cost | Additional<br>paid-in<br>capital | Cumulative<br>distributions<br>in excess of<br>net income | other<br>comprehensive<br>income<br>(loss) |       | Unamortized<br>deferred<br>compensation<br>plans |
|   |                 | Liquidation<br>value |              |                     |                               |                                  |   |  |       |  |
| Balance,<br>December 31,<br>2002  |                 | \$                   | 232,000      | \$ 14,000           | \$                            | \$ 9,036,000                     | \$ (5,740,000)  | \$ (65,000)                                | \$    | \$ 3,245   |
| Net loss  |                 |                      |              |                     |                               |                                  | (21,097,000)  |  |       | (21,097,000)                                     |
| Unrealized<br>gain on<br>change in fair<br>value of cash<br>flow hedges                   |                 |                      |              |                     |                               |                                  |   | 112,000                                    |       | 112,000  |
| Issuance of<br>warrants   |                 |                      |              |                     |                               | 70,000                           |   |  |       | 70,000   |
| Issuances of<br>common stock<br>for services  |                 |                      | 6,000        |                     |                               | 95,000                           |   |  |       | 95,000   |
| Conversion of<br>OP Units to<br>common stock  |                 |                      | 46,000       | 3,000               |                               | 500,000                          |   |  |       | 503,000  |
| Conversion of<br>common stock<br>to OP Units  |                 |                      | (46,000)     | (3,000)             |                               | (500,000)                        |   |  |       | (503,000)  |
| Net proceeds<br>from common<br>stock offering   |                 |                      | 15,525,000   | 931,000             |                               | 161,982,000                      |   |  |       | 162,913,000                                      |
| Redemption<br>of limited<br>partner's<br>interest in<br>excess of<br>basis                |                 |                      |              |                     |                               | (2,110,000)                      |   | (432,000)                                  |       | (2,542,000)                                      |
| Issuance of<br>common stock<br>in connection<br>with acquiring<br>external<br>advisor     |                 |                      | 693,000      | 42,000              |                               | 7,931,000                        |   |  |       | 7,973,000  |
| Contribution<br>from<br>Company's<br>chairman<br>relating to<br>employee<br>payroll taxes |                 |                      |              |                     |                               | 633,000                          |   |  |       | 633,000  |
| Preferred<br>distribution<br>requirements   |                 |                      |              |                     |                               |                                  | (254,000)   |  |       | (254,000)  |

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Deferred  
compensation  
program  
funded by  
treasury stock

(3,669,000) 3,669,000

Balance,  
December 31,  
2003

16,456,000 987,000 (3,669,000) 181,306,000 (27,091,000) (385,000)

151,148

Net income

7,920,000

7,920

Unrealized  
gain on  
change in fair  
value of cash  
flow hedges

220,000

220

Deferred  
compensation  
plans, net

20,000

1,000

(250,000)

499,000

(205,000)

45

Net proceeds  
from preferred  
stock offering

2,350,000

58,750,000

(2,027,000)

56,723

Net proceeds  
from common  
stock offering

2,875,000

173,000

38,003,000

38,176

Preferred  
distribution  
requirements

(2,218,000)

(2,218)

Dividends to  
common  
shareholders  
(29.7% return  
of capital)

(13,750,000)

(13,750)

Reallocation  
adjustment of  
limited  
partners  
interest

(2,510,000)

(2,510)

Balance,  
December 31,  
2004

2,350,000

58,750,000

19,351,000

1,161,000

(3,919,000)

215,271,000

(35,139,000)

(165,000)

(205,000)

235,754

Net income

13,213,000

13,213

Unrealized  
gain on  
change in fair  
value of cash  
flow hedges

303,000

303

Deferred  
compensation  
plans, net

84,000

5,000

(1,497,000)

2,707,000

(953,000)

262

Net proceeds  
from preferred  
stock offering

1,200,000

30,000,000

(131,000)

29,869

Net proceeds  
from common  
stock  
offerings

10,090,000

605,000

137,681,000

138,286

Conversion of  
OP Units into

93,000

6,000

1,239,000

1,245

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common stock  
Preferred  
distribution  
requirements  
Dividends to  
common  
shareholders  
(57.2% return  
of capital)  
Reallocation  
adjustment of  
limited  
partners  
interest

(7,186,000)

(7,186

(20,844,000)

(20,844

233,000

233

Balance,  
December 31,  
2005

3,550,000 \$ 88,750,000 29,618,000 \$ 1,777,000 \$ (5,416,000) \$ 357,000,000 \$ (49,956,000) \$ 138,000 \$(1,158,000) \$ 391,135

See accompanying notes to consolidated financial statements.

[Back to Contents](#)**CEDAR SHOPPING CENTERS, INC.****Consolidated Statements of Cash Flows**

|  | Years ended December 31, |               |                 |
|--|--------------------------|---------------|-----------------|
|  | 2005                     | 2004          | 2003            |
| Cash flow from operating activities:   |                          |               |                 |
| Net income (loss)  | \$ 13,213,000            | \$ 7,920,000  | \$ (21,097,000) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                          |               |                 |
| Non-cash provisions:   |                          |               |                 |
| Minority interests earnings in excess of distributions   | 58,000                   | 329,000       | 193,000         |
| Limited partners interest  | 299,000                  | 157,000       | (1,815,000)     |
| Straight-line rents  | (2,318,000)              | (1,333,000)   | (835,000)       |
| Depreciation and amortization  | 20,606,000               | 11,376,000    | 4,139,000       |
| Amortization of intangible lease liabilities   | (4,129,000)              | (2,154,000)   | (879,000)       |
| Acquisition of external advisor and related transactions   |                          |               | 13,402,000      |
| Other  | 1,333,000                | 1,070,000     | 1,908,000       |
| Increases/decreases in operating assets and liabilities:   |                          |               |                 |
| Joint venture cash   | (192,000)                | (190,000)     | 225,000         |
| Rents and other receivables  | (2,292,000)              | 119,000       | (1,698,000)     |
| Other assets   | (4,110,000)              | (2,007,000)   | (1,470,000)     |
| Accounts payable and accrued expenses  | 7,467,000                | 3,220,000     | 3,071,000       |
| Net cash provided by (used in) operating activities  | 29,935,000               | 18,507,000    | (4,856,000)     |
| Cash flow from investing activities:   |                          |               |                 |
| Expenditures for real estate and improvements  | (325,858,000)            | (168,893,000) | (188,111,000)   |
| Construction/improvement escrows and other   | (1,968,000)              | 620,000       | (3,433,000)     |
| Acquisitions of minority interests   |                          |               | (8,360,000)     |
| Net cash (used in) investing activities  | (327,826,000)            | (168,273,000) | (199,904,000)   |
| Cash flow from financing activities:   |                          |               |                 |
| Proceeds from public offerings   | 168,477,000              | 94,899,000    | 162,508,000     |
| Proceeds from mortgage financings  | 91,350,000               | 44,222,000    | 49,296,000      |
| Mortgage repayments  | (8,896,000)              | (19,601,000)  | (7,700,000)     |
| Line of credit and other interim financings, net   | 79,280,000               | 51,200,000    | 40,573,000      |
| Distributions to minority interest partners in excess of earnings                                  | (676,000)                | (769,000)     | (867,000)       |
| Distributions to limited partners  | (809,000)                | (377,000)     |                 |
| Preferred distribution requirements  | (7,211,000)              | (2,218,000)   | (254,000)       |
| Distributions to common shareholders   | (20,844,000)             | (13,750,000)  |                 |
| Contributions from minority interest partners  | 962,000                  |               | 9,665,000       |
| Deferred financing costs   | (3,598,000)              | (2,146,000)   | (2,545,000)     |
| Purchase/termination of interest rate hedges   |                          | 609,000       | (1,552,000)     |
| Repayments of interim financings   |                          | —             | (30,037,000)    |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Redemption of OP Units                         |              |              | (9,000,000)  |
| Redemption of Preferred OP Units               |              |              | (3,000,000)  |
|  |              |              |              |
| Net cash provided by financing activities      | 298,035,000  | 152,069,000  | 207,087,000  |
|  |              |              |              |
| Net increase in cash and cash equivalents      | 144,000      | 2,303,000    | 2,327,000    |
| Cash and cash equivalents at beginning of year | 8,457,000    | 6,154,000    | 3,827,000    |
|  |              |              |              |
| Cash and cash equivalents at end of year       | \$ 8,601,000 | \$ 8,457,000 | \$ 6,154,000 |

See accompanying notes to consolidated financial statements.



[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

**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 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 December 31, 2005, the Company owned 84 properties, aggregating approximately 8.4 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 December 31, 2005 and 2004, respectively, the Company owned a 95.0% and 97.7% economic interest in, and is the sole general partner of, the Operating Partnership. The limited partners interest in the Operating Partnership (5.0% and 2.3% at December 31, 2005 and 2004, respectively) 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 1,546,000 OP Units outstanding at December 31, 2005 are economically equivalent to the Company's common stock and are convertible into the Company's common stock at the option of the holders on a one-to-one basis.

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 joint ventures, the Company has general partnership interests ranging from 20% to 50% and, as the Company (1) is the sole general partner and exercises substantial operating control over these entities, and (2) has determined, pursuant to The Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, that they are not variable-interest entities, such partnerships are included in the consolidated financial statements. Prior years' consolidated financial statements have been reclassified to conform to the 2005 presentation.

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 accounting principles generally accepted in the United States (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.

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

***Real Estate Investments***

Real estate investments are carried at cost less accumulated depreciation. The provision for depreciation has been calculated using the straight-line method based upon the following estimated useful lives of the respective assets:

|                            |   |
|----------------------------|---|
| Buildings and improvements | 40 years                                |
| Tenant improvements        | Over the lives of the respective leases |

Depreciation expense amounted to \$18,862,000, \$9,753,000 and \$3,878,000 for 2005, 2004 and 2003, respectively. Additions and 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, and amounted to \$2,715,000, \$2,102,000 and \$1,903,000 for 2005, 2004 and 2003, respectively.

Upon the sale or other disposition of assets, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected as discontinued operations. In addition, prior periods' financial statements are 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 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. Interest capitalized amounted to \$3,427,000, \$1,633,000 and \$184,000 in 2005, 2004 and 2003, respectively.

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 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 market value. No impairment provisions were recorded by the Company during the three years ended December 31, 2005. Real estate investments held for sale are carried at the lower of carrying amount or estimated fair value, less cost to sell. Depreciation and amortization are suspended during the period held for sale.

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. There were no conditional asset retirement obligation liabilities recorded by the Company during the year ended December 31, 2005 (the implementation year of the Interpretation).

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

***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 considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and 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 (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates, over (ii) 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 an interest 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. This aggregate value is allocated among above-market and below-market leases, and other intangibles based on management's evaluation of the specific characteristics of each lease. 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 immediately recognized in operations.

With respect to substantially all of the Company's acquisitions through December 31, 2005, the fair value of in-place leases and other intangibles has been allocated, on a preliminary basis, to the applicable intangible asset and liability accounts. Unamortized intangible lease liabilities of \$27,943,000 and \$25,227,000 at December 31, 2005 and 2004, respectively, relate primarily to below-market leases.

Revenues include \$4,129,000, \$2,154,000 and \$879,000 for the years ended December 31, 2005, 2004 and 2003, respectively, relating to the amortization of intangible lease liabilities. Correspondingly, depreciation and amortization expense includes \$6,396,000, \$2,656,000 and \$307,000 for the years ended December 31, 2005, 2004 and 2003, respectively, applicable to amounts allocated to intangible lease assets.

[Back to Contents](#)**Cedar Shopping Centers, Inc.****Notes to Consolidated Financial Statements  
December 31, 2005**

The unamortized balance of intangible lease liabilities at December 31, 2005, net of accumulated amortization of \$6,992,000, will be credited to future operations as follows:

|            |               |
|------------|---------------|
| 2006       | \$ 4,526,000  |
| 2007       | 4,478,000     |
| 2008       | 4,157,000     |
| 2009       | 3,770,000     |
| 2010       | 2,179,000     |
| Thereafter | 8,833,000     |
|            | \$ 27,943,000 |

***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.

***Cash at Joint Ventures and Restricted Cash***

Joint venture partnership agreements require, among other things, that the Company maintain separate cash accounts for the operation of the joint ventures, and distributions to the general and limited (joint venture) partners are strictly controlled. Cash at joint ventures amounted to \$1,385,000 and \$1,193,000 at December 31, 2005 and 2004, respectively.

The terms of several of the Company's mortgage loans payable require it to deposit certain replacement and other reserves with its lenders. This restricted cash is generally available for property-level capital requirements for which the reserve was established. This cash is not, however, available to fund other property-level or Company-level obligations. Restricted cash amounted to \$9,030,000 and \$5,912,000 at December 31, 2005 and 2004, respectively.

***Rents and Other Receivables***

Management has determined that all of the Company's leases with its various tenants are operating leases. Base rents are recognized on a straight-line basis over the terms of the related leases, net of valuation adjustments based on management's assessment of credit, collection and other business risks. The excess of rents recognized over amounts contractually due is included in rents and other receivables on the consolidated balance sheet. The leases also typically provide for tenant reimbursements of common area maintenance and other operating expenses, and real estate taxes; such income is recognized in the period earned. The Company makes estimates as to the collectibility of its accounts receivables based on evaluations of tenant creditworthiness, current economic trends, and changes in customer payment patterns when determining the adequacy of its allowance for doubtful accounts.

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

***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 the economic costs associated with lost rents and other charges, and the costs associated with releasing the space.

***Deferred Charges***

Deferred charges consist of (1) lease origination costs (\$11,433,000 and \$6,163,000 at December 31, 2005 and 2004, respectively), including intangible lease assets resulting from purchase accounting allocations (\$8,856,000 and \$4,698,000, respectively), (2) financing costs incurred in connection with the Company's secured revolving credit facility and other long-term debt (\$5,521,000 and \$2,994,000 at December 31, 2005 and 2004, respectively), and (3) other deferred charges (\$685,000 and \$254,000 at December 31, 2005 and 2004, respectively). Such costs are amortized over the terms of the related agreements. Amortization expense related to deferred charges (including amortization of deferred financing costs included in non-operating income and expense) amounted to \$2,815,000, \$2,648,000 and \$1,318,000 for 2005, 2004 and 2003, respectively.

***Income Taxes***

The Company has elected since 1986 to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). 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.

***Derivative Financial Instruments***

The Company utilizes derivative financial instruments, principally interest rate swaps and interest rate caps, to manage its exposure to fluctuations in interest rates. The Company has established policies and procedures for risk assessment, and the approval, reporting and monitoring of derivative financial instrument activities. The Company has not entered into, and does not plan to enter into, derivative financial instruments for trading or speculative purposes. Additionally, the Company has a policy of only entering into derivative contracts with major financial institutions.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, requires the Company to measure derivative instruments at fair value and to record them in the consolidated balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. The Company's derivative investments are primarily cash flow hedges that limit the base rate of variable rate debt. For cash flow hedges, the ineffective portion of a derivative's change in fair value is immediately recognized in operations, if applicable, and the effective portion of the fair value difference of the derivative is reflected separately in shareholders' equity as accumulated other comprehensive income (loss).

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, amended and clarified the accounting treatment of (1) derivative instruments (including certain derivative instruments embedded in other contracts), and (2) hedging activities that fall within the scope of SFAS No. 133. SFAS No. 149 also amended certain other existing pronouncements, which result in more consistent reporting of contracts that are derivatives in their entirety, or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 was effective prospectively (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003, and has had no material effect on the Company's results of operations.

***Fair Value of Financial Instruments***

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the Company to disclose fair value information of all financial instruments for which it is practicable to estimate fair value. The Company's financial instruments, other than fixed-rate mortgage loans payable, are generally short-term in nature, or bear interest at variable current market rates, and contain minimal credit risk. These instruments consist of cash and cash equivalents, cash at joint ventures and restricted cash, rents and other receivables, and accounts payable. The carrying amount of these assets and liabilities are assumed to be at fair value.

The fair values of fixed-rate mortgage loans payable, estimated utilizing discounted cash flow analysis at interest rates reflective of current market conditions, were \$341,611,000 and \$168,959,000, respectively, at December 31, 2005 and 2004; the carrying values of such loans were \$338,988,000 and \$161,475,000, respectively, at those dates.

***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 average number of common shares outstanding for the period. Fully diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For 2005, 2004 and 2003, fully diluted EPS were not different than basic EPS.

In July 2003, the Company paid a stock dividend of one new share for each share of common stock outstanding. In October 2003, the Company effectuated a one-for-six reverse stock split. The accompanying financial statements and all share and per share data have been retroactively adjusted to give effect to the stock dividend and the reverse stock split.

***Stock-Based Compensation***

The Company accounts for stock-based compensation in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, which 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. SFAS No. 123 defined a fair value based method of accounting for an employee stock option or similar equity instrument, and encouraged all entities to adopt that method of accounting for all of their employee stock compensation plans. Effective January 1, 2006, the Company will apply, and is presently evaluating the impact of, the provisions of SFAS No. 123R, *Share-Based Payments*.

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

The Company's 2004 Stock 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 this plan is 850,000, and the maximum number of shares that may be subject to grants to any single participant is 250,000. The Company granted 84,000 and 20,000 restricted shares in 2005 and 2004, respectively, pursuant to the Plan (at an aggregate market value of \$1,215,000 and \$250,000, respectively). These shares were transferred to a Rabbi Trust, have been classified as treasury stock and unamortized deferred compensation in the Company's consolidated balance sheet, and are accounted for pursuant to Emerging Issues Task Force (EITF) No. 97-14,

Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested . Amortization of amounts deferred is being charged to operations over the vesting periods. Shares held by the Rabbi Trust are included in outstanding shares for earnings per share (EPS) computations.

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

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

***401(k) Retirement Plan***

The Company has a 401(k) retirement plan (the Plan), which permits all eligible employees to defer a portion of their compensation under the Code. Pursuant to the provisions of the Plan, the Company may make discretionary contributions on behalf of eligible employees. For the years ended December 31, 2005, 2004 and 2003, the Company made contributions to the Plan of \$166,000, \$0 and \$0, respectively.

***EITF No. 04-05***

In 2005, the FASB ratified EITF No. 04-05, Determining Whether a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which provides a framework for determining whether a general partner controls, and should consolidate, a minority interests limited partnership or a similar entity. EITF 04-05 became effective on June 29, 2005, for all newly formed or modified limited partnership arrangements and January 1, 2006 for all existing limited partnership arrangements. The Company believes that the adoption of this standard will not have a material effect on its consolidated financial statements.

[Back to Contents](#)

## Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements  
December 31, 2005*Supplemental consolidated statement of cash flows information*

|  | Years ended December 31, |               |              |
|--|--------------------------|---------------|--------------|
|  | 2005                     | 2004          | 2003         |
| Supplemental disclosure of cash activities:  |                          |               |              |
| Interest paid (including interest capitalized of \$3,427,000, \$1,633,000 and \$184,000, respectively) | \$ 17,607,000            | \$ 11,837,000 | \$ 9,806,000 |
| Supplemental disclosure of non-cash activities:  |                          |               |              |
| Additions to deferred compensation plans   | 1,215,000                | 250,000       |              |
| Purchase accounting allocations  | 7,395,000                | 11,187,000    | 7,481,000    |
| Assumption of mortgage loans payable   | 111,294,000              | 9,993,000     | 9,825,000    |
| Issuance of OP Units   | 16,021,000               | 210,000       | 1,000,000    |
| Conversion of OP Units into common stock   | 1,245,000                |               |              |

**Note 3. Common Stock Issuances**

In October 2003, the Company sold 13,500,000 shares of its common stock in a public offering at a price of \$11.50 per share, and realized approximately \$141.2 million after underwriting fees and offering costs. The Company's shares were listed on the New York Stock Exchange and commenced trading on October 24, 2003. In November 2003, the underwriter exercised its over-allotment option to purchase an additional 2,025,000 shares at \$11.50 per share, less underwriting fees, and the Company received an additional \$21.7 million.

In connection with the public offering, the Company acquired its external advisor and concluded other related transactions. Costs and expenses charged to operations during 2003 in connection with these transactions are summarized as follows:

|   | Total                | Contract termination costs | Early extinguishment of debt | Other costs         |
|---|----------------------|----------------------------|------------------------------|---------------------|
| Acquisition of External Advisor           | \$ 11,960,000        | \$ 11,960,000              | \$                           | \$                  |
| Redemption of Preferred OP Units          | 960,000              |                            |                              | 960,000             |
| Mortgage defeasance                       | 4,754,000            |                            | 4,754,000                    |                     |
| Payment of employee personal income taxes | 633,000              |                            |                              | 633,000             |
| Early extinguishment of debt              | 2,181,000            |                            | 2,181,000                    |                     |
| Other                                     | 300,000              |                            |                              | 300,000             |
|   | <u>\$ 20,788,000</u> | <u>\$ 11,960,000</u>       | <u>\$ 6,935,000</u>          | <u>\$ 1,893,000</u> |

In July 2004, the Company sold 2,350,000 shares of 8-7/8% Series A Cumulative Redeemable Preferred Stock in a public offering at a price of \$25.00 per share, an aggregate of \$58.75 million. The preferred stock has no stated maturity and is not convertible into any other security of the Company. The preferred stock is redeemable at the Company's option on or after July 28, 2009 at a price of \$25.00 per share, plus accrued and unpaid distributions. The net proceeds of the offering, after underwriting fees and offering costs, amounted to approximately \$56.7 million, substantially all of which were used to repay amounts outstanding on the Company's secured revolving credit facility.



[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

In December 2004, the Company sold 2,500,000 shares of its common stock in a public offering at a price of \$13.60 per share, and realized approximately \$33.2 million after underwriting fees and offering costs, substantially all of which were used to repay amounts outstanding on the Company's secured revolving credit facility. Later in December 2004, the underwriters exercised their over-allotment option to purchase an additional 375,000 shares at \$13.60 per share less underwriting fees, and the Company received an additional \$5.0 million of proceeds.

In April 2005, the Company sold 1,200,000 shares of its 8-7/8% Series A Cumulative Redeemable Preferred Stock at a price of \$26.00 per share, and realized net proceeds, after underwriting fees and offering costs, of \$30.2 million. The Company also sold in April 2005 2,990,000 shares of its common stock (including 390,000 shares representing the exercise by the underwriters of their over-allotment option) at a price of \$13.80 per share, and realized net proceeds, after underwriting fees and offering costs, of \$40.3 million. Substantially all of the net proceeds from these offerings were used initially to repay amounts outstanding under the Company's secured revolving credit facility.

In August 2005, the Company consummated a public offering of an aggregate of 10,350,000 shares of its common stock (including 1,350,000 shares relating to the exercise of an over-allotment option), of which 6,000,000 shares were sold at that time at a price of \$14.60 per share; the net proceeds from this sale, after underwriting fees and offering costs, were \$82.8 million, substantially all of which were used initially to repay amounts outstanding under the Company's secured revolving credit facility. With respect to the 4,350,000 share balance of the offering, the Company entered into a forward sales agreement with the lead underwriter, whereby the Company has the right to deliver the 4,350,000 shares, in whole or in part, at any time, through August 17, 2006. Pursuant to the agreement, upon delivery of the shares, the Company would receive \$13.87 per share, subject to certain interest and dividend adjustments. In November 2005, the Company issued 1,100,000 shares of its common stock at a price of \$13.74 per share pursuant to the forward sales agreement; the net proceeds from this sale, after offering costs, were \$15.1 million, substantially all of which were used initially to repay amounts outstanding under the Company's secured revolving credit facility. Instead of delivering the balance of the shares, the Company has the right, at its option, to settle the balance of the contract either by a cash payment or delivery of shares of its common stock, on a net stock basis. As of December 31, 2005, the settlement price, as adjusted pursuant to the terms of the agreement, was \$13.80 per share (compared to a closing market price of \$14.07 per share). Accordingly, if the balance of the 3,250,000 share contract had been settled as of December 31, 2005, the Company would have been required to either (1) pay approximately \$878,000, or (2) deliver approximately 62,000 shares of its common stock.

**Note 4. Real Estate/Acquisitions**

Real estate at December 31, 2005 and 2004 is comprised of the following:

[Back to Contents](#)**Cedar Shopping Centers, Inc.****Notes to Consolidated Financial Statements  
December 31, 2005**

|                                       | <u>2005</u>                 | <u>2004</u>                 |
|---------------------------------------|-----------------------------|-----------------------------|
| <b>Cost</b>                           |                             |                             |
| Balance, beginning of year            | \$ 521,352,000              | \$ 330,805,000              |
| Properties acquired                   | 419,151,000                 | 172,192,000                 |
| Improvements and betterments          | 40,843,000                  | 18,355,000                  |
| Write-off of fully depreciated assets | (390,000)                   |                             |
|                                       | <u>                    </u> | <u>                    </u> |
| Balance, end of year                  | \$ 980,956,000              | \$ 521,352,000              |
|                                       | <u>                    </u> | <u>                    </u> |
| <b>Accumulated depreciation</b>       |                             |                             |
| Balance, beginning of year            | \$ 16,027,000               | \$ 6,274,000                |
| Depreciation expense                  | 18,862,000                  | 9,753,000                   |
| Write-off of fully depreciated assets | (390,000)                   |                             |
|                                       | <u>                    </u> | <u>                    </u> |
| Balance, end of year                  | \$ 34,499,000               | \$ 16,027,000               |
|                                       | <u>                    </u> | <u>                    </u> |
| <b>Net book value</b>                 | <u>                    </u> | <u>                    </u> |
|                                       | \$ 946,457,000              | \$ 505,325,000              |

During 2005, the Company acquired 53 properties, of which two were redevelopment properties. During 2004, the Company acquired 9 properties, of which three were redevelopment properties and one was a ground-up development property; in addition, the Company acquired 55 acres of land for development and/or future expansion.

At December 31, 2005, a substantial portion of the Company's real estate was pledged as collateral for mortgage loans payable and the secured revolving credit facility, as follows:

| <u>Description</u>                               | <u>Net book value</u>       |
|--|-----------------------------|
| Collateral for mortgage loans payable            | \$ 558,264,000              |
| Collateral for secured revolving credit facility | 276,193,000                 |
| Unencumbered properties                          | 112,000,000                 |
|  | <u>                    </u> |
| Total portfolio                                  | \$ 946,457,000              |

In addition, one of the Company's properties is owned subject to a ground lease which provides for annual payments of \$129,000, subject to cost-of-living adjustments, through May 2071.

***Pro Forma Financial Information (unaudited)***

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company for the years ended December 31, 2005 and 2004 as though the 2005 and 2004 property acquisitions and preferred stock offerings were all completed as of January 1, 2004. 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, 2004, nor do they purport to predict the results of operations for future periods.

[Back to Contents](#)

## Cedar Shopping Centers, Inc.

Notes to Consolidated Financial Statements  
December 31, 2005

|  | 2005           | 2004          |
|--|----------------|---------------|
| Revenues   | \$ 106,234,000 | \$ 98,955,000 |
| Net income applicable to common shareholders         | \$ 6,444,000   | \$ 5,200,000  |
| Per common share (basic and diluted)                 | \$ 0.27        | \$ 0.31       |
| Weighted average number of common shares outstanding | 23,988,000     | 16,681,000    |

**Note 5. Rentals Under Operating Leases**

Annual future base rents due to be received under non-cancelable operating leases in effect at December 31, 2005 are as follows:

|            |                       |
|------------|-----------------------|
| 2006       | \$ 78,302,000         |
| 2007       | 74,377,000            |
| 2008       | 69,086,000            |
| 2009       | 60,984,000            |
| 2010       | 53,281,000            |
| Thereafter | 360,170,000           |
|            | <u>\$ 696,200,000</u> |

Total future base rents do not include expense recoveries for real estate taxes and operating costs, or percentage rents based upon tenants' sales volume. Such other rentals amounted to approximately \$16,338,000, \$11,070,000 and \$5,724,000 in 2005, 2004, and 2003, respectively.

Giant Food Stores, Inc. ( Giant Foods ) and Stop & Shop, Inc., which are both owned by Ahold N.V., a Netherlands corporation, collectively accounted for approximately 11%, 10% and 12% of the Company's total revenues in 2005, 2004 and 2003, respectively. The Giant Foods leases are generally guaranteed by the parent company.

**Note 6. Mortgage Loans Payable and Secured Revolving Credit Facility**

Secured debt is comprised of the following at December 31, 2005 and 2004:

| Description                       | At December 31, 2005  |                  |              | At December 31, 2004  |                  |              |
|-----------------------------------|-----------------------|------------------|--------------|-----------------------|------------------|--------------|
|                                   | Balance outstanding   | Interest rates   |              | Balance outstanding   | Interest rates   |              |
|                                   |                       | Weighted average | Range        |                       | Weighted average | Range        |
| Fixed-rate mortgages              | \$ 338,988,000        | 5.8%             | 4.8%<br>8.9% | \$ 161,476,000        | 6.5%             | 4.8%<br>8.9% |
| Variable-rate mortgages           | 41,323,000            | 6.3%             | 6.2%<br>7.1% | 18,954,000            | 4.7%             | 4.4%<br>5.8% |
|                                   | <u>380,311,000</u>    | <u>5.9%</u>      |              | <u>180,430,000</u>    | <u>6.3%</u>      |              |
| Secured revolving credit facility | 147,480,000           | 5.6%             |              | 68,200,000            | 3.9%             |              |
|                                   | <u>\$ 527,791,000</u> | <u>5.8%</u>      |              | <u>\$ 248,630,000</u> | <u>5.7%</u>      |              |



[Back to Contents](#)**Cedar Shopping Centers, Inc.****Notes to Consolidated Financial Statements  
December 31, 2005*****Mortgage loans payable***

Mortgage loan activity for 2005 and 2004 is summarized as follows:

|                            | <u>2005</u>                 | <u>2004</u>                 |
|----------------------------|-----------------------------|-----------------------------|
| Balance, beginning of year | \$ 180,430,000              | \$ 145,458,000              |
| New mortgages              | 91,350,000                  | 44,222,000                  |
| Acquisition debt assumed   | 117,427,000                 | 10,351,000                  |
| Repayments                 | (8,896,000)                 | (19,601,000)                |
|                            | <u>                    </u> | <u>                    </u> |
| Balance, end of year       | <u>\$ 380,311,000</u>       | <u>\$ 180,430,000</u>       |

During 2005, the Company (1) borrowed \$68,905,000 of new fixed-rate mortgage loans, bearing interest at rates ranging from 5.0% to 5.6% per annum, with an average of 5.2% per annum, (2) borrowed \$22,445,000 under the Camp Hill Mall construction financing facility, which bears interest at 185 bps over LIBOR (a total of 6.2% per annum at December 31, 2005) (approximately \$13.1 million remained available under that facility at December 31, 2005), and (3) assumed \$117,427,000 of fixed-rate mortgage loans payable in connection with acquisitions, bearing interest at rates ranging from 5.0% to 5.4% per annum, with an average of 5.3% per annum. The principal amounts and rates of interest on these assumed loans represent the fair market values at the respective dates of acquisition. The stated contract amounts were \$111,294,000 at the respective dates of acquisition, bearing interest at rates ranging from 5.5% to 8.0% per annum, with an average of 6.1% per annum.

During 2004, the Company (1) borrowed \$43,500,000 under a new fixed-rate mortgage loan, bearing interest at 4.8% per annum, (2) borrowed \$722,000 in new variable-rate mortgage loans, and (3) assumed a \$10,351,000 fixed-rate mortgage loan payable in connection with an acquisition, bearing interest at 6.0% per annum. The principal amount and rate of interest on this assumed loan represents the fair market value at the date of acquisition. The stated contract amount was \$9,993,000, which bore interest at 7.0% per annum.

Mortgage loans payable mature on various dates ranging from 2006 to 2021. Scheduled principal payments on mortgage loans payable at December 31, 2005 are as follows: 2006 \$5,860,000, 2007 \$16,151,000, 2008 \$72,362,000, 2009 \$5,235,000, 2010 \$28,994,000, and thereafter \$251,709,000.

***Secured Revolving Credit Facility***

The Company has a \$200 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 \$300 million, subject to certain conditions, and will expire in January 2008, subject to a one-year extension option. Borrowings outstanding under the facility aggregated \$147.5 million at December 31, 2005, and such borrowings bore interest at an average rate of 5.6% per annum. Based on covenants and collateral in place, the Company was permitted to draw up to approximately \$180.8 million, of which \$33.3 million remained available as of that date. The Company plans to add additional properties, when available, to the collateral pool with the intent of making the full facility available. Borrowings under the facility incurred interest at a rate of LIBOR plus 120 basis points ( bps ) through December 31, 2005 (a total of 5.6% at December 31, 2005), and increased to LIBOR plus 135 bps as of January 1, 2006; such bps spread ranges from 120 bps to 165 bps over LIBOR depending upon the Company's leverage ratio, as defined. The facility also requires an unused portion fee of 15 bps.

[Back to Contents](#)**Cedar Shopping Centers, Inc.****Notes to Consolidated Financial Statements  
December 31, 2005**

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

**Note 7. Interest Rate Hedges**

In 2003 and 2002, the Company entered into interest rate swaps converting LIBOR-based variable rate debt to fixed annual rates and a fair value hedge which swapped a fixed rate amortization schedule to a LIBOR-based variable rate. The change in fair value of the hedge was charged to operations, and the position was closed in December 2004.

Also in 2003, the Company entered into \$30 million non-specific five-year interest rate hedges capping LIBOR at 4.5% . Since these caps did not relate to specific debt, they were ineffective for accounting purposes and, accordingly, changes in their fair values were charged to operations. These hedge positions were closed in December 2004.

The following table summarizes the original notional values and fair values of the Company's derivative financial instruments as of December 31, 2005 and 2004:

| Hedge              | Type            | Original<br>notional<br>value | Interest<br>rate | Expiration<br>date | Fair value at<br>December 31, |                     |
|--------------------|-----------------|-------------------------------|------------------|--------------------|-------------------------------|---------------------|
|                    |                 |                               |                  |                    | 2005                          | 2004                |
| Interest rate swap | Cash flow hedge | \$ 4,190,000                  | 6.83%            | Feb 2010           | \$ 59,000                     | \$ (80,000)         |
| Interest rate swap | Cash flow hedge | 5,346,000                     | 6.83%            | Feb 2010           | 104,000                       | (71,000)            |
|                    |                 |                               |                  |                    | <u>\$ 163,000</u>             | <u>\$ (151,000)</u> |

During 2005, the Company recognized a gain of \$314,000, representing the change in fair value of the derivatives. A \$303,000 gain was recorded in accumulated other comprehensive income (loss) and \$11,000 gain was credited to limited partners' interest. During 2004, the Company recognized losses of \$503,000, representing the change in fair value of the derivatives. A \$220,000 gain was recorded in accumulated other comprehensive income (loss), a \$7,000 gain was credited to limited partners' interest, and the \$730,000 ineffective portion of net loss was charged to operations (included in depreciation and amortization). During 2003, the Company recognized losses of \$367,000, representing the change in fair value of the derivatives. A \$112,000 gain was recorded in accumulated other comprehensive income (loss), a \$266,000 loss was charged to limited partners' interest, and the \$213,000 ineffective portion of net loss was charged to operations.

[Back to Contents](#)**Cedar Shopping Centers, Inc.****Notes to Consolidated Financial Statements  
December 31, 2005****Note 8. Commitments and Contingencies**

The Company is a party to certain legal actions arising in the normal course of business. Management does not expect there to be adverse consequences from these actions that would be material to the Company's consolidated financial statements.

Under various federal, state, and local laws, ordinances, and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances, or petroleum product releases, at its properties. The owner may be liable to governmental entities or to third parties for property damage, and for investigation and cleanup costs incurred by such parties in connection with any contamination. Management is unaware of any environmental matters that would have a material impact on the Company's consolidated financial statements.

The Company's principal office is located in 7,500 square feet at 44 South Bayles Avenue, Port Washington, NY, which it leases from a partnership owned 24% by the Company's Chairman. Future minimum rents payable under the terms of the lease, as amended, amount to \$220,000, \$225,000, \$231,000, \$237,000, and \$40,000 during the years 2006 through 2009, and through February 2010, respectively. The Company's Wal-Mart shopping center is subject to a ground lease running through May 2071, with future minimum rents payable amounting to \$129,000 per annum.

**Note 9. Selected Quarterly Financial Data (unaudited)**

| Year   | Quarter ended |               |               |               |
|--|---------------|---------------|---------------|---------------|
|  | March 31      | June 30       | September 30  | December 31   |
| <b>2005</b>                                      |               |               |               |               |
| Revenues   | \$ 16,522,000 | \$ 17,047,000 | \$ 20,551,000 | \$ 24,821,000 |
| Net income applicable to common shareholders     | 1,354,000     | 1,466,000     | 1,752,000     | 1,455,000     |
| Basic and fully diluted net income per share (a) | \$ 0.07       | \$ 0.07       | \$ 0.07       | \$ 0.05       |
| <b>2004</b>                                      |               |               |               |               |
| Revenues   | \$ 11,272,000 | \$ 12,640,000 | \$ 12,446,000 | \$ 14,720,000 |
| Net income applicable to common shareholders     | 1,343,000     | 1,903,000     | 1,208,000     | 1,248,000     |
| Basic and fully diluted net income per share (a) | \$ 0.08       | \$ 0.12       | \$ 0.07       | \$ 0.07       |
| <b>2003</b>                                      |               |               |               |               |
| Revenues   | \$ 5,283,000  | \$ 6,136,000  | \$ 6,669,000  | \$ 8,579,000  |
| Net loss applicable to common shareholders       | (199,000)     | (40,000)      | (228,000)     | (20,884,000)  |
| Basic and fully diluted net loss per share (a)   | \$ (0.73)     | \$ (0.14)     | \$ (0.96)     | \$ (1.86)     |

(a) The difference between the sum of the four quarterly per share amounts and the annual per share amount is attributable to the effect of the weighted average outstanding share calculations for the respective periods.

**Note 10. Subsequent Events**

Pursuant to a registration statement filed in June 2005, the Company is authorized to sell up to 2.0 million shares of its common stock through the Deferred Offering Common Stock Sales ( DOCS ) program. Pursuant to this program, the Company sold 355,000 shares of its common stock during the period January 1, 2006 through February 28, 2006, resulting in net proceeds of \$5,017,000.

[Back to Contents](#)

**Cedar Shopping Centers, Inc.**

**Notes to Consolidated Financial Statements  
December 31, 2005**

On January 31, 2006, the Company acquired the Shore Mall in Egg Harbor Township, NJ, a 620,000 sq. ft. shopping center, for an aggregate purchase price of approximately \$35.5 million, excluding closing costs. An adjacent 50 acres of undeveloped land, to be purchased for \$2.0 million, excluding closing costs, was also part of the transaction; closing on the land is expected to be completed on or before April 30, 2006. The total acquisition cost for the shopping center and the land is being financed by (1) the assumption of approximately \$30.9 million of existing financing bearing interest at a rate of 7.01% per annum and maturing in August 2008, (2) the assumption of an approximate \$3.1 million liability in preferred partnership interests payable through January 2009, (3) the issuance of approximately \$300,000 in OP Units (issued to the Company's Chairman), and (4) approximately \$3.2 million funded from the Company's secured revolving credit facility. The Company's Chairman had approximately an 8% limited partnership interest in the selling entities. In connection with the acquisition, the independent members of the Company's Board of Directors obtained an appraisal in support of the purchase price. The Company had previously held an option to acquire the property, and had, together with its predecessor companies, been providing property management, leasing, construction management and legal services to the property since 1986.

On January 31, 2006, 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 were paid on February 21, 2006 to shareholders of record on February 10, 2006.



[Back to Contents](#)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment to be signed on its behalf by the undersigned hereunto duly authorized.

**CEDAR SHOPPING CENTERS,  
INC.**

/s/ THOMAS J. O KEEFFE

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Thomas J. O Keefe  
Chief Financial Officer  
(Principal financial officer)  
Dated: March 27, 2006

26

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