CEDAR SHOPPING CENTERS INC
Form 10-K
March 14, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2006

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 Number)
44 South Bayles Avenue, Port Washington, NY	**11050-3765**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (516) 767-6492

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

Title of each class	*Name of each exchange on which registered*
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 o No þ

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 o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

Based on the closing sales price on June 30, 2006 of $14.72 per share, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $490,290,000.

The number of shares outstanding of the registrant s Common Stock $.06 par value was 44,127,113 on February 28, 2007.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive proxy statement relating to its 2007 annual meeting of shareholders are incorporated herein by reference.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements containing the words anticipates , believes , expects , intends , future , and words of similar import which express the Company s beliefs, expectations or intentions regarding future performance or future events or trends. While forward-looking statements reflect good faith beliefs, expectations or intentions, they are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements as a result of factors outside of the Company s control. Certain factors that might cause such differences include, but are not limited to, the following: real estate investment considerations, such as the effect of economic and other conditions in general and in the Company s market areas in particular; the financial viability of the Company s tenants; the continuing availability of suitable acquisitions, and development and redevelopment opportunities, on favorable terms; the availability of equity and debt capital in the public and private markets; changes in interest rates; the fact that returns from development, redevelopment and acquisition activities may not be at expected levels or at expected times; inherent risks in ongoing development and redevelopment projects including, but not limited to, cost overruns resulting from weather delays, changes in the nature and scope of development and redevelopment efforts, 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. The Company does not intend, and disclaims any duty or obligation, to update or revise any forward-looking statements set forth in this report to reflect any change in expectations, change in information, new information, future events or other circumstances on which such information may have been based. See Item 1A. Risk Factors elsewhere herein.

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Part I.

Items 1 and 2. Business and Properties

General

Cedar Shopping Centers, Inc. (the Company), organized in 1984, is a fully-integrated, self-administered and self-managed 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 December 31, 2006, the Company had a portfolio of 97 properties totaling approximately 10.1 million square feet of gross leasable area (GLA), including 93 wholly-owned properties comprising approximately 9.6 million square feet and four properties owned through joint ventures comprising approximately 485,000 square feet. At December 31, 2006, the portfolio of wholly-owned properties was comprised of (1) 86 stabilized properties (those properties at least 80% leased and not designated as development/redevelopment properties), with an aggregate of 8.6 million square feet of GLA, which were approximately 95.2% leased, (2) three development/redevelopment properties with an aggregate of 650,000 square feet of GLA, which were approximately 61.1% leased, and (3) four non-stabilized properties with an aggregate of 305,000 square feet of GLA, which are presently being re-tenanted and which were approximately 71.3% leased. The four properties owned in joint venture are all stabilized properties and are 100.0% leased. The entire 97 property portfolio was approximately 92.5% leased at December 31, 2006. In addition, the Company has a 49% interest in an unconsolidated joint venture which owns a single-tenant office property in Philadelphia, PA.

The Company has elected to be taxed as a real estate investment trust (REIT) under applicable provisions of the Internal Revenue Code of 1986, as amended (the Code). To qualify as a REIT under those provisions, the Company must have a significant percentage of its assets invested in, and income derived from, real estate and related sources. The Company s objectives are to provide to its shareholders a professionally managed, diversified portfolio of commercial real estate investments (primarily supermarket-anchored shopping centers and drug store-anchored convenience centers), which will provide substantial cash flow, currently and in the future, taking into account an acceptable modest risk profile, and which will present opportunities for additional growth in income and capital appreciation.

The Company, organized as a Maryland corporation, has established an umbrella partnership structure through the contribution of substantially all of its assets to Cedar Shopping Centers Partnership, L.P. (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 December 31, 2006, the Company owned approximately 95.7% of the Operating Partnership and is its sole general partner. Operating Partnership Units (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 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 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 activities where it can utilize its experience in shopping center construction, renovation, expansion, re-leasing and re-merchandising to achieve long-term cash flow growth and favorable investment returns. The Company would also consider investment opportunities in regions beyond its present markets 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.

The Company, the Operating Partnership, their subsidiaries and affiliated partnerships are separate legal entities. For ease of reference, the terms we , our , us , Company and Operating Partnership (including their respective subsidiaries and affiliates) refer to the business and properties of all these entities, unless the context otherwise requires. The Company s executive offices are located at 44 South Bayles Avenue, Port Washington, New York 11050-3765 (telephone 516-767-6492). The Company also currently maintains property management, construction management and/or leasing offices at several of its shopping-center properties. The Company s website can be accessed at www.cedarshoppingcenters.com, where a copy of the Company s Forms 10-K, 10-Q, 8-K and other filings with the Securities and Exchange Commission (SEC) can be obtained free of charge. These SEC filings are added to the website as soon as reasonably practicable. The Company s Code of Ethics, corporate governance guidelines and committee charters are also available on the website. This information is also available by written request to Investor Relations at the executive office address set forth above.

The Company s executive office at 44 South Bayles Avenue, Port Washington, New York, is located in 8,600 square feet (including 1,100 additional square feet effective April 1, 2007) which it leases from a partnership owned 24% by the Company s Chairman; the terms of the leases expire over periods ending in March 2012. The Company believes that the terms of the leases are at fair market value.

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The Company s Properties

The following tables summarize information relating to the Company s properties as of December 31, 2006:

State	Number of properties	GLA	Land	Buildings and improvements	Total cost	Accumulated depreciation	Net book value
Pennsylvania	39	5,460,000	$105,300,000	$528,723,000	$ 634,023,000	$39,354,000	$ 594,669,000
Massachusetts	5	861,000	30,264,000	125,026,000	155,290,000	6,584,000	148,706,000
Virginia	13	734,000	26,863,000	93,033,000	119,896,000	4,403,000	115,493,000
Ohio	22	754,000	15,898,000	68,636,000	84,534,000	4,189,000	80,345,000
Connecticut	4	685,000	12,807,000	70,255,000	83,062,000	4,499,000	78,563,000
New Jersey	3	854,000	10,613,000	53,595,000	64,208,000	2,939,000	61,269,000
Maryland	5	446,000	6,588,000	30,810,000	37,398,000	1,993,000	35,405,000
Michigan	2	196,000	2,541,000	10,549,000	13,090,000	501,000	12,589,000
New York	4	71,000	4,166,000	8,398,000	12,564,000	376,000	12,188,000
Total property portfolio	97	10,061,000	215,040,000	989,025,000	1,204,065,000	64,838,000	1,139,227,000
Land held for development	n/a	n/a	35,420,000	2,492,000	37,912,000		37,912,000
	97	10,061,000	$250,460,000	$991,517,000	$1,241,977,000	$64,838,000	$1,177,139,000

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Tenant	Number of stores	GLA	Percentage of GLA	Annualized base rent	Annualized base rent per sq ft	Percentage annualized base rents
Top ten tenants (a):						
Giant Foods/Stop & Shop	17	1,036,000	10.3%	$13,654,000	$13.18	13.9%
SuperValu/Farm Fresh/Shop n Save/Shaw s/Acme	12	713,000	7.1%	6,301,000	8.84	6.4%
Discount Drug Mart	13	332,000	3.3%	3,072,000	9.25	3.1%
LA Fitness	4	168,000	1.7%	2,422,000	14.42	2.5%
CVS/Eckerd	15	161,000	1.6%	2,358,000	14.65	2.4%
Staples	7	151,000	1.5%	2,063,000	13.66	2.1%
Food Lion/Hannaford	7	248,000	2.5%	2,021,000	8.15	2.1%
A&P/Super Fresh	2	116,000	1.2%	1,540,000	13.28	1.6%
Boscov s	2	347,000	3.4%	1,471,000	4.24	1.5%
Ukrop s Super Markets	2	106,000	1.1%	1,423,000	13.42	1.5%
Sub-total top ten tenants	81	3,378,000	33.6%	36,325,000	10.75	37.0%
Remaining tenants	964	5,933,000	58.9%	61,754,000	10.41	63.0%
Sub-total all tenants	1,045	9,311,000	92.5%	98,079,000	10.53	100.0%
Vacant space (b)	n/a	750,000	7.5%	n/a	n/a	n/a
Total (including vacant space)	1,045	10,061,000	100.0%	$98,079,000	$ 9.75	n/a

(a) Based on annualized base rent.

(b) Includes vacant space at properties presently undergoing development and/or redevelopment activities.

	Number		Percentage	Annualized	Annualized	Percentage

Year of lease expiration	**of leases expiring**	**GLA expiring**	**of GLA expiring**	**expiring base rents**	**expiring base rents per sq ft**	**of annualized expiring base rents**
Month-To-Month	63	143,000	1.5%	$ 1,733,000	$ 12.12	1.8%
2007	150	435,000	4.7%	5,782,000	13.29	5.9%
2008	155	762,000	8.2%	8,774,000	11.51	8.9%
2009	160	865,000	9.3%	8,624,000	9.97	8.8%
2010	124	1,135,000	12.2%	10,557,000	9.30	10.8%
2011	108	733,000	7.9%	7,849,000	10.71	8.0%
2012	62	490,000	5.3%	4,731,000	9.66	4.8%
2013	29	255,000	2.7%	2,494,000	9.78	2.5%
2014	30	535,000	5.7%	4,856,000	9.08	5.0%
2015	33	391,000	4.2%	4,028,000	10.30	4.1%
2016	35	448,000	4.8%	4,385,000	9.79	4.5%
Thereafter	96	3,119,000	33.5%	34,266,000	10.99	34.9%
	1,045	9,311,000	100.0%	98,079,000	10.53	100.0%
Vacant space (a)	n/a	750,000	n/a	n/a	n/a	n/a
Total portfolio	1,045	10,061,000	n/a	$98,079,000	$ 9.75	n/a

(a) Includes vacant space at properties presently undergoing development and/or redevelopment activities.

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The terms of the Company s retail leases vary from tenancies at will to 25 years, excluding extension options. Anchor tenant leases are typically for 10 to 25 years, with one or more extension options available to the lessee upon expiration of the initial lease term. By contrast, smaller store leases are typically negotiated for 5-year terms. The longer terms of major tenant leases serve to protect the Company against significant vacancies and to assure the presence of strong tenants which draw consumers to its centers. The shorter terms of smaller store leases allow the Company under appropriate circumstances to adjust rental rates periodically for non-major store space and, where possible, to upgrade or adjust the overall tenant mix.

Most leases contain provisions requiring tenants to pay their pro rata share of real estate taxes and certain operating costs. Some leases also provide that tenants pay percentage rent based upon sales volume generally in excess of certain negotiated minimums.

Giant Food Stores, Inc. (Giant Foods) and Stop & Shop, Inc., which are both owned by Ahold N.V., a Netherlands corporation, collectively leased approximately 10% of the Company s GLA at December 31, 2006 and accounted for approximately 14% of the Company s total revenues during 2006. No other tenants leased more than 10% of GLA at December 31, 2006, contributed more than 10% of total revenues during 2006, or had a net book value equal to more than 10% of total assets at December 31, 2006.

Depreciation on all the Company s properties is calculated using the straight-line method over the estimated useful lives of the respective real properties and improvements, which range from three to forty years.

Acquisitions/Dispositions in 2006

During 2006, the Company acquired 13 shopping and convenience centers containing approximately 1.7 million sq. ft. of GLA for an aggregate purchase price of approximately $177.3 million. The Company also acquired eight tracts of land for development. The parcels, located in Pennsylvania (six) and New York (two), aggregated approximately 179 acres, and cost an aggregate of approximately $32.5 million. Information relating to the acquired properties is summarized as follows:

Property	**Number of properties**	**GLA**	**Acquisition cost (1)**
Shore Mall (2)(3)	1	621,000	$ 45,048,000
Shaw s Plaza	1	177,000	30,678,000
Trexlertown Plaza (2)	1	241,000	29,128,000
Oakhurst Plaza	1	111,000	22,715,000
	4	1,150,000	127,569,000
Other operating properties (4)	9	584,000	80,637,000
Total operating properties	13	1,734,000	208,206,000
Land held for development	8	179.41 acres	32,486,000
Total properties acquired (5)			$ 240,692,000

(1) Amounts include purchase accounting allocations

totaling $30,922,000.

(2) Excludes cost of undeveloped land parcels acquired as part of the transactions (separately included in land held for development).

(3) The Company s Chairman had approximately an 8% limited partnership interest in the selling entities. In connection with the acquisition,

the independent members of the Company s Board of Directors obtained an appraisal in support of the purchase price and the consideration given. The Company had previously held an option to acquire the property, and had, together with its predecessor companies, been providing property management, leasing, construction management and legal services to the property since 1986.

(4) These nine properties, acquired individually and not as part of a portfolio, had acquisition costs of less than $20.0 million each. The amount includes $11,814,000 of purchase accounting allocations applicable to properties

acquired during 2005.

(5) In addition , the Company has a 49% interest in an unconsolidated joint venture, which owns a single-tenant office property located in Philadelphia, PA.

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

Competition

The Company believes that competition for the acquisition and operation of retail shopping and convenience centers is highly fragmented. It faces competition from institutional investors, public and private REITs, owner-operators engaged in the acquisition, ownership and leasing of shopping centers, as well as from numerous local, regional and national real estate developers and owners in each of its markets. It also faces competition in leasing available space at its properties to prospective tenants. Competition for tenants varies depending upon the characteristics of each local market in which the Company owns and manages properties. The Company believes that the principal competitive factors in attracting tenants in its market areas are location, price and other terms, the presence of anchor tenants, the mix and quality of other tenants, and maintenance and appearance of its properties.

Environmental Matters

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 other contaminants at property owned, leased, managed or otherwise operated by such person, and may be held liable to a governmental entity or to third parties for property damage, and for investigation and clean up costs in connection with such contamination. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such conditions, may adversely affect the owner s, lessor s or operator s ability to sell or rent such property or to arrange financing using such property as collateral. In connection with the ownership, operation and management of real properties, the Company may potentially become liable for removal or remediation costs, as well as certain other related costs and liabilities, including governmental fines and injuries to persons and/or property.

The Company believes that environmental studies generally conducted at the time of acquisition with respect to substantially all of its properties have not revealed environmental liabilities that would have a material adverse affect on its business, results of operations or liquidity. However, no assurances can be given that existing environmental studies with respect to any of the properties reveal all environmental liabilities, that any prior owner of or tenant at a property did not create a material environmental condition not known to the Company, or that a material environmental condition does not otherwise exist at any one or more of its

properties. If a material environmental condition does in fact exist, it could have an adverse impact upon the Company s financial condition, results of operations and liquidity.

Employees

As of December 31, 2006, the Company had 109 employees (101 full-time and eight part-time). The Company believes that its relations with its employees are good.

Item 1A. Risk Factors

Our performance and value are subject to risks associated with real estate assets and with the real estate industry.

Our performance and value are subject to risks associated with real estate assets and with the real estate industry, including, among other things, risks related to adverse changes in national, regional and local economic and market conditions. Our continued ability to make expected distributions to our shareholders depends on our ability to generate sufficient revenues to meet operating expenses, future debt service and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution and the value of our properties. These events and conditions include, but may not be limited to, the following:

1. local oversupply, increased competition or declining demand for real estate;
2. inability to collect rent or other charges from tenants;
3. vacancies or an inability to rent space on favorable terms;
4. inability to finance property development, tenant improvements and acquisitions on favorable terms;
5. increased operating costs, including real estate taxes, insurance premiums, utilities, repairs and maintenance;
6. increases in interest rates;
7. increased costs of complying with current, new or expanded governmental regulations;
8. the relative illiquidity of real estate investments;
9. changing market demographics; and
10. changing traffic patterns.

In addition, periods of economic slowdown or recession, increased interest rates or decreased demand for real estate, or the public perception that any of these events may occur, could result in a decline in rents or an increased incidence of defaults under existing leases, which in turn could adversely affect our business, results of operations, liquidity, per share trading price of our common stock, and the ability to satisfy our debt service or repayment obligations and to make distributions to our shareholders.

We have recently experienced and expect to continue to experience substantial growth and may not be able to integrate additional properties effectively into our operations or otherwise manage our growth, which in turn may adversely affect our operating results.

All of our properties have been acquired since 2000, and the acquisition of any additional properties would generate additional operating expenses that we would be required to pay. There can be no assurance that we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to integrate these properties into our portfolio without operating disruptions

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or unanticipated costs. Any failure by us to effectively integrate any future acquisitions into our portfolio could have a material adverse effect on our business and operations.

Our properties will be subject to increases in real estate and other tax rates, utility costs, insurance costs, repairs, maintenance and other operating expenses, and administrative expenses. Rising operating expenses and/or interest rates could reduce our cash flow and funds available for future distributions. Our properties and any properties we acquire in the future are, and will be, subject to operating risks common to real estate in general, any or all of which may have a negative effect. If any property is not fully occupied or if rental receipts are insufficient to cover operating expenses, we could be required to expend other available funds for that property s operating expenses. If we are unable to maintain profitability, the market price of our common stock could decrease, our business and operations could be negatively impacted, and we may have to reduce, eliminate or suspend our dividend.

Our substantial indebtedness may impede our operating performance and put us at a competitive disadvantage.

We intend to incur additional debt in connection with future acquisitions of real estate and in connection with the development and redevelopment of properties owned by us. We also may borrow funds to make distributions to shareholders. Our debt may harm our business and operating results by (1) requiring us to use a substantial portion of our available liquidity to pay required debt service and/or repayments or establish additional reserves, which would reduce the amount available for distributions, (2) placing us at a competitive disadvantage compared to competitors that have less debt or debt at more favorable terms, (3) making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions, and (4) limiting our ability to borrow more money for operations, capital expenditures, or to finance acquisitions in the future. Increases in interest rates may impede our operating performance and put us at a competitive disadvantage. Payments of required debt service or amounts due at maturity, or creation of additional reserves under loan agreements, could adversely affect our liquidity.

In addition to these risks and those normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest, we are also subject to the risk that we will not be able to refinance existing indebtedness on our properties (which, in most cases, will not have been fully amortized at maturity), or that the terms of any refinancing we could obtain would be favorable. If we are not successful in refinancing existing indebtedness, or otherwise unable to repay our outstanding indebtedness when it becomes due, we may be forced to dispose of properties on disadvantageous terms, which might adversely affect our operating performance, our ability to service other debt, and to meet our other obligations.

We may not be successful in identifying suitable acquisitions that meet our criteria, which may impede our growth; if we do identify suitable acquisition targets, we may not be able to consummate such transactions on terms favorable to us.

Integral to our business strategy is our ability to expand through acquisitions, which requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth and operating strategy. We analyze potential acquisitions on a property-by-property and market-by-market basis. We may not be successful in identifying suitable real estate properties or other assets that meet our acquisition criteria, or in consummating acquisitions or investments on satisfactory terms. Failure to identify or consummate acquisitions could reduce the number of acquisitions we complete and slow our growth, which could in turn harm our stock price.

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We compete with many other entities engaged in real estate investment activities for acquisitions of retail properties, including institutional investors, public and private REITs, and other owner-operators of shopping centers. These competitors may drive up the price we must pay for real estate properties, or may succeed in acquiring those properties themselves. Further, the number of entities and the amount of funds competing for suitable investment properties may increase. This would result in increased demand for such properties and therefore increased pricing. If we pay higher prices for properties, our profitability could be reduced.

As substantially all of our revenues are derived from rental income, failure of tenants to pay rent or delays in arranging leases and occupancy at our properties, particularly with respect to anchor tenants, could seriously harm our operating results and financial condition.

Substantially all of our revenues are derived from rental income from our properties. Our tenants may experience a downturn in their respective businesses at any time that may weaken their financial condition. As a result, any such tenants may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent, or declare bankruptcy. Any leasing delays, failure to make rental or other payments when due, or tenant bankruptcies, could result in the termination of tenants leases, which would have a negative impact on our operating results. In addition, adverse market conditions and competition may impede our ability to renew leases or re-let space as leases expire, which could harm our business and operating results.

Our business may be seriously harmed if a major tenant fails to renew its lease(s) or vacates one or more properties and prevents us from re-leasing such premises by continuing to pay base rent for the balance of the lease terms. In addition, the loss of such a major tenant could result in lease terminations or reductions in rent by other tenants, as provided in their respective leases.

We may be restricted from re-leasing space based on existing exclusivity lease provisions with some of our tenants. In these cases, the leases contain provisions giving the tenant the exclusive right to sell particular types of merchandise or provide specific types of services within the particular retail center which limit the ability of other tenants within that center to sell such merchandise or provide such services. When re-leasing space after a vacancy by one of such other tenants, such lease provisions may limit the number and types of prospective tenants for the vacant space. The failure to re-lease space or to re-lease space on satisfactory terms could harm operating results.

Any bankruptcy filings by, or relating to, one of our tenants or a lease guarantor would generally bar efforts by us to collect pre-bankruptcy debts from that tenant, or lease guarantor, unless we receive an order permitting us to do so from the bankruptcy court. A bankruptcy by a tenant or lease guarantor could delay efforts to collect past due balances, and could ultimately preclude full collection of such sums. If a lease is affirmed by the tenant in bankruptcy, all pre-bankruptcy balances due under the lease must generally be paid in full. However, if a lease is disaffirmed by a tenant in bankruptcy, we would have only an unsecured claim for damages, which would be paid normally only to the extent that funds are available, and only in the same percentage as is paid to all other members of the same class of unsecured creditors. It is possible and indeed likely that we would recover substantially less than the full value of any unsecured claims we hold, which may in turn harm our financial condition.

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Adverse market conditions and competition may impede our ability to renew leases or re-let space as leases expire, which could harm our business and operating results.

We also face competition from similar retail centers within our respective trade areas that may affect our ability to renew leases or re-let space as leases expire. In addition, any new competitive properties that are developed within the trade areas of our existing properties may result in increased competition for customer traffic and creditworthy tenants. Increased competition for tenants may require us to make tenant and/or capital improvements to properties beyond those that we would otherwise have planned to make. Any unbudgeted tenant and/or capital improvements we undertake may reduce cash that would otherwise be available for distributions to shareholders. Ultimately, to the extent we are unable to renew leases or re-let space as leases expire, our business and operations could be negatively impacted.

Our current and future joint venture investments could be adversely affected by the lack of sole decision-making authority, reliance on joint venture partners financial condition, and any disputes that may arise between us and our joint venture partners.

We presently own four of our properties through joint ventures and in the future we may co-invest with third parties through joint ventures and/or contribute some of our properties to joint ventures. In addition, we have a 49% interest in an unconsolidated joint venture which owns a single-tenant office property. We may not be in a position to exercise sole decision-making authority regarding the properties owned through joint ventures. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might file for bankruptcy protection or fail to fund their share of required capital contributions. Joint venture partners may have business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments also may have the potential risk of impasses on decisions, such as a sale, because neither we nor the joint venture partner would have full control over the joint venture. Any disputes that may arise between us and joint venture partners may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with joint venture partners might result in subjecting properties owned by the joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party joint venture partners. Further, the terms of certain of our joint venture partnership agreements provide for minimum priority cumulative returns to the joint venture partners. To the extent that these specified minimum returns are not achieved, our equity interest in these partnerships may be negatively affected.

The financial covenants in our loan agreements may restrict our operating or acquisition activities, which may harm our financial condition and operating results.

The financial covenants in our loan agreements may restrict our operating or acquisition activities, which may harm our financial condition and operating results. The mortgages on our properties contain customary negative covenants, such as those that limit our ability, without the prior consent of the lender, to sell or otherwise transfer any ownership interest, to further mortgage the applicable property, to enter into leases, or to discontinue insurance coverage. Our ability to borrow under our secured revolving credit facility is subject to compliance with these financial and other covenants, including restrictions on property eligible for collateral, and overall restrictions on the amount of indebtedness we can incur. If we breach covenants in our debt agreements, the lenders could declare a default and require us to repay the debt immediately and, if the debt is secured, could take possession of the property or properties securing the loan.

Our properties consist primarily of community shopping and convenience centers. Our performance therefore is linked to economic conditions in the market for retail space generally.

Our properties consist primarily of supermarket-anchored community shopping centers and drug store-anchored convenience centers, and our performance therefore is linked to economic conditions in the market for retail space generally. The market for retail space has been, and could be, adversely affected by actual or perceived weaknesses in national, regional and local economies, the adverse financial condition or revised operating strategies of certain retailing companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets, and increasing consumer purchases through catalogues or the Internet. To the extent that any of these conditions occur, they are likely to impact market rents for retail space.

Substantially all of our properties are located in the Northeast and Mid-Atlantic regions, which exposes us to greater economic risks than if our properties were owned in several geographic regions.

Our properties are located in nine states, largely in the Northeast and Mid-Atlantic regions, which exposes us to greater economic risks than if we owned properties in more geographic regions. Any adverse economic or real estate developments resulting from regulatory environment, business climate, fiscal problems or weather in such regions could have an adverse impact on our prospects. In addition, the economic condition of each of our markets may be dependent on one or more industries. An economic downturn in one of these industry sectors may result in an increase in tenant vacancies, which may harm our performance in the affected markets.

Economic and market conditions also may impact the ability of our tenants to make payments required by their leases. If our properties do not generate sufficient income to meet operating expenses, including current and future debt service, our business and results of operations would be significantly harmed.

Development and redevelopment activities may be delayed or otherwise may not achieve expected results.

Development/redevelopment activities may be delayed or otherwise may not achieve expected results. We are in the process of developing/redeveloping several of our properties and expect to continue such activities in the future. In this connection, we will bear certain risks, including the risks of construction delays or cost overruns that may increase project costs and make such project uneconomical, the risk that occupancy or rental rates at a completed project will not be sufficient to enable us to pay operating expenses or achieve targeted rates of return on investment, and the risk of incurring acquisition and/or predevelopment costs in connection with projects that are not pursued to completion. Development/redevelopment activities are also generally subject to governmental permits and approvals, which may be delayed, may not be obtained, or may be conditioned on terms unfavorable to us. In addition, consents may be required from various tenants, lenders, and/or joint venture partners. In case of an unsuccessful project, our loss could exceed our investment in the project.

Our success depends on key personnel whose continued service is not guaranteed.

Our success depends on the efforts of key personnel, whose continued service is not guaranteed. The loss of services of key personnel could materially and adversely affect our operations because of diminished relationships with lenders, sources of equity capital, construction companies, and existing and prospective tenants, and the ability to conduct our business and operations without material disruption.

Potential losses may not be covered by insurance.

Potential losses may not be covered by insurance. We carry comprehensive liability, fire, flood, extended coverage and rental loss insurance under a blanket policy covering all of our properties. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. We do not carry insurance for generally uninsured losses such as loss from war, nuclear accidents, and nuclear, biological and chemical occurrences from terrorist s acts. Some of the insurance, such as that covering losses due to floods and earthquakes, is subject to limitations involving large deductibles or co-payments and policy limits that may not be sufficient to cover losses. Additionally, certain tenants have termination rights in respect of certain casualties. If we receive casualty proceeds, we may not be able to reinvest such proceeds profitably or at all, and we may be forced to recognize taxable gain on the affected property. If we experience losses that are uninsured or that exceed policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

If we fail to continue as a REIT, our distributions will not be deductible, and our income will be subject to taxation, thereby reducing earnings available for distribution.

If we do not continue to qualify as a REIT, our distributions will not be deductible, and our income will be subject to taxation, reducing earnings available for distribution. We have elected since 1986 to be taxed as a REIT under 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.

We intend to make distributions to shareholders to comply with the requirements of the Code. However, differences in timing between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds to meet the 90% distribution requirement of the Code. Certain assets generate substantial differences between taxable income and income recognized in accordance with accounting principles generally accepted in the United States (GAAP). Such assets include, without limitation, operating real estate that was acquired through structures that may limit or completely eliminate the depreciation deduction that would otherwise be available for income tax purposes. As a result, the Code requirement to distribute a substantial portion of our otherwise net taxable income in order to maintain REIT status could cause us to (1) distribute amounts that could otherwise be used for future acquisitions, capital expenditures or repayment of debt, (2) borrow on unfavorable terms, or (3) sell assets on unfavorable terms. If we fail to obtain debt or equity capital in the future, it could limit our operations and our ability to grow, which could have a material adverse effect on the value of our common stock.

Dividends payable by REITs do not qualify for the reduced tax rates under tax legislation which reduced the maximum tax rate for dividends payable to individuals from 35% to 15% (through 2008). Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors to perceive investments in REITs to be relatively less attractive than investments in the stock of corporations that pay dividends qualifying for reduced rates of tax, which in turn could adversely affect the value of the stock of REITs.

We could incur significant costs related to government regulation and litigation over environmental matters and various other federal, state and local regulatory requirements.

We could incur significant costs related to government regulations and litigation over environmental matters. 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 other contaminants at property owned, leased, managed or otherwise operated by such person, and may be held liable to a governmental entity or to third parties for property damage, and for investigation and clean up costs in connection with such contamination. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such conditions, may adversely affect the owner s, lessor s or operator s ability to sell or rent such property or to arrange financing using such property as collateral. In connection with the ownership, operation and management of real properties, we are potentially liable for removal or remediation costs, as well as certain other related costs and liabilities, including governmental fines, injuries to persons, and damage to property.

We may incur significant costs complying with the Americans with Disabilities Act of 1990 (the ADA) and similar laws, which require that all public accommodations meet federal requirements related to access and use by disabled persons, and with various other federal, state and local regulatory requirements, such as state and local fire and life safety requirements.

Environmental studies generally conducted at the time of acquisition with respect to substantially all of our properties did not reveal any material environmental liabilities, and we are unaware of any subsequent environmental matters that would have created a material liability. We believe that our properties are currently in material compliance with applicable environmental, as well as non-environmental, statutory and regulatory requirements. If one or more of our properties were not in compliance with such federal, state and local laws, we could be required to incur additional costs to bring the property into compliance. If we incur substantial costs to comply with such requirements, our business and operations could be adversely affected. If we fail to comply with such requirements, we might incur governmental fines or private damage awards. We cannot presently determine whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that will adversely impact our business and operations.

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction and depress our stock price.

Our charter and Maryland law contain provisions that may delay, defer or prevent a change of control transaction and depress the price of our common stock. The charter, subject to certain exceptions, authorizes directors to take such actions as are necessary and desirable relating to qualification as a REIT, and to limit any person to beneficial ownership of no more than 9.9% of the outstanding shares of our common stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from the ownership limit, but may not grant an exemption from the ownership limit to any proposed transferee whose direct or indirect ownership could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our Board of Directors determines that it is no longer in our best interests to continue to qualify as, or to be, a REIT. This ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of shareholders.

We may authorize and issue stock and OP Units without shareholder approval. Our charter authorizes the Board of Directors to issue additional shares of common or preferred stock, to issue additional OP Units, to classify or reclassify any unissued shares of common or preferred stock, and to set the preferences, rights and other terms of such classified or unclassified shares. Although the Board of Directors has no such intention at the present time, it could establish a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of shareholders.

Certain provisions of the Maryland General Corporation Law (the MGCL) may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under

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circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

1. business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person or an affiliate thereof who beneficially owns 10% or more of the voting power of our shares) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special appraisal rights and special stockholder voting requirements on these combinations; and

2. control share provisions that provide that our control shares (defined as shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL. However, the Board of Directors may, by resolution, elect to opt in to the business combination provisions of the MGCL, and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL.

Future terrorist attacks could harm the demand for, and the value of, our properties.

Future terrorist attacks, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and other acts of terrorism or war, could harm the demand for, and the value of, our properties. Terrorist attacks could directly impact the value of our properties through damage, destruction, loss or increased security costs, and the availability of insurance for such acts may be limited or may be subject to substantial cost increases. To the extent that our tenants are impacted by future attacks, their ability to continue to honor obligations under their existing leases could be adversely affected.

Item 1B. Unresolved Staff Comments: None

Item 3. Legal Proceedings

The Company is not presently involved in any litigation, nor, to its knowledge, is any litigation threatened against the Company or its subsidiaries, which is either not covered by the Company s liability insurance, or, in management s opinion, would result in a material adverse effect on the Company s financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders: None

Directors and Executive Officers of the Company

Information regarding the Company s directors and executive officers is set forth below:

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Name	Age	Position
Leo S. Ullman	67	Chairman of the Board of Directors, Chief Executive Officer and President
Brenda J. Walker	54	Director and Vice President
James J. Burns	67	Director
Richard Homburg	57	Director
Paul G. Kirk, Jr.	69	Director
Everett B. Miller, III	61	Director
Roger M. Widmann	67	Director
Nancy H. Mozzachio	42	Vice President Leasing
Thomas J. O Keeffe	62	Chief Financial Officer
Thomas B. Richey	51	Vice President Development and Construction Services
Stuart H. Widowski	46	Secretary and General Counsel

Leo S. Ullman, chief executive officer, president and chairman of the Board of Directors, has been involved in real estate property and asset management for more than twenty-five years. He was chairman and president since 1978 of the real estate management companies which were merged into the Company in 2003, and their respective predecessors and affiliates. Mr. Ullman was first elected as the Company s chairman in April 1998 and served until November 1999. He was re-elected in December 2000. Mr. Ullman also has been chief executive officer and president from April 1998 to date. He has been a member of the New York Bar since 1966 and was in private legal practice until 1998. From 1984 until 1993, he was a partner in the New York law firm of Reid & Priest (now Thelen Reid Brown Raysman & Steiner LLP), and served as initial director of its real estate group. Mr. Ullman received an A.B. from Harvard University, an M.B.A. from the Columbia University Graduate School of Business and a J.D. from the Columbia University School of Law where he was a Harlan Fiske Stone Scholar. He has lectured and written several books, monographs and articles on investment in US real estate, and is a former adjunct professor of business at the NYU Graduate School of Business.

Brenda J. Walker has been involved in real estate-related finance, property and asset management for more than twenty years. She has been vice president and a director since 1998, and was treasurer from April 1998 until November 1999. She was an executive officer since 1992 of the real estate management companies which were merged into the Company in 2003, and their respective predecessors and affiliates. Ms. Walker received a B.A. from Lincoln University.

James J. Burns, a director since 2001 and a member of the Audit (Chair), Compensation and Nominating/Corporate Governance committees, was chief financial officer and senior vice president of Wellsford Real Properties, Inc. from December 2000 until March 2006 when he became vice chairman. He joined Wellsford in October 1999 as chief accounting officer upon his retirement from Ernst & Young LLP in September 1999. At Ernst & Young LLP, Mr. Burns was a senior audit partner in the E&Y Kenneth Leventhal Real Estate Group for 22 years. Since 2000, Mr. Burns has also served as a director of One Liberty Properties, Inc., a REIT listed on the New York Stock Exchange. Mr. Burns is a certified public accountant and a member of the American Institute of Certified Public Accountants. Mr. Burns received a B.A. and M.B.A. from Baruch College of the City University of New York.

Richard Homburg, a director since 1999, and chairman from November 1999 to August 2000, was born and educated in the Netherlands. Mr. Homburg was the president and CEO of Uni-Invest N.V., a publicly-listed Dutch real estate fund, from 1991 until 2000. In 2002, an investment group purchased 100% of the shares of Uni-Invest N.V., taking it private, at which time it was one of the largest real estate funds in the Netherlands with assets of approximately $2.5 billion CDN. Mr. Homburg is chairman and CEO of Homburg Invest Inc. and president of Homburg Invest USA Inc. (a wholly-owned subsidiary of Homburg Invest Inc.). In addition to his varied business interests, Mr. Homburg has served on many boards. Previous positions held by

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Mr. Homburg include president and director of the Investment Property Owners of Nova Scotia, Evangeline Trust and World Trade Center in Eindhoven, the Netherlands, as well as director or advisory board member of other large charitable organizations. Mr. Homburg holds an honorary Doctorate in Commerce from St. Mary s University in Canada, and was named 2004 Entrepreneur of the Year for the Atlantic Provinces by Ernst & Young LLP.

Paul G. Kirk, Jr., a director since 2005, a member of the Nominating/Corporate Governance (Chair) and Compensation committees, and the Lead Director (as amongst the independent Directors), is a retired partner of the law firm of Sullivan & Worcester, LLP of Boston, Massachusetts. He was a member of the firm from 1977 through 1990. He also serves as Chairman and CEO of Kirk & Associates, Inc., a business advisory and consulting firm. Mr. Kirk also currently serves on the Board of Directors of the Hartford Financial Services Group, Inc., and Rayonier, Incorporated (a real estate investment trust listed on the New York Stock Exchange). He has previously served on the Boards of Directors of ITT Corporation (1989-1997) and of Bradley Real Estate, Inc. (1991-2000), a real estate investment trust that was subsequently acquired by Heritage Property Investment Trust, Inc. Mr. Kirk also serves as Chairman of the Board of Directors of the John F. Kennedy Library Foundation and was a founder and continues to serves as co-chairman of the Commission on Presidential Debates. From 1985 to 1989, Mr. Kirk served as Chairman of the Democratic Party of the U.S., and from 1983-1985 as its Treasurer. A graduate of Harvard College and Harvard Law School, Mr. Kirk is past-Chairman of the Harvard Board of Overseers Nominating Committee and currently serves as Chairman of the Harvard Board of Overseers Committee to Visit the Department of Athletics. He has received many awards for civic leadership and public service, including honorary doctors of law degrees from Stonehill College, and the Southern New England School of Law.

Everett B. Miller, III, a director since 1998 and a member of the Audit and Compensation committees, is vice president of alternative investments at YMCA Retirement Fund. In March 2003, Mr. Miller was appointed to the Real Estate Advisory Committee of the New York State Common Retirement Fund. Prior to his retirement in May 2002 from Commonfund Realty, Inc., a registered investment advisor, Mr. Miller was the chief operating officer of that company from 1997 until May 2002. From January 1995 through March 1997, Mr. Miller was the Principal Investment Officer for Real Estate and Alternative Investment at the Office of the Treasurer of the State of Connecticut. Prior thereto, Mr. Miller was employed for eighteen years at affiliates of Travelers Realty Investment Co., at which his last position was senior vice president. Mr. Miller received a B.S. from Yale University.

Roger M. Widmann, a director since October 2003 and a member of the Compensation (Chair), Audit and Nominating/Corporate Governance committees, is an investment banker. He was a principal of the investment banking firm of Tanner & Co., Inc. from 1997 to 2004. From 1986 to 1995, Mr. Widmann was a senior managing director of Chemical Securities Inc., a subsidiary of Chemical Banking Corporation (now JPMorgan Chase Corporation). Prior to joining Chemical Securities Inc., Mr. Widmann was a founder and managing director of First Reserve Corporation, the largest independent energy investing firm in the U.S. Previously, he was senior vice president with the investment banking firm of Donaldson, Lufkin & Jenrette, responsible for the firm s domestic and international investment banking business. He had also been a vice president with New Court Securities Corporation (now Rothschild, Inc.). He was a director of Lydall, Inc. (NYSE), Manchester, CT, a manufacturer of thermal, acoustical and filtration materials, from 1974 to 2004, and its chairman from 1998 to 2004. He is a director of Paxar Corporation, White Plains, NY, a global manufacturer of labeling systems and of Standard Motor Products, Long Island City, NY, a manufacturer of automobile replacement parts. He is also a senior moderator of the Executive Seminar in the Humanities at The Aspen Institute, and is a board member of the March of Dimes of Greater New York and of Oxfam America. Mr. Widmann received an A.B. from Brown University and a J.D. from Columbia University.

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Nancy H. Mozzachio joined the Company in 2003 as Vice President- Leasing and has been involved in the shopping center industry for more than 20 years. Prior to joining the Company, Ms. Mozzachio served as Vice President of Leasing and Development for American Continental Properties Group from 1988 to 2003. Ms. Mozzachio served on several Planning Boards in New Jersey and is a current member of Manchester Who s Who Registry of Executives and Professionals as well as an active member of the International Council of Shopping Centers and Network of Executive Women. Ms. Mozzachio received a B.A. from Rutgers University.

Thomas J. O Keeffe joined the Company in November 2002 as chief financial officer. Prior thereto, Mr. O Keeffe served as a financial consultant from 1997 to 2002, as chief financial officer of Bradley Real Estate, Inc., a shopping center REIT, from 1985 to 1996, as chief financial officer of R.M. Bradley & Co., Inc., a full service real estate management company from 1981 to 1997, and as audit manager for Deloitte & Touche from 1975 to 1981. Mr. O Keeffe, a certified public accountant, is also a director of the John Fitzgerald Kennedy Library Foundation, and serves on its executive, audit and investment committees. Mr. O Keeffe received a B.S.A. from Bentley College and an M.B.A. from Babson College.

Thomas B. Richey joined the Company in 1998 as vice president and director of development and construction services. Mr. Richey has been involved in the real estate business for more than 25 years. He served as director of a historic site service project in Muncy, PA, from 1978 through 1980, and as economic development director of the city of Williamsport, PA, from 1980 through 1983. From 1983 to 1986, Mr. Richey was involved with acquisitions and construction for Lundy Construction Company and for Shawnee Management, Inc. From 1988 through 1996, Mr. Richey was a partner in two companies involved in renovating and providing other services to hotel properties. From 1996 through 1998, Mr. Richey was business and project manager for Grove Associates, Inc., an engineering and surveying company. Mr. Richey received a B.A. from Lycoming College.

Stuart H. Widowski has been secretary and general counsel of the Company since 1998. He was in private practice for seven years, including five years with the New York law firm of Reid & Priest (now Thelen Reid Brown Raysman & Steiner LLP). From 1991 through 1996, Mr. Widowski served in the legal department of the Federal Deposit Insurance Corporation. Mr. Widowski received a B.A. from Brandeis University and a J.D. from the University of Michigan.

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Part II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Dividend Information

A corporation electing REIT status is required to distribute at least 90% of its REIT taxable income , as defined in the Code, to continue qualification as a REIT. The Company paid dividends totaling $0.90 per share during 2006. While the Company intends to continue paying regular quarterly dividends, future dividend declarations will be at the discretion of the Board of Directors, and will depend on the cash flow and financial condition of the Company, capital requirements, annual distribution requirements under the REIT provisions of the Code, and such other factors as the Board of Directors may deem relevant.

Market Information

The Company had 43,773,000 shares of common stock outstanding held by approximately 400 shareholders of record at December 31, 2006. The Company believes it has more than 11,000 beneficial holders of its common stock. The Company s shares trade on the NYSE under the symbol CDR . The following table sets forth, for each quarter for the last two years, (1) the high, low, and closing prices of the Company s common stock, and (2) dividends paid:

	Market price range			Dividends
Quarter ended	**High**	**Low**	**Close**	**paid**
2006				
March 31	$16.31	$13.96	$15.84	$0.225
June 30	15.80	14.01	14.72	0.225
September 30	16.25	14.22	16.17	0.225
December 31	18.42	15.75	15.91	0.225
2005				
March 31	$15.05	$13.42	$14.24	$0.225
June 30	15.21	13.47	14.75	0.225
September 30	17.39	13.17	14.47	0.225
December 31	14.65	13.44	14.07	0.225

Stockholder Return Performance Presentation

The following line graph sets forth for the period January 1, 2002 through December 31, 2006 a comparison of the percentage change in the cumulative total stockholder return on the Company s common stock compared to then cumulative total return of the Russell 2000 index and the National Association of Real Estate Investment Trusts Equity REIT Total Return Index.

The graph assumes that the shares of the Company s common stock were bought at the price of $100 per share and that the value of the investment in each of the Company s common stock and the indices was $100 at the beginning of the period. The graph further assumes the reinvestment of dividends when paid. All share and price information have been adjusted to reflect a 2-for-1 stock split effective July 7, 2003 and a 1-for-6 reverse stock split effective October 19, 2003.

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Cedar Shopping Centers

Index	***As Of*** **01/01/02**	**12/31/02**	**12/31/03**	***Year Ending*** **12/31/04**	**12/30/05**	**12/31/06**
Cedar Shopping Centers	100.00	94.12	97.41	119.71	125.51	150.62
Russell 2000	100.00	79.52	117.09	138.55	144.86	171.47
NAREIT All Equity REIT	100.00	103.82	142.37	187.33	210.12	283.78

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Item 6. Selected Financial Data

	Years ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Operations data:					
Total revenues	$126,492,000	$ 78,941,000	$ 51,078,000	$ 26,667,000	$12,964,000
Expenses:					
Property operating expenses	35,220,000	22,263,000	15,623,000	10,051,000	4,685,000
General and administrative	6,086,000	5,132,000	3,575,000	3,161,000	1,160,000
Depreciation and amortization	34,883,000	20,606,000	11,376,000	4,139,000	1,721,000
Total expenses	76,189,000	48,001,000	30,574,000	17,351,000	7,566,000
Operating income	50,303,000	30,940,000	20,504,000	9,316,000	5,398,000
Non-operating income and expense:					
Interest expense	(32,777,000)	(15,178,000)	(10,239,000)	(9,412,000)	(5,523,000)
Amortization of deferred financing costs	(1,448,000)	(1,071,000)	(1,025,000)	(1,057,000)	(825,000)
Interest income	641,000	91,000	66,000	12,000	25,000
Equity in income of unconsolidated joint ventures	70,000				
Gain on sale of interest in unconsolidated joint venture	141,000				
Costs incurred in acquiring external advisor and related transactions, and other				(20,788,000)	(487,000)
Total non-operating income and expense	(33,373,000)	(16,158,000)	(11,198,000)	(31,245,000)	(6,810,000)
Income (loss) before minority and limited partners interests and loss applicable to property sales	16,930,000	14,782,000	9,306,000	(21,929,000)	(1,412,000)
Minority interests in consolidated joint	(1,202,000)	(1,270,000)	(1,229,000)	(983,000)	(159,000)

ventures					
Limited partners interest in Operating Partnership	(393,000)	(299,000)	(157,000)	1,815,000	1,152,000
Loss applicable to property sales					(49,000)
Net income (loss)	15,335,000	13,213,000	7,920,000	(21,097,000)	(468,000)
Preferred distribution requirements	(7,877,000)	(7,186,000)	(2,218,000)	(254,000)	
Net income (loss) applicable to common shareholders	$ 7,458,000	$ 6,027,000	$ 5,702,000	$ (21,351,000)	$ (468,000)
Per common share:					
Basic	$ 0.23	$ 0.25	$ 0.34	$ (7.09)	$ (2.03)
Diluted	$ 0.23	$ 0.25	$ 0.34	$ (7.09)	$ (2.03)
Dividends to common shareholders	$ 29,333,000	$ 20,844,000	$ 13,750,000	$	$
Per common share	$ 0.90	$ 0.90	$ 0.835	$	$
Weighted average number of common shares outstanding:					
Basic	32,926,000	23,988,000	16,681,000	3,010,000	231,000
Diluted	33,055,000	24,031,000	16,684,000	3,010,000	231,000

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Item 6. Selected Financial Data (continued)

			December 31,		
	2006	2005	2004	2003	2002
Balance sheet data:					
Land, buildings and improvements, less accumulated depreciation	$1,177,139,000	$ 946,457,000	$ 505,325,000	$ 324,531,000	$121,238,000
Other assets	74,580,000	49,799,000	31,835,000	25,116,000	11,900,000
Total assets	$1,251,719,000	$ 996,256,000	$ 537,160,000	$ 349,647,000	$133,138,000
Mortgages and other loans payable	$ 568,073,000	$ 527,791,000	$ 248,630,000	$ 162,458,000	$101,001,000
Other liabilities	70,595,000	44,405,000	34,239,000	19,571,000	7,765,000
Minority interests in consolidated joint ventures	9,132,000	12,339,000	11,995,000	12,435,000	10,238,000
Limited partners interest in Operating Partnership	25,969,000	20,586,000	6,542,000	4,035,000	7,889,000
Preferred OP Units					3,000,000
Shareholders equity	577,950,000	391,135,000	235,754,000	151,148,000	3,245,000
Total liabilities and shareholders equity	$1,251,719,000	$ 996,256,000	$ 537,160,000	$ 349,647,000	$133,138,000
Weighted average number of common shares:					
Shares used in determination of basic earnings per share	32,926,000	23,988,000	16,681,000	3,010,000	231,000
Additional shares assuming conversion of OP Units (basic)	1,737,000	1,202,000	450,000	547,000	568,000
Shares used in determination of basic FFO per share	34,663,000	25,190,000	17,131,000	3,557,000	799,000
	33,055,000	24,031,000	16,684,000	3,010,000	231,000

Shares used in determination of diluted earnings per share					
Additional shares assuming conversion of OP Units (diluted)	1,747,000	1,206,000	450,000	547,000	568,000
Shares used in determination of diluted FFO per share	34,802,000	25,237,000	17,134,000	3,557,000	799,000
Other data:					
Funds From (Used In) Operations (FFO) (a)	$ 41,954,000	$ 25,923,000	$ 15,625,000	$ (20,588,000)	$ (451,000)
Per common share (assuming conversion of OP Units):					
Basic	$ 1.21	$ 1.03	$ 0.91	$ (5.79)	$ (0.56)
Diluted	$ 1.21	$ 1.03	$ 0.91	$ (5.79)	$ (0.56)
Cash flows provided by (used in):					
Operating activities	$ 37,927,000	$ 29,935,000	$ 18,507,000	$ (4,856,000)	$ 1,298,000
Investing activities	$ (187,746,000)	$ (327,826,000)	$ (168,273,000)	$ (199,904,000)	$ (40,483,000)
Financing activities	$ 159,103,000	$ 298,035,000	$ 152,069,000	$ 207,087,000	$ 40,767,000
Square feet of GLA	10,061,000	8,442,000	4,887,000	3,499,000	1,806,000
Percent leased (including development/ redevelopment and other non-stabilized properties)	93%	91%	88%	88%	92%

(a) 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. See Management s Discussion and Analysis of Financial Condition and Results of Operations elsewhere herein.

Item 7. 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, self-administered and self-managed 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 December 31, 2006, the Company had a portfolio of 97 properties totaling approximately 10.1 million square feet of GLA, including 93 wholly-owned properties comprising approximately 9.6 million square feet and four properties owned in joint venture comprising approximately 485,000 square feet. At December 31, 2006, the portfolio of wholly-owned properties was comprised of (1) 86 stabilized properties (those properties at least 80% leased and not designated as development/redevelopment properties), with an aggregate of 8.6 million square feet of GLA, which were approximately 95.2% leased, (2) three development/redevelopment properties with an aggregate of 650,000 square feet of GLA, which were approximately 61.1% leased, and (3) four non-stabilized properties with an aggregate of 305,000 square feet of GLA, which are presently being re-tenanted and which were approximately 71.3% leased. The four properties owned in joint venture are all stabilized properties and are 100.0% leased. The entire 97 property portfolio was approximately 92.5% leased at December 31, 2006. 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 December 31, 2006, the Company owned 95.7% of the Operating Partnership and is its sole general partner. 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 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.

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 construction, renovation, expansion, re-leasing and re-merchandising to achieve long-term cash flow growth and favorable investment returns. The Company would also consider investment opportunities in regions beyond its present markets 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.

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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. 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 evaluates 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 assets 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.

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The Company applies Statement of Financial Accounting Standards (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 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 (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 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 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-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 cost to sell. Depreciation and amortization are suspended during the period 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

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stock option or similar equity instrument. The implementation of the statement has not had a material effect on the consolidated financial statements.

The Company s 2004 Stock Incentive Plan (the Incentive Plan) provides for the granting of incentive stock options, stock appreciation rights, restricted shares, performance units and performance shares. The maximum number of shares of the Company s common stock that may be issued pursuant to the Incentive Plan is 850,000, and the maximum number of shares that may be subject to grants to any single participant is 250,000. Substantially all grants issued pursuant to the Incentive Plan are restricted stock grants 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. 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. The value of such grants is being amortized on a straight-line basis over the respective vesting periods.

Results of Operations

Acquisitions. Differences in results of operations between 2006 and 2005, and between 2005 and 2004, respectively, were driven largely by acquisitions. During the period January 1, 2005 through December 31, 2006, the Company acquired 66 shopping and convenience centers aggregating approximately 5.3 million sq. ft. of GLA and approximately 180 acres of land for expansion and/or future development, for a total cost of approximately $659.8 million. Income before minority and limited partners interests and preferred distribution requirements increased to $16.9 million in 2006 from $14.8 million in 2005 and $9.3 million in 2004.

Comparison of 2006 to 2005

	2006	2005	Increase	Percentage change	Acquisitions	Properties held in both years
Rents and expe						