CEDAR SHOPPING CENTERS INC
Form 10-K
March 16, 2009

Table of Contents

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, 2008

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. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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, 2008 of $11.72 per share, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $508,248,000.

The number of shares outstanding of the registrant s Common Stock $.06 par value was 44,854,992 on February 28, 2009.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive proxy statement relating to its 2009 annual meeting of shareholders are incorporated herein by reference.

TABLE OF CONTENTS

Item No.	Page No.
PART I	
1 and 2. Business and Properties	4
1A. Risk Factors	9
1B. Unresolved Staff Comments	17
3. Legal Proceedings	17
4. Submission of Matters to a Vote of Security Holders	17
PART II	
5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
6. Selected Financial Data	23
7. Management s Discussion and Analysis of Financial Condition and Results of Operations	25
7A. Quantitative and Qualitative Disclosures about Market Risk	35
8. Financial Statements and Supplementary Data	37
9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	74
9A. Controls and Procedures, including Management Report on Internal Control Over Financial Reporting	74
9B. Other Information	76
PART III	
10. Directors, Executive Officers and Corporate Governance	76
11. Executive Compensation	76
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	76
13. Certain Relationships and Related Transactions, and Director Independence	76
14. Principal Accounting Fees and Services	76
PART IV	
15 Exhibits and Financial Statement Schedules	77

EX-10.2.d
EX-10.3.b.v.
EX-10.3.c.v.
EX-10.3.d.iv.
EX-10.3.f.
EX-10.8
EX-21.1
EX-23.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

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 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 (including the availability of construction financing) in the public and private markets; the availability of suitable joint venture partners; changes in interest rates; the fact that returns from development, redevelopment and acquisition activities may not be at expected levels or at expected times; risks inherent in ongoing development and redevelopment projects including, but not limited to, cost overruns resulting from weather delays, changes in the nature and scope of development and redevelopment efforts, changes in governmental regulations related thereto, and market factors involved in the pricing of material and labor; the need to renew leases or re-let space upon the expiration of current leases; and the financial flexibility to repay or refinance debt obligations when due. 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.

Table of Contents

Part I.

Items 1 and 2. Business and Properties

General

Cedar Shopping Centers, Inc. (the Company), organized in 1984, is a fully-integrated real estate investment trust which focuses primarily on ownership, operation, development and redevelopment of supermarket-anchored shopping centers in mid-Atlantic and Northeast coastal states. At December 31, 2008, the Company had a portfolio of 121 operating properties totaling approximately 12.1 million square feet of gross leasable area (GLA), including 111 wholly-owned properties comprising approximately 10.9 million square feet and ten properties owned in joint venture comprising approximately 1.2 million square feet. The entire 121 property portfolio was approximately 92% leased at December 31, 2008; the 113 property stabilized portfolio (including properties wholly-owned and in joint venture) was approximately 95% leased at that date. The Company also owned 398 acres of land parcels, a significant portion of which is under development. In addition, the Company has a 76.3% interest in an unconsolidated joint venture which owns a single-tenant office property in Philadelphia, Pennsylvania.

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 preponderant 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, 2008, the Company owned 95.7% of the Operating Partnership and is its sole general partner. The approximately 2,017,000 limited 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 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 that, because of the need of consumers to purchase food and other staple goods and services generally available at such centers, its type of necessities -based properties should provide relatively stable revenue flows even during difficult economic times.

The Company has historically sought opportunities to acquire properties suited for development and/or redevelopment, and, to a lesser extent than in the recent past, stabilized properties, 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 expects to substantially reduce

these activities in the foreseeable future in view of current economic conditions.

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. Any such information is also available by written request to Investor Relations at the executive office address set forth above.

The Company s executive offices at 44 South Bayles Avenue, Port Washington, New York, are located in an aggregate of 8,600 square feet which it leases under two leases from a partnership owned 29% 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 market terms.

The Company s Properties

The following tables summarize information relating to the Company s properties as of December 31, 2008:

State	Number of properties	GLA (Sq. ft.)	Land	Buildings and improvements	Total cost	Accumulated depreciation	Net book value
Pennsylvania	46	5,955,000	$126,822,000	$ 636,343,000	$ 763,165,000	$ 78,134,000	$ 685,031,000
Massachusetts	9	1,447,000	42,967,000	187,774,000	230,741,000	17,812,000	212,929,000
Connecticut	8	960,000	18,535,000	113,379,000	131,914,000	11,788,000	120,126,000
Virginia	13	816,000	28,878,000	101,651,000	130,529,000	11,593,000	118,936,000
Ohio	27	967,000	22,869,000	96,297,000	119,166,000	10,887,000	108,279,000
Maryland	7	677,000	15,736,000	68,750,000	84,486,000	6,037,000	78,449,000
New Jersey	4	968,000	13,802,000	71,423,000	85,225,000	7,251,000	77,974,000
New York	6	279,000	15,204,000	44,013,000	59,217,000	2,513,000	56,704,000
Michigan	1	78,000	2,443,000	9,779,000	12,222,000	982,000	11,240,000
Total operating portfolio	121	12,147,000	287,256,000	1,329,409,000	1,616,665,000	146,997,000	1,469,668,000
Projects under development and land held for future expansion and development	n/a	n/a	92,524,000	72,789,000	165,313,000		165,313,000
Total portfolio	121	12,147,000	$379,780,000	$1,402,198,000	$1,781,978,000	$146,997,000	$1,634,981,000

Tenant	Number of stores	GLA	Percentage of GLA	Annualized base rent	Annualized base rent per sq ft	Percentage of annualized base rents
Top ten tenants (a):						
Giant Foods (b)	19	1,136,000	9.4%	$ 16,867,000	$14.84	13.5%
Discount Drug Mart	18	454,000	3.7%	4,273,000	9.41	3.4%
Farm Fresh (b)	6	364,000	3.0%	3,768,000	10.35	3.0%
Stop & Shop (b)	5	325,000	2.7%	3,494,000	10.75	2.8%
CVS	14	150,000	1.2%	2,979,000	19.86	2.4%
Shaw s (b)	4	241,000	2.0%	2,676,000	11.10	2.1%
LA Fitness	4	168,000	1.4%	2,422,000	14.42	1.9%
Staples	7	151,000	1.2%	2,091,000	13.85	1.7%
Food Lion (b)	7	243,000	2.0%	1,921,000	7.91	1.5%
Burlington Coat Factory	2	306,000	2.5%	1,680,000	5.49	1.3%
Sub-total top ten tenants	86	3,538,000	29.1%	42,171,000	11.92	33.8%
Remaining tenants	1,130	7,677,000	63.2%	82,546,000	10.75	66.2%
Sub-total all tenants	1,216	11,215,000	92.3%	124,717,000	11.12	100.0%
Vacant space (c)	n/a	932,000	7.7%	n/a	n/a	n/a
Total (including vacant space)	1,216	12,147,000	100.0%	$124,717,000	$10.27	n/a

(a) Based on annualized base rent.

(b) Several of the tenants listed above share common ownership with other tenants including, without limitation, (1) Giant Foods and Stop & Shop, (2) Farm Fresh, Shaw s, Shop n Save (GLA of

53,000; annualized base rent of $505,000), Shoppers Food Warehouse (GLA of 59,000, annualized base rent of $939,000) and Acme (GLA of 172,000, annualized based rent of $756,000), and (3) Food Lion and Hannaford (GLA of 43,000; annualized base rent of $405,000).

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

Year of lease expiration (a)	Number of leases expiring	GLA expiring	Percentage of GLA expiring	Annualized expiring base rents	Annualized expiring base rents per sq ft	Percentage of annualized expiring base rents
Month-To-Month	89	211,000	1.9%	$ 2,884,000	$ 13.67	2.3%
2009	187	1,025,000	9.1%	10,102,000	9.86	8.1%
2010	183	1,344,000	12.0%	13,248,000	9.86	10.6%
2011	158	966,000	8.6%	10,580,000	10.95	8.5%
2012	152	799,000	7.1%	9,101,000	11.39	7.3%
2013	134	794,000	7.1%	9,458,000	11.91	7.6%
2014	57	835,000	7.4%	7,070,000	8.47	5.7%
2015	47	527,000	4.7%	5,550,000	10.53	4.5%
2016	37	539,000	4.8%	5,473,000	10.15	4.4%
2017	33	497,000	4.4%	6,252,000	12.58	5.0%

2018	40	813,000	7.2%	8,900,000	10.95	7.1%
Thereafter	99	2,865,000	25.6%	36,099,000	12.60	28.9%
	1,216	11,215,000	100.0%	124,717,000	11.12	100.0%
Vacant space (a)	n/a	932,000	n/a	n/a	n/a	n/a
Total portfolio (b)	1,216	12,147,000	n/a	$124,717,000	$ 10.27	n/a

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

(b) At December 31, 2008, the Company had a portfolio of 121 operating properties totaling approximately 12.1 million sq. ft. of GLA, including 111 wholly-owned properties comprising approximately 10.9 million sq. ft. and ten properties owned in joint venture comprising approximately 1.2 million sq. ft. The entire 121 property portfolio was approximately 92% leased at December 31, 2008.

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, insurance 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, LLC (Giant Foods), which is owned by Ahold N.V., a Netherlands corporation, leased approximately 9%, 9% and 10% of the Company s GLA at December 31, 2008, 2007 and 2006, respectively, and accounted for approximately 12%, 13% and 11% of the Company s total revenues during 2008, 2007 and 2006, respectively. Giant Foods, in combination with Stop & Shop, Inc. which is also owned by Ahold N.V., accounted for approximately 15%, 15% and 14% of the Company s total revenues during 2008, 2007 and 2006, respectively. No other tenant leased more than 10% of GLA at December 31, 2008, 2007 or 2006, or contributed more than 10% of total revenues during 2008, 2007 or 2006. No individual property had a net book value equal to more than 10% of total assets at December 31, 2008, 2007 or 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 in 2008

During 2008, the Company acquired four shopping and convenience centers aggregating approximately 268,000 sq. ft. of GLA (including the remaining 89,000 sq. ft. portion of a shopping center in addition to the 45,000 sq. ft. supermarket anchor store it had acquired in 2005), purchased the joint venture minority interests in four properties, and acquired approximately 182 acres of land, located in Pennsylvania, for development, expansion and/or future development, for a total cost of approximately $109.6 million. Information relating to the acquired properties is summarized as follows:

Property	**Number of properties**	**GLA**	**Acquisition cost (i)(ii)**
Operating properties (iii)	4	268,000	$ 54,509,000
Land for projects under development, expansion and/or future development	6	182 acres	55,122,000
Total			$ 109,631,000

(i) Amounts include purchase accounting allocations totaling approximately $2.2 million.

(ii) During 2008, the Company

acquired the partnership interests from the partner owning the 70% interests in Fairview Plaza, Halifax Plaza and Newport Plaza, and the 75% interest in Loyal Plaza, previously consolidated for financial reporting purposes, for a purchase price of approximately $17.5 million. The excess of the purchase price and closing costs over the carrying value of the minority interest partner s accounts (approximately $8.4 million) was allocated to the Company s real estate asset accounts.

(iii) These four properties, acquired individually and not as part of a portfolio, had acquisition costs of less than $20.0 million each.

Joint Venture Arrangements

On January 3, 2008, the Company entered into a joint venture agreement for the redevelopment of its 351,000 sq. ft. shopping center in Bloomsburg, Pennsylvania, including adjacent land parcels comprising an additional 46 acres. The required equity contribution from the Company s joint venture partner was $4.0 million for a 25% interest in the property. The Company used the funds to reduce the outstanding balance on its stabilized property credit facility.

On March 18, 2008, the Company acquired the partnership interests from the partner owning the remaining 70% interests in Fairview Plaza, Halifax Plaza and Newport Plaza, and the 75% interest in Loyal Plaza, previously consolidated for financial reporting purposes, for a purchase price of approximately $17.5 million, which was funded from its stabilized property credit facility. The total outstanding mortgage loans payable on the properties were approximately $27.3 million at the time. The excess of the purchase price and closing costs over the carrying value of the minority interest partner s accounts (approximately $8.4 million) was allocated to the Company s real estate asset accounts.

On April 23, 2008 the Company entered into a joint venture for the construction and development of an estimated 137,000 sq. ft shopping center in Stroudsburg (Hamilton Township), Pennsylvania. Total project costs, including purchase of land parcels, are estimated at $37 million. The Company is committed to paying a development fee of $500,000 to the joint venture partner, providing up to $9.5 million of equity capital, with a preferred rate of return of 9.25% per annum on its investment, and has a 60% profits interest in the joint venture. The required equity contribution from the Company s joint venture partner was $400,000. As of December 31, 2008, the Company s joint venture equity requirement had been funded from its stabilized property credit facility. Prior to the formation of the venture, the partner had acquired the land parcels at a cost of approximately $15.4 million, incurring mortgage indebtedness of approximately $10.8 million (including purchase-money mortgages payable to the seller of $3.9 million). In addition, the partner had entered into an interest rate swap agreement with respect to its existing construction/development loan facility, as well as a future swap agreement applicable to anticipated permanent financing of $28.0 million. The joint venture is deemed to be a variable interest entity with the Company as the primary income or loss beneficiary; accordingly, the Company has consolidated the property for financial reporting purposes. The minority interest partners in the Stroudsburg joint venture and the Pottsgrove joint venture (entered into in April 2007) are principally the same individuals.

On September 12, 2008, the Company entered into a joint venture for the construction and development of an estimated 66,000 sq. ft. shopping center in Limerick, Pennsylvania. Total project costs, including purchase of land parcels, are estimated at $14.5 million. The Company is committed to paying a development fee of $333,000 to the joint venture partner, providing up to $4.1 million of equity capital, with a preferred rate of return of 9.5% per annum on its investment, and has a 60% profits interest in the joint venture. The required equity contribution from the Company s joint venture partner is $217,000. Financing for the balance of the project costs is expected to be funded from the Company s development property credit facility. The joint venture purchased the land parcels on October 27, 2008 and, in addition, reimbursed the seller for certain construction-in-progress costs incurred to that date, for a total acquisition cost of approximately $8.4 million. At the time of the closing, the project was not yet approved under the Company s development property credit facility, and the Company agreed to fund the excess over its capital requirement as an interim loan to the joint venture, funded through the Company s stabilized property credit facility. The joint venture is deemed to be a variable interest entity with the Company as the primary income or loss beneficiary; accordingly, the Company has consolidated the property for financial reporting purposes.

Table of Contents

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 lease terms, the presence of anchor tenants, the mix, quality and sales results of other tenants, and maintenance, appearance, access and traffic patterns 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 estate, 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 conducted at the time of acquisition with respect to 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, 2008, the Company had 96 employees (89 full-time and 7 part-time). The Company believes that its relations with its employees are good.

Item 1A. Risk Factors

Deteriorating conditions in the U.S. economy, instability in the credit markets and the uncertain retail environment could adversely affect our ability to continue to pay dividends or cause us to reduce further the amount of our dividends.

As the result of the current state of the U.S. economy, constrained capital markets and the difficult retail environment, on January 29, 2009, our Board of Directors reduced our annual dividend rate on our common stock from $.90 per share to $.45 per share. There is no assurance that as a result of further deteriorating conditions the Company will not be forced to reduce further, or even eliminate, the payment of dividends.

Volatility and instability in the credit markets could adversely affect our ability to obtain new financing or to refinance existing indebtedness.

In recent months, there has been substantial volatility and instability in the credit markets. We have recently witnessed the near-complete disappearance of Commercial Mortgage-backed Securities (CMBS) as a means of financing real estate. Such CMBS financings, generally at a fixed rate for a period of 10 years, represent the preponderance of fixed-rate financing for the Company s existing stabilized portfolio. It is highly unlikely that a market for such securities and the availability of such loans will be accessible by the Company for an indefinite period, or perhaps ever. Our stabilized property credit facility has a term that expires in January 2010. We are presently seeking to put in place a new stabilized property credit facility in advance of the expiration of the current facility. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance our existing debt as it matures on favorable terms or at all. At this time, it is difficult to forecast the future state of the bank loan market and the credit market, generally. If, because of our substantial indebtedness, the level of our cash flows, lenders perceptions of our creditworthiness, or for other reasons, we are unable to renew, replace or extend this facility on terms attractive to us, or to arrange for alternative financing, we might be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring development and redevelopment projects or other capital expenditures, curtailing future acquisitions, disposition of assets on unfavorable terms, further reducing or eliminating future cash dividend payments or other discretionary uses of cash, and/or other more severe actions. In the alternative, we may be forced to seek potentially less attractive financings, including equity investments on terms that may not be favorable to us. In doing so, the Company may be compelled to dilute the interests of existing shareholders that could also adversely reduce the trading price of our common stock..

Also, disruptions in the credit markets and uncertainty in the U.S. economy could adversely affect the banks that currently participate in our credit facility, could cause them to elect not to participate in any new credit facility we might seek, or could cause other banks that are not currently participants in such credit facility to be unwilling or unable to participate in any such new facility.

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. This also means that we are subject to the risks that affect the retail environment generally, including the levels of consumer spending, the willingness of retailers to lease space in our shopping centers, tenant bankruptcies, changes in economic conditions and consumer confidence. A recession is currently affecting the economy and consumer spending in the United States has recently declined. A sustained downturn in the U.S. economy and reduced consumer spending could impact our tenants ability to meet their lease obligations due to poor operating results, lack of liquidity or other reasons and therefore decrease the revenue generated by our properties or the value of our properties. Our ability to lease space and negotiate and maintain favorable rents could also be negatively impacted by a prolonged recession in the U.S. economy. Moreover, the demand for leasing space in our existing shopping centers as well as our development properties could also significantly decline during a significant downturn in the U.S. economy that could result in a decline in our occupancy percentage and reduction in rental revenues.

A number of tenants in negotiating or renegotiating leases have sought to limit their payment of base rent, allocable common area charges and real estate taxes and, in some cases, have unilaterally reduced rent

payments. In fact, the Company s collection of common area charges has declined and may decline further as a result of vacancies, default, and tenant resistance.

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. non-payment or deferred payment of rent or other charges by tenants, either as a result of tenant-specific financial ills, or general economic events or circumstances adversely affecting consumer disposable income or credit;
3. vacancies or an inability to rent space on acceptable terms;
4. inability to finance property development, tenant improvements and acquisitions on acceptable terms;
5. increased operating costs, including real estate taxes, insurance premiums, utilities, repairs and maintenance;
6. volatility and/or increases in interest rates, or the non-availability of funds in the credit markets in general;
7. an inability to refinance our existing indebtedness or to refinance on acceptable terms;
8. increased costs of complying with current, new or expanded governmental regulations;
9. the relative illiquidity of real estate investments;
10. changing market demographics;
11. changing traffic patterns;
12. an inability to arrange property-specific replacement financing for maturing mortgage loans in acceptable amounts or on acceptable terms;

Our substantial indebtedness and constraints on credit may impede our operating performance, as well as our development, redevelopment and acquisition activities, and put us at a competitive disadvantage.

We intend to incur additional debt in connection with the development and redevelopment of properties owned by us and in connection with future acquisitions of real estate. We also may borrow funds to make distributions to shareholders. If we are unable to obtain such financing, we may be forced to delay or cancel such development, redevelopment and acquisition activities, which might require us to record a loss, might impair our future growth, and in turn harm our stock price. Our debt may harm our business and operating results by (i) 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, (ii) placing us at a competitive disadvantage compared to competitors that have less debt or debt at more favorable terms, (iii) making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions, and (iv) limiting our ability to borrow more money for operations, capital expenditures, or to finance development, redevelopment and acquisition activities 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.

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 and/or in the economy generally 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 and economic 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.

Competition may impede our ability to renew leases or re-let spaces 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. The recent increase in national retail chain bankruptcies has increased available retail space and has increased competitive pressure to renew tenant leases upon expiration and find new tenants for vacant space at our properties. 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 our joint venture partners and us.

We presently own 13 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 76% interest in an unconsolidated joint venture that 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 the joint venture partner nor we would have full control over the joint venture. Any disputes that may arise between joint venture partners and us 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. Our joint venture partner(s) or we may not be in a position to respond to capital calls, and such calls could thus adversely affect our ownership or profits interest through subordination, dilution or super priorities. Also, the triggering of buy/sell provisions in the respective joint venture agreements could adversely affect our ownership interests.

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 facilities is subject to compliance with these financial and other covenants, including restrictions on property eligible for collateral, the payment of dividends, 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.

A substantial portion of our properties are located in the mid-Atlantic and Northeast coastal regions, which exposes us to greater economic risks than if our properties were owned in several geographic regions.

Our properties are located largely in the mid-Atlantic and Northeast coastal 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. High barriers to entry in the Northeast due to mature economies, road patterns, density of population, restrictions on development, and high land costs, coupled with large numbers of often overlapping government jurisdictions, may make it difficult for the Company to continue to grow in these areas.

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

Development and/or redevelopment activities may be cancelled, terminated, abandoned, and/or delayed, or otherwise may not achieve expected results due, among other things, to our inability to achieve favorable leasing results, to obtain all required permits and approvals, and to finance such development activities. 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 failure/lack of, or withdrawal of, expected entitlements, construction delays or cost overruns (including increases in materials and/or labor costs) 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. Key personnel could be lost because we could not offer, among other things, competitive compensation programs. Also, we have greatly reduced our acquisition and development operations which could require a downsizing in staffing of those activities and related operations within the Company. 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 losses such as 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.

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.

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, borrow funds or pay a portion of the dividend in common stock 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 (i) distribute amounts that could otherwise be used for future acquisitions, capital expenditures or repayment of debt, (ii) borrow on unfavorable terms, or (iii) sell assets on unfavorable terms or (iv) pay a portion of our common dividend in common stock. 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.

We have reduced our dividend as of the first quarter of 2009 to an annualized rate of $0.45 per share. We believe that the dividend at such annualized rate will continue to meet the REIT requirements. However, the Company may be required to distribute additional funds to meet the meet the minimum distribution requirements under applicable REIT provisions of the Code and may therefore be required to borrow, sell properties, raise equity or otherwise raise funds.

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 conducted at the time of acquisition with respect to 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. At the request of Inland American Real Estate Trust, Inc. (Inland), our Board of Directors has waived the ownership limit to permit such company to acquire up to 14% of our stock; provided, however, that Inland has agreed to various voting restrictions and standstill provisions.

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. In connection with obtaining shareholder approval to increase the number of authorized shares of preferred stock, we have agreed not to use our preferred stock for anti-takeover purposes or in connection with a shareholder rights plan unless we obtain shareholder approval. 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 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.

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:

Name	Age	Position
Leo S. Ullman	69	Chairman of the Board of Directors, Chief Executive Officer and President
James J. Burns	69	Director
Richard Homburg	59	Director
Pamela N. Hootkin	61	Director
Paul G. Kirk, Jr.	71	Director
Everett B. Miller, III	63	Director
Roger M. Widmann	69	Director
Lawrence E. Kreider, Jr.	61	Chief Financial Officer
Nancy H. Mozzachio	44	Vice President Leasing
Thomas B. Richey	53	Vice President Development and Construction Services
Brenda J. Walker	56	Vice President
Stuart H. Widowski	48	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 thirty years. He was chairman and president since 1978 of the real estate management companies, and their respective predecessors and affiliates, which were merged into the Company in 2003. 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, 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 also served in the U.S. Marine Corps. He has lectured and written 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. Mr. Ullman serves on the boards of several charities, is a member of the Development Committee of the U.S. Holocaust Memorial Museum, and has received several awards for community service. From 2005 to date, Mr. Ullman, a past regional winner, has served as a National Judge for the Ernst & Young LLP Entrepreneur of the Year Award Program.

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 Reis, Inc. (formerly Wellsford Real Properties, Inc.) from December 2000 until March 2006 when he became vice chairman. He joined Reis 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 Netherlands 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. 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., a publicly-traded Canadian corporation listed on the Toronto and Euronext Amsterdam Stock Exchanges). In addition to his varied business interests, Mr. Homburg has served on many boards. Previous positions held by Mr. Homburg include president and director of the Investment Property Owners of Nova Scotia, the Evangeline Trust and the 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 an honorary Doctorate in Law from the University of Prince Edward Island.

Pamela N. Hootkin, a director since June 2008 and a member of the Audit and Nominating/Corporate Governance committees, has been senior vice president, treasurer and director of investor relations at Phillips-Van Heusen Corporation since June 2007. She joined Phillips-Van Heusen in 1988 as vice president, treasurer and corporate secretary and in 1999 became vice president, treasurer and director of investor relations. From 1986 to 1988, Ms. Hootkin was vice president and chief financial officer of Yves Saint Laurent Parfums, Inc. From 1975 to 1986, she was employed by Squibb Corporation in various capacities, with her last position being vice president and treasurer of a division of Squibb. Ms. Hootkin is a board member of Safe Horizon, New York (a not-for-profit organization) where she also serves on the executive and finance committees. Ms. Hootkin received a B.A. from the State University of New York at Binghamton and a M.A. from Boston University.

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 REIT 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 serve 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 to 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 the 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) 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 (now Rothschild, Inc.). He was a director of Lydall, Inc. (NYSE), a manufacturer of thermal, acoustical and filtration materials, from 1974 to 2004, and its chairman from 1998 to 2004. He is a director of Standard Motor Products, Inc., a manufacturer of automobile replacement parts, and GigaBeam Corporation, a manufacturer of last mile wireless transmission systems. He is also a senior moderator of the Aspen Seminar 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 School of Law.

Lawrence E. Kreider, Jr. joined the Company in June 2007 as Chief Financial Officer and has direct responsibility for all financial and information technology activities of the Company. Prior to joining the Company, Mr. Kreider was Senior Vice President, Chief Financial Officer, Chief Information Officer and Chief Accounting Officer for Affordable Residential Communities, now named Hilltop Holdings Inc., for substantial periods of time from 2001 to 2007. From 1999 to 2001, Mr. Kreider was Senior Vice President of Finance for Warnaco Group Inc. and, in 2000 and 2001, President of Warnaco Europe. From 1986 to 1999, Mr. Kreider served in several senior finance positions, including Senior Vice President, Controller and Chief Accounting Officer, with Revlon, Inc. and MacAndrews & Forbes Holdings. Prior to 1986, he served in senior finance positions with Zale Corporation, Johnson Matthew Jewelry Corporation and Refinement International Company. Mr. Kreider began his career with Coopers & Lybrand, now PricewaterhouseCoopers. Mr. Kreider holds a B.A. from Yale University and an M.B.A. from the Stanford Graduate School of Business.

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 Commercial Real Estate Women (CREW) and Retail Network 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 B. Richey joined the Company in 1998 as Vice President of Development and Construction Services. Mr. Richey has been involved in the commercial real estate business for more than 25 years. He served as a City Planner & Economic Development Director for the City of Williamsport, PA, from 1980 through 1983. From 1983 to 1986, he was a Project Manager for Lundy Construction Company, a large commercial and industrial general contracting company, and Director of Acquisitions & Construction for Shawnee Management, Inc. From 1988 to 1996, Mr. Richey was a principal in two real estate companies specializing in the acquisition, development, redevelopment, and operations of hotels and commercial office buildings. From 1996 to 1998, he worked for Grove Associates, Inc., a Harrisburg, PA, area survey and engineering company, where he specialized in the land development plan approval process. Mr. Richey has served as an Economic Development consultant to the National Main Street Center, part of the National Trust for Historic Preservation, a past Board Member for the YMCA, and serves as a member of the Board of Trustees of the Harrisburg Area Community College. He is also a member of the International Council of Shopping Centers (ICSC) and the Urban Land Institute. Mr. Richey received a B.A from Lycoming College.

Brenda J. Walker has been a vice president of the Company since 1998, was a director from 1998 until June 2008, and was treasurer from April 1998 until November 1999. She was an executive officer since 1992 of the real estate management companies, and their respective predecessors and affiliates, which were merged into the Company in 2003. Ms. Walker has been involved in real estate-related finance, property and asset management for thirty years. Ms. Walker received a B.A. from Lincoln University.

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. 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.

Table of Contents

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 2008. While the Company intends to continue paying regular quarterly dividends, future dividend declarations will continue to 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. On January 28, 2009, the Company s Board of Directors declared a dividend of $0.1125 per share, an annual rate of $0.45 per share. The decision by our Board of Directors to reduce the dividend at this time is in response to the current state of the economy, the difficult retail environment and the constrained capital markets.

Market Information

The Company had 44,468,000 shares of common stock outstanding held by approximately 400 shareholders of record at December 31, 2008. The Company believes it has more than 10,000 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, (i) the high, low, and closing prices of the Company s common stock, and (ii) dividends paid:

Quarter ended	Market price range			Dividends
2008	High	Low	Close	paid
March 31	$12.60	$ 9.42	$11.68	$0.225
June 30	13.12	11.60	11.72	0.225
September 30	14.02	10.44	13.22	0.225
December 31	13.58	3.66	7.08	0.225
2007				
March 31	$16.99	$15.47	$16.20	$0.225
June 30	16.75	13.84	14.35	0.225
September 30	14.70	11.91	13.62	0.225
December 31	14.38	10.04	10.23	0.225

Stockholder Return Performance Presentation

The following line graph sets forth for the period January 1, 2004 through December 31, 2008 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.

Table of Contents

	As Of			*Year Ending*		
Index	**01/01/04**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
Cedar Shopping Centers, Inc.	100.00	122.89	128.84	154.62	105.99	79.64
Russell 2000	100.00	118.33	123.72	146.44	144.15	95.44
NAREIT All Equity REIT Index	100.00	131.58	147.58	199.32	168.05	104.65

Table of Contents

Item 6. Selected Financial Data

	Years ended December 31,				
perations data:	**2008**	**2007**	**2006**	**2005**	**2004**
otal revenues	$174,480,000	$154,448,000	$126,492,000	$ 78,941,000	$ 51,078,00
xpenses:					
operty operating expenses	49,511,000	41,123,000	35,220,000	22,263,000	15,623,00
eneral and administrative	9,441,000	9,041,000	6,086,000	5,132,000	3,575,00
epreciation and amortization	49,802,000	42,160,000	34,883,000	20,606,000	11,376,00
otal expenses	108,754,000	92,324,000	76,189,000	48,001,000	30,574,00
perating income	65,726,000	62,124,000	50,303,000	30,940,000	20,504,00
on-operating income and expense:					
terest expense, including amortization of deferred nancing costs	(45,957,000)	(39,529,000)	(34,225,000)	(16,249,000)	(11,264,00
terest income	284,000	788,000	641,000	91,000	66,00
quity in income of unconsolidated joint venture	956,000	634,000	70,000		
ain on sale of interest in unconsolidated joint venture			141,000		
otal non-operating income and expense	(44,717,000)	(38,107,000)	(33,373,000)	(16,158,000)	(11,198,00
come before minority and limited partners interests	21,009,000	24,017,000	16,930,000	14,782,000	9,306,00
inority interests in consolidated joint ventures	(2,157,000)	(1,415,000)	(1,202,000)	(1,270,000)	(1,229,00
mited partners interest in Operating Partnership	(477,000)	(633,000)	(393,000)	(299,000)	(157,00
et income	18,375,000	21,969,000	15,335,000	13,213,000	7,920,00
eferred distribution requirements	(7,877,000)	(7,877,000)	(7,877,000)	(7,186,000)	(2,218,00
et income applicable to common shareholders	$ 10,498,000	$ 14,092,000	$ 7,458,000	$ 6,027,000	$ 5,702,00
r common share:					
asic	$ 0.24	$ 0.32	$ 0.23	$ 0.25	$ 0.3
luted	$ 0.24	$ 0.32	$ 0.23	$ 0.25	$ 0.3
ividends to common shareholders	$ 40,027,000	$ 39,775,000	$ 29,333,000	$ 20,844,000	$ 13,750,00
r common share	$ 0.90	$ 0.90	$ 0.90	$ 0.90	$ 0.83
eighted average number of common shares outstanding:					
asic	44,475,000	44,193,000	32,926,000	23,988,000	16,681,00

iluted	44,475,000	44,197,000	33,055,000	24,031,000	16,684,00

23

Table of Contents

Item 6. Selected Financial Data (continued)

	December 31,				
	2008	2007	2006	2005	2004
Balance sheet data:					
Real estate, net	$1,634,981,000	$1,492,276,000	$1,175,494,000	$ 946,457,000	$ 505,325,000
Land and related costs held for sale	2,266,000	2,652,000	2,324,000		
Investment in unconsolidated joint venture	4,976,000	3,757,000	3,644,000		
Other assets	84,905,000	96,299,000	70,257,000	49,799,000	31,835,000
Total assets	$1,727,128,000	$1,594,984,000	$1,251,719,000	$ 996,256,000	$ 537,160,000
Mortgages and other loans payable	$1,013,473,000	$ 851,514,000	$ 568,073,000	$ 527,791,000	$ 248,630,000
Other liabilities	107,932,000	97,225,000	70,595,000	44,405,000	34,239,000
Minority interests in consolidated joint ventures	58,150,000	62,402,000	9,132,000	12,339,000	11,995,000
Limited partners interest in Operating Partnership	23,546,000	25,689,000	25,969,000	20,586,000	6,542,000
Shareholders equity	524,027,000	558,154,000	577,950,000	391,135,000	235,754,000
Total liabilities and shareholders equity	$1,727,128,000	$1,594,984,000	$1,251,719,000	$ 996,256,000	$ 537,160,000
Weighted average number of common shares:					
Shares used in determination of basic earnings per share	44,475,000	44,193,000	32,926,000	23,988,000	16,681,000
Additional shares assuming conversion of OP Units (basic)	2,024,000	1,985,000	1,737,000	1,202,000	450,000
Shares used in determination of basic FFO per share	46,499,000	46,178,000	34,663,000	25,190,000	17,131,000
Shares used in determination of diluted earnings per share	44,475,000	44,197,000	33,055,000	24,031,000	16,684,000
Additional shares assuming conversion of OP Units (diluted)	2,024,000	1,990,000	1,747,000	1,206,000	450,000
Shares used in determination of diluted FFO per share	46,499,000	46,187,000	34,802,000	25,237,000	17,134,000

Other data:					
Funds From Operations (FFO) (a)	$ 56,859,000	$ 56,190,000	$ 41,954,000	$ 25,923,000	$ 15,625,000
Per common share (assuming conversion of OP Units):					
Basic	$ 1.22	$ 1.22	$ 1.21	$ 1.03	$ 0.91
Diluted	$ 1.22	$ 1.22	$ 1.21	$ 1.03	$ 0.91
Cash flows provided by (used in):					
Operating activities	$ 59,370,000	$ 51,504,000	$ 40,286,000	$ 25,334,000	$ 17,733,000
Investing activities	$ (150,927,000)	$ (192,432,000)	$ (190,105,000)	$ (323,225,000)	$ (167,499,000)
Financing activities	$ 77,584,000	$ 143,350,000	$ 159,103,000	$ 298,035,000	$ 152,069,000
Square feet of GLA	12,147,000	12,009,000	10,061,000	8,442,000	4,887,000
Percent leased (including development/redevelopment and other non-stabilized properties)	92%	93%	93%	91%	88%
Average annualized base rent per leased square foot	$ 11.03	$ 10.74	$ 10.53	$ 10.40	$ 10.61

(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 adjusted FFO-based measure (i) as a criterion to determine performance-based bonuses for members of senior management, (ii) in performance comparisons with other shopping center REITs, and (iii) to measure compliance with certain financial covenants under the terms of the Loan Agreements relating to the Company s credit facilities. 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.

Table of Contents

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 real estate investment trust which focuses primarily on ownership, operation, development and redevelopment of supermarket-anchored shopping centers in mid-Atlantic and Northeast coastal states. At December 31, 2008, the Company had a portfolio of 121 operating properties totaling approximately 12.1 million square feet of gross leasable area (GLA), including 111 wholly-owned properties comprising approximately 10.9 million square feet and ten properties owned in joint venture comprising approximately 1.2 million square feet. The entire 121 property portfolio was approximately 92% leased at December 31, 2008; the 113 property stabilized portfolio (including properties wholly-owned and in joint venture) was approximately 95% leased at that date. The Company also owned 398 acres of land parcels, a significant portion of which is under development. In addition, the Company has a 76.3% interest in an unconsolidated joint venture which owns a single-tenant office property in Philadelphia, Pennsylvania.

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, 2008, 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 that, because of the need of consumers to purchase food and other staple goods and services generally available at such centers, its type of necessities -based properties should provide relatively stable revenue flows even during difficult economic times. In January 2009, the Company s Board of Directors reduced the quarterly dividend payable in February by one-half to an annual rate of $0.45 per share, an annual saving of approximately $21 million. This decision was in response to the current state of the economy, the difficult retail environment and the constrained capital markets.

The Company has historically sought opportunities to acquire properties suited for development and/or redevelopment, and, to a lesser extent than in the recent past, stabilized properties, 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 expects to substantially reduce these activities in the foreseeable future in view of current economic conditions.

In May 2007, the Company decided to dispose of Stadium Plaza, located in East Lansing, Michigan. The property, with 78,000 sq. ft. of GLA, was marketed and, in accordance with SFAS No. 144, the carrying value of the property s assets (principally the net book value of the real estate) was classified as held for sale in the Company s consolidated financial statements. In May 2008, the Company reconsidered its decision to

Table of Contents

sell the property and, as a result, the property has been reclassified as held and used . For all periods presented, the property is no longer included in properties held for sale or discontinued operations .

In April 2008, Value City, the only tenant at the Value City Shopping center, vacated its premises at the end of the lease term. In keeping with the Company s redevelopment plans for the property, the vacant building was subsequently razed and the Company took a one-time depreciation charge of $1.9 million. The property has been reclassified as land for projects under development, expansion and/or future development , and is no longer included as one of the Company s operating properties. During the fourth quarter of 2008, the Company wrote off, principally in general and administrative expenses, approximately $1.1 million of costs related to terminated transactions or developments, principally a land parcel held for development in Ephrata, Pennsylvania ($450,000) and the cancelation of a proposed second joint venture with Homburg Invest Inc. ($203,000).

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 straight-line rents receivable on the consolidated balance sheet. Leases also generally contain provisions under which the tenants reimburse the Company for a portion of property operating expenses and real estate taxes incurred; such income is recognized in the periods earned. In addition, certain operating leases contain contingent rent provisions under which tenants are required to pay a percentage of their sales in excess of a specified amount as additional rent. The Company defers recognition of contingent rental income until those specified targets are met.

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

Real Estate Investments

Real estate investments are carried at cost less accumulated depreciation. The provision for depreciation is calculated using the straight-line method based on estimated useful lives. Expenditures for

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

The Company s capitalization policy on its development and redevelopment properties is guided by SFAS No. 34, Capitalization of Interest Cost and SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects . A variety of costs are incurred in the acquisition, development and leasing of a property, such as pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs, and other costs incurred during the period of development. After a determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. The Company ceases capitalization on the portions substantially completed and occupied, or held available for occupancy, and capitalizes only those costs associated with the portions under construction. The Company considers a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but not later than one year from cessation of major construction activity. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The effect of a longer capitalization period would be to increase capitalized costs and would result in higher net income, whereas the effect of a shorter capitalization period would be to reduce capitalized costs and would result in lower net income.

The Company applies SFAS No. 141, Business Combinations , and SFAS No. 142, Goodwill and Other Intangibles , in valuing real estate acquisitions. In connection therewith, the fair value of real estate acquired is allocated to land, buildings and improvements. In addition, the fair value of in-place leases is allocated to intangible lease assets and liabilities. The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, which value is then allocated to land, buildings and improvements based on management s determination of the relative fair values of such assets. In valuing an acquired property s intangibles, factors considered by management include an estimate of carrying costs during the expected lease-up periods, such as real estate taxes, insurance, other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on its evaluation of current market demand. Management also estimates costs to execute similar leases, including leasing commissions, tenant improvements, legal and other related costs. The principal impact of the adoption of SFAS No. 141R, Business Combinations a replacement of FASB Statement No. 141 (effective January 1, 2009), on the Company s financial statements will be that the Company will expense most transaction costs relating to its acquisition activities. The amount of transaction costs deferred at December 31, 2008 that the Company will expense in the quarter ending March 31, 2009 was approximately $0.2 million.

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 a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received and management s estimate of market lease rates, measured over the non-cancelable terms of the respective leases. The value of other intangibles is amortized to expense, and the above-market and below-market lease values are amortized to rental income, over the remaining non-

cancelable terms of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be recognized in operations at that time.

Management is required to make subjective assessments in connection with its valuation of real estate acquisitions. These assessments have a direct impact on net income, because (i) above-market and below-market lease intangibles are amortized to rental income, and (ii) 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 estimates of cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If an impairment event exists due to the projected inability to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds estimated fair value. A real estate investment held for sale is carried at the lower of its carrying amount or estimated fair value, less the cost of a potential sale. Depreciation and amortization are suspended during the period the property is held for sale. Management is required to make subjective assessments as to whether there are impairments in the value of its real estate properties. These assessments have a direct impact on net income, because an impairment loss is recognized in the period that the assessment is made.

Stock-Based Compensation

SFAS No. 123R, Share-Based Payments , establishes 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 defines a fair value-based method of accounting for an employee stock option or similar equity instrument.

The Company s 2004 Stock Incentive Plan (the Incentive Plan) provides for the granting of incentive stock options, stock appreciation rights, restricted shares, performance units and performance shares. The maximum number of shares of the Company s common stock that may be issued pursuant to the Incentive Plan, as amended, is 2,750,000, and the maximum number of shares that may be granted to a participant in any calendar year is 250,000. Substantially all grants issued pursuant to the Incentive Plan are restricted stock grants which specify vesting (i) upon the third anniversary of the date of grant for time-based grants, or (ii) 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, whereas 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, as adjusted for fluctuations in the market value of the Company s common stock, in accordance with the provisions of EITF No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested .

Table of Contents

Results of Operations

Differences in results of operations between 2008 and 2007, and between 2007 and 2006, respectively, were primarily the result of the Company s property acquisition program and continuing development/redevelopment activities. During the period January 1, 2007 through December 31, 2008, the Company acquired 24 shopping and convenience centers aggregating approximately 2.2 million sq. ft. of GLA, purchased the joint venture minority interests in four properties, and acquired approximately 200 acres of land for development, expansion and/or future development, for a total cost of approximately $116.5 million. In addition, the Company placed into service two ground-up developments having an aggregate cost of approximately $6.3 million. Income before minority and limited partners interests and preferred distribution requirements was $21.0 million in 2008 as compared with $24.0 million in 2007 and $16.9 in 2006.

Comparison of 2008 to 2007

	2008	2007	Increase	Percentage change	Acquisitions and other (ii)	Properties held in both years
Total revenues	$174,480,000	$154,448,000	$20,032,000	13%	$23,093,000	$(3,061,000)
Property operating expenses	49,511,000	41,123,000	8,388,000	20%	7,222,000	1,166,000
Depreciation and amortization	49,802,000	42,160,000				