FORMFACTOR INC
Form 424B5
March 03, 2006

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Filed pursuant to Rule 424(b)(5). A filing fee of $24,677.68, calculated in accordance with Rule 457(r), has been transmitted to the SEC in connection with the shares of common stock offered by means of this prospectus supplement and the accompanying prospectus from the registration statement filed March 3, 2006. The proposed maximum aggregate offering price has been calculated as 5,750,000 shares (which includes shares of common stock that may be purchased by the underwriters pursuant to their option to purchase additional shares) multiplied by $40.11 per share, the last reported sale price of our common stock on The Nasdaq National Market on March 2, 2006. This paragraph shall be deemed to update the "Calculation of Registration Fee" table in the registration statement referred to in the second sentence above.

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not offers to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated March 3, 2006.

Prospectus Supplement to Prospectus dated March 3, 2006.

5,000,000 Shares

Common Stock

We are selling 5,000,000 shares of our common stock in this offering.

Our common stock is quoted on The Nasdaq National Market under the symbol "FORM." The last reported sale price of our common stock on March 2, 2006 was $40.11 per share.

See "Risk Factors" beginning on page S-6 of this prospectus supplement to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to FormFactor.	$	$

To the extent that the underwriters sell more than 5,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 750,000 shares from us at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on March , 2006.

Goldman, Sachs & Co. **Morgan Stanley**

Citigroup **Thomas Weisel Partners LLC**

Prospectus Supplement dated March , 2006.

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information, some of which may not apply to this offering. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, on the other hand, you should rely on the information in this prospectus supplement.

Unless the context otherwise requires, all references in this prospectus supplement to "FormFactor," "the company," "we," "us," "the Registrant," "our," or similar words are to FormFactor, Inc. and its subsidiaries.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus provided in connection with this offering. Neither we nor the underwriters have authorized anyone to provide you with any information other than the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus provided in connection with this offering. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement, the accompanying prospectus or any free writing prospectus, or of any sale of our shares of common stock. It is important for you to read and consider all the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision.

PROSPECTUS SUPPLEMENT SUMMARY

You should read the following summary together with the entire prospectus supplement and the accompanying prospectus, including the more detailed information in our consolidated financial statements and related notes appearing elsewhere in or incorporated by reference into this prospectus supplement and the accompanying prospectus. You should carefully consider, among other things, the matters discussed in "Risk Factors."

FORMFACTOR, INC.

We design, develop, manufacture, sell and support precision, high performance, advanced semiconductor wafer probe cards. Semiconductor manufacturers use our wafer probe cards to perform wafer test in the final stage of the semiconductor front-end manufacturing process. Semiconductor designs change frequently due to new device introductions, architecture changes and technology transitions, and our wafer probe cards are custom-designed for each manufacturer's unique semiconductor designs. We sell and support our products worldwide through our direct sales force, a distributor and an independent sales representative to leading global semiconductor manufacturers of dynamic random access memory, or DRAM, flash memory and logic semiconductor devices.

We are a market leader in wafer probe cards in terms of innovation, technology and revenue. Our key competitive differentiators include:

- our commitment to research and development;
- our leading proprietary technologies, including our MicroSpring interconnect technology, our mechanical probe card architecture, our proprietary design processes and design automation, and the breadth of our intellectual property portfolio;
- our manufacturing expertise and capabilities, including our proprietary processes for micro-electro-mechanical systems, or MEMS, and our new state-of-the-art manufacturing facility; and
- our ability to deliver, service, support and apply highly reliable products that offer both increased throughput and yield, enabling our customers to reduce their overall cost of test.

We believe our market opportunities are growing. The continuing proliferation of consumer electronic devices and the increasing use of memory to store digital content and to support new software applications are driving growth in the DRAM and flash memory markets. Semiconductor manufacturers are also implementing new semiconductor applications, such as mobile RAM, technology transitions, and architecture transitions at a significant rate, resulting in a dramatic increase in wafer probe card demand. The trend toward stacked die and multi-chip applications is increasing semiconductor back-end manufacturing process costs and the costs associated with defective devices. Consequently, semiconductor manufacturers are compelled to find ways to manage their costs. This need to reduce the overall cost of packaging and test has contributed to the migration of tests traditionally performed on individually packaged devices at the back end to the wafer level. This migration also requires the use of advanced, high-performance wafer probe cards and the introduction of new, differentiated products.

The continued evolution of semiconductor technology, including the move toward smaller geometries and larger wafers has pushed conventional, manually-assembled wafer probe card technologies to their practical performance limits. This evolution, when combined with semiconductor manufacturers' need to reduce their costs of test, places considerable challenges on wafer probe cards. These challenges include the need to scale to high parallelism wafer test, to achieve increased signal fidelity and to contact die with a low force, predictable contact on shrinking bond pad sizes and pitches over a wide range of test temperatures. While conventional wafer probe cards address some of these test requirements, no conventional technology solves all of them.

Our MicroSpring interconnect technology and proprietary design tools and technologies address the changing needs of the semiconductor market and solve the limitations of conventional wafer probe cards. We differentiate our wafer probe card products and solutions by providing:

- a high degree of parallelism that enables customers to test a significant number of chips at the same time in a single touchdown, reducing total wafer test time and capital expenditures and lowering the cost of test;
- superior signal integrity, enabling customers to achieve higher yields through greater test accuracy and reduced "false fails";
- automated micro-machining and semiconductor-like wafer fabrication processes that enable us to scale our products to shrinking semiconductor geometries; and
- thermal compensation to permit wafer probe testing over a wide range of temperatures.

We believe these advanced features will also enable our customers to perform more advanced test functions at the wafer-level, such as high-frequency testing and burn-in testing, which identifies defective devices earlier in the manufacturing process and product cycle, as contrasted with performing these tests on individual devices in the back-end.

Our objective is to be a mission critical partner to the semiconductor industry and to help drive the success of our customers. The principal elements of our strategy include:

- investing in innovation to develop new product architectures and technologies to maintain or widen our technology leadership position;
- applying our core MicroSpring interconnect technologies to existing test requirements and to the emerging trend to migrate additional test functions to the wafer-level;
- building on our leadership position in wafer probe cards and solutions for DRAM devices by incorporating new architectures and technologies into our product offerings;
- expanding our presence in the flash memory market by incorporating into products our new single touchdown, high parallelism HARMONY architecture and newly developed MicroSpring interconnect technologies; and
- increasing our penetration into the logic market by expanding the applications for our technology and our customer base.

We were incorporated in Delaware in 1993. Our principal executive offices are located at 7005 Southfront Road, Livermore, California 94551, where our telephone number is (925) 290-4000. Our web address is www.formfactor.com. The information on our website does not constitute part of this prospectus supplement.

FormFactor, the FormFactor logo, MicroSpring and HARMONY are trademarks of FormFactor in the United States and other countries. All other trademarks, trade names or service marks appearing in this prospectus supplement are the property of their respective owners.

THE OFFERING

Common stock offered	5,000,000 shares
Common stock to be outstanding after this offering	45,236,686 shares
Use of proceeds	We intend to use the net proceeds from this offering to increase our manufacturing capacity, for working capital and for general corporate purposes. We may also use a portion of the proceeds to fund acquisitions of products, technologies or businesses or to obtain the right to use additional technologies. Pending such uses, we may invest the proceeds in certificates of deposit, United States government securities or certain other interest-bearing securities.
Nasdaq National Market symbol	FORM

The number of shares of our common stock to be outstanding immediately after this offering is based on 40,236,686 shares of our common stock outstanding on December 31, 2005, and excludes:

- 6,643,359 shares of common stock issuable upon exercise of options outstanding with a weighted average exercise price of $16.91 per share;
- 3,306,179 shares of common stock available for future issuance under our equity incentive plan, excluding the automatic future annual increases in the number of shares authorized under this plan; and
- 2,086,160 shares of common stock available for future issuance under our employee stock purchase plan, excluding the automatic future annual increases in the number of shares authorized under this plan.

Unless otherwise indicated, all information in this prospectus supplement assumes that the underwriters do not exercise their option to purchase additional shares.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables provide summary consolidated financial data and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes incorporated by reference herein from our Annual Report filed on Form 10-K for the year ended December 31, 2005.

	Year Ended				
	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003	Dec. 28, 2002	Dec. 29, 2001
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$ 237,495	$ 177,762	$ 98,302	$ 78,684	$ 73,433
Cost of revenues	129,623	90,159	49,929	39,456	38,385
Stock-based compensation	479	626	612	426	73
Gross margin	107,393	86,977	47,761	38,802	34,975
Total operating expenses	72,092	50,864	37,163	33,636	35,100
Operating income (loss)	35,301	36,113	10,598	5,166	(125)
Interest and other income, net	3,191	2,950	1,566	642	477
Net income	30,182	25,178	7,515	9,366	45
Net income (loss) available to common stockholders	$ 30,182	$ 25,178	$ 5,165	$ 615	$ (4,785)
Net income (loss) per share available to common stockholders:					
Basic	$ 0.76	$ 0.67	$ 0.25	$ 0.14	$ (1.19)
Diluted	$ 0.73	$ 0.63	$ 0.19	$ 0.10	$ (1.19)
Weighted-average number of shares used in per-share calculations:					
Basic	39,547	37,647	21,012	4,413	4,032
Diluted	41,590	40,054	29,280	5,906	4,032

	December 31, 2005	
	Actual	As Adjusted*
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash, cash equivalents and marketable securities	$ 211,608	$ 404,136
Working capital	232,110	424,638
Total assets	381,361	573,889
Total debt		
Deferred stock-based compensation, net	(2,495)	(2,495)
Total stockholders' equity	317,789	510,317

*

As adjusted consolidated balance sheet data is adjusted to give effect to the issuance by us of 5,000,000 shares of our common stock, after deducting underwriting discounts and commissions and estimated offering expenses at an estimated public offering price of

$40.11 per share, and the application of the net proceeds therefrom. A $1.00 increase or decrease in the assumed public offering price of $40.11 per share would increase or decrease each of cash, cash equivalents and short-term investments, working capital, total assets and total stockholders' equity by $4.8 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. You should also refer to the other information in the accompanying prospectus, including the risk factors and financial statements included in our Annual Report filed on Form 10-K for the year ended December 31, 2005, which is incorporated by reference in the accompanying prospectus. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Related to Our Business

Our operating results are likely to fluctuate, which could cause us to miss expectations about these results and cause the trading price of our common stock to decline.

Our operating results are likely to fluctuate. As a result, we believe you should not rely on period-to-period comparisons of our financial results as indicators of our future performance. Some of the important factors that could cause our revenues and operating results to fluctuate from period-to-period include:

- customer demand for our products;
- our ability to deliver reliable, cost-effective products in a timely manner;
- the reduction, rescheduling or cancellation of orders by our customers;
- the timing and success of new product introductions and new technologies by our competitors and us;
- our product and customer sales mix and geographical sales mix;
- changes in the level of our operating expenses needed to support our anticipated growth;
- a reduction in the price or the profitability of our products;
- changes in our production capacity or the availability or the cost of components and materials;
- our ability to bring new products into volume production efficiently;
- our ability to add manufacturing capacity and to stabilize production yields and ramp production volume;
- our ability to efficiently expand the capacity of our new manufacturing facility;
- any disruption in the operation of our manufacturing facility;
- our relationships with customers and companies that manufacture semiconductor test equipment;

the timing of and return on our investments in research and development;

our ability to collect accounts receivable;

seasonality, principally due to our customers' purchasing cycles; and

market conditions in our industry, the semiconductor industry and the economy as a whole.

The occurrence of one or more of these factors might cause our operating results to vary widely. If our revenues or operating results fall below the expectations of market analysts or investors, the market price of our common stock could decline substantially.

Cyclicality in the semiconductor industry historically has affected our sales and might do so in the future, and as a result we could experience reduced revenues or operating results.

The semiconductor industry has historically been cyclical and is characterized by wide fluctuations in product supply and demand. From time to time, this industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product and technology cycles, excess inventories and declines in general economic conditions. This cyclicality could cause our operating results to decline dramatically from one period to the next. For example, our revenues in the three months ended September 29, 2001 declined by 25.5% compared to our revenues in the three months ended June 30, 2001, and our revenues in the three months ended March 29, 2003 declined by 15.7% compared to our revenues in the three months ended December 28, 2002. Our business depends heavily upon the development of new semiconductors and semiconductor designs, the volume of production by semiconductor manufacturers and the overall financial strength of our customers, which, in turn, depend upon the current and anticipated market demand for semiconductors and products, such as personal computers, cell phones and personal electronic devices, that use semiconductors. Semiconductor manufacturers generally sharply curtail their spending during industry downturns and historically have lowered their spending disproportionately more than the decline in their revenues. As a result, if we are unable to adjust our levels of manufacturing and human resources or manage our costs and deliveries from suppliers in response to lower spending by semiconductor manufacturers, our gross margin might decline and cause us to experience operating losses.

If we are unable to manufacture our products efficiently, our operating results could suffer.

We must continuously modify our manufacturing processes in an effort to improve yields and product performance, lower our costs and reduce the time it takes for us to design and manufacture our products. We also may be subject to events that negatively affect our manufacturing processes and impact our business and operating results. For example, during our fiscal quarter ended December 25, 2004, we experienced a contamination problem in our manufacturing line. This contamination problem caused a yield decline that, in turn, resulted in our inability to timely ship products to our customers. We have incurred substantial costs, and may incur additional costs as we increase capacity and yields at our new manufacturing facility, which could negatively impact our gross margin. Similar start up costs and negative impact may occur if we modify our manufacturing processes to implement new manufacturing technologies, methods and processes and purchase new equipment. We could experience manufacturing delays and inefficiencies as we pursue increased capacity and yields at our new manufacturing facility, and when we refine new manufacturing technologies, methods and processes, implement them in volume production and qualify them with customers, which could cause our operating results to decline. The risk of encountering delays or difficulties increases as we manufacture more complex products. In addition, if demand for our products continues to increase, we will need to further expand our operations to manufacture sufficient quantities of products without increasing our production times or our unit costs. As a result of such expansion, we could be required to purchase new equipment, upgrade existing equipment, develop and implement new manufacturing processes and hire additional technical personnel. Further, new or expanded manufacturing facilities could be subject to qualification by our customers. We have experienced and may continue to experience certain difficulties in expanding our operations to manufacture our products in volume on time and at acceptable cost. For example, despite recently bringing on line our new manufacturing facility, we are experiencing difficulties in fulfilling all of our customers' orders in a timely fashion. This increases our vulnerability to our competitors and increases the likelihood that our customers will seek solutions from other suppliers or to develop solutions themselves. Any continued difficulties in expanding our manufacturing operations could cause additional product delivery delays and lost sales. If demand for our products decreases, we could have excess manufacturing capacity. The fixed costs associated with excess manufacturing capacity could cause our operating results to decline. If we are unable to achieve further manufacturing efficiencies and cost reductions, particularly if we are experiencing pricing pressures in the marketplace, our operating results could suffer.

If we do not innovate and keep pace with technological developments in the semiconductor industry, our products might not be competitive and our revenues and operating results could suffer.

We must continue to innovate and to invest in research and development to improve our competitive position and to meet the needs of our customers. Our future growth depends, in significant part, upon our ability to work effectively with and anticipate the testing needs of our customers, and on our ability to develop and support new products and product enhancements to meet these needs on a timely and cost-effective basis. Our customers' testing needs are becoming more challenging as the semiconductor industry continues to experience rapid technological change driven by the demand for complex circuits that are shrinking in size and at the same time are increasing in speed and functionality and becoming less expensive to produce. Examples of recent trends driving demand for technological research and development include semiconductor manufacturers' transitions to 110 nanometer, 100 nanometer, 90 nanometer, 80 nanometer and 70 nanometer technology nodes, to 512 megabit density devices, and to Double Data Rate II, or DDR II, architecture devices. By further example, the anticipated transition to Double Data Rate III, or DDR III, architecture devices will be a technological change for the semiconductor industry. Our customers expect that they will be able to integrate our wafer probe cards into any manufacturing process as soon as it is deployed. Therefore, to meet these expectations and remain competitive, we must continually design, develop and introduce on a timely basis new products and product enhancements with improved features. Successful product design, development and introduction on a timely basis require that we:

- design innovative and performance-enhancing product architectures, technologies and features that differentiate our products from those of our competitors;
- transition our products to new manufacturing technologies;
- identify emerging technological trends in our target markets;
- maintain effective marketing strategies;
- respond effectively to technological changes or product announcements by others; and
- adjust to changing market conditions quickly and cost-effectively.

We must devote significant research and development resources to keep up with the rapidly evolving technologies used in semiconductor manufacturing processes. Not only do we need the technical expertise to implement the changes necessary to keep our technologies current, but we must also rely heavily on the judgment of our management to anticipate future market trends. If we are unable to timely predict industry changes, or if we are unable to modify our products on a timely basis, we might lose customers or market share. In addition, we might not be able to recover our research and development expenditures, which could harm our operating results.

If semiconductor memory device manufacturers delay or discontinue the conversion to 300 mm wafers, our growth could be impeded.

The growth of our business for the foreseeable future depends in large part upon sales of our wafer probe cards to manufacturers of dynamic random access memory, or DRAM, and flash memory devices. The previous downturn in the semiconductor industry caused various chip manufacturers to readdress their respective strategies for converting existing 200 mm wafer fabrication facilities to 300 mm wafer fabrication, or for building new 300 mm wafer fabrication facilities. Some manufacturers have delayed, cancelled or postponed previously announced plans to convert to 300 mm wafer fabrication. We believe that the decision to convert to a 300 mm wafer fabrication facility, or to ramp a 300mm facility, is made by each manufacturer based upon both internal and external factors, such as:

- current and projected chip prices;
- projected price erosion for the manufacturer's particular chips;
- supply and demand issues;
- overall manufacturing capability within the manufacturer's target market(s);
- the availability of funds to the manufacturer;
- the technology roadmap of the manufacturer; and
- the price and availability of equipment needed within the 300 mm facility.

One or more of these internal and external factors, as well as other factors, including factors that a manufacturer may choose to not publicly disclose, can impact the decision to maintain a 300 mm conversion schedule, to delay the conversion schedule for a period of time, to delay the actual full scale production of chips at a 300 mm facility, or to cancel the conversion to or building of a 300 mm facility. It is also possible that the conversion to 300 mm wafers will occur on different schedules for DRAM chip manufacturers and flash memory chip manufacturers. We have invested significant resources to develop technology that addresses the market for 300 mm wafers. If manufacturers of memory devices delay or discontinue their current 300 mm wafer conversion, or make the transition more slowly than we currently expect, our growth and profitability could be impeded. In addition, any delay in large-scale adoption of manufacturing based upon 300 mm wafers would provide time for other companies to develop and market products that compete with ours, which could harm our competitive position.

We depend upon the sale of our wafer probe cards for substantially all of our revenues, and a downturn in demand for our products could have a more disproportionate impact on our revenues than if we derived revenues from a more diversified product offering.

Historically, we have derived substantially all of our revenues from the sale of our wafer probe cards. We anticipate that sales of our wafer probe cards will represent a substantial majority of our revenues for the foreseeable future. Our business depends in large part upon continued demand in current markets for, and adoption in new markets of, current and future generations of our wafer probe cards. Large-scale market adoption depends upon our ability to increase customer awareness of the benefits of our wafer probe cards and to prove their reliability, ability to increase yields and cost effectiveness. We may be unable to sell our wafer probe cards to certain potential customers unless those customers change their device test strategies, change their wafer probe card and capital equipment buying strategies, or change or upgrade their existing test equipment. We might not be able to sustain or increase our revenues from sales of our wafer probe cards, particularly if conditions in the semiconductor market deteriorate or do not improve or if the market enters into another downturn in the future. Any decrease in revenues from sales of our wafer probe cards could harm our business more than it would if we offered a more diversified line of products.

If demand for our products in the memory device and flip chip logic device markets declines or fails to grow as we anticipate, our revenues could decline.

We derive substantially all of our revenues from wafer probe cards that we sell to manufacturers of DRAM memory and flash memory devices and manufacturers of microprocessor, chipset and other logic devices. In the microprocessor, chipset and other logic device markets, our products are primarily used for devices employing flip chip packaging, which are commonly referred to as flip chip logic devices. In fiscal 2005 and fiscal 2004, sales to manufacturers of DRAM devices accounted for 76.9% and 69.0%, respectively, of our revenues, sales to manufacturers of logic devices accounted for 9.7% and 8.1%, respectively, of our revenues, and sales to manufacturers of flash memory devices accounted for 13.3% and 21.9%, respectively, of our revenues. Therefore, our success depends in part upon the continued acceptance of our products within these markets and our ability to continue to develop and introduce new products on a timely basis for these markets. In particular, to continue to grow our business, we need to further penetrate the flash memory market and to gain additional market share with manufacturers in this market. To the extent that we are unable to do so, our ability to grow could suffer.

A substantial portion of these semiconductor devices is sold to manufacturers of personal computers and computer-related products and to manufacturers of personal electronic devices. Both the personal computer market and the personal electronic devices market have historically been characterized by significant fluctuations in demand and continuous efforts to reduce costs, which in turn have affected the demand for and price of memory devices and microprocessors. The personal computer market and the personal electronic devices market might not grow in the future at historical rates or at all and design activity in those markets might decrease, which could negatively affect our revenues and operating results.

The markets in which we participate are competitive, and if we do not compete effectively, our operating results could be harmed.

The wafer probe card market is highly competitive. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. In the past, increased competition has resulted in price reductions, reduced gross margins or loss of market share, and could do so in the future. Competitors might introduce new competitive products for the same markets that our products currently serve. These products may have better performance, lower prices and broader acceptance than our products. In addition, for products such as wafer probe cards, semiconductor manufacturers typically qualify more than one source, to avoid dependence on a single source of supply. As a result, our customers will likely purchase products from our competitors. Current and potential competitors include AMST Co., Ltd., Cascade Microtech, Inc., Feinmetall GmbH, Japan Electronic Materials Corporation, SV Probe Inc., Micronics Japan Co., Ltd., Phicom Corporation, Tokyo Cathode Laboratory Co., Ltd. and Tokyo Electron, Ltd., among others. Certain of our current and potential competitors have greater name recognition, larger customer bases, more established customer relationships or greater financial, technical, manufacturing, marketing and other resources than we do. As a result, they might be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion, sale and support of their products, and reduce prices to increase market share. Some of our competitors also supply other types of test equipment, or offer both advanced wafer probe cards and needle probe cards. Those competitors that offer both advanced wafer probe cards and needle probe cards might have strong, existing relationships with our customers or with potential customers. Because we do not offer a needle probe card or other conventional technology wafer probe card for less advanced applications, it may be difficult for us to introduce our advanced wafer probe cards to these customers and potential customers for certain wafer test applications. It is possible that existing or new competitors, including test equipment manufacturers, may offer new technologies that reduce the value of our wafer probe cards.

We derive a substantial portion of our revenues from a small number of customers, and our revenues could decline significantly if any major customer cancels, reduces or delays a purchase of our products.

A relatively small number of customers has accounted for a significant portion of our revenues in any particular period. In fiscal 2005 and fiscal 2004, four customers accounted for 72.8% and 64.8%, respectively, of our revenues. Our ten largest customers accounted for 95.3% of our revenues in fiscal 2005 and 98.0% of our revenues in fiscal 2004. We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our revenues. The cancellation or deferral of even a small number of purchases of our products could cause our revenues to decline in any particular quarter. A number of factors could cause customers to cancel or defer orders, including manufacturing delays, interruptions to our customers' operations due to fire, natural disasters or other events or a downturn in the semiconductor industry. Our agreements with our customers do not contain minimum purchase commitments, and our customers could cease purchasing our products with short or no notice to us or fail to pay all or part of an invoice. In some situations, our customers might be able to cancel orders without a significant penalty. In addition, consolidation in the semiconductor industry, particularly among manufacturers of DRAM, could reduce our customer base and lead to lost or delayed sales and reduced demand for our wafer probe cards. Industry consolidation also could result in pricing pressures as larger DRAM manufacturers could have sufficient bargaining power to demand reduced prices and favorable nonstandard terms. Additionally, certain customers may not want to rely entirely or substantially on a single wafer probe card supplier and, as a result, such customers could reduce their purchases of our wafer probe cards.

If our relationships with our customers and companies that manufacture semiconductor test equipment deteriorate, our product development activities could be harmed.

The success of our product development efforts depends upon our ability to anticipate market trends and to collaborate closely with our customers and with companies that manufacture semiconductor test equipment. Our relationships with these customers and companies provide us with access to valuable information regarding manufacturing and process technology trends in the semiconductor industry, which enables us to better plan our product development activities. These relationships also provide us with opportunities to understand the performance and functionality requirements of our customers, which improve our ability to customize our products to fulfill their needs. Our relationships with test equipment companies are important to us because test equipment companies can design our wafer probe cards into their equipment and provide us with the insight into their product plans that allows us to offer wafer probe cards for use with their products when they are introduced to the market. Our relationships with our customers and test equipment companies could deteriorate if they:

- become concerned about our ability to protect their intellectual property;
- become concerned with our ability to deliver quality products on a timely basis;
- develop their own solutions to address the need for testing improvement;
- implement chip designs that include enhanced built-in self-test capabilities;
- regard us as a competitor;
- introduce their own wafer probe card product;

- establish relationships with others in our industry; or

- attempt to restrict our ability to enter into relationships with their competitors.

Many of our customers and the test equipment companies we work with are large companies. The consequences of a deterioration in our relationship with any of these companies could be exacerbated due to the significant influence these companies can exert in our markets. If our current relationships with our customers and test equipment companies deteriorate, or if we are unable to develop similar collaborative relationships with important customers and test equipment companies in the future, our long-term ability to produce commercially successful products could be impaired.

Because we generally do not have a sufficient backlog of unfilled orders to meet our quarterly revenue targets, revenues in any quarter are substantially dependent upon customer orders received and fulfilled in that quarter.

Our revenues are difficult to forecast because we generally do not have a sufficient backlog of unfilled orders to meet our quarterly revenue targets at the beginning of a quarter. Rather, a substantial percentage of our revenues in any quarter depends upon customer orders for our wafer probe cards that we receive and fulfill in that quarter. Because our expense levels are based in part on our expectations as to future revenues and to a large extent are fixed in the short term, we might be unable to adjust spending in time to compensate for any unexpected shortfall in revenues. Accordingly, any significant shortfall of revenues in relation to our expectations could hurt our operating results.

We presently rely upon a distributor for a portion of our revenues, and any disruption or other change in our relationship with our distributor could have a negative impact on our revenues.

Spirox Corporation, our distributor in Singapore, Philippines, Malaysia and China, and our distributor in Taiwan through October 17, 2005, provides a portion of our revenues. Sales to Spirox in fiscal 2005 and fiscal 2004 accounted for 23.0% and 20.0%, respectively, of our revenues. Spirox also provides customer support. The reduction in the sales or service efforts or financial viability of our distributor, or deterioration in, or termination of, any part of our relationship with our distributor could harm our revenues, our operating results and our ability to support our customers in the distributor's territory. In addition, if we are required to establish alternative sales channels in the region through a different distributor or through an independent sales representative, or if we make the decision to sell direct into the region as we, for example, have undertaken in Taiwan, it could consume substantial time and resources, decrease our revenues and increase our expenses.

If our relationship with our independent sales representative changes, our business could be harmed.

We currently rely on one independent sales representative to assist us in the sale of our products in parts of Europe. If we make the business decision to terminate or modify our relationship with our independent sales representative or with any future independent sales representative, or if an independent sales representative decides to disengage from us, and we do not effectively and efficiently manage such a change, we could lose sales from existing customers and fail to obtain new customers.

We have transitioned to a direct sales model in Taiwan and certain regions in Europe. If we are unable to successfully transition to the direct sales model, we could lose customers or fail to obtain new customers and consequently, negatively impact sales of our products in these regions.

Until October 17, 2005, we relied upon Spirox Corporation to sell our products in Taiwan. We have hired sales personnel in Taiwan and will now rely upon our direct sales force to generate sales in this market. Sales to Spirox in Taiwan, as well as the other jurisdictions in which it operated, constituted 23.0% of our revenues in fiscal 2005 and 20.0% in fiscal 2004. While Spirox continues to serve as our distributor in Singapore, Philippines, Malaysia and China, a significant percentage of their sales on our behalf in recent years occurred in Taiwan. As a result of our transition to a direct sales model in Taiwan, our distributor may reduce their efforts on our behalf in these other markets and our sales in these markets may suffer. In 2005 we also concluded our relationship with an independent sales representative in Europe, who was responsible for certain geographic areas. If we are unable to successfully transition to the direct sales model in Taiwan or these European regions or if the transition takes longer than we anticipate, we could lose customers and fail to obtain new customers in these markets. Any difficulties as a result of these transitions could hurt our reputation and sales in these markets.

If semiconductor manufacturers do not migrate elements of final test to wafer probe test, market acceptance of other applications of our technology could be delayed.

We intend to work with our customers to migrate elements of final test from the device level to the wafer level. This migration will involve a change in semiconductor test strategies from concentrating final test at the individual device level to increasing the amount of test at the wafer level. Semiconductor manufacturers typically take time to qualify new strategies that affect their testing operations. As a result, general acceptance of wafer-level final test might not occur in the near term or at all. In addition, semiconductor manufacturers might not accept and use wafer-level final test in a way that uses our technology. If the migration of elements of final test to wafer probe test does not grow as we anticipate, or if semiconductor manufacturers do not adopt our technology for their wafer probe test requirements, market acceptance of other applications for our technology could be delayed. In addition, if various manufacturers do not elect to invest in wafer test technology enabling the identification of known good die, or KGD, or if the projected or anticipated investment in such technology is delayed or reduced, it could delay the introduction of our technologies and negatively impact our business.

Changes in test strategies, equipment and processes could cause us to lose revenues.

The demand for wafer probe cards depends in large part upon the number of semiconductor designs, technology and architecture transitions in chip designs, and the overall semiconductor unit volume. The time it takes to test a wafer depends upon the number of devices being tested, the complexity of these devices, the test software program and the test equipment itself. As test programs become increasingly effective and test throughput increases, the number of wafer probe cards required to test a given volume of devices declines. Therefore, advances in the test process could cause us to lose sales.

If semiconductor manufacturers implement chip designs that include increased built-in self-test capabilities, or similar functions or methodologies that increase test throughput, it could negatively impact our sales or the migration of elements of final test to the wafer level. Additionally, if new chip designs or types of chips are implemented that require less, or even no, test using wafer probe cards, or significantly reduce wafer test complexity, our revenues could be impacted. Further, if new chip designs are implemented which we are unable to test, or which we are unable to test efficiently and provide our customers with an acceptably low overall cost of test, our revenues could be negatively impacted.

We incur significant research and development expenses in conjunction with the introduction of new product architectures and platforms. Often, we time our product introductions to the introduction of new test equipment platforms or the declination of manufacturers to adopt a new test platform. Because our customers require both test equipment and wafer probe cards, any delay or disruption in the introduction of new test equipment platforms would negatively affect our growth.

We manufacture all our products at our facilities in Livermore, California, and any disruption in the operations of these facilities could adversely impact our business and operating results.

Our processes for manufacturing our wafer probe cards require sophisticated and costly equipment and a specially designed facility, including a semiconductor clean room. We manufacture our wafer probe cards at our new facility located in Livermore, California, with some manufacturing functions continuing at our old facility, which is also located in Livermore. Any disruption in the operation of either of our facilities, whether due to contamination in our manufacturing process, technical or labor difficulties, destruction or damage from fire or earthquake, infrastructure failures such as power or water shortage or any other reason, could interrupt our manufacturing operations, impair critical systems, disrupt communications with our customers and suppliers and cause us to write off inventory and to lose sales. In addition, if the previous energy crises in California that resulted in disruptions in power supply and increases in utility costs were to recur, we might experience power interruptions and shortages, which could disrupt our manufacturing operations. This could subject us to loss of revenues as well as significantly higher costs of energy. Further, current and potential customers might not purchase our products if they perceive our lack of a fully operational alternate manufacturing facility to be a risk to their continuing source of supply.

If we are unable to purchase or otherwise negotiate a right to remain in our old manufacturing facility at 2130 Research Drive, we may face manufacturing disruptions and temporarily decreased production capacity and our business and operating results will be negatively impacted.

We lease commercial space at 2130 Research Drive in Livermore, California, that we currently use to provide manufacturing capacity with respect to certain steps in our overall manufacturing processes. We have been offered the opportunity to purchase this facility and we currently expect that we will do so. If we do not purchase or otherwise negotiate a right to remain in this facility, we will likely be forced to move this portion of our manufacturing operations to another location. Such a move could cause manufacturing disruptions, decrease our production capacity and require us to incur significant costs in connection with the start-up of a new facility, particularly if the move were to occur at a time that is inconsistent with our overall capacity planning. In addition, if we are forced to relocate this facility, we may not have the production capacity necessary to meet customer demand and our business and operating results will be negatively impacted.

If we do not effectively expand our manufacturing capacity at our new operations and manufacturing site, our business and operating results will be negatively impacted.

We initiated the move into our new campus facility in Livermore in 2004. In the first half of 2006, we anticipate completing the transition to and ramp of our new manufacturing facility in Livermore. The costs of starting up our new manufacturing facility, including capital costs such as equipment and fixed costs such as rent, and transition costs, including personnel and material expenses required for the new site ramp and qualification, redundancy costs of maintaining two production sites in parallel, and any close down of our existing manufacturing facilities, are substantial. Our current transition plan will require us to have both our old and new manufacturing facilities operational through the first half of fiscal 2006. We may choose to continue certain manufacturing operations at our old facility thereafter. This will cause us to incur significant costs due to redundancy of infrastructure at both sites at least for the first half of fiscal 2006 and potentially longer. The transition might also lead to manufacturing interruptions, which could mean delayed deliveries or lost sales. Some or all of our customers could require a full qualification of our new facility. Any qualification process could take longer than we anticipate. Any difficulties with the transition or with bringing the new manufacturing facility to full capacity and volume production could increase our costs, disrupt our production process and cause delays in product delivery and lost sales, which would harm our operating results.

If we are unable to continue to reduce the time it takes for us to design and produce a wafer probe card, our growth could be impeded.

Our customers continuously seek to reduce the time it takes them to introduce new products to market. The cyclicality of the semiconductor industry, coupled with changing demands for semiconductor devices, requires our customers to be flexible and highly adaptable to changes in the volume and mix of products they must produce. Each of those changes requires a new design and each new design requires a new wafer probe card. For some existing semiconductor devices, the manufacturers' volume and mix of product requirements are such that we are unable to design, manufacture and ship products to meet such manufacturers' relatively short cycle time requirements. We, for example, have lost sales in the past where we were unable to meet a customer's schedule for wafer probe cards for a particular design. If we are unable to reduce the time it takes for us to design, manufacture and ship our products in response to the needs of our customers, our competitive position could be harmed and we could lose sales.

We obtain some of the components and materials we use in our products from a single or sole source or a limited group of suppliers, and the partial or complete loss of one of these suppliers could cause production delays and a substantial loss of revenues.

We obtain some of the components and materials used in our products, such as printed circuit board assemblies, plating materials and ceramic substrates, from a single or sole source or a limited group of suppliers. Alternative sources are not currently available for sole source components and materials. Because we rely on purchase orders rather than long-term contracts with the majority of our suppliers, we cannot predict with certainty our ability to obtain components and materials in the longer term. A sole or limited source supplier could increase prices, which could lead to a decline in our gross margin. Our dependence upon sole or limited source suppliers exposes us to several other risks, including a potential inability to obtain an adequate supply of materials, late deliveries and poor component quality. Disruption or termination of the supply of components or materials could delay shipments of our products, damage our customer relationships and reduce our revenues. For example, if we were unable to obtain an adequate supply of a component or material, we might have to use a substitute component or material, which could require us to make changes in our manufacturing process. From time to time in the past, we have experienced difficulties in receiving shipments from one or more of our suppliers, especially during periods of high demand for our products. If we cannot obtain an adequate supply of the components and materials we require, or do not receive them in a timely manner, we might be required to identify new suppliers. We might not be able to identify new suppliers on a timely basis or at all. We, as well as our customers would also need to qualify any new suppliers. The lead-time required to identify and qualify new suppliers could affect our ability to timely ship our products and cause our operating results to suffer. Further, a sole or limited source supplier could require us to enter into non-cancelable purchase commitments or pay in advance to ensure our source of supply. In an industry downturn, or in an environment in which growth is not at a level we projected or anticipated, commitments of this type could result in charges for excess inventory of parts. If we are unable to predict our component and materials needs accurately, or if our supply is disrupted, we might miss market opportunities by not being able to meet the demand for our products.

Wafer probe cards that do not meet specifications or that contain defects could damage our reputation, decrease market acceptance of our technology, cause us to lose customers and revenues, and result in liability to us.

The complexity and ongoing development of our wafer probe card manufacturing process, combined with increases in wafer probe card production volumes, have in the past and could in the future lead to design or manufacturing problems. For example, we have experienced the presence of contaminants in our plating baths, which have caused a decrease in our manufacturing yields or have resulted in unanticipated stress-related failures when our wafer probe cards are being used in the manufacturing test environment. A further example is that during our fiscal quarter ended December 25, 2004, we experienced a contamination problem in our manufacturing line. This contamination problem caused a yield decline that, in turn, resulted in our inability to timely ship products to our customers. Manufacturing design errors such as the miswiring of a wafer probe card or the incorrect placement of probe contact elements have caused us to repeat manufacturing design steps. In addition to these examples, problems might result from a number of factors, including design defects, materials failures, contamination in the manufacturing environment, impurities in the materials used, unknown sensitivities to process conditions, such as temperature and humidity, and equipment failures. As a result, our products have in the past contained and might in the future contain undetected errors or defects. Any errors or defects could:

- cause lower than anticipated yields and lengthening of delivery schedules;
- cause delays in product shipments;
- cause delays in new product introductions;
- cause us to incur warranty expenses;
- result in increased costs and diversion of development resources;
- cause us to incur increased charges due to unusable inventory;
- require design modifications; or
- decrease market acceptance or customer satisfaction with these products.

The occurrence of any one or more of these events could hurt our operating results.

In addition, if any of our products fails to meet specifications or has reliability, quality or compatibility problems, our reputation could be damaged significantly and customers might be reluctant to buy our products, which could result in a decline in revenues, an increase in product returns or warranty costs and the loss of existing customers or the failure to attract new customers. Our customers use our products with test equipment and software in their manufacturing facilities. Our products must be compatible with the customers' equipment and software to form an integrated system. If the system does not function properly, we could be required to provide field application engineers to locate the problem, which can take time and resources. If the problem relates to our wafer probe cards, we might have to invest significant capital, manufacturing capacity and other resources to correct it. Our current or potential customers also might seek to recover from us any losses resulting from defects or failures in our products. Liability claims could require us to spend significant time and money in litigation or to pay significant damages.

If our ability to forecast demand for our products deteriorates, we could incur higher inventory losses than we currently experience.

Each semiconductor chip design requires a custom wafer probe card. Because our products are design-specific, demand for our products is difficult to forecast. Due to our customers' short delivery time requirements, we often design, procure materials and, at times, produce our products in anticipation of demand for our products rather than in response to an order. Due to the uncertainty inherent in forecasts, we are, and expect to continue to be, subject to inventory risk. If we do not obtain orders as we anticipate, we could have excess inventory for a specific customer design that we would not be able to sell to any other customer, which would likely result in inventory write-offs.

From time to time, we might be subject to claims of infringement of other parties' proprietary rights which could harm our business.

In the future, as we have in the past, we might receive claims that we are infringing intellectual property rights of others. We have received in the past, and may receive in the future, communications from third parties inquiring about our interest in a license, and asserting that we need a license, to certain of their intellectual property. For example, we received such a communication from Microelectronics and Computer Technology Corporation in October 2001, with a follow-up letter in January 2002, inquiring about our interest in acquiring a license to certain of their patents and technology. We also received a letter from IBM Corporation in February 2002, with a follow-up letter in August 2003, inquiring about our interest and need to acquire a license to IBM patents and technology related to high density integrated probes. We have not engaged in a dialog with Microelectronics and Computer Technology Corporation. We have engaged in a dialog with IBM Corporation regarding our companies' respective intellectual property portfolios and technologies, and anticipate that this dialog will continue. In August 2002, subsequent to our initiating correspondence with Japan Electronic Materials Corporation regarding the scope of our intellectual property rights and the potential applicability of those rights to certain of its wafer probe cards, Japan Electronic Materials Corporation offered that precedent technologies exist as to one of our foreign patents that we had identified, and also referenced a U.S. patent in which it stated we might take interest.

For the inquiries we have received to date, we do not believe we infringe any of the identified patents and technology. The semiconductor industry is characterized by uncertain and conflicting intellectual property claims and vigorous protection and pursuit of these rights. The resolution of any claims of this nature, with or without merit, could be time consuming, result in costly litigation or cause product shipment delays. In the event of an adverse ruling or settlement, we might be required to pay substantial damages, cease the use or sale of infringing products, spend significant resources to develop non-infringing technology, discontinue the use of certain technology and/or enter into license agreements. License agreements, if required, might not be available on terms acceptable to us or at all. The loss of access to any of our intellectual property or the ability to use any of our technology could harm our business.

If we fail to protect our proprietary rights, our competitors might gain access to our technology, which could adversely affect our ability to compete successfully in our markets and harm our operating results.

If we fail to protect our proprietary rights adequately, our competitors might gain access to our technology. Unauthorized parties might attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Others might independently develop similar or competing technologies or methods or design around our patents. In addition, the laws of many foreign countries in which we or our customers do business do not protect our intellectual property rights to the same extent as the laws of the United States. As a result, our competitors might offer similar products and we might not be able to compete successfully. We also cannot assure that:

- our means of protecting our proprietary rights will be adequate;

- patents will be issued from our currently pending or future applications;

our existing patents or any new patents will be sufficient in scope or strength to provide any meaningful protection or commercial advantage to us;

any patent, trademark or other intellectual property right that we own will not be invalidated, circumvented or challenged in the United States or foreign countries; or

others will not misappropriate our proprietary technologies or independently develop similar technology, duplicate our products or design around any patent or other intellectual property rights that we own, or attempt to manufacture and sell infringing products in countries that do not strongly enforce intellectual property rights.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We presently believe that it is likely that one or more of our competitors are using methodologies or have implemented structures into certain of their products that are covered by one or more of our intellectual property rights. We have in the past brought claims to protect our rights, and, in certain cases, our competitors have initiated invalidity proceedings in foreign patent offices against certain of our patents. For example, in connection with our litigation with Phicom Corporation, one of our competitors, on or about October 27, 2005, the Korean Patent Court issued rulings holding invalid certain claims of two of our Korean patents. The two Korean patents affected by the rulings are Nos. 278,342, entitled "Method of Altering the Orientation of Probe Elements in a Probe Card Assembly," and 399,210, entitled "Probe Card Assembly", both of which had previously been upheld by the Korean Intellectual Property Office when it dismissed validity challenges in their entirety. On or about February 9, 2006, the Korea Patent Court issued a ruling holding invalid certain claims of our Korean Patent No. 324,064, entitled "Contact Tip Structures for Microelectronic Interconnection Elements and Methods of Making Same". On or about February 9, 2006, the Korea Patent Court also issued a ruling declining to render a decision on a validity challenge against certain claims of our Korean Patent No. 252,457, instead re-opening the case for further proceedings to be handled by a new panel of three Patent Court judges. The outcome of any Company appeal of the ruling(s) of the Korean Patent Court can not be definitively predicted, but will result in the Company incurring additional expenses. See the "Legal Proceedings" section of our Annual Report on Form 10-K for a description of the infringement actions we have brought against Phicom and the invalidity proceedings that Phicom is pursuing against certain of our patents.

While we do not have material monetary damages exposure in these various invalidity proceedings, it is possible we will incur material expenses in our litigation with Phicom or in defending our intellectual property more broadly. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our management and technical personnel. In addition, while patents are territorial and a ruling on a certain given patent does not necessarily impact the validity or enforceability of a corresponding or related patent in a different country, an adverse ruling in one country might negatively impact our ability to enforce the corresponding or related patent in other countries. Finally, certain of our customer contracts contain provisions that require us to indemnify our customers for third party intellectual property infringement claims, which would increase the cost to us of an adverse ruling in such a claim. An adverse determination could also negatively impact our ability to license certain of our technologies and methods to others, and result in our competitors being allowed to sell products with, or add to their products, features and benefits contained in our products, thereby reducing our competitive advantages over these competing products.

If we fail to effectively manage our service centers, our business might be harmed.

In 2002, we expanded our repair and service center in Seoul, South Korea. In 2003, we opened a repair and service center in Dresden, Germany. In 2004, we opened a repair and service center in Tokyo, Japan. In 2005, we opened a service and design center in Taiwan. These service centers are part of our strategy to, among other things, provide our customers with more efficient service and repair of our wafer probe cards. If we are unable to effectively manage our service centers, or do not expand or enhance our service centers, or open additional service centers, to meet customer demand, or if the work undertaken in the service centers is not equivalent to the level and quality provided by repairs and services performed by our North American repair and service operations, which are part of our manufacturing facility in Livermore, California, we could incur higher wafer probe card repair and service costs, which could harm our operating results.

If we do not effectively manage changes in our business, these changes could place a significant strain on our management and operations and, as a result, our business might not succeed.

Our ability to grow successfully requires an effective planning and management process. We plan to increase the scope of our operations and the size of our direct sales force domestically and internationally. For example, we have moved our corporate headquarters and are transitioning manufacturing operations to our new facility in Livermore, California. Our growth could place a significant strain on our management systems, infrastructure and other resources. To manage our growth effectively, we must invest the necessary capital and continue to improve and expand our controls, systems and infrastructure in a timely and efficient manner. Those resources might not be available when we need them, which would limit our growth. Our controls, systems and procedures might not be adequate to support a growing public company. If we do not implement in a timely manner scalable information technology systems, we may not be able to maintain or expand our current manufacturing capacity, which would, in turn, have a negative impact on our operating results. If our management fails to respond effectively to changes in our business, our business might not succeed.

If we fail to attract, integrate and retain qualified personnel, our business might be harmed.

Our future success depends largely upon the continued service of our key management, technical, and sales and marketing personnel, and on our continued ability to hire, integrate and retain qualified individuals, particularly engineers and sales and marketing personnel in order to increase market awareness of our products and to increase revenues. For example, in the future, we might need technical personnel experienced in competencies that we do not currently have or require. Competition for qualified individuals may be intense, and we might not be successful in retaining our employees or attracting new personnel. The loss of any key employee, the inability to successfully integrate replacement personnel, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees as needed could impair our ability to meet customer and technological demands. All of our key personnel in the United States are employees at-will.

We may make acquisitions, which could put a strain on our resources, cause ownership dilution to our stockholders and adversely affect our financial results.

While we have made no acquisitions of businesses, products or technologies in the past, we may make acquisitions of complementary businesses, products or technologies in the future. Integrating newly acquired businesses, products or technologies into our company could put a strain on our resources, could be expensive and time consuming, and might not be successful. Future acquisitions could divert our management's attention from other business concerns and expose our business to unforeseen liabilities or risks associated with entering new markets. In addition, we might lose key employees while integrating new organizations. Consequently, we might not be successful in integrating any acquired businesses, products or technologies, and might not achieve anticipated revenues and cost benefits. In addition, future acquisitions could result in customer dissatisfaction, performance problems with an acquired company, potentially dilutive issuances of equity securities or the incurrence of debt, contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business.

As part of our sales process, we could incur substantial sales and engineering expenses that do not result in revenues, which would harm our operating results.

Our customers generally expend significant efforts evaluating and qualifying our products prior to placing an order. The time that our customers require to evaluate and qualify our wafer probe cards is typically between three and 12 months and sometimes longer. While our customers are evaluating our products, we might incur substantial sales, marketing, and research and development expenses. For example, we typically expend significant resources educating our prospective customers regarding the uses and benefits of our wafer probe cards and developing wafer probe cards customized to the potential customer's needs, for which we might not be reimbursed. Although we commit substantial resources to our sales efforts, we might never receive any revenues from a customer. For example, many semiconductor designs never reach production, including designs for which we have expended design effort and expense. In addition, prospective customers might decide not to use our wafer probe cards. The length of time that it takes for the evaluation process and for us to make a sale depends upon many factors including:

- the efforts of our sales force and our distributor and independent sales representatives;
- the complexity of the customer's fabrication processes;
- the internal technical capabilities of the customer; and
- the customer's budgetary constraints and, in particular, the customer's ability to devote resources to the evaluation process.

In addition, product purchases are frequently subject to delays, particularly with respect to large customers for which our products may represent a small percentage of their overall purchases. As a result, our sales cycles are unpredictable. If we incur substantial sales and engineering expenses without generating revenues, our operating results could be harmed.

Our failure to comply with environmental laws and regulations could subject us to significant fines and liabilities, and new laws and regulations or changes in regulatory interpretation or enforcement could make compliance more difficult and costly.

We are subject to various and frequently changing U.S. federal, state and local, and foreign governmental laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, the cleanup of contaminated sites and the maintenance of a safe workplace. We could incur substantial costs, including cleanup costs, civil or criminal fines or sanctions and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations or non-compliance with the environmental permits required at our facilities.

These laws, regulations and permits also could require the installation of costly pollution control equipment or operational changes to limit pollution emissions or decrease the likelihood of accidental releases of hazardous substances. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination at our or others' sites or the imposition of new cleanup requirements could require us to curtail our operations, restrict our future expansion, subject us to liability and cause us to incur future costs that would have a negative effect on our operating results and cash flow.

Because we conduct some of our business internationally, we are subject to operational, economic, financial and political risks abroad.

Sales of our products to customers outside the United States have accounted for an important part of our revenues. Our international sales as a percentage of our revenues were 65.8% and 64.2%, respectively, for fiscal 2005 and fiscal 2004, respectively. Additionally, certain of our Korean customers purchase through their North American subsidiaries. In the future, we expect international sales, particularly into Europe, Japan, South Korea and Taiwan, to continue to account for a significant percentage of our revenues. Accordingly, we will be subject to risks and challenges that we would not otherwise face if we conducted our business only in the United States. These risks and challenges include:

- compliance with a wide variety of foreign laws and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- difficulties in staffing and managing personnel, distributors and representatives;
- reduced protection for intellectual property rights in some countries;
- currency exchange rate fluctuations, which could affect the value of our assets denominated in local currency, as well as the price of our products relative to locally produced products;
- seasonal fluctuations in purchasing patterns in other countries; and
- fluctuations in freight rates and transportation disruptions.

Any of these factors could harm our existing international operations and business or impair our ability to continue expanding into international markets.

We might require additional capital to support business growth, and such capital might not be available.

Thomas B. Richey
Vice President

2007

2006

268,750

250,000

302,349

363,230

152,027

87,315

20,117

10,718

743,243

711,263

Brenda J. Walker
Vice President

2007

2006

268,750

250,000

166,292

199,782

68,541

47,128

27,205

12,150

530,788

509,060

Nancy H. Mozzachio
Vice President

2007

2006

241,875

225,000

176,875

211,876

61,713

22,667

14,805

9,060

495,268

468,603

(1) In 2006, all of the named executives contributed (a) a portion of their cash bonus to the 2005 Cedar Shopping Centers, Inc. Deferred Compensation Plan, and (b) a portion of their salaries to the Company's 401(k) Savings Plan. In 2007, all of the named executives other than Messrs. Ullman, O'Keeffe and Kreider contributed a portion of their cash bonus to the 2005 Cedar Shopping Centers, Inc. Deferred Compensation Plan; in addition, all of the named executives contributed a portion of their salaries to the Company's 401(k) Savings Plan.

(2) This column represents (a) the total bonus earned in 2007, 50% of which was paid in cash and 50% of which was paid in the form of restricted shares of common stock issued at a 15% discount to the market price as of the close of business on January 2, 2008 and (b) the total bonus earned in 2006, 40% of which was paid in cash and 60% of which was paid in the form of restricted shares of common stock issued at a 15% discount to the market price as of the close of business on January 2, 2007. These shares vest on the third anniversary of the grant dates, or January 2, 2011 and January 2, 2010, respectively.

(3) This column represents the dollar amount charged to operations for financial statement reporting purposes during 2007 and 2006 with respect to all restricted stock grants (those granted in the respective years as well as for prior years), in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123R, "Share-Based Payments" ("SFAS 123R"), as adjusted for fluctuations in the market value of the Company's common stock in accordance with the provisions of the Emerging Issues Task Force No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" ("EITF 97-14"). A portion of the restricted share grants is subject to market conditions, i.e., they are tied to total stockholder return, as described in the Compensation Discussion and Analysis ("CDA"), which reduces the grant-date fair value under SFAS 123R. For additional information, see Note 2, "Summary of Significant Accounting Policies – Stock-Based Compensation", to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission.

(4) Consists of matching contributions and other payments made by the Company related to its 401(k) plan.

(5) Mr. O'Keeffe retired as Chief Financial Officer on June 20, 2007. The stock award amount includes $485,849 that was charged by the Company to operations as the result of Mr. O'Keeffe's retirement.

(6) Mr. Kreider was appointed as Chief Financial Officer effective June 20, 2007.

Employment Agreements With Named Executive Officers

The Company has entered into employment agreements, as amended, with each of the named executive officers, Messrs. Ullman, Kreider and Richey and Ms. Mozzachio and Ms. Walker. The annual base salary established for each of these officers for 2008 is $456,875, $350,000, $268,750, $241,875 and $268,750, respectively.

Each agreement initially was for a term of four years expiring October 31, 2007, except for Mr. Kreider that was for four years expiring June 2011 and for Ms. Mozzachio that was for two years. Commencing October 1, 2007, and on each October 1 thereafter, Mr. Ullman's agreement is automatically extended for successive one year periods unless either the Company or Mr. Ullman, by notice given at least 60 days prior to the scheduled termination, elects not to so extend the agreement. Thus, Mr. Ullman's term is effectively a three-year evergreen term. Mr. Richey's agreement was amended to provide that it terminates on October 31, 2009, while Ms. Mozzachio's and Ms. Walker's agreements were amended to provide that they expire October 31, 2008.

Effective June 20, 2007, the Company entered into an employment agreement with Mr. Kreider. Upon the effectiveness of the agreement, Mr. Kreider was paid $150,000 and received 20,000 shares of restricted common stock of the Company which cliff vest on the third anniversary of grant. Mr. Kreider also participates in the Company's annual bonus plan for senior executive officers, with his initial bonus for 2007 targeted at an annualized amount of $275,000. Payment of the bonus is guaranteed for one year. In addition, Mr. Kreider participates in the Company's long-term incentive compensation plan pursuant to which he will be entitled to receive grants of restricted stock, initially to be valued at $275,000 for the first year.

Mr. Kreider's agreement is for four years, but the Company has the right to terminate the agreement not less than 60 days prior to June 30, 2008. If the Company elects to terminate the agreement prior to June 30, 2008 other than for "cause" or if Mr. Kreider elects to terminate the agreement for "good reason" (as such terms are defined in the agreement), then Mr. Kreider will receive, as severance pay, a lump sum cash payment equal to 125% of his annual salary and bonus and 50% of the restricted shares shall vest. If thereafter Mr. Kreider's employment shall be terminated by the Company without cause or by Mr. Kreider for good reason, he will be entitled to receive a lump sum cash payment equal to two and one-half times his annual base salary and average annual bonus for the preceding two years, his health insurance benefits will be continued for 12 months and the vesting of all restricted stock will be accelerated.

Under each agreement, an officer's employment agreement will terminate automatically upon the retirement, death or disability of such officer, without payment of any additional compensation, except that under the 2004 Stock Incentive Plan all unvested Restricted Shares will immediately become fully vested. Upon the termination of employment by an officer without cause, no additional compensation will be due to such officer. In the event of termination of an agreement by the Company without cause or by the executive for good reason, or, in the case of Mr. Ullman the Company elects not to extend his employment on October 1, 2008 or on any October 1 thereafter, the executive is entitled to receive from the Company within five days following termination:

- Any earned and unpaid base salary;
- A lump sum cash payment of two and one-half times (2.99 times with respect to Mr. Ullman) the executive's annual base salary and average annual bonus for the preceding two years;
- Continuation of health insurance benefits for 12 months (to be reduced to the extent the executive receives comparable benefits); and
- Acceleration of vesting of all options, restricted shares and other awards.

The named executive officers (other than Mr. Kreider) will also be entitled to be grossed up, on an after-tax basis, for any excise taxes imposed under the Code on any excess parachute payments that they receive in connection with the benefits and payments provided to them in connection with any change in control.

Good reason means:

- Material breach by the Company of the employment agreement;
- A material reduction in the executive's duties or responsibilities;
- The relocation of the executive or the headquarters of the Company to any location outside of the New York City metropolitan area; or
- A change in control of the Company.

Each employment agreement also provides that each executive will not compete with the Company or hire any employees of the Company for a period of one year after the termination of the executive's employment, unless employment is terminated by the Company without cause or by the executive for good reason.

If employment of any of our named executive officers is terminated by the Company without cause or by the executive for good reason in a situation not involving a change in control, the chart below sets forth the severance payments that would have been made based on a hypothetical termination date of December 31, 2007 and using the closing price of our stock on that date. These amounts are estimates and the actual amounts to be paid can only be determined at the time of the termination of the executive's employment.

Termination of Employment Without Change In Control

Name	Cash Compensation	Value of Accelerated Vesting	Medical and Other Benefits ($)	Total ($)

	(Salary and Bonus) ($)	of Stock Awards ($)		
Leo S. Ullman	2,775,699	705,423	12,337	3,493,459
Thomas J. O’Keeffe	737,500	202,915	N/A	940,415
Lawrence E. Kreider, Jr.	1,750,000	229,485	12,337	1,991,822
Brenda J. Walker	1,129,468	162,588	5,589	1,297,645
Thomas B. Richey	1,503,849	335,139	15,975	1,854,963
Nancy H. Mozzachio	1,090,626	131,789	12,337	1,234,752

If employment of any of our named executive officers is terminated in connection with a change in control, the chart below sets forth the change in control payments that would have been made based on a hypothetical termination date of December 31, 2007 and using the closing price of our stock on that date. These amounts are estimates and the actual amounts to be paid can only be determined at the time of the termination of the executive’s employment.

Termination of Employment In Connection With Change In Control

Name	Cash Compensation (Salary and Bonus) ($)	Value of Accelerated Vesting of Stock Awards ($)	Tax Gross Up ($)(1)	Medical and Other Benefits ($)	Total ($)
Leo S. Ullman	2,775,699	705,423	1,544,690	12,337	5,038,149
Thomas J. O’Keeffe	1,658,075	202,915	759,425	N/A	2,620,415
Lawrence E. Kreider, Jr.	1,750,000	229,485	N/A	12,337	1,991,822
Brenda J. Walker	1,129,468	162,588	538,989	5,589	1,836,634
Thomas B. Richey	1,503,849	335,139	812,536	15,975	2,667,499
Nancy H. Mozzachio	1,090,626	131,789	509,170	12,337	1,743,922

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(1) Upon a change in control, several of the Company’s executives may be subject to certain excise taxes under Section 280G of the Internal Revenue Code of 1986, as amended. The Company has agreed to reimburse the affected executives (except for Mr. Kreider) for those excise taxes as well as for any income and excise taxes payable by the executives as a result of any such reimbursement. The amounts in this column are based on an excise tax rate of 20% and a total income tax rate of 40% to cover federal, state and other payroll-related taxes.

Equity Awards

The following table sets forth certain information with respect to the grant of equity awards for the fiscal year ended December 31, 2007.

GRANTS OF PLAN-BASED AWARDS FOR YEAR ENDED DECEMBER 31, 2007

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Full Fair Value (7) ($)

	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#) (1)	Maximum (#)	or Units (#) (1)	(#)	($/Sh)	
Leo S. Ullman					18,599(2)		12,399(3) 22,992(4) 4,729(5)			681,986
Thomas J. O'Keeffe							9,300(3)			152,985
Lawrence E. Kreider, Jr.							19,164(3) 20,000(6)			562,003
Thomas B. Richey					7,440(2)		4,960(3) 16,229(4) 907(5)			331,371
Brenda J. Walker					3,162(2)		2,108(3) 8,926(4) 775(5)			166,108
Nancy H. Mozzachio					1,860(2)		1,240(3) 9,494(4) 730(5)			143,851

(1) Dividends were paid on such shares from January 1, 2007, the date the shares were earned, even though the stock certificates representing such shares were not issued until a subsequent date.

(2) These are restricted shares granted to the named executives that will vest at the end of a three-year performance period (commencing January 1, 2007 and ending December 31, 2009) which are market and cash return driven and therefore completely at risk. See the CDA for a description of the performance goals.

(3) These are restricted shares granted to the named executives representing the time based portion of long term compensation (see CDA) that will vest three years from the date of grant.

(4) These are restricted shares granted to the named executives representing the stock portion of the annual bonus (see CDA) that will vest three years from the date of grant.

(5) These are additional restricted shares granted to the named executive officers that will vest three years from the date of grant.

(6) Restricted shares granted to Mr. Kreider upon commencement of employment that will vest three years from the date of grant.

(7) This column shows the grant date full fair value of restricted share grants to the named executives for 2007 under SFAS 123R (including the restricted share portion of the 2007 bonus, as reflected in the Summary Compensation Table). For restricted share grants, fair value is determined (1) for time based grants as the market price of the Company's common stock on the date of grant and (2) for market/performance based grants by an independent appraisal.

No options were granted by the Company or exercised during the fiscal year ended December 31, 2007. The following table sets forth certain information with respect to option exercises and option values and stock awards for the fiscal year ended December 31, 2007.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END FOR YEAR ENDED DECEMBER 31, 2007

Option Awards	Stock Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($) (1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)
Leo S. Ullman	3,333			10.50	7/10/2011	27,700(2)	283,371		
						17,768(3)	181,767	17,768(10)	181,767
						20,646(4)	211,209	18,599(11)	190,268
						12,399(5)	126,842		
						4,729(6)	48,378		
						22,992(7)	235,208		
Thomas J. O'Keeffe						12,200(2)	124,806		
						10,660(3)	109,052		
						14,574(4)	149,092		
						9,300(5)	95,139		
Lawrence E. Kreider, Jr.						39,164(8)	400,648		
Thomas B. Richey						12,200(2)	124,806		
						7,107(3)	72,705	7,107(10)	72,705
						14,574(4)	149,092	7,440(11)	76,111
						4,960(5)	50,741		
						907(6)	9,279		
						16,229(7)	166,023		
Brenda J. Walker	3,333			10.50	7/10/2011	7,000(2)	71,610		
						3,021(3)	30,905	3,021(10)	30,905
						8,016(4)	82,004	3,162(11)	32,347
						2,108(5)	21,565		
						775(6)	7,928		
						8,926(7)	91,313		
Nancy H. Mozzachio						1,777(3)	18,179	1,777(10)	18,179
						8,501(4)	86,965	1,860(11)	19,028
						1,240(5)	12,685		
						730(6)	7,468		

9,494(7)	97,124
3,600(9)	36,828

(1) Based on the closing price of a share of common stock on December 31, 2007.
(2) These shares vest on September 13, 2008.
(3) These shares vest on October 25, 2009.
(4) These shares vest on January 2, 2010.
(5) These shares vest on February 16, 2010.
(6) These shares vest on November 13, 2010.
(7) These shares vest on January 2, 2011.
(8) These shares vest on June 20, 2010.
(9) These shares vest on December 30, 2008.
(10) These shares vest on December 31, 2009.
(11) These shares vest on December 31, 2010.

Consulting Agreement

Effective June 20, 2007, the Company entered into a consulting agreement with Thomas J. O'Keeffe. On that date, Mr. O'Keeffe retired as Chief Financial Officer of the Company and his employment agreement with the Company was terminated. The consulting agreement terminates March 30, 2010 and provides for payment of monthly consulting fees commencing July 1, 2007 of $25,000 per month through June 30, 2008 and $20,000 per month thereafter. In addition, he was paid his salary through June 30, 2007 and received a bonus of $167,500 for 2007. These payments will continue to be made if the Company terminates Mr. O'Keeffe's services or if Mr. O'Keeffe should die or become disabled. Mr. O'Keeffe has agreed to make himself available to the Company for consulting purposes at reasonable times and to be available at least ten days each calendar quarter. Mr. O'Keeffe will receive $1,500 for each day spent providing consulting services to the Company. Upon the occurrence of a change in control, Mr. O'Keeffe will be entitled to receive a lump sum payment equal to two and one-half times his annual salary and bonus for 2006 and all restricted shares shall be vested and he will be entitled to be grossed up, on an after-tax basis, for any excise taxes imposed under the Internal Revenue Code of 1986 on any excess parachute payments.

Compensation of Directors

Prior to January 1, 2008, independent directors' fees were $25,000 per year and meeting attendance fees were $1,500 and $1,000, respectively, for each Board and Committee meeting. Audit Committee members (other than the chairman) also received a flat fee of $4,000 per year, while other committee members (other than the chairmen) received a flat fee of $3,000 per year. The chairman of the Audit Committee received $12,000 per year, the chairman of the Compensation Committee received $7,500 per year and the chairman of the Nominating/Corporate Governance Committee received $5,500 per year. The annual Directors fees, at the option of each Director, may be paid in cash or shares of the Company's common stock. Each Director (other than Directors who are members of management) also was to receive an annual grant of $40,000 of restricted stock that would vest on the third anniversary of the date of grant. The annual retainer for the lead director was $15,000.

The Compensation Committee retained a compensation consulting firm, Chernoff Diamond & Co., LLC, to assist the Committee in determining the appropriate compensation to be paid to our independent directors. Director compensation was compared to the same peer group of companies used by the consultant to recommend executive compensation. The consultant determined that total compensation of the directors was above the peer group (the director data was for the 2006 fiscal year of the peer group).

The consultant determined that since our company was towards the small end of the peer group, a reasonable target for total director compensation would be the median (approximately $80,000 per annum).

The Committee concluded that, based on the workload and responsibilities of the directors, the trend of annual increases in director compensation being made by public companies, the last increase in director compensation was in mid-2006, and the range of director compensation within the peer group, it was appropriate to increase director compensation. Accordingly, effective January 1, 2008, director compensation was increased as follows: the annual retainer was increased by 5% from $25,000 to $26,250; the retainer for the chairman of the Audit Committee was increased from $12,000 to $15,000; and the retainer for the chairman of the Nominating/Corporate Governance Committee was increased from $5,500 to $7,500.

The following table provides information regarding Director compensation in 2007, which reflects the compensation described above. The table does not include reimbursement of travel expenses related to attending Board and Committee meetings. Mr. Ullman and Ms. Walker do not receive additional compensation for serving as directors.

Director Compensation - 2007

Name	Fees Earned or Paid in Cash ($) (1)	Stock Awards ($) (2)	Total ($)
James J. Burns	77,000	935	77,935
Richard Homburg	38,000	10,856	48,856
Paul G. Kirk, Jr.	73,000	21,623	94,623
Everett B. Miller, III	55,000	(3,995)	51,005
Roger M. Widmann	70,000	10,856	80,856

(1) Mr. Miller contributed a portion of his fees to the 2005 Cedar Shopping Centers, Inc. Deferred Compensation Plan.

(2) Each director received a grant of $40,000 of restricted stock that will vest on the third anniversary of the date of grant. This column represents the dollar amount charged to operations for financial statement reporting purposes during 2007 with respect to all restricted stock grants (for 2007 as well as for prior years), in accordance with SFAS No. 123R, as adjusted for fluctuations in the market value of the Company's common stock, in accordance with the provisions of EITF 97-14. Each of Messrs. Burns and Miller has outstanding options to purchase 3,333 shares of Common Stock of the Company. Each director has the following total number of restricted shares which have not yet vested: James J. Burns, 7,200; Richard Homburg, 7,200; Paul G. Kirk, Jr., 7,200; Everett B. Miller, III, 7,200; and Roger M. Widmann, 7,200. All these shares are included in the security ownership chart for directors and executive officers.

Stock Plans

The Company has in effect the 2004 Stock Incentive Plan and the 1998 Stock Option Plan (the "Option Plan"). Under the 2004 Stock Incentive Plan, a total of 850,000 shares of common stock may be issued. In connection with the adoption of the 2004 Stock Incentive Plan, the Company agreed that it would not issue any more options under the Option Plan. The Plans are administered by the Compensation Committee, which determines, among other things, the number of shares subject to each grant, the vesting period for each grant and the exercise price (subject to applicable regulations with respect to incentive stock options) for the awards.

The following table sets forth information at March 31, 2008 regarding the existing compensation plans and individual compensation arrangements pursuant to which the Company's equity securities are authorized for issuance to employees or non-employees (such as directors, consultants, advisors, vendors, customers, suppliers, or lenders) in exchange for consideration in the form of goods and services.

Equity Compensation

	A	**B**	**C**
Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuances Under Equity Compensation Plans (Excluding Securities in Column A)**
Equity compensation plans approved by security holders	13,332	$10.50	229,258
Equity compensation plans not approved by security holders	83,333	$13.50	--
Total	96,665		229,258

Compensation Committee Interlocks and Insider Participation

James J. Burns, Paul G. Kirk, Jr., Everett B. Miller, III and Roger M. Widmann are members of the Compensation Committee. None of the executive officers of the Company has served on the Board of Directors or Compensation Committee of any other entity that has had any of such entity's executive officers serve either on the Company's Board of Directors or Compensation Committee.

Security Ownership of Certain Beneficial Owners and Management

The following is a schedule of all persons who, to the knowledge of the Company, beneficially owned more than 5% of the outstanding common stock of the Company as of March 10, 2008:

Name and Address	Number of Shares Beneficially Owned	Percent of Stock
Inland American Real Estate Trust, Inc. Inland Investment Advisors, Inc. Inland Real Estate Investment Corporation The Inland Group, Inc. 2901 Butterfield Road Oak Brook, IL 60523	6,191,788	13.9%
Cohen & Steers Capital Management, Inc. 280 Park Avenue New York, NY 10017	4,193,277	9.43%
Snyder Capital Management, L.P. and Snyder Capital Management, Inc. (1) One Market Plaza, Suite 1200 San Francisco, CA 94105	2,988,158	6.7%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malverne, PA 19355	2,726,107	6.13%
Barclay's Global Investors, NA Barclay's Global Fund Advisors Barclay's Global Investors, Ltd. 45 Fremont Street San Francisco, CA 94105	2,312,287	5.20%
FMR LLC 82 Devonshire Street Boston, MA 02109	2,235,236	5.03%

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(1) According to a Schedule 13G, these shares are owned under shared dispositive power. Moreover, the direct parent company of Snyder Capital Management, L.P. ("SCMLP"), and Snyder Capital Management, Inc. ("SCMI"), is IXIS Asset Management North America, L.P. ("IXIS"), which is ultimately owned by three large affiliated French financial services firms. SCMI and IXIS operate under an understanding that all investment and voting decisions regarding managed accounts are to be made by SCMI and SCMLP and not by IXIS or any entity controlling it. Accordingly, SCMI and SCMLP do not consider IXIS Asset Management North America or any entity controlling it to have any direct or indirect control over the securities held in managed accounts.

The following table sets forth information concerning the security ownership of directors, nominees for directors and named executive officers as of March 31, 2008:

Name	Number of Shares Beneficially Owned(1)	Percent of Stock(2)

Leo S. Ullman (3)	777,778	1.74%
James J. Burns (4)	20,095	*
Richard Homburg (5)	62,772	*
Pamela N. Hootkin	0	0
Paul G. Kirk, Jr.	11,172	*
Everett B. Miller III (4)	20,128	*
Brenda J. Walker (6)	170,015	*
Roger M. Widmann	13,772	*
Lawrence E. Kreider, Jr.	49,164	*
Thomas B. Richey	142,671	*
Nancy H. Mozzachio	37,422	*
Directors, nominees and executive officers as a group (12 persons) (7)	1,358,395	3.03%

*Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options currently exercisable or exercisable within 60 days of the date hereof, are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person.

(2) Percentage amount assumes the exercise by such persons of all options to acquire shares of common stock or exchange of limited partnership interests in Cedar Shopping Centers Partnership, L.P. for shares of common stock and no exercise or exchange by any other person.

(3) Includes options to purchase 3,333 shares of common stock and 296,670 limited partnership interests in Cedar Shopping Centers Partnership, L.P. exchangeable for an equal number of shares of common stock of the Company (“OP Units”). 66,080 of the shares of common stock owned by Mr. Ullman are pledged to a bank to secure loans made by such bank to Mr. Ullman.

(4) Includes options to purchase 3,333 shares of common stock.

(5) Includes 50,000 shares owned by subsidiaries of Homburg Invest, Inc., a company controlled by Richard Homburg for the benefit of his family. Mr. Homburg may be deemed to be the beneficial owner of all shares of common stock owned by Homburg Invest, Inc. He disclaims beneficial ownership of these shares.

(6) Includes options to purchase 3,333 shares of common stock and 69,333 OP Units.

(7) Includes 13,332 shares of common stock issuable on exercise of options and 366,003 OP Units.

Audit Committee Report

The Audit Committee is comprised of James J. Burns, Everett B. Miller, III and Roger M. Widmann, all of whom are independent directors as defined by Sections 303.01(B)(2)(a) and (3) of the New York Stock Exchange Listing Standards. The Audit Committee operates under a written charter, which was adopted by the Board. The Audit Committee appoints the Company’s independent registered public accounting firm, presently Ernst & Young LLP (“Ernst & Young”).

Company management has primary responsibility for preparing the Company’s financial statements and the financial reporting process, including establishing and maintaining adequate internal control over financial reporting and evaluating the effectiveness of internal control over financial reporting. Ernst & Young is responsible for performing an independent audit of (i) the Company’s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and (ii) the Company’s internal control over financial reporting, and issuing reports thereon. The Audit Committee’s responsibility is to monitor and oversee these processes.

In this context, during 2007 the Audit Committee met four times and held separate discussions with management, the accounting firm that provides internal audit services to the Company and Ernst & Young. Management represented to the Audit Committee that its consolidated financial statements were prepared in accordance with generally accepted accounting principles. Additionally, the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and Ernst & Young. The Audit Committee discussed with Ernst & Young matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees).

The Committee received and reviewed a report from the internal auditors detailing the results of such firm’s internal audit procedures and the Company’s compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Committee discussed with Ernst & Young the Company’s internal quality control procedures and any material issues raised by Ernst & Young’s most recent internal quality-control review.

The Audit Committee discussed with Ernst & Young their independence from the Company under the rules adopted by the Public Company Accounting Oversight Board.

In discharging its duties, during the year the Committee met with management of the Company and Ernst & Young and discussed the status of the Company's internal control procedures and reviewed and discussed the Company's interim unaudited consolidated financial statements for 2007 and audited financial statements for the fiscal year ended December 31, 2007. The Committee also discussed with Ernst & Young the critical accounting policies and practices used in the preparation of the Company's audited financial statements. Management and Ernst & Young have represented to the Committee that the audited financial statements for the year ended December 31, 2007 were prepared in accordance with U.S. generally accepted accounting principles.

Based on the review and discussions with management, the internal auditors and Ernst & Young LLP, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Audit Committee Charter, the Committee has recommended to the Board of Directors the inclusion of the audited financial statements of the Company in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Audit Committee

James J. Burns

Everett B. Miller, III

Roger M. Widmann

Compensation Committee Report on Executive Compensation

The Compensation Committee reviewed and discussed with management of the Company the Compensation Discussion and Analysis required by the Securities Exchange Act of 1934. Based on its review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee

James J. Burns

Paul G. Kirk, Jr.

Everett B. Miller, III

Roger M. Widmann

Transactions With Related Persons

With respect to approval of transactions with related persons, we have a written policy to have the Audit Committee approve any transactions between the Company and any related person. In determining whether to approve a related person transaction, the Audit Committee takes into account, among other factors it deems appropriate, whether the related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person's interest in the transaction.

The Company's principal executive offices are located at 44 South Bayles Avenue, Port Washington, New York. Mr. Ullman owns 24% of this building through general and limited partner interests. The lease, at rentals consistent with other leases in the building, expires in March 2012. Rent is currently approximately $265,000 per year and escalates annually.

Mr. Ullman's son, Frank C. Ullman, is employed by the Company as a vice president and received total compensation in 2007 of $280,000 (including a restricted stock grant of $80,000).

On December 6, 2007, the Company completed the formation of a joint venture with a wholly-owned U.S. subsidiary of Homburg Invest Inc., a publicly-traded Canadian corporation listed on the Toronto and Euronext Amsterdam Stock Exchanges ("Homburg Invest"), pursuant to an April 2, 2007 agreement, with respect to four shopping centers owned and managed by the Company at the time the agreement was entered into and five shopping centers acquired by the Company on April 4, 2007; the aggregate valuation for the nine properties was approximately $170 million. Richard Homburg, a director of the Company, is Chairman and CEO of Homburg Invest. In connection with the joint venture transaction, the independent members of the Company's board of directors obtained appraisals in support of the transfer values of the then-owned properties. The Company holds a 20% interest in, and is the sole general partner of, the joint venture and Homburg Invest, through such subsidiary, acquired the remaining 80% interest. In connection with the transaction, the Company received $53.2 million, including closing costs and preliminary adjustments, which was used to reduce the outstanding balance on its secured revolving credit facility. Homburg Invest is entitled to certain fees with respect to funding its interest in the joint venture, up to a maximum of $958,000, payable by the Company ($479,000 of such fees have been paid through December 31, 2007). The Company is entitled to a "promote" structure, applicable separately to each property, which, if certain targets are met, will permit the Company between 40% and 50% of the returns in excess of a leveraged 9.25% threshold. Additionally, the Company will receive fees for ongoing property management, leasing, construction management, acquisitions, dispositions, financings and refinancings. The joint venture transaction does not qualify as a sale for financial reporting purposes; accordingly, the Company continues to consolidate the properties.

Our articles of incorporation generally prohibit any person or group from owning more than 9.9% of our outstanding shares of stock, subject to a waiver of the limit that may be granted by our board of directors. Inland American Real Estate Trust, Inland Investment Advisors, Inc., Inland Real Estate Corporation and The Inland Group, Inc. (collectively, "Inland") requested a waiver of this provision to permit them to acquire up to 14% of our outstanding stock. Our board of directors agreed to this waiver, contingent on Inland agreeing to various voting and other restrictions. As the result, Inland has entered into a voting agreement with us, dated as of February 13, 2008. We have previously granted a waiver of this provision to other stockholders.

Pursuant to the voting agreement, we have agreed to waive the 9.9% limit for Inland to permit purchases of additional shares by Inland such that they may acquire up to an additional 1,881,111 shares; provided, however, that they may not own collectively more than 14% of our issued and outstanding shares or voting securities. If the number of outstanding voting securities is reduced for any reason, Inland will not be required to dispose of any of their holdings even if their beneficial ownership exceeds 14% of the outstanding voting securities. If during the term of the voting agreement shares beneficially owned by Inland are sold, transferred or otherwise disposed of, then they may not reacquire any shares above the greater of (i) their then existing ownership percentage of the Company or (ii) the existing 9.9% ownership limit.

The voting agreement grants certain officers of the Company named in the voting agreement a proxy to vote all shares owned by Inland in excess of 9.9%, and Inland has agreed otherwise to cause such shares to be (a) voted in favor of any matters proposed by the Company's board of directors and presented to the Company's stockholders; (b) voted for all nominees for directors that have been nominated by the Company's board of directors; (c) voted against any matters or nominees for directors not proposed by the Company's board of directors and presented to the Company's stockholders; and (d) duly represented, in person or by proxy, at each meeting of stockholders of the Company duly called by the Company's board of directors.

Inland has also agreed under the voting agreement that they will not, without the prior consent of the Company's board of directors (w) directly or indirectly or through any other person or entity, solicit proxies with respect to voting securities under any circumstance or become a "participant" in any "election contest" relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A under the Securities Exchange Act of 1934); (x) deposit any voting securities in a voting trust, or subject any voting securities to a voting or similar agreement; (y) directly or indirectly or through or in conjunction with any other person or entity, engage in a tender or exchange offer for the Company's voting securities made by any other person or entity without the prior approval of the Company, or engage in any proxy solicitation or any other activity with any other person or entity relating to the Company without the prior approval of the Company; or (z) become a member of a Section 13(d) group that is seeking to obtain or take control of the Company.

Unless terminated earlier by the written agreement of the parties, the voting agreement will terminate upon the earlier of (1) the sale or other disposition by Inland of all its shares in excess of 9.9%, (ii) February 13, 2018 or (iii) any action by the Company's board of directors to revoke the waiver of the ownership limit.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company believes that during 2007 its officers, directors and holders of more than 10% of its common stock complied with all filing requirements under Section 16(a) of the Securities Exchange Act of 1934, except for Mr. Homburg. He was late in filing a Form 4. In making this disclosure, the Company has relied solely on written representations of its directors, officers and holders of more than 10% of the Company's common stock and on copies of reports that have been filed with the Securities and Exchange Commission.

2. PROPOSAL TO APPROVE THE AMENDMENT OF THE 2004 STOCK INCENTIVE PLAN

On March 23, 2004, the Board of Directors approved the Cedar Shopping Centers, Inc. 2004 Stock Incentive Plan (the "2004 Stock Incentive Plan"), which was approved by the stockholders on June 15, 2004. The 2004 Stock Incentive Plan has been amended, subject to stockholder approval, to increase the number of shares of Common Stock that may be issued thereunder from 850,000 shares to 2,750,000 shares, an increase of 1,900,000 shares. In addition, the 2004 Stock Incentive Plan has been amended to change the number of shares that may be granted to any participant during any calendar year. As of March 31, 2008, a total of 620,742 Restricted Shares had been granted pursuant to the 2004 Stock Incentive Plan, of which 599,372 remained unvested as of that date. After giving effect to the amendment and subject to stockholder approval, 2,129,258 shares will be available for future issuance under the 2004 Stock Incentive Plan.

The 2004 Stock Incentive Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares, performance units and performance shares (collectively, “Awards”); however, there are no stock appreciation rights outstanding and the Company will not issue any stock appreciation rights in the future.

The table below summarizes as of March 31, 2008, the remaining share reserve under each of our equity incentive plans and the number of shares subject to outstanding awards under each such plan. Under the 1998 Stock Option Plan, we have a total of 13,332 options outstanding at an exercise price of $10.50 per share, all of which expire July 10, 2011. The Company will no longer grant any more awards under this plan. As the result, the 2004 Stock Incentive Plan is the only employee benefit plan under which the Company may award shares of stock.

	Shares Available for Future Grant	Outstanding Awards
Plan	Number of Shares	Number of Shares
2004 Stock Incentive Plan	2,129,258*	620,742**
1998 Stock Option Plan	0	13,332

*Includes 229,258 shares presently authorized and 1,900,000 shares that may be issued subject to stockholder approval of the amendment to the 2004 Stock Incentive Plan.

**Includes 21,370 shares that have vested and 599,372 shares that will vest and become issuable upon the passage of time or the attainment of designated performance objectives.

The following is a summary of certain provisions of the 2004 Stock Incentive Plan and is qualified in its entirety by reference to the full text of the 2004 Stock Incentive Plan.

Administration

The 2004 Stock Incentive Plan is administered by the Compensation Committee (the “Committee”) of the Board of Directors, which is composed of at least two members of the Board of Directors, each of whom satisfies the requirements for a “non-employee director” within the meaning of Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and to the extent compliance with Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”) is desired, an “outside director” within the meaning of regulations promulgated under Section 162(m) of the Code. Pursuant to the 2004 Stock Incentive Plan, the Committee selects participants to whom Awards will be granted and determines the type, size, terms and conditions of Awards, including the per share purchase price and vesting provisions of stock options and the restrictions or performance criteria relating to restricted shares and performance Awards, except that all determinations regarding any Award granted to a non-employee director will be made by the Board of Directors. The Committee also administers, construes and interprets the 2004 Stock Incentive Plan.

At March 31, 2008, approximately 100 employees and directors of the Company were eligible to participate in the 2004 Stock Incentive Plan.

Securities Offered

The maximum number of shares of common stock of the Company that the Company may issue pursuant to the 2004 Stock Incentive Plan will be 2,750,000 if the proposed amendment is approved by stockholders. The maximum number of shares that were the subject of Awards granted to any participant during the term of the 2004 Stock Incentive Plan or any calendar year had been set at 250,000 shares. This provision has been amended so that the maximum number of shares that may be granted to a participant in any calendar year may not exceed 250,000 shares and the provision relating to the maximum number of shares that may be granted during the term of the 2004 Stock Incentive Plan has been deleted. In the event of certain changes in capitalization of the Company, the Committee may adjust the maximum number and class of shares with respect to which Awards may be granted under the 2004 Stock Incentive Plan, the maximum number of shares with respect to which Awards may be granted to any participant during the term of the 2004 Stock Incentive Plan or any calendar year, the number and class of shares which are subject to outstanding Awards granted under the 2004 Stock Incentive Plan, and if applicable, the purchase price therefor. In addition, if any Award expires or terminates without having been exercised, the shares subject to that Award again become available for grant under the 2004 Stock Incentive Plan. On April 18, 2008, the closing price of a share of common stock of the Company was $12.58.

Eligibility

All of the Company's (and any of its subsidiaries') officers, employees, consultants and directors are eligible to receive Awards under the 2004 Stock Incentive Plan. Awards under the 2004 Stock Incentive Plan are granted at the sole discretion of the Committee. The granting of an Award does not confer upon the participant any right to continue in the employ or service of the Company or affect any right or power of the Company to terminate the services of such participant at any time.

Awards

Stock Options

The Committee may grant to participants options to purchase shares of common stock of the Company. Subject to the provisions of the Code, and in the sole discretion of the Committee, options may either be incentive stock options (within the meaning of Section 422 of the Code, and referred to herein as "ISOs") or nonqualified stock options. The per share purchase price (i.e., the exercise price) under each option is established by the Committee at the time the option is granted. The per share exercise price of any option will be determined by the Committee, but may not be less than 100% of the fair market value of a share of common stock of the Company on the date the option is granted, or 110% in the case of an ISO granted to a participant who owns more than 10% of the total combined voting power of all classes of shares of the Company (a "Ten-Percent Shareholder"). Options may be exercisable at such times and in such installments as determined by the Committee. The Committee may accelerate the exercisability of any option at any time. The Committee will not modify or substitute outstanding options to effect any re-pricing or replacement of any options that have an exercise price that is above the then fair market value of the Company's common stock. The term of each option granted pursuant to the 2004 Stock Incentive Plan will be determined by the Committee, provided, however, that no option may be exercisable after the expiration of ten years from its grant date (five years in the case of an ISO granted to a Ten-Percent Shareholder). Each option granted pursuant to the 2004 Stock Incentive Plan will be evidenced by a written agreement setting forth the terms and conditions applicable to such option, including, but not limited to: (i) the exercise price, (ii) the term, (iii) the vesting schedule, (iv) the amount of shares subject to such option, and (v) the effect of a termination or change in the employment or service status of the optionee, in each case, as determined by the Committee and in accordance with the 2004 Stock Incentive Plan.

Unless permitted by the Committee, options are not transferable by the optionee other than by will or the laws of descent and distribution and may be exercised during the optionee's lifetime only by the optionee or the optionee's guardian or legal representative. The purchase price for shares acquired pursuant to the exercise of an option must be paid (i) in cash, (ii) by transferring shares to the Company, or (iii) a combination of the foregoing, upon such terms and conditions as determined by the Committee. Notwithstanding the foregoing, the Committee has the discretion to determine the form of payment acceptable in respect of the exercise of an option, including establishing cashless exercise procedures, which provide for the simultaneous exercise of an option and sale of the underlying share. Upon a "change in control" (as determined under the 2004 Stock Incentive Plan) of the Company, all options outstanding under the 2004 Stock Incentive Plan will become immediately and fully exercisable.

Stock Appreciation Rights

The 2004 Stock Incentive Plan permits the granting of stock appreciation rights ("SARs") to participants in connection with the grant of an option or as a freestanding right. A SAR permits the grantee to receive, upon exercise, cash and/or shares of common stock of the Company, at the discretion of the Committee, equal in value to an amount determined by multiplying: (i) the excess, if any, of (A) for SARs granted in connection with the grant of an option, the per share fair market value on the date preceding the exercise date over the per share purchase price under the related option, or (B) for SARs not granted in connection with the grant of an option, the per share fair market value on the date preceding the exercise date over the per share fair market value on the grant date of the SAR by (ii) the number of shares as to which such SAR is being exercised.

SARs granted in connection with an option cover the same shares of common stock as those covered by such option and are generally subject to the same terms. A SAR granted in connection with an ISO is exercisable only if the fair market value of a share of common stock of the Company on the exercise date exceeds the purchase price specified in the related ISO agreement. Freestanding SARs may be granted on such terms and conditions as shall be determined by the Committee, but may not have a term of greater than ten years. The Committee will not modify or substitute outstanding SARs to effect any re-pricing or replacement of any that have a base value above the then fair market value. Upon a "change in control" (as determined under the 2004 Stock Incentive Plan) of the Company, all SARs will become immediately and fully exercisable.

There are no SARs outstanding and the Company will not issue any SARs in the future.

Restricted Shares

The terms of a restricted share Award, including the restrictions placed on such shares of common stock of the Company and the time or times at which such restrictions will lapse, will be determined by the Committee at the time the Award is made; provided, however, that all restricted shares will require a minimum vesting of three years if time-based and one year if performance-based. The Committee may determine at the time an Award of restricted shares is granted that dividends paid on such restricted shares may be paid to the grantee or deferred and, if deferred, whether such dividends will be reinvested in shares of common stock of the Company. Deferred dividends (together with any interest accrued thereon) will be paid upon the lapsing of restrictions on restricted shares or forfeited upon the forfeiture of restricted shares. Each restricted share Award granted pursuant to the 2004 Stock Incentive Plan will be evidenced by a written agreement setting forth the terms and conditions applicable to such Award, including, but not limited to, the effect of a termination or change in the employment or service status of the grantee. Upon a “change in control” (as determined under the 2004 Stock Incentive Plan) of the Company, the restrictions on restricted shares will lapse and all such shares will become fully vested.

Performance Units and Performance Shares

Performance units and performance shares may be awarded at such times as the Committee may determine and the vesting of performance units and performance shares is based upon the attainment of specified performance objectives by the Company and/or a subsidiary or all subsidiaries of the Company within the specified performance period (the “Performance Cycle”); provided, however, all performance units and performance shares will require a minimum vesting of one year. Performance objectives and the length of the Performance Cycle for performance units and performance shares may be determined by the Committee at the time the Award is made. Performance objectives may be expressed in terms of earnings per share, pre-tax profits, net earnings or net worth, return on equity or assets, any combination of those objectives or any other standards determined appropriate by the Committee at the time the Award is made. Prior to the end of a Performance Cycle, the Committee may, in its discretion, adjust the performance objectives to reflect certain changes in capitalization of the Company, a change in the tax rate or book tax rate of the Company or any subsidiary of the Company, or any other event which may materially affect the performance of the Company or a subsidiary of the Company. Each performance unit or performance share Award granted pursuant to the 2004 Stock Incentive Plan will be evidenced by a written agreement setting forth the terms and conditions applicable to such Award, including, but not limited to, the effect of a termination or change in the employment or service status of the grantee. Each performance unit will represent one share of common stock of the Company and payments in respect of vested performance units will be made in cash, common stock of the Company or restricted shares or any combination of the foregoing. The Committee may determine the total number of performance shares subject to an Award and the time or times at which the performance shares will be issued to the grantee at the time the Award is made. In addition, the Committee may determine (a) the time or times at which the awarded but not issued performance shares will be issued to the grantee and (b) the time or times at which awarded and issued performance shares will become vested or forfeited by the grantee, in either case based upon the attainment of specified performance objectives within the Performance Cycle. At the time the Award of performance shares is made, the Committee may determine that dividends be paid or deferred on the performance shares issued. Deferred dividends (together with any interest accrued thereon) will be paid upon the lapsing of restrictions on performance shares or forfeited upon the forfeiture of performance shares. Upon a “change in control” (as determined under the 2004 Stock Incentive Plan) of the Company, (i) a percentage of performance units, as determined by the Committee at the time an Award of performance units is made, will become vested and the grantee will be entitled to receive a cash payment equal to the per share fair market value multiplied by the number of performance units which become vested, and (ii) with respect to performance shares, all restrictions will lapse with respect to a percentage of the performance shares, as determined by the Committee at the time the Award of performance shares is made.

Additional Information

The 2004 Stock Incentive Plan provides that in satisfaction of the federal, state and local income taxes and other amounts as may be required by law to be withheld with respect to an Award, the optionee or grantee may make a written election to have withheld a portion of the shares of common stock of the Company issuable to him or her having an aggregate fair market value equal to the withholding taxes.

The Committee has the authority at the time a grant of an option or other type of Award is made to award designated optionees or grantees tax bonuses that will be paid on the exercise of such option or payment of such other type of Award. The Committee will have full authority to determine the amount of any such tax bonus and the terms and conditions affecting the vesting and payment thereof.

The 2004 Stock Incentive Plan will terminate on the day preceding the tenth anniversary of its effective date. The Board of Directors may terminate or amend the 2004 Stock Incentive Plan at any time, except that (i) no such amendment or termination may adversely affect outstanding Awards without the consent of the recipients thereof, (ii) no such amendment may increase benefits to participants, increase the number of shares subject to the 2004 Stock Incentive Plan or modify eligibility requirements unless approved by shareholders, and (iii) to the extent necessary under applicable law or securities exchange rule, no amendment will be effective unless approved by shareholders.

Certain Federal Income Tax Consequences

Stock Options

In general, an optionee will not recognize taxable income upon grant or exercise of an ISO and the Company will not be entitled to any business expense deduction with respect to the grant or exercise of an ISO. However, upon the exercise of an ISO, the excess of the fair market value on the date of the exercise of the shares of common stock of the Company received over the exercise price of the shares of the common stock will be treated as an adjustment to alternative minimum taxable income. In order for the exercise of an ISO to qualify for the foregoing tax treatment, the optionee generally must be an employee of the Company or a subsidiary of the Company from the date the ISO is granted through the date three months before the date of exercise, except in the case of death or disability, where special rules apply.

If the optionee has held the shares of common stock of the Company acquired upon exercise of an ISO for at least two years after the date of grant and for at least one year after the date of exercise, upon disposition of such shares by the optionee, the difference, if any, between the sale price of such shares and the exercise price of the option will be treated as long-term capital gain or loss. If the optionee does not satisfy these holding period requirements, the optionee will recognize ordinary income at the time of the disposition of the shares, generally in an amount equal to the excess of the fair market value of the shares at the time the option was exercised over the exercise price of the option. The balance of gain realized, if any, will be long-term or short-term capital gain, depending on whether or not the shares were sold more than one year after the option was exercised. If the optionee sells the shares prior to the satisfaction of the holding period requirements but at a price below the fair market value of the shares at the time the option was exercised, the amount of ordinary income will be limited to the excess of the amount realized on the sale over the exercise price of the option. Subject to the discussion below with respect to Section 162(m) of the Code, the Company will be allowed a business expense deduction to the extent the optionee recognizes ordinary income.

In general, an optionee to whom a nonqualified stock option is granted will recognize no income at the time of the grant of the option. Upon exercise of a nonqualified stock option, the optionee will recognize ordinary income in an amount equal to the amount by which the fair market value of the shares on the date of exercise exceeds the exercise price of the option (special rules may apply in the case of an optionee who is subject to Section 16(b) of the Exchange Act). Subject to the discussion below with respect to Section 162(m) of the Code, the Company will be entitled to a business expense deduction in the same amount and at the same time as the optionee recognizes ordinary income.

Stock Appreciation Rights

Upon exercise of a SAR, the optionee will recognize ordinary income in an amount equal to the cash or fair market value of the shares of common stock of the Company received on the exercise date. Subject to the discussion below with respect to Section 162(m) of the Code, the Company will be entitled to a business expense deduction in the same amount and at the same time as the optionee of a SAR recognizes ordinary income.

Restricted Shares

Generally, a participant will not recognize income upon the grant of restricted shares. However, a participant will recognize ordinary income in an amount equal to the excess of the fair market value of the restricted shares at the end of the applicable restricted period over the amount (if any) paid by the participant. Any disposition of a restricted share by a participant after the end of the restricted period will result in a long-term or short-term capital gain or loss (depending on the length of time the restricted share is held after the end of the restricted period). Alternatively, a participant may, within thirty days after the grant of a restricted share Award, elect to recognize ordinary income as of the date of grant in an amount equal to the excess of the fair market value of such shares on such date of grant over the amount (if any) paid by the participant (in which case subsequent appreciation or depreciation will generally be taxed as capital gain or loss). Dividends received by a participant prior to the end of the restricted period will constitute ordinary income to the participant in the year paid. The Company generally will be entitled to a business expense deduction in the same amount and at the same time as the participant recognizes ordinary income.

Performance Shares and Performance Units

Generally, a participant will not recognize taxable income upon the grant of a performance share or performance unit. A participant will recognize ordinary income equal to any cash that is paid or the fair market value of any shares of common stock of the Company transferred in settlement of a performance unit. To the extent performance units are settled in restricted shares, the participant will recognize ordinary income as applicable to restricted shares as described above. A participant generally will recognize ordinary income in an amount equal to the fair market value of the performance shares at the time the restrictions on such performance shares lapse. Alternatively, a participant may, within thirty days after the date of the grant of a performance share Award, elect to recognize ordinary income as of the date of grant in an amount equal to the excess of the fair market value of such shares on such date of grant over the amount (if any) paid by the participant (in which case subsequent appreciation or depreciation will generally be taxed as capital gain or loss). Any deferred dividends are taken into income when paid. The Company generally will be entitled to a business expense deduction in the same amount and at the same time as the participant recognizes ordinary income.

Sections 280G and 162(m) of the Code

Under certain circumstances, the accelerated vesting of options or the accelerated lapse of restrictions on other Awards in connection with a “change in control” (as determined under the 2004 Stock Incentive Plan) of the Company might be deemed an “excess parachute payment” for purposes of the golden parachute tax provisions of Section 280G of the Code. To the extent it is so considered, the optionee or grantee of the other Award may be subject to a 20% excise tax and the Company may be denied a tax deduction.

Section 162(m) of the Code and the regulations thereunder generally would disallow the Company a federal income tax deduction for compensation paid to its Chief Executive Officer and its four other most highly compensated executive officers to the extent such compensation paid to any of such individuals exceeds $1,000,000 in any year. Section 162(m) generally does not disallow a deduction for payments of "qualified performance-based compensation" the material terms of which have been approved by shareholders. The Company intends that compensation attributable to options, SARs, performance shares and performance units granted under the 2004 Stock Incentive Plan will be "qualified performance-based compensation."

Section 409A of the Code

The American Jobs Creation Act of 2004 introduced a new section of the Code ("Section 409A") covering certain nonqualified deferred compensation arrangements. Section 409A generally established new rules that must be followed with respect to covered deferred compensation arrangements in order to avoid the imposition of an additional 20% tax (plus interest) on the service provider who is entitled to receive the deferred compensation. Certain awards that may be granted under the 2004 Stock Incentive Plan may constitute "deferred compensation" within the meaning of and subject to Section 409A. While the Company intends to administer and operate the 2004 Stock Incentive Plan and establish terms (or make required amendments) with respect to awards subject to Section 409A in a manner that will avoid the imposition of additional taxation under Section 409A upon a participant, there can be no assurance that additional taxation under Section 409A will be avoided in all cases.

Vote Required

The affirmative vote of a majority of the votes cast on the proposal to approve the amendment to the 2004 Stock Incentive Plan is required for approval of this Proposal 2.

The Board of Directors recommends a vote FOR approval of the proposal to approve the amendment to the 2004 Stock Incentive Plan.

3. APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Company has selected Ernst & Young LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2008. A representative of Ernst & Young LLP is expected to be present at the meeting with the opportunity to make a statement if such representative so desires and to respond to appropriate questions.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's financial statements for the years ended December 31, 2006 and 2007 and fees billed for other services rendered by such firm during the periods:

	2006 Actual Fees	2007 Actual Fees
Audit fees [(1)]		
Audit of consolidated financial statements and internal controls	$ 516,000	$ 659,000
Quarterly reviews	90,000	90,000
SEC filings, including comfort letters and consents	167,500	40,000
Total Audit Fees	773,500	789,000
Audit-Related Fees [(2)]		

Audits and accounting consultations in connection with acquisitions	403,373	215,000
Total Audit-Related Fees	403,373	215,000
All Other Fees	0	0
Total Fees	$1,176,873	$1,004,000

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(1) Includes fees and expenses related to the annual audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services rendered.

(2) Includes fees and expenses for services rendered from January through December, notwithstanding when the fees and expenses were billed. Such fees include audits of acquisitions required by the rules of the Securities and Exchange Commission.

All audit-related services and each of the other services were pre-approved by the Audit Committee, which concluded that the provision of such services by the Company’s auditors was compatible with the maintenance of that firm’s independence in the conduct of its auditing functions. The policy of the Audit Committee provides for pre-approval of the yearly audits, quarterly reviews and tax compliance on an annual basis. As individual engagements arise, they are approved on a case-by-case basis. The Audit Committee may delegate to one or more of its members pre-approval authority with respect to permitted services.

Audit Committee Consideration of these Fees

The Company’s Audit Committee has considered whether the provisions of the services covered under the categories of “Audit-Related Fees” and “All Other Fees” are compatible with maintaining the independence of Ernst & Young LLP.

The Board of Directors of the Company recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company.

4. OTHER MATTERS

Stockholder Proposals

Proposals of stockholders intended to be presented at the Company’s 2009 Annual Meeting of Stockholders must be received by the Company on or prior to December 29, 2008 to be eligible for inclusion in the Company’s Proxy Statement and form of Proxy to be used in connection with such meeting. Any notice of stockholder proposals received after this date is considered untimely.

OTHER BUSINESS

At the date of this Proxy Statement, the only business which the Board of Directors intends to present or knows that others will present at the Meeting is that hereinabove set forth. If any other matter or matters are properly brought before the Meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of Proxy to vote the Proxy on such matters in accordance with their judgment.

Leo S. Ullman
Chairman of the Board
Dated: April 28, 2008

CEDAR SHOPPING CENTERS, INC.

2008 ANNUAL MEETING OF STOCKHOLDERS - JUNE 17, 2008

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder of Cedar Shopping Centers, Inc., a Maryland corporation, hereby appoints Leo S. Ullman and Brenda J. Walker and each of them the proxies of the undersigned with full power of substitution to vote at the Annual Meeting of Stockholders of the Company to be held at 4:00 PM on June 17, 2008, and at any adjournment or adjournments thereof (the "Meeting"), with all the power which the undersigned would have if personally present, hereby revoking any proxy heretofore given. The undersigned hereby acknowledges receipt of the proxy statement for the Meeting and instructs the proxies to vote as directed on the reverse side.

(Continued and to be signed on the reverse side)

ANNUAL MEETING OF STOCKHOLDERS OF

CEDAR SHOPPING CENTERS, INC.

JUNE 17, 2008

PLEASE DATE, SIGN AND MAIL

YOUR PROXY CARD IN THE

ENVELOPE PROVIDED AS SOON AS POSSIBLE.

- Please detach along perforated line and mail in the envelope provided. -

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X]

1. To elect 7 nominees for Directors:

		NOMINEES:	
[ ]	FOR ALL NOMINEES	( )	James J. Burns
		( )	Richard Homburg
		( )	Pamela N. Hootkin
		( )	Paul G. Kirk, Jr.
[ ]	WITHHOLD AUTHORITY	( )	Everett B. Miller, III
	FOR ALL NOMINEES	( )	Leo S. Ullman
		( )	Roger Widmann
[ ]	FOR ALL EXCEPT (see instructions below)		

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here. (X)

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. [ ]

		FOR	AGAINST	ABSTAIN
2.	To amend the 2004 Stock Incentive Plan	[ ]	[ ]	[ ]
3.	To ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 31, 2008	[ ]	[ ]	[ ]
4.	With discretionary authority upon such other matters as may properly come before the Meeting			

THIS PROXY, WHEN PROPERLY SIGNED, WILL BE VOTED IN THE MANNER DIRECTED, IF NO SPECIFICATION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES SET FORTH HEREIN, FOR PROPOSAL 2, FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP FOR THE FISCAL YEAR ENDING DECEMBER 31, 2008, AND IN THE DISCRETION OF THE PROXY HOLDERS AS TO ANY OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

MARK HERE IF YOU PLAN TO ATTEND THE MEETING [ ]

Signature of Stockholder ______________________________ Date: ____________________

Signature of Stockholder ______________________________ Date: ____________________

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.