FOOT LOCKER INC
Form DEF 14A
April 10, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant S
Filed by a Party other than the Registrant £

Check the appropriate box:

£ Preliminary Proxy Statement
S Definitive Proxy Statement
£ Definitive Additional Materials
£ Soliciting Material Pursuant to § 240.14a-12

£ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Foot Locker, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

S No fee required.

£ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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£ Fee paid previously with preliminary materials.

£ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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(3) Filing party:

(4) Date filed:

NOTICE OF 2008 ANNUAL MEETING
AND
PROXY STATEMENT

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112 West 34th Street
New York, New York 10120

NOTICE OF 2008 ANNUAL MEETING OF SHAREHOLDERS

DATE: May 21, 2008

TIME: 9:00 A.M., local time

PLACE: Foot Locker, Inc., 112 West 34th Street, New York, New York 10120

RECORD DATE: Shareholders of record on March 28, 2008 can vote at this meeting.

ITEMS OF BUSINESS:

- Elect two members to the Board of Directors to serve for three-year terms
- Ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2008 fiscal year
- Approve the Foot Locker Annual Incentive Compensation Plan, as Amended and Restated
- Transact such other business as may properly come before the meeting and at any adjournment or postponement.

PROXY VOTING: **YOUR VOTE IS IMPORTANT TO US.** Please vote as soon as possible in one of these ways:

- Use the toll-free telephone number shown on the Notice of Internet Availability of Proxy Materials for the 2008 Annual Meeting of Foot Locker, Inc. (your Foot Locker Notice) or on your proxy card;
- Visit the web site shown on your Foot Locker Notice or on your proxy card to vote via the Internet;
- If you received a printed copy of the proxy card, please mark, sign and return the enclosed proxy card using the postage-paid envelope provided; or
- Follow the instructions on your proxy materials if your shares are held in street name.

Even if you plan to attend the annual meeting, we encourage you to vote in advance using one of these methods.

GARY M. BAHLER
Secretary

April 11, 2008

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112 West 34th Street
New York, New York 10120

PROXY STATEMENT

GENERAL INFORMATION

We are providing these proxy materials to you for the solicitation of proxies by the Board of Directors of Foot Locker, Inc. for the 2008 Annual Meeting of Shareholders and for any adjournments or postponements of this meeting. We are holding this annual meeting on May 21, 2008 at 9:00 A.M., local time, at our corporate headquarters located at 112 West 34th Street, New York, New York 10120. In this proxy statement we refer to Foot Locker, Inc. as Foot Locker, the Company, we, our, or us.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on May 21, 2008

The Company s Proxy Statement and 2007 Annual Report/Form 10-K are available at http://bnymellon.mobular.net/bnymellon/fl and http://ww3.ics.adp.com/streetlink/FL

We are pleased to be using this year a new procedure approved by the Securities and Exchange Commission that allows companies to furnish their proxy materials to shareholders over the Internet instead of mailing full sets of the printed materials. We believe that this procedure will reduce costs, provide greater flexibility to our shareholders, and lessen the environmental impact of our Annual Meeting. On or about April 11, 2008, we started mailing to most of our shareholders in the United States a Notice of Internet Availability of Proxy Materials (the Foot Locker Notice). The Foot Locker Notice contains instructions on how to access and read our 2008 Proxy Statement and our 2007 Annual Report to Shareholders on the Internet and to vote online. **If you received a Foot Locker Notice by mail, you will not receive paper copies of the proxy materials in the mail unless you request them.** Instead, the Foot Locker Notice instructs you on how to access and read the Proxy Statement and Annual Report and how you may submit your proxy over the Internet. If you received a Foot Locker Notice by mail and would like to receive a printed copy of the materials, please follow the instructions on the Foot Locker Notice for requesting the materials, and we will promptly mail the materials to you.

We are mailing to shareholders, or making available to shareholders via the Internet, this Proxy Statement, form of proxy card, and our 2007 Annual Report/Form10-K on or about April 11, 2008.

QUESTIONS AND ANSWERS ABOUT THIS ANNUAL MEETING AND VOTING

What is included in these proxy materials?

The proxy materials include our 2008 Proxy Statement and 2007 Annual Report/Form 10-K. If you received printed copies of these materials by mail, these materials also include the proxy card for this annual meeting.

May I obtain an additional copy of the Form 10-K?

Our Form 10-K for the 2007 fiscal year ended February 2, 2008 is included with the 2007 Annual Report. You may obtain an additional copy of our 2007 Form 10-K without charge by writing to our Investor Relations Department at Foot Locker, Inc., 112 West 34th Street, New York, New York 10120.

It is also available free of charge through our corporate web site at *http://www.footlocker-inc.com/ IR_index.htm*.

What constitutes a quorum for the Annual Meeting?

We will have a quorum and will be able to conduct the business of the Annual Meeting if the holders of a majority of the shares outstanding are present at the meeting, either in person or by proxy. We will count abstentions and broker non-votes, if any, as present and entitled to vote in determining whether we have a quorum.

What is the record date for this meeting?

The record date for this meeting is March 28, 2008. If you were a Foot Locker shareholder on this date, you are entitled to vote on the items of business described in this proxy statement.

Do I need a ticket to attend the Annual Meeting?

You will need an admission ticket to attend the Annual Meeting. Attendance at the meeting will be limited to shareholders on March 28, 2008 (or their authorized representatives) having an admission ticket or proof of their share ownership, and guests of the Company. If you plan to attend the meeting, please indicate this when you are voting by telephone or Internet or check the box on your proxy card, and we will mail an admission ticket to you.

If your shares are held in the name of a bank, broker, or other holder of record and you plan to attend the meeting, you can obtain an admission ticket in advance by providing proof of your ownership, such as a bank or brokerage account statement, to the Corporate Secretary at Foot Locker, Inc., 112 West 34th Street, New York, New York 10120. If you do not have an admission ticket, you must show proof of your ownership of the Company s Common Stock at the registration table at the door.

What are shareholders voting on at this meeting?

You are being asked to vote on the following items:

Proposal 1:	Election of two directors in Class II;
Proposal 2:	Ratification of the appointment of KPMG LLP as our independent registered public accountants for 2008; and
Proposal 3:	Approval of the Foot Locker Annual Incentive Compensation Plan, as Amended and Restated.

How does the Board of Directors recommend that I vote on the proposals?

The Board recommends that you vote FOR each of the three proposals being voted on at the meeting.

Could other matters be voted on at the Annual Meeting?

We do not know of any other business that will be presented at the 2008 annual meeting. If any other matters are properly brought before the meeting for consideration, then the persons named as proxies will have the discretion to vote on those matters for you using their best judgment.

Who may vote at the Annual Meeting?

The only voting securities of Foot Locker are our shares of Common Stock. Only shareholders of record on the books of the Company on March 28, 2008 are entitled to vote at the annual meeting and any adjournments or postponements. Each share is entitled to one vote. There were 154,774,002 shares of Common Stock outstanding on March 28, 2008.

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What are the voting requirements to elect directors and to approve the other proposals?

Directors must be elected by a plurality of the votes cast by shareholders. (Please see our policy described on Page 7 regarding resignations by directors who do not receive more for votes than withheld votes.) The other proposals being voted on at this meeting require the favorable vote of a majority of the votes cast by shareholders to be approved.

How will the votes be counted?

Votes will be counted and certified by representatives of our transfer agent, BNY Mellon Shareowner Services, as inspectors of election. The inspectors of election are independent and are not employees of Foot Locker.

We do not count abstentions and broker non-votes, if any, in determining the votes cast for any proposal. Votes withheld for the election of one or more of the nominees for director will not be counted as votes cast for them.

Broker non-votes occur when brokers or other entities holding shares for an owner in street name do not receive voting instructions from the owner on non-routine matters and, consequently, have no discretion to vote on those matters. If a proposal is routine under the rules of The New York Stock Exchange, then the brokers or other entities may vote the shares held by them even though they have not received instructions from the owner.

The Company s Certificate of Incorporation and By-laws do not contain any provisions on the effect of abstentions or broker non-votes.

Will my vote be confidential?

We maintain the confidentiality of our shareholders votes. All proxy cards, electronic voting, voting instructions, ballots and voting tabulations identifying shareholders are kept confidential from the Company, except:

as necessary to meet any applicable legal requirements,

when a shareholder requests disclosure or writes a comment on a proxy card,

in a contested proxy solicitation, and

to allow independent inspectors of election to tabulate and certify the vote.

How do I vote my shares?

You may vote using any of the following methods:

Telephone

If you are located within the United States or Canada, you can vote your shares by telephone by calling the toll-free telephone number printed on your Notice of Internet Availability of Proxy Materials (Notice), on your proxy card, or in the instructions that accompany your proxy materials, as applicable, and following the recorded instructions. You will need the control number printed on your Notice, on your proxy card, or in the instructions that accompany your proxy materials, as applicable. Telephone voting is available 24 hours a day and will be accessible until 9:00 A.M. on May 21, 2008. The telephone voting system has easy to follow instructions and allows you to confirm that the system has properly recorded your vote. **If you vote by telephone, you do NOT need to return a proxy card or voting instruction form.** If you are an owner in street name, please follow the instructions that accompany your proxy materials.

Internet

You can also choose to vote your shares by the Internet. You will need the control number printed on your Notice, on your proxy card, or in the instructions that accompany your proxy materials, as applicable. The web site for Internet voting is listed on your Notice, proxy card, or in the instructions that accompany your proxy materials. Internet voting is available 24 hours a day and will be accessible until 9:00 A.M. on May 21, 2008. As with telephone voting, you will be able to confirm that the system

has properly recorded your vote. **If you vote via the Internet, you do NOT need to return a proxy card or voting instruction form.**

Mail

If you are a holder of record and received printed copies of the materials by mail, you may choose to vote by mail. Simply mark your proxy card, date and sign it, and return it in the postage-paid envelope that we included with your materials. If you hold your shares through a bank or brokerage account, please complete and mail the voting instruction form in the envelope provided.

Ballot at the Annual Meeting

You may also vote by ballot at the Annual Meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

All shares that have been properly voted and not revoked will be voted at the Annual Meeting. If you sign and return a proxy card but do not give voting instructions, the shares represented by that proxy card will be voted as recommended by the Board of Directors.

Can I change my mind after voting my shares?

You may revoke your proxy at any time before it is used by (i) sending a written notice to the Company at its corporate headquarters, (ii) delivering a valid proxy card with a later date, (iii) providing a later dated vote by telephone or Internet, or (iv) voting by ballot at the Annual Meeting.

Are shares held in employee plans included on the proxy card?

If you hold shares of Foot Locker Common Stock through the Foot Locker 401(k) Plan or the Foot Locker Puerto Rico 1165(e) Plan, you received a proxy card showing the number of shares allocated to your plan account. Your proxy card will serve as a voting instruction card for the trustees of the plans, who will vote the shares. The trustees will vote only those shares for which voting instructions have been given. To allow sufficient time for voting by the trustees of these plans, your voting instructions must be received by May 16, 2008.

Who pays the cost of this proxy solicitation?

We will pay for the cost of the solicitation of proxies, including the preparation, printing and mailing of the proxy materials.

Proxies may be solicited, without additional compensation, by our directors, officers, or employees by mail, telephone, fax, in person, or otherwise. We will request banks, brokers and other custodians, nominees and fiduciaries to deliver proxy material to the beneficial owners of Foot Locker s Common Stock and obtain their voting instructions, and we will reimburse those firms for their expenses under the rules of the Securities and Exchange Commission and The New York Stock Exchange. In addition, we have retained Innisfree M&A Incorporated to assist us in the solicitation of proxies for a fee of $10,000 plus out-of-pocket expenses.

BENEFICIAL OWNERSHIP OF THE COMPANY S STOCK

Directors and Executive Officers

The following table shows the number of shares of Common Stock reported to us as beneficially owned by each of our directors and named executive officers as of March 28, 2008. The table also shows beneficial ownership by all directors, named executive officers, and executive officers as a group on that date, including shares of Common Stock that they have a right to acquire within 60 days after March 28, 2008 by the exercise of stock options.

Matthew D. Serra beneficially owned 1.17 percent of the total number of outstanding shares of Common Stock as of March 28, 2008. No other director, named executive officer, or executive officer beneficially owned one percent or more of the total number of outstanding shares as of that date.

Each person has sole voting and investment power for the number of shares shown unless otherwise noted.

Amount and Nature of Beneficial Ownership

Name	Common Stock Beneficially Owned Excluding Stock Options (a)	Stock Options Exercisable Within 60 Days After 3/28/2008	RSUs and Deferred Stock Units Beneficially Owned (b)	Total Shares of Common Stock Beneficially Owned
Gary M. Bahler	126,530	253,334		379,864
Nicholas DiPaolo	12,826 (c)	16,542	3,704	33,072
Alan D. Feldman	11,065	6,314	3,704	21,083
Jarobin Gilbert Jr.	9,610	25,520	3,704	38,834
Ronald J. Halls	124,551	116,667		241,218
Robert W. McHugh	146,472	165,666		312,138
Matthew M. McKenna	14,616	4,287	3,704	22,607
Richard T. Mina	237,619 (d)	407,171		644,790
James E. Preston	55,271	25,520	3,704	84,495
David Y. Schwartz	12,275	25,520	13,127	50,922
Matthew D. Serra	708,989	1,097,832		1,806,821
Christopher A. Sinclair	20,223	25,520	3,704	49,447
Cheryl Nido Turpin	5,964	20,815	15,176	41,955
Dona D. Young	7,356	20,815	22,550	50,721
All 20 directors and executive officers as a group, including the named executive officers	1,828,120	2,974,852	73,077	4,876,049 (e)

Notes to Beneficial Ownership Table

(a) This column includes shares

held in the Company s 401(k) Plan and unvested shares of restricted stock.

(b) This column includes (i) the number of deferred stock units credited as of March 28, 2008 to the account of the directors who elected to defer all or part of their annual retainer fee and (ii) directors unvested restricted stock units (RSUs). The deferred stock units and RSUs do not have current voting or investment power.

(c) Includes 150 shares held by his spouse.

(d) Does not include 30,000 shares of common stock transferred to spouse under marital settlement agreement in which Mr. Mina disclaims beneficial

ownership.

(e) This number represents approximately 3.15 percent of the shares of Common Stock outstanding at the close of business on March 28, 2008.

Persons Owning More Than Five Percent of the Company s Stock

The following table provides information on shareholders who beneficially own more than five percent of our Common Stock according to reports filed with the Securities and Exchange Commission (SEC). To the best of our knowledge, there are no other shareholders who beneficially own more than five percent of a class of the Company s voting securities.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lazard Asset Management LLC 30 Rockefeller Plaza New York, NY 10112	15,579,327(a)	10.08%(a)
Mackenzie Financial Corporation 150 Bloor Street West, Suite M111 Toronto, Ontario M5S 3B5	13,739,244(b)	8.90%(b)
Sasco Capital, Inc. 10 Sasco Hill Road Fairfield, CT 06824	8,901,342(c)	5.80%(c)
Harris Associates L.P. and Harris Associates Inc. Two North LaSalle Street, Suite 500 Chicago, IL 60602-3790	8,393,500(d)	5.43%(d)
Lord, Abbett & Co. LLC 90 Hudson Street Jersey City, NJ 07302	8,228,326(e)	5.33%(e)
First Pacific Advisors, LLC, Robert L. Rodriguez, and J. Richard Atwood 11400 West Olympic Blvd., Suite 1200 Los Angeles, CA 90064	7,787,100(f)	5.00%(f)

Notes to Table on Persons Owning More than Five Percent of the Company s Stock

(a) Reflects shares beneficially owned as of December 31, 2007 according to an amended Schedule

13G filed with the SEC. As reported in this schedule, Lazard Asset Management LLC, an investment adviser, holds sole voting power with respect to 8,993,744 shares and sole dispositive power with respect to 15,579,327 shares.

(b) Reflects shares beneficially owned as of December 31, 2007 according to Schedule 13G filed with the SEC. As reported in this schedule, Mackenzie Financial Corporation, an investment adviser, holds sole voting and dispositive power with respect to 13,739,244 shares.

(c) Reflects shares

beneficially owned as of December 31, 2007 according to Schedule 13G filed with the SEC. As reported in this schedule, Sasco Capital, Inc., an investment adviser, holds sole voting power with respect to 4,463,350 shares and sole dispositive power with respect to 8,901,342 shares.

(d) Reflects shares beneficially owned as of December 31, 2007, according to Schedule 13G filed with the SEC by Harris Associates L.P. (Harris) and Harris Associates Inc. As reported in this schedule, Harris, an investment adviser, holds shared voting power with

respect to 8,393,500 shares, sole dispositive power with respect to 1,293,500 shares, and shared dispositive power with respect to 7,100,000 shares. Harris also serves as investment adviser to the Harris Associates Investment Trust (the Trust). The Trust owns 7,100,000 shares, which are included as shares over which Harris has shared voting and dispositive power.

(e) Reflects shares beneficially owned as of December 31, 2007, according to Amendment No. 5 to Schedule 13G filed with the SEC. As reported in this schedule, Lord, Abbett & Co. LLC,

an

investment adviser, holds sole voting power with respect to 7,845,626 shares and sole dispositive power with respect to 8,228,326 shares.

(f) Reflects shares beneficially owned as of December 31, 2007, according to Schedule 13G filed with the SEC on behalf of First Pacific Advisors, LLC (FPA), an investment advisor, Robert L. Rodriguez and J. Richard Atwood, Managing Members of FPA. As reported in this schedule, FPA, Mr. Rodriguez and Mr. Atwood hold shared voting power with

respect to 2,699,400 shares and shared dispositive power with respect to 7,787,100 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors and executive officers file with the Securities and Exchange Commission reports of ownership and changes in ownership of Foot Locker s Common Stock. Based on our records and other information, we believe that during the 2007 fiscal year, the directors and executive officers complied with all applicable SEC filing requirements.

CORPORATE GOVERNANCE INFORMATION

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines. The Board periodically reviews the guidelines and may revise them when appropriate. The Corporate Governance Guidelines are available on the corporate governance section of the Company s corporate web site at *http://www.footlocker-inc.com/IR_index.htm*. You may also obtain a printed copy of the guidelines by writing to the Corporate Secretary at the Company s headquarters.

Policy on Voting for Directors

Our Corporate Governance Guidelines provide that if a nominee for director in an uncontested election receives more votes withheld from his or her election than votes for election (a Majority Withheld Vote), then the director must offer his or her resignation for consideration by the Nominating and Corporate Governance Committee (the Nominating Committee). The Nominating Committee will evaluate the resignation, weighing the best interests of the Company and its shareholders, and make a recommendation to the Board of Directors on the action to be taken. For example, the Nominating Committee may recommend (i) accepting the resignation, (ii) maintaining the director but addressing what the Nominating Committee believes to be the underlying cause of the withheld votes, (iii) resolving that the director will not be re-nominated in the future for election, or (iv) rejecting the resignation. When making its determination, the Nominating Committee will consider all factors that it deems relevant, including (i) any stated reasons why shareholders withheld votes from the director, (ii) any alternatives for curing the underlying cause of the withheld votes, (iii) the director s tenure, (iv) the director s qualifications, (v) the director s past and expected future contributions to the Board and to the Company, and (vi) the overall composition of the Board, including whether accepting the resignation would cause the Company to fail to meet any applicable Securities and Exchange Commission or New York Stock Exchange requirements. We will promptly disclose the Board s decision on whether or not to accept the director s resignation, including, if applicable, the reasons for rejecting the offered resignation.

Stock Ownership Guidelines

The Board of Directors has adopted Stock Ownership Guidelines. These guidelines cover the Board of Directors, the Chief Executive Officer, and Other Principal Officers, as follows:

Board of Directors.

Each non-employee director must beneficially own shares of our Common Stock having a value of at least three times the annual retainer fee paid to the non-employee directors.

Chief Executive Officer. The CEO must beneficially own shares of our Common Stock having a value of at least four times his annual base salary.

Other Principal Officers. Other Principal Officers of the Company must beneficially own shares of our Common Stock having a value of at least two times their individual annual base salaries. The category of Other Principal Officers includes all corporate officers at the senior vice president level or higher and the chief executive officers of our operating divisions.

Shares of restricted stock, restricted stock units, and deferred stock units are counted towards beneficial ownership. Stock options are disregarded in calculating beneficial ownership.

The target date for full compliance with these guidelines is February 2011, which is five years after the effective date of these guidelines. Non-employee directors who are elected to the Board after February 2006, as well as employees who are elected or appointed after this date to positions covered by these guidelines, must be in compliance within five years after their initial election or appointment.

Committee Charters

The Board of Directors has adopted charters for the Audit Committee, the Compensation and Management Resources Committee, the Finance and Strategic Planning Committee, the Nominating and Corporate Governance Committee, and the Retirement Plan Committee. Copies of the charters for these committees are available on the corporate governance section of the Company s corporate web site at *http://www.footlocker-inc.com/IR_index.htm*. You may also obtain printed copies of these charters by writing to the Corporate Secretary at the Company s headquarters.

Director Independence

The Board believes that a significant majority of the members of the Board should be independent, as determined by the Board based on the criteria established by The New York Stock Exchange. Each year, the Nominating Committee reviews any relationships between outside directors and the Company that may affect independence. Currently, one of the current 10 members of the Board of Directors serves as an officer of the Company, and the remaining 9 directors are independent under the criteria established by The New York Stock Exchange.

Lead Director

James E. Preston has served as lead director since May 30, 2007. As lead director, Mr. Preston presides at executive sessions of the independent and non-management directors, reviews and provides input on the Board meeting agendas, and may perform other duties and responsibilities as the Board may determine.

Executive Sessions of Non-Management Directors

The Board of Directors holds regularly scheduled executive sessions of non-management directors. James E. Preston, as the lead director, presides at executive sessions of the independent and non- management directors.

Board Members Attendance at Annual Meetings

Although we do not have a policy on our Board members attendance at annual shareholders meetings, we encourage each director to attend these important meetings. The annual meeting is normally scheduled on the same day as a Board of Directors meeting. In 2007, 10 out of the 12 directors who were then serving attended the annual shareholders meeting.

New Director Orientation

We have an orientation program for new directors that is intended to educate a new director on the Company and the Board s practices. At the orientation, the newly elected director generally meets with the Company s Chief Executive Officer, the Chief Financial Officer, the General Counsel and Secretary, as well as with other senior financial officers of the Company, to review the business operations, financial matters, investor relations, corporate governance policies, and the composition of

the Board and its committees. Additionally, he or she has the opportunity to visit our stores at the Company s New York headquarters, or elsewhere, with a senior division officer for an introduction to store operations.

Payment of Directors Fees in Stock

The non-employee directors receive one-half of their annual retainer fees, including committee chair and lead director retainer fees, in shares of the Company s Common Stock, with the balance payable in cash. Directors may elect to receive up to 100 percent of their fees in stock.

Director Retirement

The Board has established a policy in its Corporate Governance Guidelines that directors retire from the Board at the annual meeting of shareholders following the director s 72nd birthday. As part of the Nominating Committee s regular evaluation of the Company s directors and the overall needs of the Board, the Nominating Committee may ask a director to remain on the Board for an additional period of time beyond age 72, or to stand for re-election after reaching age 72. However, a director may not remain on the Board beyond the date of the annual meeting of shareholders following his or her 75th birthday. As described on Page 53, the Board has waived the retirement policy for one director, James E. Preston, who currently serves as the lead director.

Change in a Director s Principal Employment

The Board has established a policy that any director whose principal employment changes is required to advise the Chair of the Nominating and Corporate Governance Committee of this change. If requested, the director will submit a letter of resignation to the Chair of the Committee, and the Committee would then meet to consider whether to accept or reject the letter of resignation.

Communications with the Board of Directors

The Board has established a procedure for shareholders and other interested parties to send communications to the non-management members of the Board of Directors. Shareholders and other interested parties who wish to communicate directly with the non-management directors of the Company should send a letter to:

Board of Directors
c/o Secretary, Foot Locker, Inc.
112 West 34th Street
New York, NY 10120

The Secretary will promptly send a copy of the communication to the lead director, who may direct the Secretary to send a copy of the communication to the other non-management directors and may determine whether a meeting of the non-management directors should be called to review the communication.

A copy of the Procedures for Communications with the Board of Directors is available on the corporate governance section of the Company s corporate web site at *http://www.footlocker-inc.com/ IR_index.htm*. You may obtain a printed copy of the procedures by writing to the Corporate Secretary at the Company s headquarters.

Retention of Outside Advisors

The Board of Directors and all of its committees have authority to retain outside advisors and consultants that they consider necessary or appropriate in carrying out their respective responsibilities. The independent accountants are retained by the Audit Committee and report directly to the Audit Committee. In addition, the internal auditors are selected by the Audit Committee and are ultimately accountable to the Audit Committee. Similarly, consultants

retained by the Compensation and Management Resources Committee to assist it in the evaluation of senior executives compensation report directly to that committee.

Code of Business Conduct

The Company has adopted a Code of Business Conduct for directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. A copy of the Code of Business Conduct is available on the corporate governance section of the Company s corporate web site at *http://www.footlocker-inc.com/IR_index.htm*. You may obtain a printed copy of the Code of Business Conduct by writing to the Corporate Secretary at the Company s headquarters.

Any waivers of the Code of Business Conduct for directors and executive officers must be approved by the Audit Committee. We intend to disclose promptly amendments to the Code of Business Conduct and any waivers of the Code for directors and executive officers on the corporate governance section of the Company s corporate website at *http://www.footlocker-inc.com/IR_index.htm*.

BOARD OF DIRECTORS

Organization and Powers

The Board of Directors has responsibility for establishing broad corporate policies, reviewing significant developments affecting Foot Locker, and monitoring the general performance of the Company. Our By-laws provide for a Board of Directors consisting of between 9 and 17 directors. The exact number of directors is determined from time to time by the entire Board. Our Board currently has 10 members. Christopher A. Sinclair advised the Board that he would not be standing for election as a director at the 2008 Annual Meeting, so his term as a director will end at the 2008 Annual Meeting of Shareholders. The Board has fixed the number of directors at 9 effective May 21, 2008 when Mr. Sinclair s term as a director ends.

The Board of Directors held six meetings during 2007. All of our directors attended at least 75 percent of the meetings of the Board and committees on which they served in 2007.

Directors Independence

A director is considered independent under the rules of the The New York Stock Exchange if he or she has no material or immaterial relationship to the Company that would impair his or her independence. In addition to the independence criteria established by The New York Stock Exchange, the Board of Directors has adopted categorical standards to assist it in making its independence determinations regarding individual members of the Board. These categorical standards are contained in the Corporate Governance Guidelines, which are posted on the Company s corporate web site at *http://www.footlocker-inc.com/IR_index.htm.*

The Board of Directors has determined that the following categories of relationships are immaterial for purposes of determining whether a director is independent under the listing standards adopted by The New York Stock Exchange.

Categorical Relationship	Description
Investment Relationships with the Company	A director and any family member may own equities or other securities of the Company.
Relationships with Other Business Entities	A director and any family member may be a director, employee (other than an executive officer), or beneficial owner of less than 10 percent of the shares of a business entity with which the Company does business, provided that the aggregate amount involved in a fiscal year does not exceed the greater of $1,000,000 or 2 percent of either that entity s or the Company s annual consolidated gross revenue.
Relationships with Not-for-Profit Entities	A director and any family member may be a director or employee (other than an executive officer or the equivalent) of a not-for-profit organization to which the Company (including the Foot Locker Foundation) makes contributions, provided that the aggregate amount of the Company s contributions in any fiscal year do not exceed the greater of $1,000,000 or 2 percent of the not- for-profit entity s total annual receipts.

The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has determined that the following directors are independent under the rules of The New York Stock Exchange because they have no material or immaterial relationship to the Company that would impair their independence:

Nicholas DiPaolo	David Y. Schwartz
Alan D. Feldman	Christopher A. Sinclair
Jarobin Gilbert Jr.	Cheryl Turpin
Matthew M. McKenna	Dona D. Young
James E. Preston	

Purdy Crawford and Philip H. Geier Jr. served as directors of the Company during 2007 until their retirement on May 30, 2007. The Board determined, upon the recommendation of the Nominating and Corporate Governance Committee, that both Mr. Crawford and Mr. Geier were independent under the rules of The New York Stock Exchange through their retirement because they had no material or immaterial relationship to the Company that would impair their independence.

In making its decisions on independence, the Board of Directors considered the following relationships between the Company and organizations with which the current and retired members of our Board are affiliated:

Matthew M. McKenna was an executive officer of PepsiCo, Inc. through December 31, 2007. Our direct-to-customers business had an

internet marketing arrangement with a division of PepsiCo and a third party in 2007. We indirectly received from the PepsiCo division approximately $637,500 under this arrangement in 2007. In addition, we paid a division of PepsiCo approximately $80,000 in 2007 for products sold through our catalogs. The Board has determined that this relationship was immaterial and would not impair Mr. McKenna s independence because the amounts involved are not material to either company and the transactions were conducted in the ordinary course of business.

David Y. Schwartz, Cheryl Turpin, and Dona D. Young are non-employee directors of companies with which Foot Locker does business. The Board has determined that Mr.

Schwartz s, Ms. Turpin s, and Mrs. Young s relationships meet the categorical standard for Relationships with Other Business Entities and are immaterial for determining independence.

Purdy Crawford, who retired from the Board in May 2007, is counsel to the Toronto law firm of Osler, Hoskin & Harcourt LLP (OH&H), a firm that has provided legal services to the Company. Mr. Crawford advised the Company that, while OH&H provided him with an office and administrative support, the firm provided him with no remuneration in 2007. The Board has determined that Mr. Crawford was independent because he received no direct compensation from OH&H, he was not an employee, equity

partner, or manager of OH&H, and he was not involved in the provision of services to the Company.

Philip H. Geier Jr., who retired from the Board in May 2007, is a member of the Board of Trustees of a not-for-profit organization to which the Company and the Foot Locker Foundation made contributions in 2007. The Board has determined that Mr. Geier s relationship meets the categorical standard for Relationships with Not-for-Profit Entities and is not material for determining independence.

The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has determined that Matthew D. Serra is not independent because Mr.

Serra is an executive officer of the Company.

The Board of Directors has determined that all members of the Audit Committee, the Compensation and Management Resources Committee and the Nominating and Corporate Governance Committee are independent as defined under the listing standards of The New York Stock Exchange and the director independence standards adopted by the Board.

Committees of the Board of Directors

The Board has delegated certain duties to committees, which assist the Board in carrying out its responsibilities. There are six standing committees of the Board. Each director serves on at least two committees. The committee memberships, the number of meetings held during 2007, and the functions of the committees are described below.

Audit Committee	**Compensation and Management Resources Committee**	**Finance and Strategic Planning Committee**	**Nominating and Corporate Governance Committee**	**Retirement Plan Committee**	**Executive Committee**
N. DiPaolo*	J. Preston*	C. Sinclair*	J. Gilbert Jr.*	J. Gilbert Jr.*	M. Serra***
J. Gilbert Jr.	A. Feldman	N. DiPaolo	J. Preston	N. DiPaolo	N. DiPaolo
M. McKenna	C. Sinclair	A. Feldman	C. Turpin	R. McHugh**	J. Gilbert Jr.
D. Schwartz	C. Turpin	M. McKenna	D. Young	L. Petrucci**	J. Preston
D. Young		D. Schwartz		M. Serra**	C. Sinclair

* Designates Committee Chair

** Designates Executive Officer of the Company

*** Designates Committee Chair and Executive Officer of the Company

Audit Committee

The committee held eight meetings in 2007. The Audit Committee has a charter, which is available on the corporate governance section of our corporate web site at *http://www.footlocker-inc.com/ IR_index.htm*. The report of the Audit Committee appears on Page 56.

This committee appoints the independent accountants and the internal auditors and is responsible for approving the independent accountants and internal auditors compensation. This committee also assists the Board in fulfilling its oversight responsibilities in the following areas:

- accounting policies and practices,

- the integrity of the Company s financial statements,
- compliance with legal and regulatory requirements,
- the qualifications, independence, and performance of the independent accountants, and
- the qualifications and performance of the internal audit function.

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

The Board of Directors has determined that the Company has at least one audit committee financial expert, as defined under the rules of the Securities Exchange Act of 1934, serving on the Audit Committee. David Y. Schwartz has been designated as the audit committee financial expert. Mr. Schwartz is independent under the rules of The New York Stock Exchange and the Securities Exchange Act of 1934.

Compensation and Management Resources Committee

The Compensation and Management Resources Committee (the Compensation Committee) held four meetings in 2007. The committee has a charter, which is available on the corporate governance section of the Company s corporate web site at *http://www.footlocker-inc.com/IR_index.htm*.

The Compensation Committee determines all compensation for the Company s executive management group, which consists of the executive officers and corporate officers, and determines significant elements of the compensation of the chief executive officers of our operating divisions. Decisions regarding equity compensation for other employees are also the Compensation Committee s responsibility. Decisions regarding non-equity compensation of the Company s other associates are made by the Company s management.

The Compensation Committee also administers Foot Locker s various compensation plans, including the incentive plans, the equity-based compensation plans, the employees stock purchase plan, and the deferred compensation plan. Committee members are not eligible to participate in any of these plans. This committee also reviews and makes recommendations to the Board of Directors concerning executive development and succession, including for the

position of Chief Executive Officer.

The Compensation Committee normally holds two meetings each year to review and approve the executive compensation program, the Chief Executive Officer s compensation, annual salaries and bonuses for the executive management group and division CEOs, and to grant equity awards. In addition, at another meeting during the year, the committee reviews directors compensation and makes recommendations to the Nominating and Corporate Governance Committee concerning the form and amount of directors compensation. Additional meetings of the Compensation Committee may be called during the year as necessary.

The Compensation Committee has retained Mercer as its consultant on executive compensation matters and, with regard to executive and director compensation, Mercer reports directly to the Compensation Committee. Mercer also advises the committee on non-employee director compensation matters, including payment levels and trends. In preparing its material for the committee, Mercer consults with the Company s Chairman of the Board and Chief Executive Officer, Senior Vice President Human Resources, Senior Vice President and General Counsel, and Vice President Human Resources. Separately, the Company retains Mercer for outsourcing services related to the administration of our U.S. and Canadian pension plans.

Compensation Committee meeting agendas are developed by the committee chair in consultation with the Chief Executive Officer and the Corporate Secretary. Committee members may suggest agenda items by communicating with one of these individuals. Agendas and related materials are circulated to Committee members prior to meetings. The committee chair regularly reports on the committee s meetings to the full Board. The Company s CEO, Senior Vice President and General Counsel, Senior Vice President Human Resources, Vice President Human Resources, and Vice President and Associate General Counsel generally attend all meetings of the committee.

The Compensation Committee has the authority to delegate authority and responsibilities as it considers appropriate. The committee has delegated to the Committee Chair the authority to approve

stock option grants between meetings of the committee. This authority is limited to executives who are not subject to Section 16 of the Securities Exchange Act of 1934 and is further limited to individual option awards of 25,000 shares or less.

The Company s Corporate Human Resources Department and the Corporate Secretary s staff support the Compensation Committee in performing its duties.

Compensation Committee Interlocks and Insider Participation

Purdy Crawford, Alan D. Feldman, Philip H. Geier Jr., James E. Preston, Christopher A. Sinclair and Cheryl Turpin served on the Compensation and Management Resources Committee during 2007. Messrs. Crawford and Geier retired at the 2007 annual shareholders meeting. None of the committee members was an officer or employee of the Company or any of its subsidiaries, and there were no interlocks with other companies within the meaning of the SEC s proxy rules.

Executive Committee

The Executive Committee did not meet in 2007. Except for certain matters reserved to the Board, this committee has all of the powers of the Board in the management of the business of the Company during intervals between Board meetings.

Finance and Strategic Planning Committee

The Finance and Strategic Planning Committee held four meetings in 2007. This committee reviews the overall strategic and financial plans of the Company, including capital expenditure plans, proposed debt or equity issues of the Company, and the Company s capital structure. The committee also considers and makes recommendations to the Board of Directors concerning dividend payments and share repurchases, and reviews acquisition and divestiture proposals.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee held three meetings in 2007. This committee has responsibility for overseeing corporate governance matters affecting the Company, including developing and recommending criteria and policies relating to service and tenure of directors. The committee is responsible for collecting the names of potential nominees to the Board, reviewing the background and qualifications of potential candidates for Board membership, and making recommendations to the Board for the nomination and election of directors. The committee also reviews membership on the Board committees and makes recommendations on committee members and chairs. In addition, the committee reviews recommendations from the Compensation and Management Resources Committee and makes recommendations to the Board concerning the form and amount of directors compensation.

The Nominating and Corporate Governance Committee may establish criteria for candidates for Board membership. These criteria may include area of expertise, diversity of experience, independence, commitment to representing the long-term interests of the Company s stakeholders, and other relevant factors, taking into consideration the needs of the Board and the Company and the mix of expertise and experience among current directors. From time to time the committee may retain the services of a third party search firm to identify potential director candidates.

The committee will consider nominees to the Board of Directors recommended by shareholders that comply with the provisions of the Company s By-Laws and relevant law, regulation, and stock exchange rules. The procedures for shareholders to follow to propose a potential director candidate are described on Page 59.

After a potential nominee is identified, the Committee Chair will review his or her biographical information and discuss with the other members of the committee whether to request additional information about the individual or to schedule a meeting with the potential candidate. The committee s screening process for director candidates is the same regardless of the source who identified the potential candidate. The committee s determination on whether to proceed with a formal

evaluation of a potential candidate is based on the person s experience and qualifications, as well as the current composition of the Board and its anticipated future needs.

Retirement Plan Committee

The Retirement Plan Committee held four meetings in 2007. This committee is responsible for supervising the investment of the assets of the Company s United States retirement plans and appointing, reviewing the performance of and, if appropriate, replacing, the trustee of the Company s pension trust and the investment manager responsible for managing the funds of the trust. The committee also has certain administrative responsibilities for our United States retirement plans.

RELATED PERSON TRANSACTIONS

Policies and Procedures

We individually inquire of each of our directors and executive officers about any transactions in which Foot Locker and any of these related persons or their immediate family members are participants. We also make inquiries within the Company s records for information on any of these kinds of transactions. Once we gather the information, we then review all relationships and transactions in which Foot Locker and any of our directors, executive officers or their immediate family members are participants to determine, based on the facts and circumstances, whether the Company or the related persons have a direct or indirect material interest. The General Counsel s office coordinates the related party review process. The Nominating and Corporate Governance Committee reviews any reported transactions involving directors and their immediate families in making its recommendation to the Board of Directors on the independence of the directors.

Related Person Transactions

Foot Locker and its subsidiaries have had transactions in the normal course of business with various other organizations, including certain organizations whose directors or officers are also directors of Foot Locker. However, the amounts involved in these transactions have not been material in relation to our business, and it is believed that these amounts have not been material in relation to the businesses of the other organizations. In addition, it is believed that these transactions have been on terms no less favorable to the Company than if they had been entered into with disinterested parties. It is anticipated that transactions with such other organizations will continue in the future. Mr. Serra s son-in-law is employed as a buyer in the Company s Foot Locker division, and the Company provided compensation and benefits to him in 2007 of approximately $143,000.

DIRECTORS COMPENSATION AND BENEFITS

Summary

Non-employee directors are paid an annual retainer fee and meeting fees for attendance at each Board and committee meeting. The lead director and the committee chairs are paid an additional retainer fee for service in these capacities. We do not pay additional compensation to any director who is also an employee of the Company for service on the Board or any committee. The following table summarizes the fees paid to the non-employee directors.

Annual Retainer	$100,000 The annual retainer is payable 50 percent in cash and 50 percent in shares of our Common Stock. Directors may elect to receive up to 100 percent of their annual retainer, including committee chair retainer, in stock. We calculate the number of shares paid to the directors for their annual retainer by dividing their retainer fee by the closing price of a share of our stock on the last business day preceding the July 1 payment date.
Committee Chair Retainers	$20,000: Audit Committee $10,000: Compensation and Management Resources Committee $10,000: Finance and Strategic Planning Committee $10,000: Nominating and Corporate Governance Committee $10,000: Retirement Plan Committee N/A: Executive Committee The committee chair retainers are paid in the same form as the annual retainer.
Lead Director	$50,000 payable in the same form as the annual retainer.
Meeting Fees	$1,500 for attendance at each Board and committee meeting.

Stock Option Grant

In 2007, the directors received a stock option award on the first business day of the fiscal year. The number of options granted was calculated by dividing $50,000 by the average of the high and low prices of a share of the Company s Common Stock on the date of grant. The per-share exercise price of each stock option granted was equal to the fair market value of a share of Common Stock on the date of grant. The options fully vest one year following the date of grant. Vested options may be exercised for ten years from the date of grant; however, no option may be exercised more than one year following the termination of a person s service as a director.

In fiscal 2008, the directors received a grant of 3,704 restricted stock units (RSUs) instead of a stock option grant. The number of RSUs granted was calculated by dividing $50,000 by the closing price of a share of our stock on the date of grant. The RSUs will vest in February 2009. Each RSU represents the right to receive one share of the Company s common stock on the vesting date.

Deferral Election

Non-employee directors may elect to receive all or a portion of the cash component of their annual retainer fee, including committee chair retainers, in the form of deferred stock units or to have these amounts placed in an interest account. Directors may also elect to receive all or part of the stock component of their annual retainer fee in the form of deferred stock units. The interest account is a hypothetical investment account bearing interest at the rate of 120 percent of the applicable federal long-term rate, compounded annually, and set as of the first day of each plan year. A stock unit is an accounting equivalent of one share of the Company s Common Stock.

Miscellaneous

Directors and their immediate families are eligible to receive the same discount on purchases of merchandise from our stores, catalogs and Internet sites that is available to Company employees. The Company reimburses non-employee directors for their reasonable expenses in attending meetings of the Board and committees, including their transportation expenses to and from meetings, hotel accommodations, and meals.

Fiscal 2007 Director Compensation

The amounts paid to each non-employee director for fiscal 2007, including amounts deferred under the Company s stock plans, and the options granted to each director are reported in the tables below.

DIRECTOR COMPENSATION

(a)	(b)	(c)	(d)	(e)	(f)
Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(2)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	Total ($)
P. Crawford (4)	7,513	49,987	10,680		68,180
N. DiPaolo	92,670	55,830	10,680		159,180
A. Feldman	13,503	99,997	10,680		124,180
P. Geier Jr. (4)	28,348	20,819	10,680		59,847
J. Gilbert Jr.	90,006	59,994	10,680	4,988	165,668
M. McKenna	24,003	99,997	10,680		134,680
J. Preston	89,686	69,564	10,680		169,930
D. Schwartz	77,000	54,331 (5)	10,680		142,011
C. Sinclair	77,520	54,980	10,680		143,180
C. Turpin	18,583	106,938 (6)	10,680		136,201
D. Young	24,000	108,663 (5)	10,680		143,343

Notes to Director Compensation Table

(1) Column (c) reflects the compensation expense recognized by the Company for the portion of the 2007 annual retainer fees and committee chair retainer fees paid in shares of the Company s common stock or deferred by the director. In 2007, we made the

annual stock payment to each director on July 2. Under the terms of the 2007 Stock Incentive Plan, the stock payment was valued at the closing price of a share of the Company s common stock on June 29, which was $21.80. The 2007 expense is equal to the number of shares received or deferred by the director multiplied by $21.80, the grant date fair value of the payment under FAS 123R. Directors who deferred the stock portion of their annual retainer were credited with deferred stock units on the annual payment date valued at $21.80 per unit.

The amounts in this column also include the fiscal 2007 compensation

expense for (i) dividend equivalents credited to three directors during the year on the quarterly dividend payment dates, valued at the fair market value of the Company s common stock on the dividend payment dates and (ii) stock units credited to one director during the year on the cash retainer payment date valued at the fair market value on the payment date. The total number of deferred stock units credited to directors accounts in fiscal 2007, as well as the total number of units held at the end of fiscal 2007, is shown in the following table:

Director	**05/04/07 FMV: $24.105**	**07/02/07 FMV: $21.80**	**08/03/07 FMV: $17.06**	**11/02/07 FMV: $14.35**	**01/08/08 FMV: $11.84**	**02/01/08 FMV: $13.94**	**Total # of Units Credited in**

							2007
D. Schwartz	35.5843	2,293.5779	67.345	80.6497		83.7449	2,560.901
C. Turpin	31.3817	4,587.1559	78.1814	93.627	527.8716	101.9537	5,420.171
D. Young	71.1686	4,587.1559	134.69	161.2994		167.4899	5,121.803

(2) Column (d) represents the fiscal 2007 compensation expense recognized for financial statement reporting purposes for the fair value of the stock options granted to the nonemployee directors in 2007. As provided under the SEC s rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions, please refer to Note 23 to the Company s financial statements in our 2007 Form 10-K. The grant date

fair value was calculated under FAS 123R.

(3) The following table provides additional information on the stock options granted during 2007 to the directors and the outstanding stock options held by them at the end of the 2007 fiscal year. The grant date fair value of the stock option awards was $4.88 per share. The grant date fair value was calculated under FAS 123R.

Name	Stock Options Granted on 2/5/2007 (#)	Exercise Price ($)	Grant Date Fair Value of Stock Options Granted in 2007 ($)	Options Outstanding on 2/2/2008 (#)
P. Crawford(4)	2,208	22.635	10,768	23,312
N. DiPaolo	2,208	22.635	10,768	16,542
A. Feldman	2,208	22.635	10,768	6,314
P. Geier Jr.(4)	2,208	22.635	10,768	23,312
J. Gilbert Jr.	2,208	22.635	10,768	25,520
M. McKenna	2,208	22.635	10,768	4,287
J. Preston	2,208	22.635	10,768	25,520
D. Schwartz	2,208	22.635	10,768	25,520
C. Sinclair	2,208	22.635	10,768	25,520
C. Turpin	2,208	22.635	10,768	20,815
D. Young	2,208	22.635	10,768	20,815

(4) Retired as a director on May 30, 2007. Options granted in 2007 were cancelled as of his retirement date.

(5) Stock payment deferred in the form of stock units issued under Foot Locker s stock plan.

(6) Stock payment and

portion of cash payment for fiscal 2007 services deferred under Foot Locker s stock plan.

Directors Retirement Plan

The Directors Retirement Plan was frozen as of December 31, 1995. Consequently, only Jarobin Gilbert Jr. and James E. Preston are entitled to receive a benefit under this plan when their service as directors ends because they had completed at least five years of service as directors on December 31, 1995. Messrs. Gilbert and Preston will receive an annual retirement benefit of $24,000 for a period of 10 years after they leave the Board or until their death, if sooner.

Directors and Officers Indemnification and Insurance

We have purchased directors and officers liability and corporation reimbursement insurance from a group of insurers comprising ACE American Insurance Co., St. Paul Mercury Insurance, RLI Insurance Co., Federal Insurance Co., AIG Cat Excess Liability International, Allied World Assurance Company, Ltd., and XL Bermuda Ltd. These policies insure the Company and all of the Company s wholly owned subsidiaries. They also insure all of the directors and officers of the Company and the covered subsidiaries. The policies were written for a term of 13 months, from September 12, 2007 until October 12, 2008. The total annual premium for these policies, including fees, is $1,558,182. Directors and officers of the Company, as well as all other employees with fiduciary responsibilities under the Employee Retirement Income Security Act of 1974, as amended, are insured under policies issued by a group of insurers comprising Arch Insurance Co., St. Paul Mercury Insurance Co., Continental Casualty Co. and RLI Insurance Co., which have a total premium, including fees, of $483,168 for the 13-month period ending October 12, 2008.

The Company has entered into indemnification agreements with its directors and officers, as approved by shareholders at the 1987 annual meeting.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This is a discussion and analysis of our compensation program as it applies to the executive officers named in the Summary Compensation Table on Page 29.

Summary

In 2007, we took the following actions with regard to compensation for our named executive officers:

- We increased the annual base salaries of two of the named executive officers (Mr. Mina and Mr. McHugh) by $25,000 each. The base salaries of the other named executive officers remained unchanged from 2006.

- As the Company did not achieve the performance targets for 2007 established by the Compensation and Management Resources Committee (Compensation Committee) under the Annual Incentive Compensation Plan, we did not pay annual bonuses to any of our named executive officers.

- As the Company did not achieve the performance targets established by the Compensation Committee in 2005 under the Long-Term Incentive Compensation Plan for the 2005-2007 performance period, we did not pay long-term bonuses to any of our named executive officers.

- For 2007, we increased the target pay-out

under the annual bonus plan for all of the named executive officers other than the Chief Executive Officer from 50 percent to 75 percent of base salary. The Chief Executive Officer s target pay-out remained 125 percent of base salary.

We made stock option awards to each of the named executive officers 48,500 shares to the Chief Executive Officer; 30,000 shares to each of the President U.S.A. and the President International; and 20,000 shares to each of the two senior vice presidents. These options were priced at fair market value on the date of grant ($23.42 per share) and vest in three equal installments on the first, second, and third anniversary of the grant date.

We made restricted stock awards to each of the named executive officers 100,000 shares to the Chief Executive Officer; 40,000 shares to the President U.S.A. and 20,000 shares to the President International (who had received a restricted stock grant in late 2006 at the time of his promotion to that position); and 40,000

shares to each of the senior vice presidents. With regard to all of the named executive officers other than Mr. Serra, the restrictions on these shares lapse if the executive continues to be employed by us for three years from the date of grant. The restrictions on Mr. Serra s shares lapse on January 30, 2010, the final day of the term of his current employment contract, provided he continues to be employed by us on that date.

Objectives of our compensation program

The objectives of our compensation program are to attract, motivate, and retain talented retail industry executives in order to maintain and enhance the Company s performance and its return to shareholders. The Compensation Committee, currently composed of four independent directors, oversees the compensation program.

What is our compensation program designed to reward and not reward?

We have designed our compensation program to align the financial interests of our executives, including the named executive officers, with those of our shareholders. For that reason, it is designed to reward the overall effort and contribution of our executives as measured by the Company s performance in relation to targets established by the Compensation Committee, more than individual performance. Key concepts underlying our program are:

Executive compensation should be balanced between annual and long-term compensation and between cash and equity-based compensation (stock options and restricted stock).

The compensation program should reward both efforts to increase the Company s share price and the achievement of performance factors that contribute to the Company s long-term health and growth (even if not immediately translated into increases in share price).

A substantial portion of the compensation of our executives, whether paid out currently or on a long-term basis, should be dependent on the Company s performance or the performance of its stock.

- More-senior executives should have a greater portion of their compensation at risk, whether through performance-based bonus programs or through stock price appreciation.

Elements of compensation

The elements of compensation for the named executive officers are:

- base salary
- performance-based annual cash bonus
- performance-based long-term bonus, payable in cash or stock
- long-term equity-based compensation consisting of stock options and restricted stock
- retirement and other benefits
- perquisites

Why do we pay each element of compensation and how do we determine the amount for each element of compensation, or the formula that determines the amount?

We establish benchmarks for base salary and total compensation for each named executive officer based upon a study conducted by Mercer, a nationally recognized compensation consultant that, for executive compensation purposes, reports directly to our Compensation Committee. These benchmarks are based upon compensation for comparable positions at national retail companies with annual sales of $1 billion to $10 billion. The Compensation Committee, with the advice of Mercer, has determined that these companies are the appropriate peer group for executive compensation purposes based upon the nature of their business, their revenues, and the pool from which they recruit their executives. The 20 companies included in the study that the Compensation Committee reviewed in setting 2007 compensation for the named executive officers were:

Abercrombie & Fitch	American Eagle Outfitters Inc.
AnnTaylor Stores Corp.	Borders Group Inc.
Brown Shoe Company, Inc.	Charming Shoppes
Claires Stores Inc.	Dick s Sporting Goods Inc
Dillards Inc.	Dollar General Corp.
Family Dollar Stores	Finish Line Inc.
Genesco Inc.	Limited Brands Inc.
PayLess ShoeSource Inc.	RadioShack Corp.
Ross Stores Inc.	Saks Inc.
Talbots Inc.	Timberland Co.

Two companies that were included in the peer group in 2006 Reebok International Limited and Sports Authority Inc. ceased to be publicly traded companies and were not included in the peer group in 2007. No companies were added to the peer group. The name of PayLess ShoeSource, Inc. has subsequently been changed to Collective Brands, Inc.

The goal of the Compensation Committee is for the total compensation of each named executive officer to approximate the 75th percentile of comparable peer group compensation if the Company achieves its performance targets, with an opportunity to exceed that for outstanding performance, and with compensation falling closer to the median if the Company does not achieve its performance targets. The Compensation Committee established this goal based upon the Company s size in relation to the other companies in the peer group and the relative complexity of our business, which includes multiple retail divisions, a direct-to-customer business, and a significant international business with operations in 21 countries.

Base Salaries

We pay base salaries to provide our named executive officers with current, regular compensation that is appropriate to their position, experience, and responsibilities. We benchmark base salaries for each named executive officer, other than the Chief Executive Officer, at approximately the 75th percentile of the peer companies included in the annual Mercer study, and the base salaries of the named executive officers, other than the Chief Executive Officer, approximate this benchmark. The Compensation Committee has benchmarked the Chief Executive Officer s base salary at the 90th percentile of the peer companies in light of his experience, length of service, and other opportunities that are available to him in the retail sector. We pay higher base salaries to those named executive officers with greater overall responsibility.

Performance-Based Annual Cash Bonus

We pay performance-based annual cash bonuses to our named executive officers under the Annual Incentive Compensation Plan (Annual Bonus Plan) in order to provide incentive for them to work toward the Company s achievement of annual performance goals established by the Compensation Committee.

Target payments under the Annual Bonus Plan for named executive officers were set for 2007 as follows:

	Target	Annual Bonus Range
Chief Executive Officer	125% of Base Salary	31.25 % to 200% of Base Salary
Other Named Executive Officers	75% of Base Salary	18.75% to 131.25% of Base Salary

If the Company does not achieve threshold performance, as was the case in 2007, then no annual bonus is paid. Executives who do not receive a meets expectations rating or higher in their annual performance review are normally ineligible to receive an annual bonus payment for that year.

In 2007, the Compensation Committee increased the target payment under the Annual Bonus Plan for the named executive officers other than the Chief Executive Officer to 75 percent of base salary from 50 percent after having reviewed the likely status of pay-outs under the Company s incentive plans, including the Long-Term Plan, for 2007 and considering the need to provide appropriate financial incentive to the Company s senior executive group. This also resulted in an increase in both threshold and maximum payment levels for this group. The Chief Executive Officer s payment levels were unchanged from the prior year. The Compensation Committee expects to review the appropriate target payment under the Annual Bonus Plan each year.

Our Annual Bonus Plan allows the Compensation Committee, in establishing performance targets under the plan, to choose one or more performance measures from a list of nine factors that have been approved by our shareholders. For 2007, for the named executive officers other than Mr. Halls, the Compensation Committee established a performance target under the Annual Bonus Plan based upon the Company s achievement of prescribed levels of pre-tax income and return-on-invested-capital. Seventy percent of a participant s award is based upon the pre-tax income target and 30 percent on the return-on-invested-capital target. All bonus targets and calculations are based on pre-tax income from continuing operations. The Annual Bonus Plan targets for 2007 were as follows:

	Threshold	Target	Maximum
Pre-tax income	$359.1 million	$399 million	$478.8 million

Return-on-invested-capital	7.8%	8.4%	9.6%

Thus, if the Company had achieved pre-tax income of $399 million and return-on-invested-capital of 8.4 percent in 2007, the Chief Executive Officer would have received an annual bonus of 125 percent of his base salary and the other named executive officers (other than Mr. Halls) would have received annual bonuses of 75 percent of base salary. Bonus pay-outs are calculated on the basis of straight-line interpolation between the threshold, target, and maximum points. As the Company achieved neither the threshold level of pre-tax income nor the threshold level of return-on-invested-capital in 2007, we did not pay bonuses to corporate participants in the Annual Bonus Plan for 2007.

Mr. Halls s target under the Annual Bonus Plan for 2007 was based upon the achievement by the operating divisions for which he has responsibility of a prescribed level of division profit. Division profit is a non-GAAP financial measure. It reflects income from continuing operations before income taxes, corporate expense, non-operating income, and net interest expense. A reconciliation of division profit to income from continuing operations is contained in the segment information footnote to our financial statements.

One of the performance measures we use in determining annual bonuses, return-on-invested-capital (ROIC), is also a non-GAAP financial measure. For purposes of calculating the annual bonus, we define ROIC as follows:

ROIC = <u>Operating Profit after Taxes</u>

Average Invested Capital

Operating Profit after Taxes (Numerator)=	**Average Invested Capital (Denominator)=**
Pre-tax income	Average total assets
+/- interest expense/income	- average cash, cash equivalents, and short-term investments
+ implied interest portion of operating lease payments	- average year-end inventory
+/- Unusual/non-recurring items	+ 13-month average inventory
= Earnings before interest and taxes (EBIT)	+ average estimated asset base of capitalized operating leases
- Estimated income tax expense	= Average Invested Capital
= Operating Profit after Taxes	

Certain items used in the calculation of ROIC, such as the implied interest portion of operating lease payments, certain unusual or non-recurring items, average estimated asset base of capitalized operating leases, and 13-month average inventory, while calculated from the financial records of the Company, cannot be calculated from our audited financial statements. Prior to the Compensation Committee determining whether bonus targets have been achieved, the Company s independent registered public accounting firm, at the request, and for the restricted use, of the Compensation Committee, reviews the bonus calculations.

The performance targets established by the Compensation Committee are based upon the business plan and budget reviewed and approved each year by the Finance and Strategic Planning Committee and the Board of Directors. We believe that these targets are reasonably demanding as evidenced by our pay-out history over the past five years.

During that time, we have paid an annual bonus to corporate officers between threshold and target once, between target and maximum twice, and we have paid no annual bonus twice.

Performance-Based Long-Term Bonus

We pay performance-based long-term bonuses to our named executive officers under our Long-Term Incentive Compensation Plan (Long-Term Plan) in order to provide incentive for them to work toward the Company s achievement of performance goals established by the Compensation Committee for each three-year performance period. While bonuses under the Long-Term Plan may be paid in either cash or stock, in recent years, we have made these payments in cash.

For many years, target payments under the Long-Term Plan for senior corporate officers have been at the following levels:

Target	Range of Payments
90% of Initial Base Salary	22.5% to 180% of Initial Base Salary

If the Company does not achieve threshold performance, as was the case for the 2005-2007 performance period, then no long-term bonus is paid.

Pay-out levels are based on an executive s rate of base salary payable in the first year of the three-year performance period. For example, if an executive s base salary is set at $500,000 at the time executive salaries are reviewed in the first year of the performance period, that executive s target pay-out under the Long-Term Plan would be $450,000.

Our Long-Term Plan allows the Compensation Committee, in establishing performance targets under the plan, to choose one or both of consolidated net income or return-on-invested-capital, factors approved by our shareholders. In 2007, the Committee established a performance target for the 2007-2009 performance period under the long-term plan based upon return-on-invested capital. Off of the planned invested capital base, the Company must achieve 80 percent of target after-tax income before a threshold-level bonus is paid, and the maximum pay-out level is reached if after-tax income reaches 120 percent of target. It should be noted that the actual invested capital base will also fluctuate, and the final pay-out for the performance period will also depend upon the invested capital base achieved during the period. Return-on-invested-capital is calculated using the same methodology as is used for the Annual Bonus Plan, as described on Page 22, except that, in addition, long-term bonus expense is excluded from the operating profit calculation.

These performance targets are based upon the business plan and budget for the three-year period reviewed and approved by the Finance and Strategic Planning Committee and the Board of Directors. We believe that these targets are reasonably demanding as evidenced by our pay-out history over the last five years. During that time, we have paid long-term bonuses between threshold and target once, between target and maximum three times, and there has been no pay-out once.

In 2005, the Compensation Committee established the following return-on-invested-capital target for the 2005-2007 performance period under the Long-Term Plan:

	Threshold	**Target**	**Maximum**
Three-year average return-on-invested-capital	9.2 %	10.9 %	12.5 %

As the Company did not achieve the threshold level of return-on-invested capital for the performance period, we did not pay long-term bonuses to the participants in the Long-Term Plan, including the named executive officers, for the 2005-2007 performance period.

We do not have a formal policy with regard to the adjustment or recovery of bonus payments if it is determined, at a future date, that the relevant performance measures upon which the payments are based are restated or adjusted. We have not had this situation arise, and if it were to arise, we would expect to make an evaluation at that time based upon the circumstances and the role of each individual executive in the events that gave rise to the restatement or adjustment.

Under normal circumstances, the Compensation Committee has no discretion to increase annual or long-term bonus payments, which are formula-driven based upon company performance, and our program for the named executive officers does not provide for discretionary adjustments based upon individual performance. The Compensation Committee has not adjusted, either upward or downward, any of the annual or long-term bonus payments to the named executive officers shown in the summary compensation table from pay-outs calculated based upon the applicable formula. The Committee has limited authority when determining bonus payments, consistent with Section 162(m) of the Internal Revenue Code, to disregard certain events that it determines to be unusual or non-recurring. When establishing the targets, the Committee normally specifies certain items that it considers to be unusual or non-recurring, and these events, if they occur, are automatically excluded when calculating payments. For example, in

recent years targets have excluded the effect of acquisitions or dispositions, any non-cash impairment charges under Financial Accounting Standard No. 144, and changes in accounting and tax rules.

Long-Term Equity-Based Awards

A. ***Stock Options***

We make stock option awards to our named executive officers in order to strengthen the tie between an officer s compensation opportunity and the shareholders interest in increasing the value of our common stock. Until the organizational meeting of the Board of Directors following the 2007 Annual Meeting, equity-based awards, including stock option awards, were the responsibility of the Compensation Committee s Stock Option Plan Subcommittee, which was composed entirely of independent directors. Since then, equity-based awards have been the responsibility of the Compensation Committee, which is also composed entirely of independent directors. The annual stock option and restricted stock awards for 2007 were made in March 2007 and were made by the Stock Option Plan Subcommittee. For ease of understanding, in the discussion that follows, we will refer to the Compensation Committee having certain responsibilities or taking certain actions with regard to equity-based awards. Prior to May 30, 2007, however, those responsibilities were vested in, and actions taken by, the Subcommittee.

Stock option awards of the same size are normally made each year to executives holding comparable positions. The Compensation Committee awards stock options with exercise prices equal to the fair market value of our stock on the date of grant. Since the approval of the 2007 Stock Incentive Plan by shareholders at the 2007 Annual Meeting, all future stock awards will be made under that plan. Under the 2007 Plan, fair market value is defined as the closing price on the grant date. Awards made prior to the date of the 2007 Annual Meeting, including the annual stock option awards for 2007, were made under prior plans, which defined fair market value of the shares as the average of the high and low prices of our stock on the New York Stock Exchange on the grant date. The Compensation Committee has not granted options with an exercise price of less than the fair market value on the grant date, as defined in the relevant plans. Options normally vest at the rate of one-third of the total grant per year over the first three years of the ten-year option term, subject to accelerated vesting in certain circumstances. The Compensation Committee does not normally consider an executive s gains from prior stock awards in making new awards.

B. ***Restricted Stock Awards***

We make restricted stock awards to our named executive officers in order to strengthen the tie between an officer s compensation opportunity and the shareholders interest in increasing the value of our common stock, to provide our executives with an opportunity to increase their equity ownership, and to ensure the retention of key executives.

In recent years, the Compensation Committee has made annual grants of restricted stock to the Company s three most-senior executives the Chief Executive Officer, the President-U.S.A., and the President-International. With regard to other executives, including the other named executive officers, it has made grants from time to time to individually selected executives in order to recognize outstanding past performance, to recognize an executive s expected ability to contribute to the Company s performance in the future, or for retention. When making restricted stock awards for retention purposes, the Compensation Committee considers an executive s prior awards and their vesting schedule. The restrictions on restricted stock normally lapse a specified period following the grant date (normally three years). The holders of restricted stock receive dividends on their restricted shares at the time the dividends are paid.

In 2007, after reviewing the vesting schedule of prior awards held by the named executive officers, the Subcommittee made grants of restricted stock to all of the named executive officers.

C. ***Stock Ownership Guidelines***

We have adopted stock ownership guidelines for our directors and senior executives, including the named executive officers. These guidelines require that the Chief Executive Officer own shares having a value at least equal to four times his base salary and that the other named executive officers own shares having a value at least equal to two times base salary. In determining whether an executive meets the guidelines, we consider owned shares and restricted stock,

but we do not consider stock options. As of

the end of 2007, all of the named executive officers met these stock ownership guidelines. We do not permit our executive officers to take short or long positions in our shares; however, we do not otherwise have a formal policy with regard to executive officers hedging their economic interest in company stock or options. To our knowledge, none of the named executive officers hedged their position in our shares or options during 2007, although some of the named executive officers may hold their shares in accounts that permit margin loans to the executive.

Retirement and Other Benefits

A. ***Retirement Plan and Excess Cash Balance Plan***

All United States-based associates of the Company who meet the eligibility requirements are participants in the Foot Locker Retirement Plan. The Retirement Plan and the method of calculating benefits payable under it are described on Page 49. All of the named executive officers are participants in the Retirement Plan. The Internal Revenue Code limits the amount of compensation that may be taken into consideration in determining an individual s retirement benefits. Therefore, those participants in the Retirement Plan, including the named executive officers, whose compensation exceeds the Internal Revenue Service limits are also participants in the Excess Cash Balance Plan, described on Page 49, which pays the difference between the amount a participant receives from the Retirement Plan and the amount the participant would have received were it not for the Internal Revenue Service limits.

B. ***401(k) Plan***

The Company maintains a 401(k) Plan for its eligible U.S. associates, and all of the named executive officers participate in it. The Plan permits participants to contribute the lesser of 40 percent of eligible compensation or the limit prescribed by the Internal Revenue Service to the 401(k) Plan on a before-tax basis. The Company will match 25 percent of the first 4 percent of pay that is contributed to the 401(k) Plan, and the Summary Compensation Table on Page 29 includes, in All Other Compensation, the amount of the company-match for each of the named executive officers. The company match is made in shares of Company stock, valued on the last trading day of the plan year.

C. ***Supplemental Executive Retirement Plan***

The Company maintains a Supplemental Executive Retirement Plan, described on Page 50, for certain senior officers of the Company and other key employees, including the named executive officers. The Supplemental Plan is an unfunded plan administered by the Compensation Committee, which sets an annual targeted incentive award for each participant consisting of a percentage of salary and annual bonus based on the company s performance against target. Contributions may range from 4 percent to 12 percent of salary and annual bonus, depending on the company s performance against the established target, with an 8 percent contribution being made for target performance. The target established by the Compensation Committee under the Supplemental Plan is normally the same as the target performance under the annual bonus plan. Participant accounts accrue simple interest at the rate of 6 percent annually. The Supplemental Plan also provides for the continuation of medical insurance benefits to vested participants following their retirement.

Based upon the Company s performance in 2007, a credit of 4 percent of 2007 base salary was made to the Supplemental Plan for each of the named executive officers. As of the end of 2007, the account balances of the named executive officers ranged from $50,341 for Mr. McHugh to $2,256,933 for Mr. Serra. Under the terms of the Supplemental Plan, executives are vested in their account balances based upon a combination of age and service, and of the named executive officers, Messrs. Serra, Mina, and Bahler are currently vested.

The Retirement Plan takes into account only base salary and annual bonus in determining pension benefits. Credits to our Supplemental Executive Retirement Plan are based only on base salary and annual bonus. Therefore, stock awards have no effect on the calculation of pension payments.

Perquisites

We provide the named executive officers with certain perquisites, which the Compensation Committee believes are reasonable and consistent with its overall objective of attracting and retaining talented retail industry executives. The Company provides the named executive officers with an automobile allowance, financial planning, medical expense reimbursement, annual physical, supplemental long-term disability insurance, and life insurance. In addition, the Company provides Mr. Serra with a driver and reimburses Mr. Halls for a limited amount of travel expenses of his spouse when she accompanies him on business trips. Given Mr. Halls s responsibility for our international businesses and the amount of time he spends traveling outside the United States on company business, we consider this to be a reasonable perquisite uniquely applicable to his situation and responsibilities.

How does each element of compensation fit into our overall compensation objectives? How does each element affect our decisions regarding other elements?

As stated at the beginning of this discussion and analysis, the objectives of our compensation program are to attract, motivate, and retain talented retail industry executives in order to maintain and enhance the Company s performance and its return to shareholders.

Base salaries fit into these compensation objectives by attracting and retaining talented retail company executives by paying them base salaries commensurate with their position, experience and responsibilities.

The performance-based annual and long-term cash bonus plans are designed to reward executives for enhancing the company s performance through the achievement of performance targets.

Long-term equity-based

awards (stock options and restricted stock) are designed to reward executives for increasing our return to our shareholders through increases in our stock price, and restricted stock awards may, in addition, serve to help retain key executives.

Base salaries of named executive officers rarely change materially from year-to-year unless there has been a change in responsibility or other special factors apply. As discussed above, the Compensation Committee increased the annual bonus target payment for the named executive officers other than Mr. Serra for 2007. Long-term bonus target payments, as a percentage of base salary, have been consistent based upon position during the prior three-year period. Mr. Serra s target bonus payments were the subject of negotiation between him and the company and are specified in his employment agreement. In determining total compensation, stock options are valued by the Committee s outside compensation consultant using the Black-Scholes model. Restricted stock awards are valued based upon the share price at the time of grant.

Compensation Committee Procedure

The Compensation Committee held two scheduled meetings in 2007 for the purpose of considering executive compensation. At the first meeting, held in February, the Committee reviewed a report from its outside compensation consultant on the company s executive compensation program, general executive compensation trends, trends in the retail industry, and specific background information on each senior management position.

Based upon the material reviewed and the discussion of the Committee at this meeting, our Sr. Vice President Human Resources working with our Chairman of the Board and Chief Executive Officer then prepared compensation recommendations to the Committee, covering all elements of compensation, for all corporate officers and heads of our operating divisions, other than the Chief Executive Officer himself. The Sr. Vice President Human Resources and the Sr. Vice President and General Counsel then met with the Chair of the Compensation Committee to review these recommendations. The Chairman of the Board and Chief Executive Officer participated in a portion of this meeting. Based upon input from the Chair of the Compensation Committee, the Human Resources Department then finalized these recommendations, including a recommendation for compensation for the Chairman of the Board and Chief Executive Officer, and prepared material for review by the Compensation Committee.

The Compensation Committee and the Stock Option Plan Subcommittee then held a second regularly scheduled meeting in late March to consider these recommendations and set compensation for the company s executives. At this meeting, the Committee reviewed a tally sheet that set out all elements of proposed compensation for each of the company s senior executives, including the named executive officers, in order to assist in its evaluation of the compensation proposals for 2007. At this meeting, the Compensation Committee also reviewed separate tally sheets for a representative sample of senior executives, including two of the named executive officers, that summarized payments that the executives would receive if their employment with the Company were terminated under various circumstances in order to confirm the Committee s understanding of the Company s severance arrangements with its senior executives.

Except in the case of promotions or other unusual circumstances, the Compensation Committee considers stock awards only at this meeting, which is normally held within a few weeks following the issuance of the Company s full-year earnings release for the prior year. It is also at this meeting that the Compensation Committee determined whether performance targets under the Annual Bonus Plan for the prior year and under the Long-Term Incentive Compensation Plan that ended in the prior year had been achieved; determined the amount of annual and long-term bonus pay-outs; adjusted base salaries for the upcoming year, and established targets under the Annual and Long-Term Plans for the upcoming year and three-year performance period.

In 2007, the Subcommittee made all stock option and restricted stock awards to the named executive officers at its regularly scheduled meeting in March 2007. The Compensation Committee has delegated authority to its Chair to approve stock option awards of up to 25,000 shares to any single individual other than a corporate officer. The Chair generally uses this authority to approve stock option grants made during the course of the year in connection with promotions or new hires. In 2007, the Chair used this authority to approve grants of options to four executives, none of whom was a named executive officer, to purchase a total of 68,000 shares. Those options are priced at fair market value on the date the Chair signs the approval. Neither the Compensation Committee nor its Chair has delegated authority to management to make stock option or restricted stock awards.

The Compensation Committee directly retains Mercer as its consultant on executive compensation matters. In addition to advising the Committee, other consultants and employees within Mercer provide U.S. and Canadian pension administration services to the company, and in 2007 fees paid to Mercer for advising the Committee represented approximately 9 percent of total fees paid to Mercer. In preparing its material for the Compensation Committee, Mercer consults with the Company s Chairman of the Board and Chief Executive Officer, Sr. Vice President Human Resources, Sr. Vice President and General Counsel, and Vice President Human Resources.

Executive Employment Agreements

As more fully described on Pages 36 to 38, we have employment agreements with each of our named executive officers. In this discussion and analysis, as well as elsewhere in this proxy statement, we refer to employment agreements we had in place with our named executive officers during 2007, which continue to be in place on the date of this proxy statement. During the course of 2008, we expect to enter into new or amended agreements with our named executive officers in order to make changes required to comply with Internal Revenue Code Sections 409A and Section 162(m), to make certain provisions consistent in our executive employment agreements, and to make other changes.

Our employment agreements with the named executive officers provide for severance payments to the executive if we terminate the executive s employment without cause or if we give the executive good reason to terminate employment. These payments to the named executive officers, calculated as if termination of employment occurred at the end of our last fiscal year, are set out in the tables on Pages 39 to 48.

The named executive officers other than Mr. Serra, whose arrangements are discussed in the next paragraph, receive an enhanced severance payment if the executive s employment is terminated without cause or if the executive

terminates employment for good reason within two years following a change in control. For an executive to receive the enhanced severance payment, two events must occur: first, employment must be terminated for one of the specified reasons, and second, this termination must

occur within two years following a change-in-control. We believe that these provisions, which we have had in place for a number of years, provide appropriate protection to our executives, comparable to that available at peer companies, and, with regard to the enhanced severance following a change-in-control, protect us from losing key executives during a period when a change-in-control may be threatened or pending.

Mr. Serra s employment agreement also provides for an enhanced severance payment if his employment is terminated without cause or if he terminates his employment for good reason within two years following a change in control. In addition, his agreement provides that, following a change-in-control, there is a 30-day period during which Mr. Serra may elect to terminate his employment and receive this enhanced severance payment. We believe that this payment mechanism, which has been in Mr. Serra s employment agreement since he became our Chief Executive Officer, is comparable to that provided to many chief executive officers of public companies and benefits us, if a potential change-in-control were to arise, by allowing him to focus fully on the best interests of our Company and shareholders while a change-in-control is pending without being distracted by concerns about his personal situation.

Mr. Serra, Mr. Halls, and Mr. Mina have agreed in their employment contracts not to compete with the Company for two years following the termination of employment and not to hire company employees during that same period. Mr. Bahler and Mr. McHugh have agreed to the same restriction for a one-year period. This restriction does not apply following a change-in-control.

Accounting and Tax Considerations

While we review both the accounting and tax effects of various components of compensation, these effects are not a significant factor in the Compensation Committee s allocation of compensation among the different components. In general, it is our position that compensation paid to executive officers should be fully deductible for U.S. tax purposes, and we have structured our bonus and option programs so that payments made under them are deductible. In certain instances, however, we believe that it is in the company s best interests, and that of its shareholders, to have the flexibility to pay compensation that is not deductible under the limitations of Section 162(m) of the Internal Revenue Code in order to provide a compensation package consistent with our program and objectives. The portion of Mr. Serra s base salary that exceeds $1,000,000, the value of restricted stock awards made to him, and potentially a portion of the value of restricted stock awards made to the other named executive officers, are not expected to be deductible.

Compensation Committee Report

The Compensation and Management Resources Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on that review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

James E. Preston, *Chair*
Alan D. Feldman
Christopher A. Sinclair
Cheryl Nido Turpin

SUMMARY COMPENSATION TABLE

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name and Principal Position(1)	Year	Salary ($)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings($)(5)
Matthew Serra	2007	1,500,000		1,613,477	444,589		227,515
Chairman, President and CEO	2006	1,500,000		1,637,369	679,752	1,547,582	225,627
Robert McHugh	2007	518,750		517,331	116,289		34,348
Senior VP and CFO	2006	500,000		480,033	146,012	272,839	34,550
Richard Mina	2007	868,750		1,140,060	251,060		137,457
President and CEO Foot Locker, Inc. USA	2006	837,500		1,342,247	365,167	609,418	127,945
Ronald Halls	2007	650,000		537,128	278,443		50,217
President and CEO Foot Locker, Inc. International	2006	528,409	250,000	215,406	226,254	141,252	47,111
Gary Bahler	2007	524,975		302,531	138,485		92,659
Senior VP, General Counsel and Secretary	2006	517,400		270,925	177,051	380,724	86,081

Notes to Summary Compensation Table

(1) Ronald Halls has served as President and

Chief Executive Officer of Foot Locker, Inc. International since October 9, 2006. Previously, he was President and Chief Executive Officer of the Company s Champs Sports division.

(2) Guaranteed retention bonus paid to executive for 2006.

(3) The amounts in this column represent the compensation expense recognized for financial statement reporting purposes for the designated fiscal years for the restricted stock awards granted in those years, as well as in prior years, in accordance with FAS 123R. As provided under the SEC s rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions and include expected

dividend payments at the same rate as paid on our shares of Common Stock. For more information on the valuation of the restricted stock awards, please refer to Notes 23 and 22, respectively, of the Company s financial statements in our Forms 10-K filed with the SEC for 2007 and 2006. The amounts shown in the table reflect the Company s accounting expense for these awards and do not necessarily reflect the actual value that may be recognized by the named executives.

(4) The amounts in this column represent the compensation expense recognized for financial statement reporting purposes for the designated fiscal years for the stock options granted to each of the named executives in those fiscal years, as well as

in prior fiscal years, in accordance with FAS 123R. As provided under the SEC s rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to the grants covered in this table, please refer to Notes 23 and 22, respectively, of the Company s financial statements in our Forms 10-K filed with the SEC for 2007 and 2006. Please also refer to the Grants of Plan-Based Awards Table on Page 31 for information on the options granted in 2007. The amounts shown in the table reflect the Company s accounting expense for these awards and do not necessarily reflect the actual value that may be recognized by the named

executives.

(5) Amounts shown in column (h) represent the annual change in pension value during each of our last two fiscal years for each of the executives. Please see Page 51 for more information on 2007 pension benefits.

(6) This column includes perquisites, and the amounts attributable to the executives for 2007 are shown in the table below. We valued these perquisites at the incremental cost to the Company of providing the personal benefits to the executives, which represents the actual cost attributable to providing these personal benefits. The amount shown in the table for Mr. Serra s auto allowance includes the incremental cost to the Company of providing him with the personal use of a driver, who is a full time employee of the Company

and who also performs other regular duties for the Company. The amounts shown in the table under the 401(k) Match column represent the dollar value of the Company s matching contribution under the Foot Locker 401(k) Plan made to the named executive s account in shares of Common Stock. The shares of stock for the 2007 matching contribution were valued at $13.66 per share.

Name	Auto Allowance	Financial Planning	Medical Expense Reimbursement	Supp. LTD Insurance Premiums	Relocation Expense Reimbursement	Spousal Travel Reimbursement	Tax Gross-Ups on Relocation Expense and Spousal Travel Exp.	Universal Life Insurance Premium
M. Serra	55,126	5,000	13,341					
R. McHugh	8,750	5,033	3,708					

R. Mina	30,000	5,000	5,000	2,641				3,624
R. Halls	28,878		3,288		58,800	91,499	107,676	
G. Bahler	13,353	7,500	4,984	5,565				2,428

The following **Grants of Plan-Based Awards Table** shows the awards made to the named executive officers in 2007 under the Annual Bonus Plan and the Long-Term Bonus Plan, as well as the restricted stock and stock option awards under the Company s stock option and award plans.

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)
M. Serra	03/28/07(1)	468,750	1,875,000	3,000,000				
	03/28/07(2)	337,500	1,350,000	2,700,000				
	03/28/07(3)							100,00
	03/28/07(4)							
R. McHugh	03/28/07(1)	98,438	393,750	689,063				
	03/28/07(2)	118,125	472,500	945,000				
	03/28/07(3)							40,00
	03/28/07(4)							
R. Mina	03/28/07(1)	164,063	656,250	1,148,438				
	03/28/07(2)	196,875	787,500	1,575,000				
	03/28/07(3)							40,00
	03/28/07(4)							
R. Halls	03/28/07(1)	121,875	487,500	853,125				
	03/28/07(2)	146,250	585,000	1,170,000				
	03/28/07(3)							20,00
	03/28/07(4)							
G. Bahler	03/28/07(1)	98,438	393,750	689,063				
	03/28/07(2)	118,125	472,500	945,000				
	03/28/07(3)							40,00
	03/28/07(4)							

Notes to Grants of Plan-Based Awards Table

(1) **Annual Bonus Awards**

Amounts shown reflect the payment levels at threshold, target, and maximum performance for the 2007 fiscal year under the Company s Annual Bonus Plan and reflect the potential amounts that would be paid at the end of the period if the applicable performance goals were achieved. The estimated bonus payouts under the Annual Bonus Plan are based on a percentage of the executive s base salary. For Mr. Serra, the threshold, target, and maximum amounts represent 31.25 percent, 125

percent, and 200 percent, respectively, of his annual base salary. For Messrs. McHugh, Mina, Halls, and Bahler, the threshold, target, and maximum amounts represent 18.75 percent, 75 percent, and 131.25 percent, respectively, of each executive s annual base salary. No payments were made to the executives under the Annual Bonus Plan for 2007 because the performance goals were not achieved.

(2) **Long-Term Bonus Awards**

Amounts shown reflect the estimated payment levels at threshold, target, and maximum performance

for the three-year performance period of 2007-2009 under the Company s Long-Term Bonus Plan and reflect the potential amounts that would be paid at the end of the performance period if the applicable performance goals are achieved. For each executive, the amounts shown under threshold, target, and maximum represent 22.5 percent, 90 percent, and 180 percent, respectively, of each executive s annual base salary as of May 1 in the first year of the performance period. No amounts are paid to the executives under the Long-Term Bonus Plan unless the performance

goals for the three-year performance period are achieved.

(3) **Restricted Stock Awards**

Amounts shown in the table under column (i) represent the number of shares of restricted stock awarded to the executive on the grant date. Mr. Serra s restricted stock was granted under the 2003 Stock Option and Award Plan, and the restricted stock awards for the other executives were granted under the 1998 Stock Option and Award Plan. The shares of restricted stock granted to Mr.

Serra in 2007 will vest on January 30, 2010 and the shares awarded on this date to the other executives will vest on March 15, 2010, provided that the executives remain employed by the Company from the date of grant through the applicable vesting dates of the awards. The executives have the right to receive all regular cash dividends payable after the date of grant to all record holders of our Common Stock. The grant date fair value of the restricted stock awards shown in column (m) includes expected dividend payments on the shares.

(4) **Stock Option Grants**

The amounts in column (j) reflect the

number of stock options granted in 2007 under the Company s stock option and award plans. Mr. Serra s stock option award was granted under the 2003 Stock Option and Award Plan, and the stock options for the other executives were granted under the 1998 Stock Option and Award Plan. The exercise price reflected in column (k) is equal to the fair market value of a share of the Company s Common Stock on the grant date. The exercise price was calculated under the terms of the applicable option and award plans by averaging the high and low prices of a share of our Common Stock on the grant date. In general, no portion of any stock option

may be exercised until the first anniversary of its date of grant. The options granted in 2007 become exercisable in three installments, beginning on the first annual anniversary of the date of grant.

Vested options may be exercised for ten years following the date of grant, unless the option is cancelled or exercised sooner than this. If the executive retires, becomes disabled, or dies while employed by the Company or one of its subsidiaries, all unexercised options that are then exercisable, plus those options that would have become exercisable on the next anniversary of the grant date,

will remain (or become) exercisable as of that date. Moreover, upon the occurrence of a Change in Control, all outstanding options will become immediately exercisable as of that date. In general, options may remain exercisable for up to three years following a participant s retirement or termination due to disability, and for up to one year for any other termination of employment for reasons other than cause.

(5) As stated in Note 4 above, the exercise price reflected in column (k) is equal to the fair market value of a share of the Company s Common Stock on the grant date, and was calculated under the

terms of the applicable option and award plans by averaging the high and low prices of a share of our Common Stock on the grant date. The price stated in column (l) is the closing price of a share of the Company s stock on the date of grant.

(6) **Grant Date Fair Value**

The amounts shown in column (m) reflect the grant date fair value of the full restricted stock and stock option awards granted in 2007, calculated in accordance with FAS 123R. As provided under the SEC s rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions and include

expected dividend payments on shares of restricted stock at the same rate as paid on our shares of Common Stock. For option awards, that number is calculated by multiplying the Black-Scholes value by the number of options granted. The Black-Scholes value for the options granted in 2007 to the named executives was $5.61. For information on the valuation assumptions with respect to the 2007 grants, please refer to Note 23 of the Company s financial statements in our Form 10-K for the 2007 fiscal year as filed with the SEC.

For restricted stock awards, the fair value is calculated by multiplying the average of

the high and low prices of our Common Stock on The New York Stock Exchange on the award date by the number of shares granted. The average of the high and low prices of our Common Stock on the date of grant was $23.42.

Salary. The annual base salaries paid to our named executives in 2007 are set forth in the Summary Compensation Table. For 2007, their salaries represented the following percentages of their total compensation: Mr. Serra (38.8%), Mr. McHugh (43.0%,) Mr. Mina (35.5%), Mr. Halls (36.0%), and Mr. Bahler (48.0%). Information on the named executives employment agreements appears beginning on Page 36.

The following table, **Outstanding Equity Awards at Fiscal Year-End** shows the number of outstanding stock options, both vested and unvested, and the number of unvested shares of restricted stock held by the named executives at the end of the 2007 fiscal year.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incenti Plan Award Numbe of Unearn Shares Units or Other Rights That Have Not Veste (#)
M. Serra	500,000	0		11.905	02/12/2011			
	200,000	0		16.02	04/18/2012			
	100,000	0		16.19	09/11/2013			
	100,000	0		25.365	02/18/2014			
	115,000	0		27.01	02/09/2015			
	33,333	66,667		23.92	03/22/2016			
	0	48,500		23.42	03/28/2017			
						18,833	262,532	
						18,834	262,546	
						100,000	1,394,000	
R. McHugh	10,000	0		25.2813	04/08/2008			
	5,000	0		4.5313	02/10/2009			
	4,000	0		7.1875	01/03/2010			
	20,000	0		11.3125	04/12/2010			
	20,000	0		12.985	04/11/2011			
	20,000	0		16.02	04/18/2012			
	20,000	0		10.245	04/16/2013			
	20,000	0		25.385	04/01/2014			
	13,333	6,667		28.155	03/23/2015			

	20,000	10,000	21.48	11/21/2015		
	0	20,000	23.42	03/28/2017		
					30,000	418,200
					40,000	557,600
R. Mina	12,000	0	25.2813	04/08/2008		
	21,838(4)	0	11.3125	04/12/2010		
	50,000(4)	0	12.985	04/11/2011		
	50,000(4)	0	16.02	04/18/2012		
	100,000(4)	0	10.065	02/02/2013		
	80,000	0	25.385	04/01/2014		
	33,333	16,667	28.155	03/23/2015		
	16,666	33,334	23.92	03/22/2016		
	0	30,000	23.42	03/28/2017		
					40,000	557,600
					50,000	697,000
					40,000	557,600
R. Halls	10,000	0	16.02	04/18/2012		
	16,667	0	10.065	02/02/2013		
	20,000	0	25.385	04/01/2014		
	20,000	10,000	28.155	03/23/2015		
	10,000	20,000	23.92	03/22/2016		
	10,000	20,000	24.755	10/12/2016		
	0	30,000	23.42	03/28/2017		
					20,000	278,800
					30,000	418,200
					20,000	278,800
G. Bahler	25,000	0	25.2813	04/08/2008		
	20,002	0	11.3125	04/12/2010		
	47,500	0	12.985	04/11/2011		
	47,500	0	16.02	04/18/2012		
	33,000	0	10.245	04/16/2013		
	32,000	0	25.385	04/01/2014		
	16,666	8,334	28.155	03/23/2015		
	8,333	16,667	23.92	03/22/2016		
	0	20,000	23.42	03/28/2017		
					40,000	557,600

Notes to Table on Outstanding Equity Awards at Fiscal Year End

(1) The **Vesting Schedules** for the options shown in columns (b) and (c) are as follows:

Name	Total Number of Securities Underlying Unexercised Options	Date of Grant	Vesting Date for 1/3 of Total Grant	Vesting Date for 1/3 of Total Grant	Vesting Date for 1/3 of Total Grant
M. Serra	500,000	02/12/2001	02/12/2002	02/12/2003	02/12/2004
	200,000	04/18/2002	04/18/2003	04/18/2004	04/18/2005
	100,000	09/11/2003	09/11/2004	09/11/2005	09/11/2006
	100,000	02/18/2004	02/18/2005	02/18/2006	02/18/2007

Available borrowing capacity	$ 1,439	$ 3,163
Outstanding letters of credit	$ 732	$ 732

As of September 30, 2008 and June 30, 2008, approximately $723,000 and $801,000, respectively, of our cash was held in foreign subsidiary bank accounts. Such cash is unrestricted with regard to foreign liquidity needs; however, our ability to utilize a portion of this cash to satisfy liquidity needs outside of such foreign locations is subject to approval by the foreign subsidiary's board of directors.

Cash Flows

The following table presents the major components of the consolidated statements of cash flows:

	Three Months Ended September 30,	
	2008	2007
	(In thousands)	
Net cash provided by (used in):		
Net income (loss)	$ 184	$ (1,653)
Non-cash operating expenses, net	1,088	732
Changes in operating assets and liabilities:		
Accounts receivable	1,273	1,434
Inventories	(67)	376

Contract manufacturers' receivable	(69)	19
Prepaid expenses and other current assets	(111)	76
Other assets	(20)	(1)
Accounts payable	(1,320)	(2,380)
Accrued payroll and related expenses	(808)	203
Warranty reserve	7	(73)
Restructuring reserve	(682)	-
Other liabilities	(276)	677
Net cash used in operating activities	(801)	(590)
Net cash used in investing activities	(214)	(126)
Net cash provided by financing activities	1,936	149
Effect of foreign exchange rate changes on cash	(138)	74
Increase (decrease) in cash and cash equivalents	$ 783	$ (493)

Operating activities used cash during the fiscal quarter ended September 30, 2008. This was the result of cash used by operating assets and liabilities, offset by net income and non-cash operating expenses. Significant non-cash items included a restructuring charge, share-based compensation and depreciation. In order of significance, the changes in operating assets and liabilities that had a significant impact on the cash used in operating activities included (i) a decrease in accounts payable due to the pay down of vendors with the proceeds from the term loan, (ii) a decrease in accrued payroll as a result of the timing of payroll cycles at quarter end, and (iii) payments made against the restructuring reserve. This was offset by a decrease in net accounts receivable due to the timing of collections and linearity of sales.

Operating activities used cash during the fiscal quarter ended September 30, 2007. This was the result of a net loss, offset by non-cash operating expenses and cash provided by operating assets and liabilities. The non-cash items that had a significant impact on net loss included share-based compensation and depreciation. In order of significance, the changes in operating assets and liabilities that had a significant impact on the cash used in operating activities included (i) a decrease in net accounts receivable due to the timing of collections and linearity of sales, (ii) an increase in other liabilities as a result of increase in customer prepayments, and (iii) a decrease in finished good inventories. This was offset by a decrease in accounts payable as a result of the timing of inventory receipts and cash payments to vendors.

Investing activities used cash during the fiscal quarter ended September 30, 2008 and 2007. This was due to the purchase of property and equipment.

Financing activities provided cash during the fiscal quarter ended September 30, 2008. This was due to proceeds from the new term loan and sale of common shares through the 2000 Employee Stock Purchase Plan (the "ESPP") offset by repayments on capital lease obligations and the term loan.

Financing activities provided cash during the fiscal quarter ended September 30, 2007. This was due to proceeds from the sale of common shares through employee stock option exercises and the 2000 Employee Stock Purchase Plan (the "ESPP") offset by repayments on capital lease obligations.

Off-Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of September 30, 2008.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of our fiscal year. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting identified during the fiscal quarter that ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Note 10 to our notes to the unaudited condensed consolidated financial statements of Part I, Item 1 of this Form 10-Q is hereby incorporated by reference.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves numerous risks and uncertainties. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in this section. This section should be read in conjunction with the consolidated financial statements and accompanying notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K. If any of these risks or uncertainties actually occurs with material adverse effects on Lantronix, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Our quarterly operating results may fluctuate, which could cause our stock price to decline.

We have experienced, and expect to continue to experience, significant fluctuations in net revenues, expenses and operating results from quarter to quarter. We, therefore, believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock. A high percentage of our operating expenses are relatively fixed and are based on our expectations of future net revenues. If we were to experience a reduction in revenues in a quarter, we would likely be unable to adjust our short-term expenditures. If this were to occur, our operating results for that fiscal quarter would be harmed. If our operating results in future fiscal quarters fall below the expectations of market analysts and investors, the price of our common stock would likely fall. Other factors that might cause our operating results to fluctuate on a quarterly basis include:

- changes in business and economic conditions, including a downturn in the overall economy;
- changes in the mix of net revenues attributable to higher-margin and lower-margin products;
- customers' decisions to defer or accelerate orders;
- variations in the size or timing of orders for our products;
- changes in demand for our products;
- fluctuations in exchange rates;
- defects and other product quality problems;
- loss or gain of significant customers;
- short-term fluctuations in the cost or availability of our critical components;
- announcements or introductions of new products by our competitors;
- effects of terrorist attacks in the U.S. and abroad; and
- changes in demand for devices that incorporate our products.

Our common stock may be delisted, which could significantly harm our business.

Our common stock is currently listed on The Nasdaq Capital Market under the symbol "LTRX." We currently are not in compliance with the $1.00 minimum bid price requirement for inclusion in The Nasdaq Capital Market; however, we have until March 26, 2009, to regain compliance. If our common stock is delisted from The Nasdaq Capital Market, some or all of the following might be impacted, harming our investors:

- the liquidity of our common stock;
- the number of institutional investors that will consider investing in our common stock;
- the number of investors in general that will consider investing in our common stock;
- the number of market makers in our common stock;

- the number of analysts following our stock;
- the availability of information concerning the trading prices;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain financing for the continuation of our operations.

In addition, if our common stock were to be delisted from The Nasdaq Capital Market, the price of our common stock and the ability of stockholders to sell such stock may be adversely affected. A return to the Nasdaq would require full compliance with the initial listing requirements of the exchange.

If a major distributor or customer cancels, reduces or delays purchases, our net revenues might decline and our business could be adversely affected.

The number and timing of sales to our distributors have been difficult for us to predict. While our distributors are customers in the sense they buy our products, they are also part of our product distribution system. Some of our distributors could be acquired by a competitor and stop buying product from us.

The following table presents sales to our significant customers as a percentage of net revenues:

	Three Months Ended September 30,	
	2008	2007
Top five customers (1)	34.7%	40.0%
Ingram Micro	12.0%	9.7%
Tech Data	7.4%	15.0%

(1) Includes Ingram Micro and Tech Data.

The loss or deferral of one or more significant customers in a quarter could harm our operating results. We have in the past, and might in the future, lose one or more major customers. If we fail to continue to sell to our major customers in the quantities we anticipate, or if any of these customers terminate our relationship, our reputation, the perception of our products and technology in the marketplace, could be harmed. The demand for our products from our OEM, VAR and systems integrator customers depends primarily on their ability to successfully sell their products that incorporate our device networking solutions technology. Our sales are usually completed on a purchase order basis and we have few long-term purchase commitments from our customers.

Our future success also depends on our ability to attract new customers, which often involves an extended selling process. The sale of our products often involves a significant technical evaluation, and we often face delays because of our customers' internal procedures for evaluating and deploying new technologies. For these and other reasons, the sales cycle associated with our products is typically lengthy, often lasting six to nine months and sometimes longer. Therefore, if we were to lose a major customer, we might not be able to replace the customer in a timely manner, or at all. This would cause our net revenues to decrease and could cause our stock price to decline.

If we fail to develop or enhance our products to respond to changing market conditions and government and industry standards, our competitive position will suffer and our business will be adversely affected.

Our future success depends in large part on our ability to continue to enhance existing products, lower product cost and develop new products that maintain technological competitiveness and meet government and industry standards. The demand for network-enabled products is relatively new and can change as a result of innovations, new technologies or new government and industry standards. For example, a recent directive in the European Union bans the use of lead and other heavy metals in electrical and electronic equipment after July 1, 2006. As a result, in advance of this deadline, some of our customers selling products in Europe had begun demanding product from component manufacturers that did not contain these banned substances. Any failure by us to develop and introduce new products or enhancements in response to new government and industry standards could harm our business, financial condition or results of operations. These requirements might or might not be compatible with our current or future product offerings. We might not be successful in modifying our products and services to address these requirements and

standards. For example, our competitors might develop competing technologies based on Internet Protocols, Ethernet Protocols or other protocols that might have advantages over our products. If this were to happen, our net revenues might not grow at the rate we anticipate, or could decline.

Delays in deliveries or quality problems with our component suppliers could damage our reputation and could cause our net revenues to decline and harm our results of operations.

We and our contract manufacturers are responsible for procuring raw materials for our products. Our products incorporate components or technologies that are only available from single or limited sources of supply. In particular, some of our integrated circuits are only available from a single source and in some cases are no longer being manufactured. From time to time, integrated circuits used in our products will be phased out of production. When this happens, we attempt to purchase sufficient inventory to meet our needs until a substitute component can be incorporated into our products. Nonetheless, we might be unable to purchase sufficient components to meet our demands, or we might incorrectly forecast our demands, and purchase too many or too few components. In addition, our products use components that have, in the past, been subject to market shortages and substantial price fluctuations. From time to time, we have been unable to meet our orders because we were unable to purchase necessary components for our products. We do not have long-term supply arrangements with many of our vendors to obtain necessary components or technology for our products. If we are unable to purchase components from these suppliers, product shipments could be prevented or delayed, which could result in a loss of sales. If we are unable to meet existing orders or to enter into new orders because of a shortage in components, we will likely lose net revenues and risk losing customers and harming our reputation in the marketplace, which could adversely affect our business, financial condition or results of operations. We have recently redesigned many of our products to comply with the new environmental regulation such as the Reduction of Hazardous Substances (“RoHS”) directive. These regulations are relatively new for our supply chain and interruptions in parts supply due to the additional complexities and limited number of second source supply choices could adversely impact our business.

If we lose the services of any of our contract manufacturers or suppliers, we may not be able to obtain alternate sources in a timely manner, which could harm our customer relations and adversely affect our net revenues and harm our results of operations.

We do not have long-term agreements with our contract manufacturers or suppliers. If any of these subcontractors or suppliers ceased doing business with us, we may not be able to obtain alternative sources in a timely or cost-effective manner. Due to the amount of time that it usually takes us to qualify contract manufacturers and suppliers, we could experience delays in product shipments if we are required to find alternative subcontractors and suppliers. Some of our suppliers have or provide technology or trade secrets, the loss of which could be disruptive to our procurement and supply processes. If a competitor should acquire one of our contract manufacturers or suppliers, we could be subjected to more difficulties in maintaining or developing alternative sources of supply of some components or products. Any problems that we may encounter with the delivery, quality or cost of our products could damage our customer relationships and materially and adversely affect our business, financial condition or results of operations.

Environmental regulations such as the Waste Electrical and Electronic Equipment (“WEEE”) and RoHS directives may require us to redesign our products and to develop compliance administration systems.

Various countries have begun to require companies selling a broad range of electrical equipment to conform to regulations such as the WEEE and RoHS directives and we expect additional countries and locations to adopt similar regulations in the future. New environmental standards such as these could require us to redesign our products in order to comply with the standards, and require the development of compliance administration systems. We have already invested significant resources into developing compliance tracking systems, and further investments may be required. Additionally, we may incur significant costs to redesign our products and to develop compliance administration systems; however alternative designs may have an adverse effect on our gross profit margin. If we cannot develop compliant products timely or properly administer our compliance programs, our revenues may also decline due to lower sales, which would adversely affect our operating results.

If our research and development efforts are not successful, our net revenues could decline and our business could be harmed.

If we are unable to develop new products as a result of our research and development efforts, or if the products we develop are not successful, our business could be harmed. Even if we do develop new products that are accepted by our target markets, we do not know whether the net revenues from these products will be sufficient to justify our investment in research and development. In addition, if we do not invest sufficiently in research and development, we may be unable to maintain our competitive position. Our investment in research and development may decrease, which may put us at a competitive disadvantage compared to our competitors and adversely affect our market position.

We expect the average selling prices of our products to decline and material costs to increase, which could reduce our net revenues, gross margins and profitability.

In the past, we have experienced some reduction in the average selling prices and gross margins of products, and we expect that this will continue for our products as they mature. We expect competition to continue to increase, and we anticipate this could result in additional downward pressure on our pricing. Our average selling prices for our products might decline as a result of other reasons, including promotional programs and customers who negotiate price reductions in exchange for longer-term purchase commitments. We also may not be able to increase the price of our products if the prices of components or our overhead costs increase. In addition, we may be unable to adjust our prices in response to currency exchange rate fluctuations resulting in lower gross margins. We also may be unable to adjust our prices in response to price increases by our suppliers resulting in lower gross margins. Further, as is characteristic of our industry, the average selling prices of our products have historically decreased over the products’ life cycles and

we expect this pattern to continue. If any of these were to occur, our gross margins could decline and we may not be able to reduce the cost to manufacture our products to keep up with the decline in prices.

Current or future litigation could adversely affect us.

We are subject to a wide range of claims and lawsuits in the course of our business. For example, we recently concluded multiple securities lawsuits with our stockholders and litigation with a former executive officer. We may have an obligation to continue to indemnify the former executive officer and defend him in the litigation regarding the securities violation with which he has been charged. There is a risk that our insurance carriers may not reimburse us for such costs. Any lawsuit may involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources. The results of litigation are inherently uncertain, and adverse outcomes are possible.

Our products may contain undetected software or hardware errors or defects that could lead to an increase in our costs, reduce our net revenues or damage our reputation.

We currently offer warranties ranging from one or two years on each of our products. Our products could contain undetected errors or defects. If there is a product failure, we might have to replace all affected products without being able to book revenue for replacement units, or we may have to refund the purchase price for the units. We do not have a long history with which to assess the risks of unexpected product failures or defects for our device server product line. Regardless of the amount of testing we undertake, some errors might be discovered only after a product has been installed and used by customers. Any errors discovered after commercial release could result in loss of net revenues and claims against us. Significant product warranty claims against us could harm our business, reputation and financial results and cause the price of our stock to decline.

If software that we license or acquire from the open source software community and incorporate into our products were to become unavailable or no longer available on commercially reasonable terms, it could adversely affect sales of our products, which could disrupt our business and harm our financial results.

Certain of our products contain components developed and maintained by third-party software vendors or are available through the “open source” software community. We also expect that we may incorporate software from third-party vendors and open source software in our future products. Our business would be disrupted if this software, or functional equivalents of this software, were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required to either redesign our products to function with alternate third-party software or open source software, or develop these components ourselves, which would result in increased costs and could result in delays in our product shipments. Furthermore, we might be forced to limit the features available in our current or future product offerings.

If our contract manufacturers are unable or unwilling to manufacture our products at the quality and quantity we request, our business could be harmed.

We outsource substantially all of our manufacturing to four manufacturers in Asia: Venture Electronics Services, Uni Precision Industrial Ltd., Universal Scientific Industrial Company, LTD and Hana Microelectronics, Inc. In addition, two independent third party foundries located in Asia manufacture substantially all of our large scale integration chips. Our reliance on these third-party manufacturers exposes us to a number of significant risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply; and
- reliance on these manufacturers to maintain competitive manufacturing technologies.

Our agreements with these manufacturers provide for services on a purchase order basis. If our manufacturers were to become unable or unwilling to continue to manufacture our products at requested quality, quantity, yields and costs, or in a timely manner, our business would be seriously harmed. As a result, we would have to attempt to identify and qualify substitute manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems. For example, Jabil Circuit, Inc. acquired Varian, Inc. in March 2005 and closed the facility that manufactured our products. We transferred this production to another contract manufacturer. Moreover, as we shift products among third-party manufacturers, we may incur substantial expenses, risk material delays or encounter other unexpected issues.

In addition, a natural disaster could disrupt our manufacturers' facilities and could inhibit our manufacturers' ability to provide us with manufacturing capacity in a timely manner or at all. If this were to occur, we likely would be unable to fill customers' existing orders or accept new orders for our products. The resulting decline in net revenues would harm our business. We also are responsible for forecasting the demand for our individual products. These forecasts are used by our contract manufacturers to procure raw materials and manufacture our finished goods. If we forecast demand too high, we may invest too much cash in inventory, and we may be forced to take a write-down of our inventory balance, which would reduce our earnings. If our forecast is too low for one or more products, we may be required to pay charges that would increase our cost of revenues or we may be unable to fulfill customer orders, thus reducing net revenues and therefore earnings.

Our international activities are subject to uncertainties, which include international economic, regulatory, political and other risks that could harm our business, financial condition or results of operations.

The following table presents our sales within geographic regions:

	Three Months Ended September 30,				Change	
	2008	% of Net Revenue	2007	% of Net Revenue	$	%
	(In thousands, except percentages)					
Americas	$ 8,428	59.3%	$ 7,935	60.8%	$ 493	6.2%
EMEA	3,812	26.8%	3,385	25.9%	427	12.6%
Asia Pacific	1,972	13.9%	1,734	13.3%	238	13.7%
Net revenues	$ 14,212	100.0%	$ 13,054	100.0%	$ 1,158	8.9%

We expect that international revenues will continue to represent a significant portion of our net revenues in the foreseeable future. Doing business internationally involves greater expense and many risks. For example, because the products we sell abroad and the products and services we buy abroad may be priced in foreign currencies, we could be affected by fluctuating exchange rates. In the past, we have lost money because of these fluctuations. We might not successfully protect ourselves against currency rate fluctuations, and our financial performance could be harmed as a result. In addition, we use contract manufacturers based in Asia to manufacture substantially all of our products. International revenues and operations are subject to numerous risks, including:

- unexpected changes in regulatory requirements, taxes, trade laws and tariffs;
- reduced protection for intellectual property rights in some countries;
- differing labor regulations;
- compliance with a wide variety of complex regulatory requirements;
- fluctuations in currency exchange rates;
- changes in a country's or region's political or economic conditions;
- effects of terrorist attacks in the U.S. and abroad;
- greater difficulty in staffing and managing foreign operations; and
- increased financial accounting and reporting burdens and complexities.

Our international operations require significant attention from our management and substantial financial resources. We do not know whether our investments in other countries will produce desired levels of net revenues or profitability.

We are exposed to foreign currency exchange risks, which could harm our business and operating results.

We hold a significant portion of our cash balance in foreign currencies (particularly euros), and as such are exposed to adverse changes in exchange rates associated with foreign currency fluctuations. However, we do not currently engage in any hedging transactions to mitigate these risks. Although from time to time we review our foreign currency exposure and evaluate whether we should enter into hedging transactions, we may not adequately hedge against any

future volatility in currency exchange rates and, if we engage in hedging transactions, the transactions will be based on forecasts which later may prove to be inaccurate. Any failure to hedge successfully or anticipate currency risks properly could adversely affect our operating results.

If we are unable to sell our inventory in a timely manner it could become obsolete, which could require us to increase our reserves and harm our operating results.

At any time, competitive products may be introduced with more attractive features or at lower prices than ours. There is a risk that we may be unable to sell our inventory in a timely manner to avoid it becoming obsolete.

The following table presents our reserve for excess and obsolete inventory:

	September 30, 2008	June 30, 2008
	(In thousands)	
Finished goods	$ 5,834	$ 5,707
Raw materials	1,768	1,836
Inventory at distributors	1,645	2,008
Large scale integration chips *	1,180	809
Inventories, gross	10,427	10,360
Reserve for excess and obsolete inventory	(2,326)	(2,322)
Inventories, net	$ 8,101	$ 8,038

* This item is sold individually and embedded into the Company's products.

In the event we are required to substantially discount our inventory or are unable to sell our inventory in a timely manner, we would be required to increase our reserves and our operating results could be substantially harmed.

We are subject to export control regulations that could restrict our ability to increase our international revenue and may adversely affect our business.

Our products and technologies are subject to U.S. export control laws, including the Export Administration Regulations, administered by the Department of Commerce and the Bureau of Industry Security, and their foreign counterpart laws and regulations, which may require that we obtain an export license before we can export certain products or technology to specified countries. These export control laws, and possible changes to current laws, regulations and policies, could restrict our ability to sell products to customers in certain countries or give rise to delays or expenses in obtaining appropriate export licenses. Failure to comply with these laws and regulations could result in government sanctions, including substantial monetary penalties, denial of export privileges, and debarment from government contracts. Any of these could adversely affect our operations and, as a result, our financial results could suffer.

If we are unable to attract, retain or motivate key senior management and technical personnel, it could seriously harm our business.

Our financial performance depends substantially on the performance of our executive officers, key technical, marketing and sales employees. We are also dependent upon our technical personnel, due to the specialized technical nature of our business. If we were to lose the services of our executive officers or any of our key personnel and were not able to find replacements in a timely manner, our business could be disrupted, other key personnel might decide to leave, and we might incur increased operating expenses associated with finding and compensating replacements.

If our OEM customers develop their own expertise in network-enabling products, it could result in reduced sales of our products and harm our operating results.

We sell to both resellers and OEMs. Selling products to OEMs involves unique risks, including the risk that OEMs will develop internal expertise in network-enabling products or will otherwise incorporate network functionality in their products without using our device networking solutions. If this were to occur, our sales to OEMs would likely

decline, which could reduce our net revenues and harm our operating results.

New product introductions and pricing strategies by our competitors could reduce our market share or cause us to reduce the prices of our products, which would reduce our net revenues and gross margins.

The market for our products is intensely competitive, subject to rapid change and is significantly affected by new product introductions and pricing strategies of our competitors. We face competition primarily from companies that network-enable devices, semiconductor companies, companies in the automation industry and companies with significant networking expertise and research and development resources. Our competitors might offer new products with features or functionality that are equal to or better than our products. In addition, since we work with open standards, our customers could develop products based on our technology that compete with our offerings. We might not have sufficient engineering staff or other required resources to modify our products to match our competitors. Similarly, competitive pressure could force us to reduce the price of our products. In each case, we could lose new and existing customers to our competition. If this were to occur, our net revenues could decline and our business could be harmed.

Current or future litigation over intellectual property rights could adversely affect us.

Substantial litigation regarding intellectual property rights exists in our industry. For example, in May 2006 we settled a patent infringement lawsuit with Digi in which we signed an agreement with Digi to cross-license each other's patents. In addition, we paid Digi $600,000 as part of the settlement. The results of litigation are inherently uncertain, and adverse outcomes are possible. Adverse outcomes may have a material adverse effect on our business, financial condition or results of operations.

There is a risk that other third parties could claim that our products, or our customers' products, infringe on their intellectual property rights or that we have misappropriated their intellectual property. In addition, software, business processes and other property rights in our industry might be increasingly subject to third party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Other parties might currently have, or might eventually be issued, patents that pertain to the proprietary rights we use. Any of these third parties might make a claim of infringement against us. The results of litigation are inherently uncertain, and adverse outcomes are possible.

Responding to any infringement claim, regardless of its validity, could:

- be time-consuming, costly and/or result in litigation;
- divert management's time and attention from developing our business;
- require us to pay monetary damages, including treble damages if we are held to have willfully infringed;
- require us to enter into royalty and licensing agreements that we would not normally find acceptable;
- require us to stop selling or to redesign certain of our products; or
- require us to satisfy indemnification obligations to our customers.

If any of these occur, our business, financial condition or results of operations could be adversely affected.

We may not be able to adequately protect or enforce our intellectual property rights, which could harm our competitive position or require us to incur significant expenses to enforce our rights.

We have not historically relied on patents to protect our proprietary rights, although we are now building a patent portfolio. In May 2006, we entered into a patent cross-license agreement with Digi in which the parties agreed to cross-license each other's patents, which could reduce the value of our existing patent portfolio. We rely primarily on a combination of laws, such as copyright, trademark and trade secret laws, and contractual restrictions, such as confidentiality agreements and licenses, to establish and protect our proprietary rights. Despite any precautions that we have taken:

- laws and contractual restrictions might not be sufficient to prevent misappropriation of our technology or deter others from developing similar technologies;
- other companies might claim common law trademark rights based upon use that precedes the registration of our marks;
- other companies might assert other rights to market products using our trademarks;

- policing unauthorized use of our products and trademarks is difficult, expensive and time-consuming, and we might be unable to determine the extent of this unauthorized use;

- courts may determine that our software programs use open source software in such a way that deprives the entire programs of intellectual property protection; and

- current federal laws that prohibit software copying provide only limited protection from software pirates.

Also, the laws of some of the countries in which we market and manufacture our products offer little or no effective protection of our proprietary technology. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third-parties to benefit from our technology without paying us for it. Consequently, we may be unable to prevent our proprietary technology from being exploited by others in the U.S. or abroad, which could require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impracticable. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which may harm our business, financial condition and results of operations.

Acquisitions, strategic partnerships, joint ventures or investments may impair our capital and equity resources, divert our management's attention or otherwise negatively impact our operating results.

We may pursue acquisitions, strategic partnerships and joint ventures that we believe would allow us to complement our growth strategy, increase market share in our current markets and expand into adjacent markets, broaden our technology and intellectual property and strengthen our relationships with distributors and OEMs. Any future acquisition, partnership, joint venture or investment may require that we pay significant cash, issue stock or incur substantial debt. Acquisitions, partnerships or joint ventures may also result in the loss of key personnel and the dilution of existing stockholders as a result of issuing equity securities. In addition, acquisitions, partnerships or joint ventures require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our business. Furthermore, acquired businesses may not be effectively integrated, may be unable to maintain key pre-acquisition business relationships, may contribute to increased fixed costs and may expose us to unanticipated liabilities and otherwise harm our operating results.

Business interruptions could adversely affect our business.

Our operations and those of our suppliers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks and other events beyond our control. A substantial portion of our facilities, including our corporate headquarters and other critical business operations, are located near major earthquake faults and, therefore, may be more susceptible to damage if an earthquake occurs. We do not carry earthquake insurance for direct earthquake-related losses. If a business interruption occurs, our business could be materially and adversely affected.

If we fail to maintain an effective system of disclosure controls or internal controls over financial reporting, our business and stock price could be adversely affected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to evaluate periodically the effectiveness of their internal controls over financial reporting, and to include a management report assessing the effectiveness of their internal controls as of the end of each fiscal year. Beginning with our annual report on Form 10-K for our fiscal year ended June 30, 2008, we are required to comply with the requirement of Section 404 of the Sarbanes-Oxley Act of 2002 to include in each of our annual reports an assessment by our management of the effectiveness of our internal controls over financial reporting. Beginning with our annual report on Form 10-K for our fiscal year ending June 30, 2010, our independent registered public accounting firm will issue a report assessing the effectiveness of our internal controls.

Our management does not expect that our internal controls over financial reporting will prevent all errors or frauds. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving us have been, or will be, detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of a person, or by collusion among two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to errors or frauds may occur and not be detected.

We cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our disclosure controls and internal controls over financial reporting in the future. If our internal controls over financial reporting are not considered adequate, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock price.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Document
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Furnished, not filed.

SIGNATURES

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

Date: October 31, 2008 LANTRONIX, INC.
(Registrant)

By: /s/ Jerry D. Chase
Jerry D. Chase
President and Chief Executive Officer
(Principal Executive and Financial Officer)

By: /s/ Reagan Y. Sakai
Reagan Y. Sakai
Chief Financial Officer and Secretary
(Principal Executive and Financial Officer)

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