

FOOTSTAR INC
Form PREM14A
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ o

Check the appropriate box:

- ☒ x Preliminary Proxy Statement
- ☐ .. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ .. Definitive Proxy Statement
- ☐ o Definitive Additional Materials
- ☐ o Soliciting Material Under Rule 14a-12

FOOTSTAR, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ o No fee required.
- ☒ x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value \$0.01 per share ("Common Stock")

(2) Aggregate number of securities to which transaction applies:

24,183,897 shares of Common Stock

(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):

The filing fee of \$16.54 was calculated pursuant to Exchange Act Rule 0-11 by multiplying 0.0001161 by an amount equal to the product of 150,000 shares of Common Stock, which constitutes the total number of outstanding shares of Common Stock estimated to be exchanged for the right to receive \$0.95 per share in cash, without interest, in the proposed merger and \$0.95 per share.

(4) Proposed maximum aggregate value of transaction:

\$142,500

(5) Total fee paid:

\$16.54

.. 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.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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FOOTSTAR, INC.
933 MACARTHUR BLVD.
MAHWAH, NEW JERSEY 07430
(201) 934-2000

[____], 2011

Dear Footstar Stockholders:

You are cordially invited to attend a special meeting of stockholders of Footstar, Inc. ("Footstar"), to be held at 10:00 a.m., local time, on [____], 2011, at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at 65 East 55th Street, New York, New York 10022. At the meeting, in accordance with Delaware law, our stockholders of record as of [____] will be asked to consider and vote upon a proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the "Plan of Dissolution"). In addition, subject to the approval of the first Proposal, our stockholders of record as of [____], 2011 will be asked to vote upon a proposal to adopt an Agreement and Plan of Merger, dated as of February 14, 2011, pursuant to which Footstar Acquisition, Inc. ("Acquisition") will merge with and into Footstar, with Footstar as the surviving corporation.

The merger, if approved, will enable us to terminate the registration of our common stock under the federal securities laws and thereby eliminate the significant expense required to comply with the reporting and related requirements under those laws. Commonly referred to as a "going private" transaction, the proposed merger will reduce the number of our stockholders of record to fewer than 300, as required for the elimination of our periodic reporting obligations under the federal securities laws. As a result, our common stock will be ineligible for quotation on the OTC Bulletin Board. At a special meeting held on May 5, 2009, Footstar's stockholders adopted and approved the Plan of Dissolution. In order to consummate the merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which under Delaware law requires the approval of stockholders. Accordingly, the approval of the proposal to approve the merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

Under the terms of the merger agreement, each outstanding share of our common stock (other than shares as to which appraisal rights have been demanded and not withdrawn or lost) held by those of you who own fewer than 500 shares of our common stock in any discrete account will, at the effective time of the merger, be cancelled and converted into the right to receive \$0.95 in cash, without interest. As of [____], 2011, only 0.5% of our shares are held by stockholders owning less than 500 shares. We currently anticipate that a minimum threshold of 500 shares will have the effect of enabling us to "go private." However, our board of directors has the flexibility under the merger agreement to adjust this threshold. If, prior to the effective time of the merger, our board of directors determines that converting each share held by a stockholder owning fewer than 500 shares into the right to receive \$0.95 in cash will not reduce the number of our common stock record holders below 300, our board of directors may elect to change the terms of the merger so that shares of our common stock held by those of you owning fewer than up to [600] shares of our common stock in any discrete account will be cancelled and converted into the right to receive \$0.95 per share in cash. Throughout the attached proxy statement, when we refer to the small stockholders or cashed-out stockholders we are referring to holders of fewer than 500 shares of our common stock, or fewer than such other number as our board of directors may determine as described above. In addition, when we refer to continuing stockholders or remaining stockholders, we are referring to holders of 500 or more shares, or holders of such number of shares equal to or more than such other number as our board of directors may determine as described above.

As a result of the merger, if you own fewer than 500 shares of our common stock immediately prior to the merger, you will not have any ownership interest in Footstar and you will not participate in any potential future earnings (or losses) or growth of Footstar after the merger. Stockholders holding 500 or more shares of our common stock (which holdings currently constitute approximately 0.5% of our outstanding shares) in any discrete account will continue to

own the same number of shares after the merger (unless you exercise appraisal rights with respect to your shares).

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After careful consideration, the board of directors of Footstar unanimously determined that the merger is advisable, fair to and in the best interests of Footstar's unaffiliated stockholders, including both unaffiliated continuing stockholders and unaffiliated cash-out stockholders, and has adopted the merger agreement and, accordingly, recommends that its stockholders of record as of [____], 2011 vote "FOR" adoption of the merger agreement and its stockholders of record as [_____] vote "FOR" the proposal to revoke the Plan of Dissolution. In making its recommendation, the board of directors considered a variety of factors, which are described in the accompanying proxy statement.

Consummation of the merger is subject to certain conditions, including the affirmative vote by holders of a majority of the voting power of our common stock outstanding as of [____], 2011, the record date for the proposal to approve the merger, to adopt the merger agreement and approve the merger, and the approval of the revocation of the Plan of Dissolution pursuant to its terms. Approval of the revocation of the Plan of Dissolution is subject to, among other things, the affirmative vote by holders of a majority of the voting power of our common stock outstanding as of [____], the record date for the proposal to revoke the Plan of Dissolution. Details of the proposed transaction are set forth in the accompanying proxy statement, which we urge you to read carefully in its entirety.

If you are a holder of record as of [____], 2011, the record date for the proposal to approve the merger, you will find enclosed a proxy card to vote on that proposal. To adopt the merger agreement and approve the merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If you are a holder of record as of [____], the record date for the proposal to revoke the Plan of Dissolution, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If you properly sign and return your proxy card(s) with no voting instructions, you will be deemed to have voted "FOR" adoption of the merger agreement and/or "FOR" the proposal to revoke the Plan of Dissolution, as the case may be. If you fail to return your proxy card(s) and fail to vote at the special meeting, the effect will be the same as a vote against the proposal to approve the merger and/or the proposal to revoke the Plan of Dissolution, as the case may be. RETURNING THE PROXY CARD(S) DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND THE SPECIAL MEETING AND VOTE YOUR SHARES IN PERSON.

Please do not send your Footstar common stock certificates at this time. If the merger is completed, you will receive written instructions for exchanging your Footstar stock certificates for cash.

Sincerely,

Jonathan M. Couchman
President and Chief Executive
Officer

Mahwah, New Jersey

This proxy statement is dated [____], 2011 and is first being mailed to stockholders of Footstar on or about [____], 2011.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved this transaction, passed upon the merits or fairness of this transaction, or passed upon the adequacy or accuracy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.

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FOOTSTAR, INC.
933 MACARTHUR BLVD.
MAHWAH, NEW JERSEY 07430
(201) 934-2000

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON [____], 2011

Notice is hereby given that a special meeting of the stockholders of Footstar, Inc. ("Footstar"), will be held on [____], 2011 at 10:00 a.m., local time, at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at 65 East 55th Street, New York, New York 10022 for the following purposes:

1. To consider and vote upon a proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the "Plan of Dissolution");
2. Subject to the approval of the first Proposal, to consider and vote upon a proposal to adopt and approve the Agreement and Plan of Merger (the "Partial Cash-Out Merger Agreement"), dated as of February 14, 2011, by and among Footstar and Footstar Acquisition, Inc. ("Acquisition") pursuant to which, among other things, Acquisition will be merged with and into Footstar, with Footstar being the surviving corporation, upon the terms and subject to the conditions of the Partial Cash-Out Merger Agreement described in the accompanying proxy statement (the "Partial Cash-Out Merger"); and
3. To consider, act upon and transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

The proposals are described in detail in the accompanying proxy statement and the appendices thereto. You are urged to read these materials very carefully and in their entirety before deciding how to vote. In particular, you should consider the discussion in the section of this proxy statement entitled "Special Factors."

The board of directors of Footstar has fixed the close of business on [____], 2011 as the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger. [____], is the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to revoke the Plan of Dissolution. Only holders of record of shares of Footstar common stock at the close of business on the respective record date for each proposal are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements thereof. The affirmative vote by holders of a majority of the voting power of Footstar common stock entitled to vote at the special meeting with respect to the proposal to approve the Partial Cash-Out Merger is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. The affirmative vote by holders of a majority of the voting power of Footstar common stock entitled to vote at the special meeting with respect to the proposal to revoke the Plan of Dissolution is required to revoke the Plan of Dissolution. At a special meeting held on May 5, 2009, Footstar's stockholders adopted and approved the Plan of Dissolution. In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which, in accordance with Delaware law, requires the approval of the stockholders of record as of [____]. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

After careful consideration, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of Footstar's unaffiliated stockholders, including both unaffiliated continuing stockholders and unaffiliated cashed-out stockholders, and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as of [____], 2011 vote "FOR" adoption of the

Partial Cash-Out Merger Agreement and stockholders of record as of [_____] “FOR” the proposal to revoke the Plan of Dissolution.

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Your vote is very important, regardless of the number of shares of Footstar common stock you own. Please vote your shares as soon as possible to ensure that your shares are represented at the special meeting. To vote your shares, you must complete and return the enclosed proxy card(s).

If you are a holder of record, you may also cast your vote in person at the special meeting. If you are a holder of record as of [____], 2011, the record date for the proposal to approve the Partial Cash-Out Merger, you will find enclosed a proxy card to vote on that proposal. To adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If you are a holder of record as of [____], the record date for the proposal to revoke the Plan of Dissolution, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card.

If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. If you do not instruct your broker or bank on how to vote, it will have the same effect as voting against the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution, as the case may be.

All holders of our common stock have the right under Delaware law to demand an appraisal of their shares and to have a judicial determination of the fair value of their shares. These rights, generally known as appraisal rights, are described in detail in the proxy statement accompanying this notice. In addition, a copy of Section 262 of the Delaware General Corporation Law, which governs appraisal rights, is attached as Appendix C to this proxy statement. We urge you to read both the applicable section of the proxy statement and the statutory provisions carefully. If you wish to demand an appraisal of your shares, you must strictly comply with the statutory requirements.

By Order of the Board of Directors,

Jonathan M. Couchman
President and Chief Executive Officer

Mahwah, New Jersey
[____], 2011

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SUMMARY TERM SHEET

The following summary term sheet, together with the “Questions and Answers About the Partial Cash-Out Merger” following this summary term sheet, highlight selected information from this proxy statement about our proposed Partial Cash-Out Merger and the proposal to revoke the Plan of Dissolution and the special meeting. This summary term sheet and the question and answer section may not contain all of the information that is important to you. To better understand, and for a more complete description of, the Partial Cash-Out Merger and the proposal to revoke the Amended Plan of Complete Dissolution and Liquidation of Footstar, Inc. (the “Plan of Dissolution”), you should carefully read this entire document and all of its appendices before you vote. For your convenience, we have directed your attention in parentheses to the location in this proxy statement where you can find a more complete discussion of each item listed below.

As used in this proxy statement, “Footstar,” “we,” “our,” and “us” refer to Footstar, Inc. and all of its subsidiaries, the term “Acquisition” refers to Footstar Acquisition, Inc., the term “Partial Cash-Out Merger Agreement” refers to the Agreement and Plan of Merger dated as of February 14, 2011 by and among Footstar and Acquisition, the term “Partial Cash-Out Merger” refers to the proposed merger between Footstar and Acquisition pursuant to the Partial Cash-Out Merger Agreement and described herein and the term “common stock” or “common shares” refers to the issued and outstanding common shares of Footstar common stock, par value \$0.01 per share.

The Parties (see page [__])

Footstar, Inc.
933 MacArthur Blvd.
Mahwah, New Jersey 07430

Footstar, Inc., a Delaware corporation, is a holding company that is currently winding down pursuant to the Plan of Dissolution, which was adopted by Footstar’s stockholders on May 5, 2009. The proposal to revoke the Plan of Dissolution will, if approved by stockholders, authorize Footstar to file a certificate of revocation of dissolution with the Secretary of State of the State of Delaware which, at the effective time thereof, cause the revocation of the Plan of Dissolution. The phone number of Footstar’s principal executive office is (201) 934-2000.

On January 3, 2011, CPEX Pharmaceuticals, Inc., a Delaware corporation (“CPEX”), FCB I Holdings Inc., a Delaware corporation (“NewCo”) and FCB I Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of NewCo (“Merger Sub”), entered into an Agreement and Plan of Merger (the “CPEX Transaction Agreement”), pursuant to which, subject to satisfaction or waiver of the conditions therein, Merger Sub will merge with and into CPEX (the “CPEX Transaction”), with CPEX surviving as a wholly-owned subsidiary of NewCo.

Merger Sub is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corporation, a Texas corporation (“Footstar Corp”), and 19.5% by an unaffiliated investment holding company (the “19.5% Stockholder”). Footstar Corp is a wholly owned subsidiary of Footstar. Following the Merger, CPEX, through Footstar Corp’s ownership interest in NewCo, will be an 80.5% owned subsidiary of Footstar Corp. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder are providing approximately \$3.2 million and approximately \$0.8 million, respectively, in equity financing to fund the CPEX Transaction.

See “SPECIAL FACTORS – Merger with CPEX” for a more complete description of the CPEX Transaction Agreement.

Footstar Acquisition, Inc.
933 MacArthur Blvd.
Mahwah, New Jersey 07430

Footstar Acquisition, Inc., a Delaware corporation and a wholly owned subsidiary of Footstar, was formed solely for the purpose of engaging in the transactions contemplated by the Partial Cash-Out Merger Agreement. Acquisition has not conducted any significant activities other than those incident to its approval and execution of the Partial Cash-Out Merger Agreement and related documents. Acquisition has no material assets or liabilities, other than its rights and obligations under the Partial Cash-Out Merger Agreement, and has no operations.

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The Special Meeting (see page [__])

At the special meeting, stockholders of record as of [____], 2011 are being asked to vote to approve the proposal to approve the Partial Cash-Out Merger of Acquisition with and into Footstar, with Footstar continuing as the surviving corporation, and, in accordance with Delaware law, stockholders of record as of [_____] are being asked to approve the proposal to revoke the Plan of Dissolution. The Plan of Dissolution was approved and adopted by Footstar's stockholders on May 5, 2009. In order to consummate the Partial Cash-Out Merger, Footstar must first revoke the Plan of Dissolution in accordance with Section 311 of the Delaware General Corporation Law (the "DGCL"). Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution. Stockholders entitled to vote on the proposal to approve the Partial Cash-Out Merger are stockholders of record as of [____], 2011 and stockholders entitled to vote on the proposal to revoke the Plan of Dissolution are stockholders of record as of [_____].

The Partial Cash-Out Merger Agreement (see page [__])

Under the Partial Cash-Out Merger Agreement, Acquisition will merge with and into Footstar, with Footstar to remain as the surviving corporation. We have attached a copy of the Partial Cash-Out Merger Agreement as Appendix A to this proxy statement. We encourage you to read the Partial Cash-Out Merger Agreement carefully because it is the legal document that governs the Partial Cash-Out Merger. Under the terms of the Partial Cash-Out Merger Agreement, if the Partial Cash-Out Merger is completed:

- those of you owning fewer than 500 shares of our common stock in record form or indirectly through a nominee in any discrete account as of the effective time of the Partial Cash-Out Merger will receive a cash payment of \$0.95 per share, without interest (currently only 0.5% of our shares are held by stockholders holding fewer than 500 shares); provided, however, that if, prior to the effective time of the Partial Cash-Out Merger, our board of directors determines that converting each share held by a stockholder owning fewer than 500 shares into the right to receive \$0.95 in cash will not reduce the number of our common stock record holders below 300, our board of directors may elect to change the terms of the Partial Cash-Out Merger so that those of you owning fewer than up to [600] shares of our common stock, as the case may be, in any discrete account will be cancelled and converted into the right to receive \$0.95 per share in cash;
- those of you owning 500 or more shares of our common stock in record form or indirectly through a nominee in any discrete account as of the effective time of the Partial Cash-Out Merger will continue to hold their shares; and
- our officers and directors at the effective time of the Partial Cash-Out Merger will be our officers and directors immediately after the Partial Cash-Out Merger.

Throughout this proxy statement, when we refer to the small stockholders or cashed-out stockholders we are referring to holders of fewer than 500 shares of our common stock, or fewer than such other number as our board of directors may determine as described above. In addition, when we refer to continuing stockholders or remaining stockholders, we are referring to holders of 500 or more shares, or holders of such number of shares equal to or more than such other number as our board of directors may determine as described above.

If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares even if your street name shares total less than 500.

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Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

Effect of the Partial Cash-Out Merger (see page [__])

As a result of the Partial Cash-Out Merger:

- following the Partial Cash-Out Merger, we intend to eliminate registration of our common shares under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and cease filing periodic reports under the Exchange Act, which means that price quotations for our common shares will no longer be available on the OTC Bulletin Board. Accordingly, the Partial Cash-Out Merger is considered a “going private” transaction;
- the number of our issued and outstanding shares will decrease from 24,183,897 to approximately [24,033,897];
- cashed-out stockholders will no longer have an interest in or be a stockholder of Footstar and, therefore, they will not be able to participate in any of our future earnings and growth;
- we estimate that the number of record stockholders will be reduced from approximately 2,000 to approximately 200; and
 - the percentage of ownership of our common stock beneficially held by our current officers and directors as a group (including shares subject to currently exercisable options) will not change

Reasons for the Partial Cash-Out Merger (see page [__])

The requirements of being a publicly traded company and complying with the federal securities laws are expensive. We anticipate that deregistration will enable us to save significant accounting, legal and administrative expenses relating to our public disclosure and reporting requirements under the Exchange Act. Accordingly, the board of directors believes that it is in the best interest of Footstar and our stockholders to complete the Partial Cash-Out Merger with Acquisition. In addition, since only 0.5% of our shares are held by stockholders owning less than 500 shares, the Partial Cash-Out merger will impact only a minimal amount of outstanding shares. Accordingly, the Partial Cash-Out Merger will likewise have only a minimal effect on the voting power of continuing stockholders, and affiliated stockholders will realize a less than 1% increase in their aggregate voting power.

Fairness of the Partial Cash-Out Merger (see page [__])

The board of directors has unanimously determined that the terms of the Partial Cash-Out Merger and the Partial Cash-Out Merger Agreement are advisable, fair to and in the best interests of Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders. The board of directors considered a number of factors, as more fully described under “Special Factors—Background of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation,” in making its recommendation.

The board of directors believes that the Partial Cash-Out Merger, the Partial Cash-Out Merger Agreement and the related transactions are substantively and procedurally fair to and in the best interests of the Footstar stockholders, including unaffiliated stockholders, for all of the reasons set forth herein. See “Special Factors—Reasons for the Board’s Recommendation.” In reaching its conclusions regarding fairness, the board of directors considered the interests of both holders of fewer than 500 of our shares who will receive \$0.95 per share in cash for their shares, and holders of 500 or more of our shares who will remain stockholders after Footstar becomes a private company.

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With respect to cashed-out Footstar stockholders, the board of directors considered, among other things, the fact that the cashed-out stockholders will not be able to participate in the future earnings and growth of Footstar, if any. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders, including (1) that the Partial Cash-Out Merger consideration of \$0.95 per share represents a premium of 5% over the trailing average of the closing price of our common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, (2) the value presented by the opportunity to realize a disposition of an otherwise relatively illiquid investment without incurring brokerage commissions or fees and (3) that stockholders who would otherwise be cashed out but desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more prior to the effective time. See “Special Factors—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

With respect to continuing Footstar stockholders, the board of directors considered, among other things, the adverse effect of the loss of a public trading market for the common stock, the lack of publicly available information on Footstar when it ceases to file Exchange Act reports, that Footstar will no longer be subject to the provisions of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) when it terminates its Exchange Act registration and the reduced cash balance resulting from the transaction costs for the Partial Cash-Out Merger. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders created by the lower expenses and other benefits of becoming a private company. See “Special Factors—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

Merger with CPEX (see page [__])

On January 3, 2011, CPEX, NewCo and Merger Sub entered into the CPEX Transaction Agreement, pursuant to which, subject to satisfaction or waiver of the conditions therein, Merger Sub and CPEX will effect the CPEX Transaction, with CPEX surviving as a wholly-owned subsidiary of NewCo and an indirect majority-owned subsidiary of Footstar.

Merger Sub is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corp, and 19.5% by the 19.5% Stockholder. Footstar Corp is a wholly owned subsidiary of Footstar. Following the Merger, CPEX, through Footstar Corp’s ownership interest in NewCo, will be an 80.5% owned subsidiary of Footstar Corp. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder are providing approximately \$3.2 million and approximately \$0.8 million, respectively, in equity financing to fund the CPEX Transaction.

See “SPECIAL FACTORS – Merger with CPEX” for a more complete description of the CPEX Transaction Agreement.

Vote Required to Approve the Partial Cash-Out Merger (see page [__])

The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of [____], 2011, the record date for the proposal to adopt the Partial Cash-Out Merger Agreement, is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. Our officers and directors collectively own or control an aggregate of 11,200,539 shares of our common stock, representing in the aggregate approximately 46.3% of the total number of votes entitled to vote on the proposal to approve the Partial Cash-Out Merger. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger.

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Financing (see page [__])

Footstar will pay the Partial Cash-Out Merger consideration with cash on hand. Up to \$142,500 will be required to pay the aggregate cash Partial Cash-Out Merger consideration to our cashed-out stockholders and we estimate expenses in connection with the Partial Cash-Out Merger will be \$75,000.

Conditions to the Completion of the Partial Cash-Out Merger (see page [__])

Before we complete the Partial Cash-Out Merger, a number of closing conditions must be satisfied or waived. The conditions to the obligations of each party to complete the Partial Cash-Out Merger include, among others:

- The proposal to revoke the Plan of Dissolution be approved at the special meeting by the holders of a majority of the voting power of our outstanding common stock as of [_____].
- The Partial Cash-Out Merger Agreement be adopted and approved at the special meeting by the holders of a majority of the voting power of our outstanding common stock as of [_____], 2011.
- As a result of the Partial Cash-Out Merger fewer than 300 persons will hold of record our common shares and we will be eligible to terminate registration of our common stock under Section 12(g) of the Exchange Act and suspend our obligation to file periodic reports under Section 13 of the Exchange Act.
- Regulatory approval from governmental entities which shall have been delivered and obtained and no court or other governmental entity has issued an order to enjoin the transaction.

Other than the clearance of this proxy statement and other related filings by the Securities and Exchange Commission (the “SEC”), the filing of each of the certificate of revocation of the Plan of Dissolution and certificate of merger for the Partial Cash-Out Merger with the Secretary of State of the State of Delaware, there are no regulatory approvals required for completion of the Partial Cash-Out Merger.

Material U.S. Federal Income Tax Consequences (see page [__])

Generally, for United States federal income tax purposes, cashed-out stockholders will be treated as if they sold their common stock for the cash received in the Partial Cash-Out Merger. Each stockholder will recognize taxable gain or loss equal to the difference between the amount of cash received and the stockholder’s adjusted tax basis in the Footstar common stock exchanged. Stockholders who do not receive cash in the Partial Cash-Out Merger should not be subject to taxation as a result of the Partial Cash-Out Merger. See “Proposal to Approve the Partial Cash-Out Merger—Material U.S. Federal Income Tax Consequences” beginning on page [__]. THE TAX CONSEQUENCES TO YOU RESULTING FROM THE PARTIAL CASH-OUT MERGER WILL DEPEND ON CIRCUMSTANCES SPECIFIC TO YOUR SITUATION. TO REVIEW THE MATERIAL TAX CONSEQUENCES IN GREATER DETAIL, PLEASE READ THE DISCUSSION UNDER “PROPOSAL TO APPROVE THE PARTIAL CASH-OUT MERGER—MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES.” You should consult your personal tax advisors for a full understanding of the tax consequences of the Partial Cash-Out Merger to you.

Appraisal Rights (see page [__])

Holders of our common stock may seek, under Section 262 (“Section 262”) of the DGCL, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more or less than or the same as the \$0.95 per share Partial Cash-Out Merger consideration for our common stock being paid to cashed-out stockholders. This right to appraisal is subject to a number of restrictions and technical requirements. Generally, in

order to properly demand appraisal rights, among other things:

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- you must not vote in favor of the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger;
- you must make a written demand to Footstar for appraisal in compliance with the DGCL before the vote on the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger at the special meeting; and
- you must hold your shares of record continuously from the time of making a written demand for appraisal through the effective time of the Partial Cash-Out Merger.

Merely voting against the Partial Cash-Out Merger Agreement and the Partial Cash-Out Merger will not preserve your right to appraisal under Delaware law. Also, because a submitted proxy not marked “against” or “abstain” will be voted “for” the proposal to adopt the Partial Cash-Out Merger Agreement, the submission of a proxy not marked “against” or “abstain” will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to enable you to demand appraisal for your shares. If you or your nominee fails to follow all of the steps required by Section 262, you will lose your right of appraisal. Appendix C to this proxy statement contains the full text of Section 262, which relates to your right of appraisal. We encourage you to read these provisions carefully and in their entirety.

Revocation of Plan of Dissolution (see page [__])

At a special meeting held on May 5, 2009, Footstar’s stockholders adopted and approved the Plan of Dissolution. As part of a routine assessment of strategic alternatives, the board of directors of Footstar determined to pursue a strategic transaction with CPEX. In light of the anticipated acquisition of CPEX in April 2011, the board of directors believes it is advisable to suspend liquidating Footstar pursuant to the Plan of Dissolution. If the proposal to revoke the Plan of Dissolution is approved, Footstar intends to permanently cease making liquidating distributions.

In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution. The proposal to revoke the Plan of Dissolution will, if approved by stockholders, authorize Footstar to file a certificate of revocation of dissolution with the Secretary of State of the State of Delaware which will, at the effective time thereof, cause the revocation of the Plan of Dissolution. The form of certificate of revocation of dissolution is attached to this proxy statement as Appendix B.

If the proposal to revoke the Plan of Dissolution is not approved, it is expected that the current management of Footstar, under the direction of the board of directors, will recommence dissolving Footstar in accordance with the Plan of Dissolution. In addition, if the proposal to revoke the Plan of Dissolution is not approved and the CPEX Transaction is consummated, Footstar is considering, among other things, taking the actions necessary to spin-off the common stock of Footstar Corp, its wholly-owned subsidiary, as a special dividend or other distribution to Footstar stockholders so that Footstar stockholders can continue to participate in earnings resulting from the CPEX Transaction, if any, after Footstar is completely dissolved.

The Plan of Dissolution is attached as Annex A to Footstar’s Proxy Statement on Schedule 14A filed with the SEC on April 6, 2009 and is incorporated herein by reference.

Vote Required to Approve the Proposal to Revoke the Plan of Dissolution (see page [__])

In accordance with the DGCL, stockholders entitled to vote on the proposal to revoke the Plan of Dissolution are stockholders of record as of [_____]. The affirmative vote by holders of a majority of the voting power of our

outstanding common stock as of [_____] is required to approve the proposal to revoke the Plan of Dissolution. Our officers and directors collectively owned or controlled an aggregate of [_____] shares of common stock, or [_____]%, of the total number of votes entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to revoke the Plan of Dissolution.

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Recommendation of Our Board of Directors (see page [__])

After careful consideration of other factors relating to the advisability and fairness of the Partial Cash-Out Merger, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of the Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders, and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as of [____], 2011 vote “FOR” adoption of the Partial Cash-Out Merger Agreement and stockholders of record as of [_____] vote “FOR” the proposal to revoke the Plan of Dissolution.

Cautionary Statement Concerning Forward-Looking Information

This proxy statement includes statements that are not historical facts. These forward-looking statements are based on Footstar’s current estimates and assumptions and, as such, involve uncertainty and risk. Forward-looking statements include the information concerning Footstar’s possible or assumed future results of operations and also include those preceded or followed by the words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “should,” “plan” and/or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- the completion of the Partial Cash-Out Merger and the termination of the registration of our common stock under the Exchange Act;
 - the estimated number of shares to be cashed-out in the Partial Cash-Out Merger;
 - the expected cost of the Partial Cash-Out Merger;
 - the CPEX Transaction, including the completion thereof;
- the cost savings that we expect to realize following the termination of the registration of our common stock;
- the ability of continuing stockholders to sell their shares following the completion of the Partial Cash-Out Merger; and
 - the expectation that our business and operations will continue following the Partial Cash-Out Merger substantially as presently conducted.

These forward-looking statements are subject to a number of risks and uncertainties, and future events and actual results could differ materially from those described in, contemplated by or underlying these forward-looking statements. These risks and uncertainties include, but are not limited to:

- the occurrence of any event, change or other circumstance that could give rise to the abandonment of the Partial Cash-Out Merger or the CPEX Transaction;
- the inability to obtain stockholder approval of the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution;
- the outcome of any legal proceedings instituted against use relating to the Partial Cash-Out Merger or the deregistration of our common stock;
-

the occurrence of any event, change or other circumstance that could prevent or delay us from terminating the registration of our common stock under the Exchange Act, including, without limitation, any failure of the Partial Cash-Out Merger to result in the reduction of the number of our stockholders of record to below 300;

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- the amount of the costs, fees, expenses and charges that we incur in connection with the Partial Cash-Out Merger;
- the inability to realize the cost savings that we expect to achieve as a result of termination of the registration of our common stock; and
- risk factors detailed in our Annual Report on Form 10-K for the fiscal year ending January 2, 2010, as subsequently amended, and our Quarterly Reports for the periods ended April 3, 2010, July 3, 2010 and October 2, 2010, which are hereby incorporated by reference into this proxy statement.

The forward-looking statements are not guarantees of future performance, events or circumstances, and actual results may differ materially from those contemplated by these forward-looking statements. For these reasons, you should not place undue reliance on any forward-looking statements included in this proxy statement.

Except to the extent required under the federal securities laws, we do not intend to update or revise the forward-looking statements to reflect circumstances arising after the date of the preparation of the forward-looking statements.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING, THE PARTIAL CASH-OUT MERGER AND THE PROPOSAL TO REVOKE THE PLAN OF DISSOLUTION

Q. Why did I receive this proxy statement?

A. We sent you this proxy statement and the enclosed proxy because our board of directors is soliciting your votes for use at a special meeting of stockholders. This proxy statement summarizes information that you need to know in order to cast an informed vote at the meeting. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card(s). We will begin sending this proxy statement, notice of special meeting and the enclosed proxy on or about [____], 2011 to all stockholders entitled to vote on the proposals set forth herein.

Q. Where and when is the special meeting?

A. The special meeting of Footstar stockholders will be held on [____], 2011 at 10:00 a.m., local time at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at 65 East 55th Street, New York, New York 10022.

Q. What am I being asked to vote on?

A. Stockholders of record as of [____], 2011 are being asked to adopt the Partial Cash-Out Merger Agreement that we entered into with Acquisition and to approve the Partial Cash-Out Merger of Acquisition into Footstar, with Footstar as the surviving corporation. As a result of the Partial Cash-Out Merger, all stockholders owning fewer than 500 of our common shares in any discrete account will receive \$0.95 for each share that they own. In addition, all stockholders owning at least 500 of our common shares in any discrete account will continue to hold their shares.

Stockholders of record as of [____] are being asking to approve a proposal to revoke the Plan of Dissolution. In order to consummate the Partial Cash-Out Merger with Acquisition, Footstar must first revoke the Plan of Dissolution, which, in accordance with Delaware law, requires the approval of stockholders of record as of [____]. Accordingly, the approval of the proposal to approve the Partial Cash-Out Merger is subject to the approval of the proposal to revoke the Plan of Dissolution.

Q. Why is Footstar proposing the Partial Cash-Out Merger?

A. If approved, the Partial Cash-Out Merger will enable us to “go private” and thus terminate our obligations to file annual and periodic reports and make other filings with the SEC. The purpose behind the Partial Cash-Out Merger and the benefits of “going private” include:

- eliminating the costs associated with filing documents under the Exchange Act with the SEC; and
- reducing the direct and indirect costs of administering stockholder accounts and responding to stockholder requests.

Q. What does “going private” mean?

A. We will have fewer than 300 stockholders of record, will be eligible for and will file for deregistration of our Common Stock and will become a “private company.” In this regard, we, by going private, will no longer have to file periodic reports, such as annual, quarterly and other reports, with the SEC.

Q: What if the Partial Cash-Out Merger doesn't reduce the number of Footstar stockholders enough to allow us to "go private"?

A. We anticipate that if our stockholders holding fewer than 500 shares of our common stock receive cash in exchange for their shares, we will be able to "go private." However, in the Partial Cash-Out Merger Agreement the parties agreed to allow our board of directors flexibility to adjust this threshold to enable us to go private. The agreement provides that if, prior to the effective time of the Partial Cash-Out Merger, our board of directors determines that converting each share held by a stockholder owning fewer than 500 shares into the right to receive \$0.95 in cash will not reduce the number of common stock record holders below 300, our board of directors may elect to change the terms of the Partial Cash-Out Merger so that shares of our common stock held by stockholders of fewer than up to [600] shares of our common stock in any discrete account will be cancelled and converted into the right to receive \$0.95 per share in cash. Throughout this proxy statement, when we refer to the small stockholders or cashed-out stockholders we are referring to holders of fewer than 500 shares of our common stock, or fewer than such other number as our board of directors may determine as described above. In addition, when we refer to continuing stockholders or remaining stockholders, we are referring to holders of 500 or more shares, or holders of such number of shares equal to or more than such other number as our board of directors may determine as described above.

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Q. What vote is required for approval?

A. The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of [____], 2011, the record date for the proposal to approve the Partial Cash-Out Merger, is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of [_____] is required to approve the proposal to revoke the Plan of Dissolution. At the close of business on [_____] 2011, there were outstanding 24,183,897 shares of Footstar common stock entitled to vote on the proposal to approve the Partial Cash-Out Merger and at the close of business on [_____] there were outstanding [_____] shares of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors collectively own or control an aggregate of 11,200,539 shares of our common stock, representing in the aggregate approximately 46.3% of the total number of votes entitled to vote on the proposal to approve the Partial Cash-Out Merger and owned or controlled approximately [____]% of the total number of votes entitled to vote on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger and in favor of the proposal to revoke the Plan of Dissolution.

Q. How did the board of directors determine the cash-out price?

A. The board of directors considered recent and historical trades of the Footstar common stock. The common stock has traded since December 30, 2003 on the OTC Bulletin Board. That market has represented the principal outlet for stockholders who wished to dispose of shares of common stock. The board of directors viewed that market as a good indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of Footstar's value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, the announcement and execution of the CPEX Transaction Agreement, an assessment of the control parties and management of Footstar, and other factors that typically bear on a common stock purchase or sale decision. Accordingly, the board of directors determined that a cash-out price based on the historical market prices of Footstar's common stock would be the most accurate method of determining the fair value of shares of common stock being cashed out in the Partial Cash-Out Merger. In determining the cash-out price based on historical trades in the common stock, the board of directors determined that an average trading price of the common stock over a period of time, rather than the closing price as of a specified date, would most accurately represent the current value of the common stock. In addition, due to the CPEX Transaction, the board of directors determined that, in calculating an average historical price for the common stock, an average of trading prices during a period of time subsequent to the announcement of the CPEX Transaction would most accurately reflect the current fair value of the common stock. The board of directors accordingly determined to calculate the cash-out price as a price equal to the trailing average of the closing price of the common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, plus a premium of 5%. In determining the premium, the board of directors considered the recent increase in trading price following the announcement of the CPEX Transaction and the limited trading volume for the common stock. The board of directors determined that a 5% premium over the 20 trading day trailing average of \$0.905, which provided for a \$0.95 Cash-Out Price, was a fair price for the common stock being cashed out in the Partial Cash-Out Merger in light of the factors considered by the board of directors as described above.

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Footstar did not receive a report, opinion, or appraisal from an outside party as to the value of our common stock, or the fairness of the Partial Cash-Out Merger to stockholders who will receive cash in the Partial Cash-Out Merger, stockholders who will remain stockholders following the Partial Cash-Out Merger or affiliated stockholders or Footstar.

The independent members of the board of directors concluded that there were already sufficient procedural safeguards without the expense of retaining an independent fairness advisor, particularly since unaffiliated and affiliated stockholders would be treated the same in the Partial Cash-Out Merger and any of such stockholders could change his or her stock holdings prior to the Effective Date, as described above, in order to either get cashed out in the Partial Cash-Out Merger or continue as a stockholder of Footstar following the Partial Cash-Out Merger. In addition, the board of directors took into account the importance of preserving Footstar's cash position and completing the Partial Cash-Out Merger as expeditiously as practicable.

Q. How do I cast my vote?

A. If your shares are registered directly in your name with BNY Mellon Shareowner Services ("BNY Mellon"), you are considered, with respect to those shares, the stockholder of record, and these proxy materials were sent directly to you. As the stockholder of record, you may vote in person at the special meeting or by submitting a proxy for the special meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card(s) in the accompanying pre-addressed postage paid envelope.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held "in street name," and these proxy materials have been forwarded to you by your broker or nominee which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker how to vote and are also invited to attend the special meeting. However, as a beneficial owner, you are not the stockholder of record, and you may not vote these shares in person at the meeting unless you obtain a signed proxy from the stockholder of record giving you the right to vote the shares. Your broker or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares.

Q. Can I change my vote after I have delivered my proxy?

A. Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by:

- delivering to the secretary of Footstar, as appropriate, a signed notice of revocation;
- granting a new, later-dated proxy, and if it is a written proxy, it must be signed and delivered to the respective Secretary of Footstar, as appropriate; or
- attending the special stockholders meeting and voting in person, however, your attendance alone will not revoke your proxy.

If your shares are held in a street name account, you must contact your broker, bank or other nominee to change your vote.

Q. What do I need to do now?

A.

You should carefully read and consider the information contained in this proxy statement and complete, date and sign your proxy card(s) and return it in the enclosed addressed envelope as soon as possible so that your shares will be represented at the special meeting. If you are a holder of record as of [____], 2011, the record date for the proposal to approve the Partial Cash-Out Merger, you will find enclosed a proxy card to vote on that proposal. To adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If you are a holder of record as of [____], the record date for the proposal to revoke the Plan of Dissolution, you will find enclosed a proxy card to vote on that proposal. To approve the proposal to revoke the Plan of Dissolution you should cast a vote "FOR" this proposal by following the instructions contained in the enclosed proxy card. If your shares are held in a street name account, see the question entitled "What if I hold shares in 'street name'?" Your failure to vote in person or return your signed and dated proxy card will have the same effect as a vote "AGAINST" adoption of the Partial Cash-Out Merger Agreement and/or the proposal to revoke the Plan of Dissolution, as the case may be. If you return your signed and completed proxy card but check the mark "abstain," your proxy will have the same effect as a vote "AGAINST" adoption of the Partial Cash-Out Merger Agreement and/or the proposal to revoke the Plan of Dissolution, as the case may be.

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Q. Should I send in my stock certificate now?

A.No. After the Partial Cash-Out Merger is completed, you will receive written instructions from the exchange agent on how to exchange your Footstar stock certificates for the Partial Cash-Out Merger consideration.

Q. What will I receive in the Partial Cash-Out Merger?

A.If you are a record holder owning fewer than 500 shares of our common stock in any discrete account, each issued and outstanding common share held by you will be cancelled and converted into the right to receive \$0.95 in cash, without interest. If you are either a record holder owning 500 or more of our common shares, you will continue to own the same number of shares of Footstar common stock after the Partial Cash-Out Merger. If your shares are held in a street name account, see the question entitled “What if I hold shares in ‘street name’?”

Q. What if I hold shares in “street name”?

A.If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares even if your street name shares total less than 500.

Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares even if your street name shares total less than 500. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

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Q. What happens if I own a total of 500 shares through a combination of record ownership in my name and one or more brokerage firms in street name?

A. If you hold 500 or more shares in a combination of record and street name accounts, you may nevertheless have your shares cashed-out. If you are in this situation and desire to remain our stockholder after the Partial Cash-Out Merger, we recommend that you transfer any shares held in street name into the same record name as your record shares prior to the effective time of the Partial Cash-Out Merger. To determine the Partial Cash-Out Merger's effect on any shares you hold in street name (and possible payment of the cash consideration), you should contact your broker, bank or other nominee.

Q. How will Footstar be operated after the Partial Cash-Out Merger?

A. After the Partial Cash-Out Merger, we will be a privately held company. We expect our business to continue as it is currently being conducted or as the board of directors shall determine and, except as disclosed in this proxy statement, the Partial Cash-Out Merger is not anticipated to have any effect upon the conduct of such business. As a result of the Partial Cash-Out Merger, our stockholders who receive cash for their shares in the Partial Cash-Out Merger will no longer have a continuing interest as stockholders of Footstar and will not share in any of Footstar's future earnings and growth, if any.

Q. When do you expect the Partial Cash-Out Merger to be completed?

A. We are working to complete the Partial Cash-Out Merger as quickly as possible. We currently expect to complete the Partial Cash-Out Merger in the [second] calendar quarter of 2011. However, we cannot predict the exact timing of the Partial Cash-Out Merger.

Q. May I buy additional shares in order to remain a stockholder of Footstar?

A. Yes. If you will be a cashed-out stockholder as a result of the Partial Cash-Out Merger and you want to continue to hold our common stock after the Partial Cash-Out Merger, you may do so by taking either of the following actions far enough in advance so that it is completed by 5 p.m. on the last business day immediately preceding the effective date of the Partial Cash-Out Merger, which we expect will occur shortly after the special meeting upon the filing of the certificate of merger for the Partial Cash-Out Merger with the Secretary of State of the State of Delaware:

- purchase a sufficient number of our shares on the open market and have them registered in your name and consolidated with your current record account so that you hold at least 500 shares of our common stock in your account by 5 p.m. on the last business day before the effective date of the Partial Cash-Out Merger; or
- if applicable, consolidate your record accounts or accounts with nominees so that you hold at least 500 shares of our common stock in one record account by 5 p.m. on the date immediately prior to the effective date of the Partial Cash-Out Merger.

You will have to act far enough in advance so that the purchase of our common shares or consolidation of your accounts containing our common stock is complete by 5 p.m. on the last business day immediately prior to the effective date of the Partial Cash-Out Merger.

If you hold shares of our common stock in street name, your broker, bank or other nominee is considered the stockholder of record with respect to those shares and not you. It is possible that the bank, broker or other nominee also holds shares for other beneficial owners of our common stock and therefore may hold 500 or more total shares even if your street name shares total less than 500.

Footstar does not intend to effect the Partial Cash-Out Merger at the beneficial holder level. Accordingly, stockholders holding fewer than 500 shares of our common stock in street name through a nominee (such as a bank or broker) will not be cashed-out in the Partial Cash-Out Merger if their nominee holds a total of 500 or more shares. If you hold fewer than 500 shares of common stock in street name and want to have your shares cashed out in the Partial Cash-Out Merger, you should instruct your nominee to transfer your shares into a record account in your name prior to 5 p.m. on the last business day prior to the effective time of the Partial Cash-Out Merger. In any event, if you hold your shares of our common stock in street name, we encourage you to contact your bank, broker or other nominee about the effect of the Partial Cash-Out Merger on your shares.

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Q. Why is Footstar asking its stockholders to revoke the Plan of Dissolution?

A. As part of a routine assessment of strategic alternatives, the board of directors of Footstar determined to pursue a strategic transaction with CPEX. In light of the anticipated acquisition of CPEX in April 2011, the board of directors believes it is advisable to suspend liquidating Footstar pursuant to the Plan of Dissolution. If the proposal to revoke the Plan of Dissolution is approved, Footstar intends to permanently cease making liquidating distributions.

Q. What will happen if the proposal to approve the Partial Cash-Out Merger and/or the proposal to revoke the Plan of Dissolution are not approved?

A. As a result of various risks to the completion of the Partial Cash-Out Merger, there can be no assurance that the Partial Cash-Out Merger will be completed even if the requisite stockholder approval is obtained.

If the proposal to revoke the Plan of Dissolution is not approved, it is expected that the current management of Footstar, under the direction of the board of directors, will recommence dissolving Footstar in accordance with the Plan of Dissolution. In addition, if the CPEX Transaction is consummated, Footstar is considering, among other things, taking the actions necessary to spin-off the common stock of Footstar Corp, its wholly-owned subsidiary, as a special dividend or other distribution to Footstar stockholders so that Footstar stockholders can continue to participate in earnings resulting from the CPEX Transaction, if any, after Footstar is completely dissolved.

Q. Who can help answer my questions?

A. If you would like additional copies of this proxy statement (which we will provide without charge) or if you have questions about the Partial Cash-Out Merger or the special meeting, including the procedures for voting your shares, you should contact Jonathan M. Couchman, President and Chief Executive Officer, Footstar, Inc., 933 MacArthur Blvd., Mahwah, New Jersey 07430, telephone: (201) 934-2000, facsimile: [() -].

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SUMMARY FINANCIAL INFORMATION

The following summary historical consolidated financial information presented below has been derived from our audited consolidated financial statements contained in our annual report on the Form 10-K, as of and for the fiscal years ended January 2, 2010 and January 3, 2009 and December 29, 2007, and our unaudited financial statements contained in our quarterly report on Form 10-Q for the periods ended October 2, 2010, July 3, 2010 and April 3, 2010. This data should be read in conjunction with the audited and unaudited consolidated financial statements and other financial information contained in the Form 10-K and the Forms 10-Q, respectively, including the notes thereto and which are incorporated by reference. More comprehensive financial information is included in such reports (including management's discussion and analysis of financial condition and results of operations) and the following information is qualified in its entirety by reference to such reports and all of the financial information and notes contained therein. Copies of such reports may be obtained from the SEC and Footstar. Footstar believes that pro forma financial statements illustrating the effect of the Partial Cash-Out Merger on Footstar's financial statements are not material to stockholders, and are therefore not included with this proxy statement, since only 0.5% of our shares are held by stockholders owning less than 500 shares and, accordingly, the Partial Cash-Out Merger will impact only a minimal amount of outstanding shares. See "Where Stockholders Can Find More Information."

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FOOTSTAR, INC. and SUBSIDIARY COMPANIES

Consolidated Condensed Statements of Operations

For the Period January 4, 2009 to May 5, 2009 (Going Concern Basis)
(in millions, except per share amounts)

	For the period January 4, 2009 to May 5, 2009 *
Revenue	
Net Sales	\$-
Liquidation of inventory	2.5
Total revenue	2.5
Cost of revenue	-
Gross Profit	2.5
Store operating, selling, general and administrative expenses	6.5
Other Expense	(0.3)
Loss before income taxes and discontinued operations	(3.7)
Income tax provision	-
Net Loss	\$(3.7)
Net income (loss) per share:	
Basic & Diluted :	
Loss from continuing operations	\$(0.17)
Average common shares outstanding	
Basic & diluted :	21.3

* Derived from audited financial information

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Consolidated Condensed Statements of Net Assets

October 2, 2010 and January 2, 2010 (Liquidation Basis)
(\$ in millions)

	October 2, 2010 (Unaudited)	January 2, 2010 *
Current assets:		
Cash and cash equivalents	\$ 10.2	\$ 9.8
Prepaid expenses	1.7	5.1
Real Estate	6.2	6.2
Total current assets	18.1	21.1
Other assets	-	0.2
Total assets	18.1	21.3
Current liabilities:		
Accounts Payable and Accrued Expenses	3.3	5.3
Total current liabilities	3.3	5.3
Other long term liabilities	3.2	6.0
Total liabilities	6.5	11.3
Net Assets in Liquidation	\$ 11.6	\$ 10.0

* Derived from audited financial information

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Consolidated Condensed Statement of Changes in Net Assets in Liquidation

For the Nine Months Ended October 2, 2010

(Liquidation Basis – Unaudited)

(\$ in millions)

	Nine Months Ended October 2, 2010
Net Assets in liquidation January 2, 2010	\$ 10.0
Other cash proceeds received	0.1
Changes in liquidation accruals	0.2
Stock issued in lieu of compensation	0.6
Cash distribution to shareholders	(2.2)
Net Assets in Liquidation – April 3, 2010	8.7
Other cash proceeds received	1.1
Changes in liquidation accruals	1.5
Net Assets in Liquidation – July 3, 2010	11.3
Other cash proceeds received	0.2
Changes in liquidation accruals	0.1
Net Assets in Liquidation – October 2, 2010	\$ 11.6

The consolidated financial statements for the period ended October 2, 2010 were prepared on the liquidation basis of accounting and for the period ended May 5, 2009 were prepared on the going concern basis of accounting, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. As a result of the shareholder' approval of the Plan of Dissolution, the Company adopted the liquidation basis of accounting effective May 6, 2009. This basis of accounting is considered appropriate when, among other things, liquidation of a company is probable and the net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net realizable values and liabilities are stated at their estimated settlement amounts.

The conversion from the going concern to liquidation basis of accounting required management to make significant estimates and judgments. In order to record assets at estimated net realizable value and liabilities at estimated settlement amounts under the liquidation basis of accounting, the Company recorded its assets and liabilities at fair value as of May 6, 2009, the date of adoption of the liquidation basis of accounting.

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THE SPECIAL MEETING

General

This proxy statement, together with the accompanying notice of special meeting and form of proxy, is being furnished to the stockholders of Footstar, Inc. as part of the solicitation of proxies by Footstar's board of directors for use at the special meeting of stockholders to be held at the offices of Olshan Grundman Frome Rosenzweig & Wolosky LLP located at 65 East 55th Street, New York, New York 10022 on [____], 2011, beginning at 10:00 a.m. local time, or at any adjournments or postponements thereof.

Matters to be Considered at the Special Meeting

At the special meeting, stockholders of record as of [____] are being asked to vote upon the proposal to revoke the Plan of Dissolution and, subject to the approval of the first Proposal, stockholders of record as of [____], 2011 are being asked to vote upon the proposal to adopt the Agreement and Plan of Merger, dated as of [____], 2011, among Footstar and Acquisition, pursuant to which Acquisition will be merged with and into Footstar, with Footstar being the surviving corporation, and any other matters that may properly come before the meeting.

If any other matters are properly presented for consideration at the special meeting, each of Jonathan M. Couchman and Eugene I. Davis, who will be acting as proxies for the special meeting, will have the discretion to vote on those matters for shares that have been voted by proxy using their judgment with respect to those matters unless authority to do so is withheld on the proxy card.

Recommendation of the Footstar Board of Directors

After careful consideration, the board of directors of Footstar unanimously determined that the Partial Cash-Out Merger is advisable, fair to and in the best interests of the Footstar stockholders and has adopted the Partial Cash-Out Merger Agreement and, accordingly, recommends that stockholders of record as of [____], 2011 vote "FOR" adoption of the Partial Cash-Out Merger Agreement and stockholders of record as of [____] vote "FOR" the proposal to revoke the Plan of Dissolution. In making its recommendation, the board of directors considered a variety of factors, which are described herein.

Record Date and Voting Information

The board of directors of Footstar has fixed the close of business on [____], 2011 as the record date for determining the stockholders entitled to notice of and to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger. In accordance with the DGCL, stockholders entitled to vote on the proposal to revoke the Plan of Dissolution are stockholders of record as of [____]. At the close of business on [____], 2011, there were outstanding 24,183,897 shares of Footstar common stock entitled to vote on the proposal to approve the Partial Cash-Out Merger and at the close of business on [____] there were outstanding [____] shares of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution. A list of our stockholders will be available for review at our executive offices during regular business hours for a period of 10 days before the special meeting.

The affirmative vote by holders of a majority of the voting power of our outstanding common stock as of [____], 2011, the record date for the proposal to adopt the Partial Cash-Out Merger Agreement, is required to adopt the Partial Cash-Out Merger Agreement and approve the Partial Cash-Out Merger. Each holder of record of common stock on the [____], 2011 record date will be entitled to one vote for each share held on the proposal to adopt the Partial Cash-Out Merger Agreement. In accordance with Delaware law, the affirmative vote by holders of a majority of the

voting power of our outstanding common stock as of [_____] is required to approve the proposal to revoke the Plan of Dissolution. Each holder of record of common stock on the [_____] record date will be entitled to one vote for each share held on the proposal to revoke the Plan of Dissolution. Our officers and directors collectively own or control an aggregate of 11,200,539 shares of our common stock, which represent 46.3% of the total number of votes entitled to vote at the special meeting on the proposal to approve the Partial Cash-Out Merger and owned or controlled [__]% of the total number of votes entitled to vote at the special meeting on the proposal to revoke the Plan of Dissolution. Our officers and directors have indicated to Footstar that they intend to vote their shares in favor of the proposal to approve the Partial Cash-Out Merger and the proposal to revoke the Plan of Dissolution.

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All votes will be tabulated by the inspector of elections appointed for the special meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Brokers who hold shares in street name for clients typically have the authority to vote on “routine” proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the adoption and approval of non-routine matters, such as the proposal to approve the Partial Cash-Out Merger or the proposal to revoke the Plan of Dissolution. Proxies submitted without a vote by the brokers on these matters are referred to as “broker non-votes.” Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the special meeting. Because the affirmative vote of holders of a majority of the eligible votes represented by Footstar common stock is required in order to approve the proposal to approve the Partial Cash-Out Merger and the proposal to revoke the Plan of Dissolution, abstentions and broker non-votes will have the same effect as votes “AGAINST” the proposal to approve the Partial Cash-Out Merger proposal and/or the proposal to revoke the Plan of Dissolution, as the case may be.

With the exception of broker non-votes, the treatment of which is discussed above, each share of Footstar common stock entitled to vote on the proposal to adopt the Partial Cash-Out Merger Agreement and represented by a proxy properly executed and received by Footstar in time to be voted at the special meeting, and not revoked, on which no instructions are indicated, will be voted “FOR” the proposal to adopt and approve the Partial Cash-Out Merger, the Partial Cash-Out Merger Agreement and the transactions contemplated thereby. With the exception of broker non-votes, the treatment of which is discussed above, each share of Footstar common stock entitled to vote on the proposal to revoke the Plan of Dissolution and represented by a proxy properly executed and received by Footstar in time to be voted at the special meeting, and not revoked, on which no instructions are indicated, will be voted “FOR” the proposal to revoke the Plan of Dissolution.

The special meeting may be adjourned or postponed to permit further solicitation of proxies. Approval of a motion to adjourn the special meeting for the purpose of soliciting additional proxies requires a majority of the votes represented at the special meeting. Abstentions, broker non-votes and failures to respond will not be counted as votes represented and therefore will have no effect on the outcome of a motion to adjourn for the purpose of soliciting additional proxies. We do not expect any other matters other than the proposal to adopt and approve the Partial Cash-Out Merger Agreement and the proposal to revoke the Plan of Dissolution will be brought before the special meeting. If, however, other matters incident to the conduct of the special meeting are considered, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless authority to do so is withheld on the proxy card.

Quorum

With respect to the proposal to approve the Partial Cash-Out Merger, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Footstar’s common stock as of [____], 2011 is necessary to constitute a quorum for this proposal.

With respect to the proposal to revoke the Plan of Dissolution, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Footstar’s common stock as of [_____] is necessary to constitute a quorum for this proposal.

Proxies; Revocation

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with Footstar’s President, Jonathan M. Couchman, at Footstar’s executive offices located at 933 MacArthur Blvd., Mahwah, New Jersey 07430, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the special meeting and voting in person. Attendance at the special meeting

will not, by itself, revoke a proxy. Furthermore, if a stockholder's shares are held of record by a broker, bank or other nominee and the stockholder wishes to vote at the special meeting, the stockholder must obtain a proxy from such broker, bank or other nominee.

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PLEASE DO NOT SEND IN STOCK CERTIFICATES WITH YOUR PROXY CARD AT THIS TIME. IN THE EVENT THE PARTIAL CASH-OUT MERGER IS COMPLETED, FOOTSTAR WILL DISTRIBUTE INSTRUCTIONS REGARDING THE PROCEDURES FOR EXCHANGING FOOTSTAR STOCK CERTIFICATES FOR THE \$0.95 PER SHARE CASH PAYMENT TO HOLDERS OF FEWER THAN 500 SHARES OF OUR COMMON STOCK.

Expenses of Proxy Solicitation

Footstar is responsible for its own fees and expenses incurred in connection with the solicitation of proxies in connection with this solicitation, including the fees and expenses associated with the preparation of this proxy statement, the filing, printing and mailing of this proxy statement and any amendments to this proxy statement. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their name shares of Footstar common stock beneficially owned by others for forwarding to these beneficial owners. Footstar may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of Footstar.

Footstar's Chief Executive Officer is the only employee of Footstar assisting Footstar in the solicitation of proxies and the transactions described in this proxy statement.

SPECIAL FACTORS

Footstar Background

Footstar, Inc., a Delaware corporation, is a holding company that is currently winding down pursuant to the Plan of Dissolution, which was adopted by Footstar's stockholders on May 5, 2009.

Until the time it discontinued regular business operations in December 2008, Footstar had operated its business since 1961 through its subsidiaries principally as a retailer selling family footwear through licensed footwear departments in discount chains and wholesale arrangements. Commencing March 2, 2004, Footstar and most of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court. On February 7, 2006, Footstar successfully emerged from bankruptcy. At part of its emergence from bankruptcy, substantially all of Footstar's business operations were related to the agreement pursuant to which it operated the licensed footwear departments in Kmart stores (the "Kmart Agreement").

Following its emergence from bankruptcy, Footstar's board of directors, with the assistance of investment bankers, evaluated a number of possible alternatives to enhance shareholder value, including acquisition opportunities, changes in the terms of Footstar's principal contracts, including the early termination of or extension of the Kmart Agreement, the payment of one or more dividends, and the sale of our assets or stock. The board of directors determined the best course of action was to operate under the Kmart Agreement through its scheduled expiration at the end of December 2008.

In May 2008, the board of directors determined that it was in the best interests of Footstar and its shareholders to liquidate and ultimately dissolve after the expiration of the Kmart Agreement in December 2008 (and other miscellaneous contracts through the end of such term) and to sell and/or dispose of any of Footstar's other remaining assets, including its owned property in Mahwah, New Jersey, which contains its corporate headquarters building, improvements and 21 acres of underlying land (collectively, the "Mahwah Real Estate"). Under the terms of the Kmart Agreement, Kmart was required to purchase from Footstar all of the remaining inventory in the Kmart footwear

departments at values set forth in the Kmart Agreement. The process of selling the inventory to Kmart commenced immediately after the expiration of the Kmart Agreement on December 31, 2008. During 2009, Footstar received approximately \$55.3 million related to the liquidation sale of the inventory from Kmart in full satisfaction of all of Kmart's obligations. Following the sale of the inventory to Kmart during early 2009, Footstar's principal remaining non-cash asset consisted of the Mahwah Real Estate.

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Also in May 2008, the Board of Directors approved the Plan of Complete Liquidation of Footstar, Inc. (the “Original Plan”), which provided for the complete liquidation and ultimate dissolution of Footstar after expiration of the Kmart Agreement in December 2008. The Plan of Dissolution reflects technical and legal changes to the Original Plan consistent with the DGCL and was intended to modify, supersede and replace the Original Plan in order to more efficiently facilitate the liquidation and dissolution of Footstar in the best interests of shareholders.

Since Footstar emerged from bankruptcy on February 7, 2006, the board of directors has declared special cash distributions totaling \$9.85 per common share, and which included a special cash distribution paid on April 30, 2007, in the amount of \$5.00 per common share, totaling \$104.8 million, a special cash distribution paid on June 3, 2008, in the amount of \$1.00 per common share, totaling approximately \$21.3 million and a special cash distribution paid on January 27, 2009, in the amount of \$1.00 per common share, totaling approximately \$21.5 million. Furthermore, since the Plan of Dissolution was approved, the board of directors has paid special cash distributions on May 6, 2009, in the amount of \$2.00 per common share, totaling approximately \$43.2 million, on September 10, 2009, in the amount of \$0.40 per common share, totaling approximately \$8.6 million, on December 16, 2009, in the amount of \$0.35 per common share, totaling approximately \$7.6 million and on March 12, 2010, in the amount of \$0.10 per common share, totaling approximately \$2.2 million (the “March 2010 Dividend”).

In connection with the March 2010 Dividend, Footstar disclosed that it anticipated that it would not make any further distributions until the monetization of the Mahwah Real Estate.

On March 5, 2009, the board of directors adopted and approved the Plan of Dissolution. On May 5, 2009, at a special meeting of stockholders of Footstar, the stockholders adopted and approved the Plan of Dissolution and Footstar’s dissolution. Subsequent to such time, the board of directors moved forward with the liquidation and worked toward selling all of Footstar’s remaining assets and settling all claims.

At the close of business on May 5, 2009, Footstar closed its stock transfer books and, at such time, did not record transfers of shares of its common stock until December 15, 2009.

On December 15, 2009, Footstar re-opened its stock transfer books to address significant numbers of unsettled trades.

At the close of business on April 23, 2010, Footstar again closed its stock transfer books and, at such time, no longer recorded transfers of shares of its common stock. Certificates representing shares of the Footstar’s common stock are not assignable or transferable on the books of Footstar after April 23, 2009 except by will, intestate, succession or operation of law.

From August 2010 through January 3, 2011, Footstar negotiated the terms of a strategic merger transaction with CPEX pursuant to which CPEX would become a majority-owned indirect subsidiary of Footstar.

On January 3, 2011, CPEX, NewCo and Merger Sub, a wholly-owned subsidiary of NewCo, entered into the CPEX Transaction Agreement, pursuant to which, subject to satisfaction or waiver of the conditions therein, Merger Sub will merge with and into CPEX (the “CPEX Transaction”) with CPEX surviving as a wholly-owned subsidiary of NewCo.

See “SPECIAL FACTORS – Merger with CPEX” for a more complete description of the CPEX Transaction Agreement.

From time to time, Jonathan Couchman, our Chief Executive Officer, discussed with Olshan Grundman Frome Rosenzweig & Wolosky LLP (“Olshan”), Footstar’s outside counsel, details regarding potential alternatives whereby we could cease to be a public company in order to reduce or eliminate the costs of compliance with the federal securities laws and the Sarbanes-Oxley Act, or a “going private” transaction.

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At a meeting in January 2011, the board of directors continued to review terminating Footstar's Exchange Act registration and becoming a non-public company in a going private transaction. The board of directors also determined to recommend to stockholders that Footstar revoke its Plan of Dissolution.

On February 14, 2011, Olshan met with the board of directors and presented an overview of the board's fiduciary duties and responsibilities when considering a going private transaction, noting in particular that the board's consideration of a going private transaction must satisfy the "entire fairness" standard of review under Delaware law, such that both the process used to evaluate, negotiate and approve any such transaction is deemed fair, as well as the resulting price offering to unaffiliated stockholders. Olshan then discussed with the board the primary factors to consider in order to ensure that the process and price are fair to unaffiliated stockholders.

The board next discussed with Olshan the general mechanics of a partial cash-out merger transaction similar to the Partial Cash-Out Merger described in this proxy statement, including the number of record holders required to be cashed-out under in order to reduce the number of record holders below 300, such that Footstar could deregister its common stock under the Exchange Act. In addition to a partial cash-out merger, the board also reviewed with Olshan various other alternative structures, and the advantages and disadvantages to each, for effecting a going private transaction, including a reverse stock split, issuer tender offer, stock repurchase program and odd-lot repurchase program. The board also discussed with Olshan the advantages and disadvantages of remaining a public company.

The board of directors next reviewed the all materials relevant to its consideration of engaging in a going private transaction, including all advice and information it had received, the various alternatives for effecting a going private transaction and other factors. The board then determined that, based on all of the factors that had been considered by the board, that:

- it is in the best interest of Footstar and its stockholders, including all unaffiliated stockholders, to engage in a going private transaction; and
- a going private transaction effected by means of a partial cash-out merger similar to the Partial Cash-Out Merger described in this proxy statement would be in Footstar's best interests and that of our unaffiliated stockholders.

Following further discussions, the board determined that a cash-out price of \$0.95, without interest, is fair to and in the best interest of our unaffiliated stockholders (including both cashed-out and continuing stockholders). This price is based on the trailing average of the closing price of the common stock for the 20 trading days prior to February 14, 2011, the date of determination of the price, plus a premium of 5% over such average closing price.

The board then determined that the minimum number of shares stockholders would need to hold in order to not be cashed out in the Partial Cash-Out Merger would be 500, but reserved the right to adjust this threshold if, prior to the effective time of the Partial Cash-Out Merger, the board of directors determined that converting each share held by a stockholder owning fewer than 500 shares into the right to receive \$0.95 in cash will not reduce the number of our common stock record holders below 300.

After considering the going private transaction discussed in this proxy statement, including the Partial Cash-Out Merger, the board of directors (including those directors who are not employees of Footstar) unanimously resolved to authorize its officers to finalize the Partial Cash-Out Merger Agreement and proceed with plans to go private by cashing out stockholders of Footstar with fewer than 500 shares.

Following the meeting of the board of directors, on February 14, 2011, Footstar and Acquisition executed the Partial Cash-Out Merger Agreement.

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Merger with CPEX

On January 3, 2011, CPEX, NewCo and Merger Sub entered into the CPEX Transaction Agreement, pursuant to which, subject to satisfaction or waiver of the conditions therein, Merger Sub and CPEX will effect the CPEX Transaction, with CPEX surviving as a wholly-owned subsidiary of NewCo.

Merger Sub is a wholly owned subsidiary of NewCo, which is owned 80.5% by Footstar Corp, and 19.5% by the 19.5% Stockholder. Footstar Corp is a wholly owned subsidiary of Footstar. Following the Merger, CPEX, through Footstar Corp's ownership interest in NewCo, will be an 80.5% owned subsidiary of Footstar Corp. In exchange for their respective 80.5% and 19.5% ownership of NewCo, Footstar Corp and the 19.5% Stockholder are providing approximately \$3.2 million and approximately \$0.8 million, respectively, in equity financing to fund the CPEX Transaction.

Subject to the terms of the CPEX Transaction Agreement, which has been approved by the boards of directors of CPEX, NewCo, Merger Sub, Footstar Corp and Footstar, at the effective time of the CPEX Transaction (the "CPEX Transaction Effective Time"), each share of CPEX common stock issued and outstanding immediately prior to the CPEX Transaction Effective Time will be converted into the right to receive \$27.25 in cash, without interest (the "CPEX Transaction Consideration"). Immediately prior to the CPEX Transaction Effective Time, each outstanding unvested and non-exercisable CPEX stock option will become fully vested and exercisable. As of the CPEX Transaction Effective Time, each outstanding CPEX stock option that is outstanding immediately prior to the CPEX Transaction Effective Time will be cancelled in exchange for the right to receive a lump sum cash payment (without interest and less any applicable withholding taxes) equal to the product of (i) the excess, if any, of the CPEX Transaction Consideration over the per share exercise price for such CPEX stock option and (ii) the total number of shares underlying such CPEX stock option. Immediately prior to the Effective Time, each outstanding CPEX restricted stock unit will become fully vested and cancelled in exchange for the right to receive a lump sum cash payment (without interest and less any applicable withholding taxes) equal to the product of (i) the CPEX Transaction Consideration and (ii) the total number of shares underlying such CPEX restricted stock unit.

The CPEX Transaction Agreement contains customary representations, warranties and covenants of CPEX, NewCo and Merger Sub, including, among others, (i) covenants by CPEX to conduct its business in the ordinary course during the interim period between the execution of the CPEX Transaction Agreement and consummation of the CPEX Transaction and not to engage in certain kinds of transactions during such period and (ii) representations and warranties of NewCo and Merger Sub as to their capitalization and the financing of the CPEX Transaction with regard to the CPEX Loan Agreement and the Footstar Commitment Letter and the Black Horse Commitment Letter (each defined and described below). CPEX has also agreed not to solicit proposals relating to alternative business combination transactions or, subject to certain exceptions that permit CPEX's board of directors to comply with its fiduciary duties, enter into discussions concerning, or furnish non-public information in connection with any alternative business combination transactions.

The CPEX Transaction is conditioned upon, among other things, adoption and approval of the CPEX Transaction Agreement by the stockholders of CPEX, CPEX having a balance of at least \$15 million in cash and cash equivalents as of the closing date of the CPEX Transaction (after giving effect to all fees, costs and expenses incurred by CPEX in connection with the CPEX Transaction and the transactions contemplated by the CPEX Transaction Agreement), obtaining all required regulatory approvals and other customary conditions. The CPEX Transaction Agreement also provides that the closing shall occur no earlier than April 4, 2011. The closing of the CPEX Transaction is not subject to a financing contingency.

The CPEX Transaction Agreement contains certain termination rights for both CPEX, NewCo and Merger Sub, and provides that, upon termination of the CPEX Transaction Agreement under specified circumstances, CPEX may be

required to pay NewCo and Merger Sub a termination fee of \$1.9 million, including if it accepts a superior acquisition proposal.

Concurrently with the execution and delivery of the CPEX Transaction Agreement, FCB I LLC, a Delaware limited liability company and wholly-owned subsidiary of Merger Sub (the “Borrower”), and certain debt financing parties and The Bank of New York Mellon, as Agent, entered into a loan agreement (the “CPEX Loan Agreement”) pursuant to which such debt financing parties will provide debt financing (the “Debt Financing”) in the form of a \$64 million secured term loan to the Borrower to effect the CPEX Transaction pursuant to the terms of the CPEX Loan Agreement. The term loan shall bear interest at “LIBOR” plus 16% per annum and matures on the earlier of January 3, 2026 or the date any of CPEX’s patents that are associated with Testim expire. The term loan contains customary events of default for loans of such nature.

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Concurrently with the execution and delivery of the CPEX Transaction Agreement, Footstar Corp entered into a letter agreement with CPEX, NewCo and Merger Sub pursuant to which Footstar Corp has agreed to provide \$3 million in secured financing to and undertake other obligations on behalf of CPEX, NewCo and Merger Sub (the “Footstar Commitment Letter”). The Footstar Commitment Letter provides that Footstar Corp will provide such financing in the form of a bridge loan to be funded at or prior to the closing of the CPEX Transaction and which matures four business days following the closing. The loan is to bear interest at 20% per annum and provide for a fee of 3% of the principal amount (less accrued interest) payable to Footstar Corp, due upon repayment of the loan. The Footstar Commitment Letter provides that the loan shall contain customary events of default for loans of such nature. Under the terms of the Footstar Commitment Letter, the proceeds of the financing are to be used to (a) fund the payment of consideration payable pursuant to the CPEX Transaction Agreement and related purposes (including the payment of related fees and expenses) or (b) satisfy certain damages awarded to CPEX as a result of fraud or certain breaches by any of NewCo or Merger Sub of any of the obligations of NewCo and Merger Sub under the CPEX Transaction Agreement.

Concurrently with the execution and delivery of the CPEX Transaction Agreement, Black Horse Capital LP, a Delaware limited partnership, and Black Horse Capital Master Fund Ltd. (collectively, “Black Horse”), a Cayman Islands exempted company, entered into a letter agreement with CPEX, NewCo and Merger Sub pursuant to which they have agreed to provide \$10 million in secured financing to and undertake other obligations on behalf of CPEX, NewCo and Merger Sub (the “Black Horse Commitment Letter”). The Black Horse Commitment Letter has substantially the same terms as the Footstar Commitment Letter.

Concurrently with the execution of the CPEX Transaction Agreement, NewCo, Footstar Corp and the 19.5% Stockholder entered into a Stockholders’ Agreement, which provides certain provisions governing the control and operation of each of NewCo and Merger Sub, Borrower and CPEX (as the surviving corporation of the CPEX Transaction), restrictions on the transfer of shares of NewCo common stock and various other prohibitions.

Concurrently with the execution of the CPEX Transaction Agreement, certain directors and employees of CPEX entered into voting agreements with NewCo and Merger Sub (collectively, the “Voting Agreements”), pursuant to which such individuals have agreed, among other things, to vote their respective shares of CPEX common stock for the adoption and approval of the CPEX Transaction Agreement and against any alternative proposal and against any action or agreement that would frustrate the purposes of, or prevent or delay the consummation of the transactions contemplated by the CPEX Transaction Agreement.

The foregoing description of the CPEX Transaction Agreement does not purport to be complete and is qualified in its entirety by reference to the CPEX Transaction Agreement, a copy of which is filed as Exhibit 2.1 to the Current Report on Form 8-K filed by Footstar on January 6, 2011 and is hereby incorporated into this report by reference.

Recommendation of the Board of Directors; Fairness of the Partial Cash-Out Merger

The board of directors has unanimously determined that the terms of the Partial Cash-Out Merger and the Partial Cash-Out Merger Agreement are advisable, fair to and in the best interests of the Footstar stockholders, including unaffiliated cashed-out stockholders and unaffiliated continuing stockholders, and, accordingly, recommends that stockholders of record as of [____], 2011 vote “FOR” the proposal to approve the Partial Cash-Out Merger and stockholders of record as of [_____] vote “FOR” the proposal to revoke the Plan of Dissolution. The board of directors considered a number of factors, as more fully described under “—Background of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation,” in making its recommendation.

The board of directors believes that the Partial Cash-Out Merger, the Partial Cash-Out Merger Agreement and the related transactions are substantively and procedurally fair to and in the best interests of the Footstar stockholders, including unaffiliated stockholders, for all of the reasons set forth herein. See “Special Factors—Reasons for the Board’s

Recommendation.” In reaching its conclusions regarding fairness, the board of directors considered the interests of both holders of fewer than 500 of our shares who will receive \$0.95 per share in cash for their shares, and holders of 500 or more of our shares who will remain stockholders after Footstar becomes a private company.

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With respect to cashed-out Footstar stockholders, the board of directors considered, among other things, the fact that the cashed-out stockholders will not be able to participate in the future earnings and growth of Footstar, if any. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders, including (1) that the Partial Cash-Out Merger consideration of \$0.95 per share represents a premium of 5% over the trailing average of the closing price of our common stock for the 20 trading days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, (2) the value presented by the opportunity to realize a disposition of an otherwise relatively illiquid investment without incurring brokerage commissions or fees and (3) that stockholders who would otherwise be cashed out but desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more prior to the effective time. See “—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

With respect to continuing Footstar stockholders, the board of directors considered, among other things, the adverse effect of the loss of a public trading market for the common stock, the lack of publicly available information on Footstar when it ceases to file Exchange Act reports, that Footstar will no longer be subject to the provisions of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) when it terminates its Exchange Act registration and the reduced cash balance resulting from the transaction costs for the Partial Cash-Out Merger. However, the board of directors believes that these factors are more than offset by the benefits to the remaining stockholders created by the lower expenses and other benefits of becoming a private company. See “—Purpose of the Partial Cash-Out Merger” and “—Reasons for the Board’s Recommendation.”

The Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar. The Partial Cash-Out Merger does not require approval of the majority of unaffiliated stockholders of Footstar. The majority of directors who are not employees of Footstar did not retain an unaffiliated representative to act solely on behalf of unaffiliated stockholders for purposes of negotiating the Partial Cash-Out Merger or preparing a report concerning the fairness of the transaction. The board of directors believes that it was not necessary to retain a disinterested representative to negotiate on behalf of the unaffiliated stockholders or to structure the Partial Cash-Out Merger to require approval of at least a majority of unaffiliated stockholders because the Partial Cash-Out Merger was approved unanimously by all directors of Footstar who are not employees of Footstar and who will not have any continuing interest in or other relationship with Footstar as the surviving corporation (other than ownership of less than 2% each of outstanding common stock after the Partial Cash-Out Merger and continued service on the board of directors).

Determination of Cash-Out Price

The board of directors considered recent and historical trades of the Footstar common stock. The common stock has traded since December 30, 2003 on the OTC Bulletin Board. That market has represented the principal outlet for stockholders who wished to dispose of shares of common stock. The board of directors viewed that market as a good indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of Footstar’s value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, the announcement and execution of the CPEX Merger Agreement, an assessment of the control parties and management of Footstar, and other factors that typically bear on a common stock purchase or sale decision. Accordingly, the board of directors determined that a cash-out price based on the historical market prices of Footstar’s common stock would be the most accurate method of determining the fair value of shares of common stock being cashed out in the Partial Cash-Out Merger. In determining the cash-out price based on historical trades in the common stock, the board of directors determined that an average trading price of the common stock over a period of time, rather than the closing price as of a specified date, would most accurately represent the current value of the common stock. In addition, due to the CPEX Transaction, the board of directors determined that, in calculating an average historical price for the common stock, an average of trading prices during a

period of time subsequent to the announcement of the CPEX Transaction would most accurately reflect the current fair value of the common stock. The board of directors accordingly determined to calculate the cash-out price as a price equal to the trailing average of the closing price of the common stock for the 20 days prior to February 14, 2011, the date of our public announcement of the execution of the Partial Cash-Out Merger Agreement, plus a premium of 5%. In determining the premium, the board of directors considered the recent increase in trading price following the announcement of the Partial Cash-Out Merger, the CPEX Transaction and the limited trading volume for the common stock. The board of directors determined that a 5% premium over the 20 trading day trailing average of \$0.905, which provided for a \$0.95 cash-out price, was a fair price for the common stock being cashed out in the Partial Cash-Out Merger in light of the factors considered by the board of directors as described above.

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Net Assets per Share. The net assets per share of Footstar on September 30, 2010 was \$0.48. Accordingly, the \$0.95 per share cash-out price represents a premium to the net assets per share of 98%. The board of directors believes that, in light of the pending CPEX Transaction, and the corresponding increase in the trading price of our common stock, that a 5% premium over the 20 trading day trailing average of our common stock prior to the announcement of the execution of the Partial Cash-Out Merger Agreement represents a fair price for the common stock being cashed-out because it best reflects the value of the CPEX Transaction to Footstar stockholders.

Going Concern Value. In light of the fact that Footstar is currently liquidating pursuant to the Plan of Dissolution, the board of directors determined that the going concern value of Footstar would not be an appropriate method of valuation in determining the cash-out price for the Partial Cash-Out Merger.

Footstar did not receive a report, opinion, or appraisal from an outside party as to the value of our common stock, or the fairness of the Partial Cash-Out Merger to stockholders who will receive cash in the Partial Cash-Out Merger, stockholders who will remain stockholders following the Partial Cash-Out Merger or affiliated stockholders or Footstar.

The independent members of the board of directors concluded that there were already sufficient procedural safeguards without the expense of retaining an independent fairness advisor, particularly since unaffiliated and affiliated stockholders would be treated the same in the Partial Cash-Out Merger and any of such stockholders could change his or her stock holdings prior to the Effective Date, as described above, in order to either get cashed out in the Partial Cash-Out Merger or continue as a stockholder of Footstar following the Partial Cash-Out Merger. In addition, the board of directors took into account the importance of preserving Footstar's cash position and completing the Partial Cash-Out Merger as expeditiously as practicable.

Reasons for the Board's Recommendation

In adopting the Partial Cash-Out Merger Agreement and approving the Partial Cash-Out Merger, the board of directors considered a number of factors, including but not limited to the following:

- The Partial Cash-Out Merger consideration of \$0.95 per share represents a premium of 5% over the 20 trading day trailing average of our common stock prior to February 14, 2011, the date of public announcement of the execution of the Partial Cash-Out Merger Agreement, and a premium of [__]% and [__]%, respectively, over the net book value per share and liquidation value per share on September 30, 2010.
- The substantial ongoing expenses incurred by Footstar as a public reporting company in connection with its obligations to file periodic reports with the SEC.
- The fact that the Partial Cash-Out Merger will need to be approved by a majority of stockholders, regardless of whether they are affiliated with Footstar.
- The value to our small stockholders of the opportunity presented by the Partial Cash-Out Merger to realize a disposition of an otherwise relatively illiquid investment without incurring brokerage commissions or fees as compared to the loss of the opportunity to continue as a stockholder of Footstar and participate in the future earnings and growth of Footstar, if any.

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- Our small stockholders will receive a fixed amount of cash, rather than securities or some sort of deferred payment.
- The benefits that those continuing stockholders of Footstar would receive as a result of the reduction in the expenses Footstar incurred as a reporting company.
- Since only 0.5% of our shares are held by stockholders owning less than 500 shares, the Partial Cash-Out merger will impact only a minimal amount of outstanding shares. Accordingly, the Partial Cash-Out Merger will likewise have only a minimal effect on the voting power of continuing stockholders, and affiliated stockholders will realize a less than 1% increase in their aggregate voting power.
- That, subject to the satisfaction of the conditions to the CPEX Transaction Agreement, the CPEX Transaction will result in CPEX becoming a majority-owned indirect subsidiary of Footstar.
- The potential impact on our remaining stockholders after the Partial Cash-Out Merger of the absence of financial and other information contained in periodic reports filed with the SEC and that Footstar will no longer be subject to the provisions of the Sarbanes-Oxley Act or certain liability provisions of the Exchange Act.
 - The limited public trading volume and liquidity of our common stock.
- Stockholders that desire to retain their equity interest in Footstar after the Partial Cash-Out Merger can increase the number of shares they hold to 500 shares or more prior to the effective time of the Partial Cash-Out Merger, thereby avoiding being cashed-out.
- Stockholders that desire to sell their equity interest in Footstar in the Partial Cash-Out Merger can sell their holdings down below 500 shares or split their accounts so that each account is below 500 shares, and then, in either case, participate in the Partial Cash-Out Merger.
- The reduced cash balance resulting from the estimated total transaction cost of \$75,000, including professional fees and other expenses.