

FOOTSTAR INC  
Form DEFC14A  
May 21, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Footstar, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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  - 1) Amount Previously Paid:
  
  
  - 2) Form, Schedule or Registration Statement No.:

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**FOOTSTAR, INC.**  
**933 MacArthur Boulevard**  
**Mahwah, NJ 07430**

May 21, 2008

**ANNUAL MEETING OF STOCKHOLDERS**  
**JUNE 17, 2008**

Dear Stockholder:

It is a pleasure for us to extend to you a cordial invitation to attend the 2008 Annual Meeting of Stockholders of Footstar, Inc. to be held at 10 a.m. on Tuesday, June 17, 2008 at the DoubleTree Hotel, 180 Route 17 South, Mahwah, New Jersey 07430.

Your vote at the Annual Meeting is important to Footstar and we ask you to vote your shares by following the voting instructions in the enclosed proxy.

We look forward to seeing you at the Annual Meeting.

Sincerely,

**JONATHAN M. COUCHMAN**  
*Chairman of the Board*

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**FOOTSTAR, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 17, 2008**

To Footstar Stockholders:

The Annual Meeting of Stockholders of Footstar, Inc. will be held at the DoubleTree Hotel, 180 Route 17 South, Mahwah, New Jersey 07430 on Tuesday, June 17, 2008, at 10 a.m., for the following purposes:

1. To elect two Class II directors for a term expiring in 2011.
2. To ratify the appointment of Amper, Politziner & Mattia, P.C. as the Company's independent registered public accounting firm for the 2008 fiscal year.
3. To act upon such other business as may properly come before the Annual Meeting.

Stockholders of record at the close of business on April 18, 2008 are entitled to notice of and to vote at the Annual Meeting.

**\*\*\*CAUTION\*\*\***

The Company has received a notice from Outpoint Offshore Fund, Ltd., a Cayman Islands corporation ( Outpoint ), seeking at the Annual Meeting (1) to nominate individuals to the Company's Board of Directors, and (2) to propose to amend the Bylaws of the Company to repeal any and all amendments thereto adopted by the Board of Directors of the Company and not by the stockholders of the Company after February 7, 2006 and prior to the due election and qualification of the directors elected at the Annual Meeting (the By-law Proposal ). Outpoint and certain affiliates have filed proxy materials with the Securities and Exchange Commission relating to these matters.

If properly raised by Outpoint at the Annual Meeting, the By-law Proposal will be considered at the Annual Meeting.

The Board believes that stockholders should vote FOR the two Company nominees - - Adam W. Finerman and Gerald F. Kelly, Jr. and not for the Outpoint nominees, and urges you not to sign any proxy cards sent to you by Outpoint. There have been no amendments to the Company's By-laws since the February 7, 2006 date referred to above, nor will the Board implement any amendments prior to the election of directors at the Annual Meeting. As a result, the Board does not believe the By-law Proposal has any meaningful impact on the stockholders, and believes stockholders should not vote in favor of the By-law Proposal. The Board of Directors is not soliciting a proxy from stockholders with respect to the By-law Proposal.

**THE BOARD URGES YOU TO NOT SIGN ANY PROXY CARDS SENT TO YOU BY OUTPOINT. IF YOU HAVE PREVIOUSLY SIGNED AN OUTPOINT PROXY CARD, YOU CAN REVOKE IT BY SIGNING, DATING AND MAILING THE ENCLOSED WHITE PROXY CARD IN THE ENVELOPE PROVIDED.**

By order of the Board of Directors,

MAUREEN RICHARDS  
*Senior Vice President, General  
Counsel and Corporate Secretary*

May 21, 2008

**YOUR VOTE IS IMPORTANT. TO ASSURE YOUR REPRESENTATION AT THE ANNUAL MEETING,  
PLEASE VOTE YOUR PROXY, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL  
MEETING.**

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**FOOTSTAR, INC.  
933 MacArthur Boulevard  
Mahwah, NJ 07430**

**ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 17, 2008  
PROXY STATEMENT**

This Proxy Statement is being furnished to the stockholders of Footstar, Inc. (the Company or Footstar) in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on Tuesday, June 17, 2008, at 10 a.m. at the DoubleTree Hotel, 180 Route 17 South, Mahwah, New Jersey 07430 and at any postponement or adjournment (the Annual Meeting). At the Annual Meeting, stockholders are being asked to vote on (1) the election of two Class II directors to serve for a term expiring in 2011 and (2) the ratification of the appointment of Amper, Politziner & Mattia, P.C. as the Company's independent registered public accounting firm for the 2008 fiscal year.

This Proxy Statement, Notice of Annual Meeting and accompanying proxy card are first being mailed to stockholders on or about May 21, 2008.

**GENERAL**

The holders of shares of Common Stock of the Company of record at the close of business on April 18, 2008 are entitled to vote such shares at the Annual Meeting. On April 18, 2008, there were 21,256,816 shares of Common Stock outstanding.

The presence in person or by proxy of the holders of a majority of the shares outstanding on the record date is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Each stockholder is entitled to one vote, in person or by proxy, for each share of Common Stock held as of the record date on each matter to be voted on at the Annual Meeting.

Abstentions and broker non-votes are included in determining the number of shares present or represented at the Annual Meeting for purposes of determining whether a quorum exists. Abstentions are not included in calculating the number of votes cast on, in favor of, or in opposition to any matter. Broker non-votes occur when a broker returns a proxy but does not have discretionary authority to vote on a particular proposal or voting instructions from the beneficial owner.

Certain proposals are considered routine matters and brokers generally may vote on behalf of beneficial owners who have not furnished voting instructions. For non-routine proposals brokers may not vote on the proposals unless they have received voting instructions from the beneficial owner.



Shares of Common Stock represented by proxies received in time for the Annual Meeting will be voted as specified in the proxy. Unless contrary instructions are given, the proxy will be voted (1) for the election of the Board of Directors nominees for director and (2) for the ratification of the appointment of Amper, Politziner & Mattia, P.C. as our independent registered public accounting firm for the 2008 fiscal year. Proxies will be voted as recommended by the Board of Directors or, if no recommendation is given, in the discretion of the proxy holders, with respect to any other matters properly submitted to stockholders at the Annual Meeting, which may include, among other things, a motion to adjourn the meeting or part of the meeting relating to one or more items to be voted on at the Annual Meeting in order to achieve a quorum; provided, that this discretionary authority will not be utilized to vote either in favor of or against (or to abstain regarding) the By-Law Proposal referenced in the Notice of Annual Meeting of Stockholders accompanying this Proxy Statement. Because the Company is not soliciting a proxy with respect to the By-law Proposal referenced in the Notice of Annual Meeting of Stockholders accompanying this Proxy Statement and the proxy holders will not use their discretionary voting authority to vote on the By-law Proposal, in order for stockholders to cast a vote by proxy on the By-law Proposal, stockholders must use the proxy card provided by Outpoint Offshore Fund, Ltd., the proponent of the By-law Proposal, to the extent Outpoint Offshore Fund, Ltd. makes such a proxy card available to stockholders.

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If there is no quorum, a majority of the votes present at the Annual Meeting may adjourn the Annual Meeting. If such an adjournment is proposed by the Company, the proxy holders intend to vote all shares of Common Stock for which they have voting authority in favor of the adjournment.

The proxy holders will not use their discretionary voting authority to postpone or adjourn the Annual Meeting to solicit additional proxies except in the case that an adjournment is necessary to achieve a quorum at the Annual Meeting.

An adjournment will have no effect on the business that may be conducted at the Annual Meeting. If the Annual Meeting is postponed or adjourned in whole or in part, your proxy will remain valid and may be voted at the postponed or adjourned meeting. You will remain able to revoke your proxy until it is voted.

As of the date of this Proxy Statement, the Company is not aware of any matters that are to be presented at the Annual Meeting other than the election of two directors, the ratification of the appointment of Amper, Politziner & Mattia, P.C. as the Company's independent registered public accounting firm for the 2008 fiscal year and, if properly raised by Outpoint, the By-law Proposal referenced in the Notice of Annual Meeting accompanying this Proxy Statement.

Stockholders may vote by using one of three alternative methods:

(1) by completing and mailing the proxy card; or

(2) via the Internet, by going to the website <http://www.proxyvoting.com/fts> and following the instructions for Internet voting on the proxy card; or

(3) over the telephone, by dialing 1-866-540-5760 and following the instructions for telephone voting on the proxy card.

A proxy may be revoked if, prior to the exercise of the proxy, the Secretary of the Company receives either a written revocation of that proxy or a new proxy bearing a later date. A proxy may also be revoked by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not in itself constitute revocation of a proxy.

This proxy solicitation is being made by the Board of Directors of the Company and the expense of preparing, printing, and mailing this Proxy Statement and proxy is being paid by the Company. In addition to use of the mails, proxies may be solicited personally, by electronic mail, by facsimile, or by telephone by some of the Company's directors and officers as well as regular employees of the Company without additional compensation. You may also be solicited by means of press releases or postings on the Company's website, [www.footstar.com](http://www.footstar.com). The Company has retained MacKenzie Partners, Inc. to assist with the solicitation of proxies for an estimated fee of \$25,000 plus expenses. The Company will reimburse banks, brokers and other custodians, nominees and fiduciaries for their costs in sending proxy materials to the beneficial owners of Common Stock. The Company's expenses related to the solicitation in excess of those normally spent for an annual meeting with an uncontested director election are estimated to be approximately \$200,000 of which approximately \$20,000 has been spent to date, which costs will be borne by the Company.

Appendix I sets forth information relating to the Company's directors, officers and employees who are considered participants in the solicitation under the rules of the Securities and Exchange Commission (SEC) by means of their position as directors or because they may be soliciting proxies on the Company's behalf.

In some instances, we may deliver to multiple stockholders sharing a common address only one copy of this Proxy Statement. If requested by phone or in writing, we will promptly provide a separate copy of the Proxy Statement to a stockholder sharing an address with another stockholder. To notify the Company, you may write or call Footstar, Attention: Corporate Secretary, 933 MacArthur Boulevard, Mahwah, NJ 07430, telephone 201-934-2000. Stockholders sharing an address who currently receive multiple copies and wish to receive only a single copy should contact their broker or send a signed, written request to us at the address above.

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**ITEM 1. ELECTION OF DIRECTORS**

*General.* Our Board of Directors currently consists of nine members divided into three classes with three directors in each class. Directors have been appointed on a staggered term basis, so that each year the term of office of one class will expire and the terms of office of the other classes will extend for additional periods of one and two years, respectively. The term of Class II directors will expire at this Annual Meeting. The term of Class III directors will expire at our 2009 annual meeting, and the term of Class I directors will expire at our 2010 annual meeting. Our Second Amended and Restated Certificate of Incorporation provides that the number of directors will be reduced automatically over time in the manner set forth in our Second Amended and Restated Certificate of Incorporation, unless our Board determines otherwise. Accordingly, the size of Class II will be reduced to two directors at this Annual Meeting and, as determined by the Board, the director nominees for election at the Annual Meeting to the Class II seats, to hold office for a term which will expire at the 2011 annual meeting of stockholders or until their successors are chosen and qualified, are Adam W. Finerman and Gerald F. Kelly, Jr. Adam W. Finerman and Gerald F. Kelly, Jr. are currently Class II directors of Footstar. The Company has inquired of each of these two nominees and determined that each has consented to being named as a nominee and to serving as a director if elected. In the event that any nominee should become unavailable for election, the persons named in the accompanying proxy intend to vote for such other person, if any, as the Board may designate as a substitute nominee.

In 2007, the Board determined not to reduce the size of Class I from three directors to one director. The Board has not made any determinations at this time regarding the size of Class III of the Board, which will be reduced to two directors when the term of the current Class III directors expires at the 2009 meeting, unless the Board determines otherwise, resulting in a seven member Board.

On May 9, 2008, the Company issued a press release announcing that the Board has adopted a Plan of Complete Liquidation (the Plan of Liquidation ) and filed the Plan of Liquidation as an exhibit to a Form 8-K filed on May 9, 2008. The Plan of Liquidation provides for the complete liquidation of the Company by providing for a series of distributions of cash to the stockholders of the Company generated from cash on hand, the sale of certain assets and the wind-down of the Company's business as described in the Plan of Liquidation. Under the terms of the Plan of Liquidation, the Company contemplates submitting a plan of dissolution (the Plan of Dissolution ) to the Company's stockholders in 2009 after expiration of the Company's agreement with Kmart to exclusively operate the footwear departments in all Kmart stores through the end of December, 2008 which will provide for the corporate dissolution of the Company in connection with the payment of or other arrangements for all outstanding liabilities and the payout to stockholders of remaining cash. The Plan of Liquidation and the Plan of Dissolution will have no effect on the terms of the Class I, Class II and/or Class III Board members, each of whom will serve until the expiration of their respective terms and their successors are appointed in accordance with the Company's Certificate of Incorporation, unless the Board and, to the extent required under the Certificate of Incorporation, the stockholders, were to take action consistent with the Certificate of Incorporation and Bylaws to change the structure, size or term of the Board. No determination has been made to make such changes at this time. Notwithstanding the foregoing, after the Company is completely wound up pursuant to the Plan of Dissolution or otherwise, the entire Board of Directors will cease to remain in place.

Directors are elected by the affirmative vote of a plurality of the votes cast at the Annual Meeting. Abstentions and broker non-votes are not counted as votes cast in determining the plurality required to elect directors.

**The Board of Directors recommends that stockholders vote FOR such nominees for director.**

The names, ages and certain other information about Adam W. Finerman and Gerald F. Kelly, Jr. and the directors whose terms extend beyond the Annual Meeting are set forth below.

**Nominees for Election at the Annual Meeting**

Adam W. Finerman, 43, Class II

Director Since 2006

Partner with the law firm of Olshan Grundman Frome Rosenzweig & Wolosky LLP, based in New York City, since 1998. Mr. Finerman practices in the areas of mergers and acquisitions, corporate finance and proxy contests. He also counsels corporate clients on corporate governance practices and related matters, SEC reporting requirements and other public company obligations.

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Gerald F. Kelly, Jr., 60, Class II

Director Since 2006

From November 2005 until his retirement in 2007, Mr. Kelly was Senior Vice President, Strategic Sourcing and Continuous Improvement and Chief Information Officer of UAL Corporation, the parent of United Airlines, an air transportation provider. From 2002 to 2005 he was the Chief Information Officer and Senior Vice President for Procurement and Continuous Improvement at Sears, Roebuck & Company, a retailer, and was a member of the Operating, Capital and Contracts, and Political Action Committees. From 2001 to 2002 he was a business advisor. From 1986 to 2001, Mr. Kelly served as an executive officer of Payless Shoesource, Inc. ( Payless ) of Topeka, Kansas, a specialty retailer. Mr. Kelly's last title at Payless was Senior Vice-President Logistics, Information Systems and Technology and he served as a member of Payless Senior Management, Operating, Capital Expenditure, and Political Action Committees.

He is a member of The Alexis de Tocqueville Society of The United Way of America.

**Directors whose terms extend beyond the Annual Meeting**

Jonathan M. Couchman, 39, Class III

Director Since 2006

Mr. Couchman was appointed Chairman of the Board of Footstar on February 7, 2006. He is the Managing Member of Couchman GP LLC, the general partner of Couchman Investments LP, a private investment partnership established in 2001 and the Managing Member of Couchman Capital LLC, the co-investment manager of Couchman International Ltd., a private partnership established in 2001. Mr. Couchman is also the Managing Member of Couchman Capital Services LLC, the general partner of Couchman Partners LP, a private investment partnership established in 2001 and the investment manager of Couchman Investments LP and co-investment manager of Couchman International Ltd. In addition, Mr. Couchman is the President of Couchman Advisors, Inc., a management and advisory company. Mr. Couchman presently serves as a director of Golf Trust of America, Inc. He is a member of the CFA Institute and the New York Society of Security Analysts.

Eugene I. Davis, 53, Class III

Director Since 2006

Presently Chairman and Chief Executive Officer of PIRINATE Consulting Group, LLC, a privately-held strategic advisory consulting firm he formed in 1997. From May 2005 to October 2007, Mr. Davis served as Chief Executive Officer of Golden Northwest Aluminum, Inc., which was an aluminum manufacturing company. From August 2004 to 2006, Mr. Davis served as Chairman of High Voltage Engineering Corporation, which designed and manufactured high quality applications and engineering products. High Voltage Engineering Corporation filed a voluntary petition for reorganization under Chapter 11 in February 2005. From 2001 to 2004, Mr. Davis served in various executive positions including Chairman, Chief Executive Officer and President of RBX Industries, Inc., a manufacturer and distributor of foam products. RBX Industries, Inc. filed a voluntary petition for reorganization under Chapter 11 in March 2004. From November 2002 until February 2003, Mr. Davis served in the Office of the Chairman as Co-President and Chief Executive Officer for Metals USA, Inc., a metal service center business. Mr. Davis presently serves as Chairman of the Boards of Atlas Air Worldwide Holdings, Inc., Atari, Inc., Foamex International, Inc., and Cadence Innovation, LLC (a designer and manufacturer of molded plastic components for the automotive industry). Mr. Davis also serves as a Director of Delta Air Lines, Inc., American Commercial Lines, Inc., Hights Cross Communication, Knology, Inc., Pliant Corporation, Rural/Metro Corporation, Salton, Inc., SeraCare Life Sciences, Inc., Silicon Graphics, Inc., Terrestar Corporation and Viskase Companies Inc. Prior to forming PIRINATE Consulting Group, LLC, Mr. Davis served as the Chief Operating Officer of Total-Tel USA Communications, Inc.

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(which was a facilities based provider of voice, data and Internet solutions to commercial and wholesale carrier markets); President, Vice Chairman and Director of Emerson Radio Corporation (a consumer electronics distributor); and Vice Chairman of Sport Supply Group, Inc. (a direct-marketer of sporting goods and recreational equipment).

Michael O Hara, 40, Class I

Director Since 2006

President of Consensus Advisors LLC, an investment banking and financial advisory services firm, since February 2006. From September 2003 to February 2006, he was a Managing Director of Financo, Inc., a financial advisory firm. In May 2002, Mr. O Hara was appointed the President of the liquidating bankruptcy estates of Casual Male Corp. (and its affiliates), a specialty retailer. From 2000 to 2002, he served as First Senior Vice President of

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Corporate Affairs and General Counsel for Casual Male Corp, and its predecessor, J. Baker, Inc., a specialty retailer. From April 1996 to January 2000, he served as the head of the real estate and legal departments of Brookstone, Inc., a specialty retailer. Prior to joining Brookstone, Inc. Mr. O Hara practiced corporate law at the law firm Ropes & Gray in Boston.

Steven D. Scheiwe, 47, Class I

Director Since 2007

President of Ontrac Advisors, Inc., which provides analysis and management services to private equity groups, privately held companies and funds managing distressed corporate debt, since May 2001. Mr. Scheiwe also serves as a director of FiberTower Corporation (a wireless carrier), Zemex Minerals Group, Inc. (a leading North American supplier of mica and clay products for industrial use), American Restaurant Group, Inc. (an operator of full service restaurants), and Friedman s Jewelers, Inc., a fine jewelry retailer. Prior to forming Ontrac, he was the Chief Executive Officer and a Director of Teletrac, Inc., a wireless location and telecommunications service provider.

Jeffrey A. Shepard, 58, Class III

Director Since 2005

Mr. Shepard was appointed Chief Executive Officer and President of Footstar on February 7, 2006. He was appointed to Footstar s Board of Directors in January 2005. He formerly served as President and Chief Executive Officer of our Meldisco division from 1996 to February 2006. Mr. Shepard was an executive officer of Footstar at the time it filed for reorganization under Chapter 11 in March 2004.

Alan I. Weinstein, 65, Class I

Director Since 2006

Principal of Alan Weinstein Consultants, a business advisor and provider of retail strategy and consulting services since 2003. Prior to 2003, Mr. Weinstein was Chairman and Chief Executive Officer of Casual Male Corp., and its predecessor, J. Baker, Inc., a specialty retailer. Mr. Weinstein has over 34 years of experience in the retail industry. He is affiliated with AICPA and NYSCPA.

**CORPORATE GOVERNANCE**

**BOARD INDEPENDENCE AND COMPOSITION**

Upon the Company s emergence from bankruptcy, pursuant to the Company s Plan of Reorganization, our current President and Chief Executive Officer, Mr. Shepard (who has served as a Company director since 2005 and, prior to our emergence from bankruptcy, served as President of the Company s Meldisco division) remained a member of the Board. All other current members of the Board, including Adam W. Finerman and Gerald F. Kelly, Jr., who are our Class II nominees, were recommended by: (i) Mr. Couchman, who was on the Equity Committee (the committee appointed by the U.S. Trustee to represent the interests of our stockholders during the bankruptcy proceedings) and who also was designated as Chairman of the Board upon our emergence from bankruptcy, and (ii) Mr. Shepard, our President and Chief Executive Officer. All persons designated to serve as directors were appointed in connection with the approval of the Company s Plan of Reorganization, except for Mr. Scheiwe who was appointed to the Board in March 2007. Messrs. Scheiwe, Mr. O Hara and Mr. Weinstein were approved as our Class I directors by our stockholders at the 2007 Annual Meeting.

The Company is not subject to the listing requirements of any securities exchange or the Nasdaq Stock Market because the Common Stock of the Company is quoted on the over-the-counter bulletin board. However, the Board has



adopted the independence criteria established by the Nasdaq Stock Market ( Nasdaq ) for determining director independence and, for all Audit Committee members, the independence requirements of Nasdaq and the SEC for determining their independence. The Board has determined that of our current Board members each of Messrs. Couchman, Davis, Finerman, Alan Kelly, Gerald Kelly, O Hara, Scheiwe, and Weinstein are independent as defined under the listing requirements of Nasdaq. In making its determinations regarding these directors, the Board assessed all of the information provided by each director in response to inquiries concerning his independence and concerning any business, family, employment, transactional, or other relationship or affiliation of such director with the Company. When considering Mr. Couchman s independence, the Board considered the matter described under Transactions with Related Persons below. Mr. Sywassink was no longer a Board member when the Board made its independence determinations. We did not, and were not specifically required to, determine

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Mr. Sywassink's independence under Nasdaq listing requirements, but we believe he would have qualified as independent under the listing requirements of Nasdaq.

A copy of the Company's Director Independence Standards is available at the Corporate Governance section of the Company's website at [www.footstar.com](http://www.footstar.com).

## **Board and Committee Meetings; Director Attendance Policy**

In fiscal 2007, the Board held seven meetings, the Audit Committee held seven meetings, the Compensation Committee held five meetings, and the Nominating and Governance Committee held one meeting. Each current director attended no fewer than 75% of the total number of meetings of the Board and of the Committees of which he was a member. Our current director attendance policy is that it is the personal responsibility of each Board member to endeavor to attend all annual meetings of stockholders. All of our directors attended the 2007 Annual Meeting of Stockholders.

## **AUDIT COMMITTEE**

Mr. Alan Kelly (Chairperson), Mr. Davis and Mr. Weinstein are the current members of the Audit Committee. The Board currently intends to appoint a new Chairperson to the Audit Committee following the Annual Meeting. The Board has determined that each member of the Audit Committee is independent in accordance with Nasdaq listing requirements (which the Company has adopted as its Independence Standards) and Section 10A-3 of the Securities Exchange Act. The Board also has determined that each member qualifies as an audit committee financial expert in accordance with SEC rules. This designation is an SEC disclosure requirement related to our Audit Committee members' experience and understanding of accounting and auditing matters and is not intended to impose any additional duty, obligation or liability on our Audit Committee members.

The principal functions of the Audit Committee include:

assisting the Board in the oversight of the integrity of the Company's financial statements and its financial reporting processes and systems of internal control;

overseeing the Company's accounting and financial reporting processes and the audits of the Company's financial statements; and

appointing and retaining, compensating and overseeing the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

## **COMPENSATION COMMITTEE**

Mr. O'Hara (Chairperson), Mr. Scheiwe, and Mr. Couchman are the current members of the Compensation Committee. The Board has determined that each member of the Compensation Committee is independent in accordance with Nasdaq listing requirements (which the Company has adopted as its Independence Standards).

### ***The Role of the Compensation Committee***

The Compensation Committee holds regularly scheduled in person meetings each year and additional meetings as appropriate either in person or by telephone. The Compensation Committee has overall responsibility for monitoring, on an on-going basis, the executive compensation policies, plans and programs of the Company.

The Compensation Committee is responsible for reviewing, determining and approving the compensation of all officers of the Company, including the Chief Executive Officer and oversees, administers and determines awards, if any, under the Company's equity based compensation plans. The Compensation Committee also is responsible for establishing the semi-annual performance goals and financial targets for the executive officers of the Company under the semi-annual cash incentive plan and for determining the actual cash incentive award earned during the applicable performance period. The Compensation Committee may form and delegate authority to subcommittees consisting of one or more members.

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***Role of Management***

Generally, the Compensation Committee Chair works with management in establishing the agenda for Compensation Committee meetings. Management prepares and submits information during the course of the year for the consideration of the Compensation Committee, including performance measures and financial target recommendations for the semi-annual cash incentive plan and recommendations for increases in salary and other elements of compensation for the Company's officers. Upon request by the Compensation Committee, management provides the Committee with other data and information regarding the compensation of the Company's executive officers.

***Committee Advisors***

The Compensation Committee charter grants the Committee full authority to engage compensation consultants and other advisors to assist it in the performance of its responsibilities. In the fall of 2006, the Compensation Committee established a relationship with Mercer Human Resource Consulting ( Mercer ), in which Mercer was engaged by and reports directly to the Compensation Committee on any compensation issues the Committee deems appropriate, including the compensation of the Company's executive officers. Mercer was not engaged in fiscal 2007 by the Compensation Committee; however, as discussed in the Compensation Discussion and Analysis below, during fiscal 2006, Mercer helped the Compensation Committee design a market peer group and set appropriate compensation target levels for the three year (2006-2008) compensation program for our Chief Executive Officer and our other executive officers as compared to that group. Mercer also acts as the Plan Actuary for the Company's Supplemental Executive Retirement Plan.

***Director Compensation Process***

A discussion of director compensation is included in the Director Compensation section of this Proxy Statement.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Compensation Committee has ever been an officer or employee of the Company, nor is any member of the Compensation Committee an executive officer of another entity at which one of our executive officers serves on the board of directors.

A description of the reimbursement by the Company to Mr. Couchman of certain of expenses is included under Transactions with Related Persons below.

**NOMINATING AND GOVERNANCE COMMITTEE**

Mr. Couchman (Chairperson), Mr. Finerman and Mr. Gerald F. Kelly, Jr. are the current members of the Nominating and Governance Committee. The Board has determined that each member of the Nominating and Governance Committee is independent in accordance with Nasdaq listing requirements (which the Company has adopted as its Independence Standards).

The principal functions of the Nominating and Governance Committee, as applicable, include:

assisting the Board, as applicable, in fulfilling its responsibilities relating to selecting nominees for election to the Company's Board by identifying, screening, and recommending certain potential director candidates to the Board; and

recommending to the Board individuals to fill any vacancies on the Board and any committee thereof; and  
overseeing the corporate governance practices of the Board.

Footstar's directors play a critical role in guiding the Company's business strategy and in overseeing the management of the Company. In identifying acceptable potential director candidates, the Nominating and Governance Committee will consider and evaluate director nominees submitted by stockholders, incumbent directors or management and any other source the Committee deems appropriate, including nominees identified by

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any independent search firm that the Committee may from time to time directly retain for such purposes. The Committee will base their initial evaluation of such candidates on the materials submitted by or on behalf of the proposed candidate, the knowledge of the Committee's members, publicly available information and, if the Committee deems it appropriate, information obtained through inquiries to third parties (including the Committee's search firm, if any, other members of the Board and Company management).

At a minimum, all candidates considered by the Committee must have the background, knowledge, experience, skill sets and expertise that would be useful to the oversight of the Company's business and that would strengthen the Board. The Committee also will consider the extent to which a candidate's qualifications, characteristics, skills and experience complement that of other Board members in order to build a Board that is effective, collegial and responsive to the needs of the stockholders.

In March 2007, the Nominating and Governance Committee adopted a process by which stockholder may recommend director candidates to the Company's Board. Stockholders wishing to submit a director candidate for consideration and evaluation by the Nominating and Governance Committee should submit, in writing, the same information concerning the director candidate and the recommending stockholder as described in Article II, Section 10(a)(ii) of the Company's bylaws for stockholder nominations for director and any additional information about the candidate's qualifications that the submitting stockholder believes would be relevant to the Committee's evaluation. The communication should be sent to Footstar, Inc., Chair of the Nominating and Governance Committee, c/o Corporate Secretary, 933 MacArthur Boulevard, Mahwah, NJ 07430. The candidate must meet the selection criteria set forth in the Nominating and Governance Committee Charter and must be willing and expressly interested in serving on the Board. The Committee may also request additional background or other information.

## **COMMITTEE CHARTERS**

The Audit Committee, Compensation Committee, and Nominating and Governance Committee each operate pursuant to a written charter. Each Committee intends to review its charter on an annual basis. In March and April 2008, each of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee reviewed its charter. A current copy of each of the Audit Committee, Compensation Committee and Nominating and Governance Committee charters is available at the Corporate Governance section of the Company's website at [www.footstar.com](http://www.footstar.com).

## **CORPORATE GOVERNANCE GUIDELINES**

On the recommendation of the Corporate Governance and Nominating Committee, the Board adopted Footstar's Corporate Governance Guidelines. These Guidelines supplement the governance provisions in the Company's bylaws and are available at the Corporate Governance section of the Company's website at [www.footstar.com](http://www.footstar.com).

## **CODE OF BUSINESS CONDUCT AND ETHICS**

The Company has adopted a code of business conduct and ethics which applies to the Company's chief executive officer, principal financial officer, principal accounting officer, and to all other directors, officers and employees. The code of business conduct and ethics is available at the Corporate Governance section of the Company's website at [www.footstar.com](http://www.footstar.com), under Code of Conduct and Compliance Program. A waiver from any provision of the code of business conduct and ethics in favor of a director or executive officer may only be granted by the Board of Directors and any such waiver will be publicly disclosed. The Company will disclose substantive amendments to and any waivers from the code of business conduct and ethics provided to the principal executive officer, principal financial officer or principal accounting officer or controller (or persons performing similar functions) on the Company's website at [www.footstar.com](http://www.footstar.com).

**STOCKHOLDER COMMUNICATIONS PROCESS**

Stockholders and other parties interested in communicating directly with the non-management directors as a group, the Board or the Chairs of our Audit, Compensation and Nominating and Governance Committees, concerning Board, Committee or Company-related issues may do so by writing to the non-management directors as a group, the Board or the Committee Chair c/o Corporate Secretary at Footstar, Inc., 933 MacArthur Boulevard, Mahwah, NJ 07430.

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The Nominating and Governance Committee has approved a process for handling communications received by the Company and addressed to the non-management directors as a group, the Board, or Committee Chairs. Under that process, the Corporate Secretary of the Company will forward communications to the director or directors as indicated, except for the following types of communications:

- Communications that advocate the Company's engaging in illegal activities;
- Communications that, under community standards, contain offensive, scurrilous or abusive content;
- Communications that have no rational relevance to the business or operations of the Company; and
- Mass mailings, solicitations and advertisements.

If a communication is determined to fall within one of these categories and is not delivered to the director or directors, the communication will be made available to any director to whom it was directed and who wishes to review it.

## **TRANSACTIONS WITH RELATED PERSONS**

### ***Transactions with Related Persons***

Since our emergence from bankruptcy in 2006, the Board of Directors, from time to time, has evaluated a number of possible alternatives to enhance stockholder value, including acquisition opportunities, changes in the terms of our principal contracts, the payment of one or more dividends, and the sale of our assets or stock. One of the possible alternatives explored by the Company included a possible acquisition of the stock of the Company by an entity established and controlled by Mr. Couchman, who is the Chairman of our Board, a Compensation Committee member, and the Chairperson of the Nominating and Governance Committee. In connection with this possible alternative, the independent disinterested directors agreed to reimburse approximately \$160,000 of legal and banking expenses incurred by this entity. Ultimately a determination was made not to proceed with a potential transaction. The Board was aware of and considered the foregoing in determining that Mr. Couchman is an independent director.

### ***Company Policy and Procedure***

Except for the transaction described directly above, the Board has determined the absence of any related person transaction since the beginning of 2007 involving any director, director nominee or executive officer of the Company, any known 5% stockholder of the Company or any immediate family member of any of the foregoing persons (together related persons). A related person transaction generally means a transaction in which the Company was, is, or will be a participant and the amount involved exceeds \$120,000 (determined without regard to the amount of profit or loss involved in the transaction) and in which a related person has a direct or indirect material interest (as determined under SEC rules related to related person transactions).

On March 26, 2007, the Board of Directors adopted a written policy for the review and the approval or ratification of any related person transaction, which applies to any potential related person transactions which may be proposed after the adoption date of the policy. The policy applies to the related person transactions described above. Under the policy, a related person transaction requires the approval or ratification of the Audit Committee (or by the Chair of the Audit Committee in those situations in which the legal department, in consultation with the Chief Executive Officer or the Chief Financial Officer, determines that it is not practicable or desirable for the Company to wait until the next Audit Committee meeting for approval or ratification). Prior to approving or ratifying any transaction, the Audit Committee (or, if applicable, the Chair of the Audit Committee) must determine that the transaction is entered into in good faith on fair and reasonable terms to the Company after considering the relevant facts and circumstances,



including to the extent applicable, the related person's relationship to the Company, their interest in the transaction, and the material facts and terms of the transaction. No related person is to participate in the review of a transaction in which he or she may have an interest.

No transactions were required to have been reviewed and considered under this policy since its adoption, including the transaction involving Mr. Couchman described under Transactions with Related Persons above, because the policy was not in place at the time of the transaction. The reimbursement of expenses involving Mr. Couchman described above, however, was reviewed and approved by the independent disinterested directors.

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**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION & ANALYSIS**

***Our Business***

The family footwear business, where the majority of our business is generated, is highly competitive. The Company has operated licensed footwear departments in discount chains since 1961, and is the only major operator of licensed footwear departments in the United States today. We offer a wide range of quality, value-priced footwear. The Company's traditional strength has been in quality leather footwear which it currently offers under the Thom McAn brand, as well as seasonal, work, value-priced athletic, women's casual and children's shoes.

We sell family footwear through licensed footwear departments and wholesale arrangements. The licensed footwear operation sells family footwear and lower-priced basic and seasonal footwear in Kmart Corporation ( Kmart ) and Rite Aid Corporation ( Rite Aid ) stores. In our licensed footwear departments, we generally sell a wide variety of family footwear, including men's, women's and children's dress, casual and athletic footwear, work shoes and slippers. As of December 29, 2007, we operated licensed footwear departments in 1,388 Kmart stores, as well as in 859 Rite Aid stores located on the West Coast. The Company also supplies certain retail stores, including stores operated by Wal-Mart Stores, Inc. and Rite Aid, with family footwear on a wholesale basis.

***Background Our Emergence from Bankruptcy and Our Agreements with Kmart and Sears***

In March 2004, the Company filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. During the bankruptcy proceeding, we continued to operate our business and manage our properties. On February 7, 2006, the Company's Plan of Reorganization became effective and we emerged from bankruptcy.

While the Company was in bankruptcy, the Company and Kmart entered into an agreement, which amended the original master agreement that governed our arrangement with Kmart. This amended agreement, which we call the Kmart Agreement, took effect beginning January 2, 2005 and allows us to continue operating the footwear departments in Kmart stores, but also permits termination of the agreement if the Company fails to meet minimum sales tests, staffing obligations or other provisions of the agreement. The Kmart Agreement is scheduled to expire on December 31, 2008. The licensed footwear departments in Kmart comprise substantially all of our sales and the Company currently anticipates winding down its business at the end of 2008 when the Kmart Agreement expires.

In connection with this anticipated wind-down, in April 2008, the Company entered into an Intellectual Property Purchase Agreement (the IP Purchase Agreement ) with Sears Holdings Corporation ( Sears ) and Sears Brands LLC, a subsidiary of Sears, and a Master Agreement Amendment (the Master Agreement Amendment ) with Kmart, certain affiliates of Kmart, and Sears, which amends the Kmart Agreement. Under the terms of the IP Purchase Agreement, the Company sold to Sears Brands LLC substantially all of the Company's intellectual property, including the intellectual property related to the Company's Kmart business. Under the IP Purchase Agreement, Sears Brands LLC granted the Company a royalty-free exclusive license to use the intellectual property to operate the Company's Kmart business until the Kmart Agreement is terminated and a royalty-free, non-exclusive license for a short period following the termination of the amended Kmart Agreement to sell off any remaining inventory. Pursuant to the terms of the Master Agreement Amendment, Kmart agreed to offer employment (effective at December 31, 2008 in most cases) to substantially all of the Company's store managers and district manager level employees. The Master Agreement Amendment also amends the provisions of the Kmart Agreement concerning Kmart's purchase of the inventory associated with the Kmart business at the termination of the Master Agreement.

***Overview and Objectives of the Three Year (2006-2008) Compensation Program***

***Footstar's Executive Retention Challenges.*** Our success is dependent upon our ability to retain qualified and talented individuals. As a consequence of the uncertain future of the Company upon the expiration of the Kmart Agreement, we face an acute risk of being unable to retain qualified senior management such as the executives named in the Summary Compensation Table below, whom we refer to as our named executive officers. We designed our compensation programs to address this risk.

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Prior to our emergence from bankruptcy, the Company retained Mercer Human Resource Consulting ( Mercer ) to develop a compensation program which would motivate and retain management and key associates through the end of the Kmart Agreement. The proposed compensation program targeted Total Direct Compensation, which means base salary plus annual incentive awards plus retention payments (which we equate with equity awards for peer comparisons), at the 50th percentile of a peer group developed by Mercer. This peer group data provided the basis for the development of the compensation program, which has been integrated into our officer s employment agreements. The companies that comprised this peer group were:

Genesco Inc.	Chico s FAS, Inc.
Wolverine World Wide, Inc.	Guess?, Inc.
Too, Inc.	Hot Topic, Inc.
Gymboree Corporation	Shoe Carnival Inc.
Hartmarx Corporation	Stride Rite Corporation
Kenneth Cole Productions, Inc.	

The compensation program was approved by the Compensation Committee as it was constituted prior to our emergence from bankruptcy. The Board (as it was constituted prior to our emergence from bankruptcy) then agreed upon the final compensation program with the Equity Committee, which was a committee appointed by the U.S. Trustee to represent our stockholders interests in the bankruptcy proceedings. The total program was then approved by the bankruptcy court. The final program, which was at somewhat less than the 50th percentile of the peer group for Total Direct Compensation, reflected compromises both in terms of program design and in the total amount of compensation delivered.

The program was comprised of a greater mix of cash and cash incentives and less equity than those of the peer group because of the unique situation facing the Company upon emergence from bankruptcy and the pending expiration of the Kmart Agreement. The Board also believed that by tying compensation to cash flow, there would be a more direct link to the value created for our stockholders over the remaining term of the Kmart Agreement. For this reason, awards under our semi-annual performance-based incentive program are linked to increases in adjusted EBITDA, as described in more detail under Performance-Based Incentive Compensation below.

In connection with our emergence from bankruptcy on February 7, 2006, the bankruptcy court approved this three-year compensation program (our compensation program ), which is intended to extend through the termination of our agreement with Kmart.

The components of this compensation program as it pertains to each active officer, including each of our named executive officers, are contained in employment agreements that were approved by the bankruptcy court. These employment agreements set minimum levels of compensation for each officer for the 2006 through 2008 period. Upward adjustments to this program, the setting of specific incentive target and payout levels for the incentive plan, and the general administration of these agreements are among the responsibilities of the current Compensation Committee.

**Compensation Program Objectives.** Footstar s compensation and benefit objectives are driven by our business environment and the unique challenges to executive recruitment and retention described above. The objectives of our compensation program are to:

- reward behavior that drives operating cash flow and maximizes the value of our stockholders investment in Footstar;

link a significant portion of earned compensation to performance measures that the Compensation Committee believes most correspond to increases in stockholder value;

retain and motivate our executives and other key associates who possess the knowledge and experience most important to the achievement of Footstar's financial goals; and

maintain organizational stability and retain management through the expiration of the Kmart Agreement.

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***Compensation Committee***

In connection with the Company's emergence from bankruptcy, Mr. Shepard and Mr. Couchman (who was on the Equity Committee and who is now Chairman of our Board, the Chairperson of our Nominating and Governance Committee, and a member of our Compensation Committee) worked together to select the persons who became our directors upon our emergence from bankruptcy (with the exception of Mr. Shepard, who has been a Company director since 2005 and Mr. Scheiwe, who was appointed by the Board in 2007). Our current Compensation Committee is comprised of Messrs. Couchman, O'Hara and Scheiwe. The Compensation Committee assumed responsibility for establishing the policies that govern the implementation, administration and interpretation of all aspects of our compensation program, including for each of our named executive officers.

***Peer Group Benchmarking***

In the fall of 2006, the Compensation Committee retained Mercer to conduct a study of the compensation practices of the group of peer companies listed below. Mercer examined the compensation practices of 19 retail companies that range in size from approximately one-half to approximately twice our annual revenues, which Mercer determined to be an appropriate size range for comparison purposes. We call this group our market peer group. The market peer group included:

Genesco Inc.	DSW Inc.
Wolverine World Wide, Inc.	Skechers USA, Inc.
The Dress Barn, Inc.	Finlay Enterprises, Inc.
Gymboree Corporation	Hot Topic, Inc.
Hartmarx Corporation	Shoe Carnival Inc.
Bombay Company Inc.	Stride Rite Corporation
Wilson's The Leather Experts Inc.	K-Swiss Inc.
The Wet Seal, Inc.	United Retail Group, Inc.
Kenneth Cole Productions, Inc.	Steven Madden, Ltd.
Tweeter Home Entertainment Group, Inc.	

Also, due to the pending expiration of the Kmart Agreement, compensation practices at five distressed companies were considered as part of the market peer group (The Wet Seal, Inc.; Bombay Company Inc.; Wilson's The Leather Experts Inc.; Finlay Enterprises Inc.; and Tweeter Home Entertainment Group, Inc.).

The market peer group selected by the Compensation Committee, in conjunction with Mercer, is intended to reflect companies in similar industries with whom the Company competes for executive talent. Based on the review of the benchmarking data provided by Mercer, the Compensation Committee believes that the executives at these companies share the same general scope of management responsibilities and, in the case of the distressed companies, are subject to similar challenges facing our executive officers.

The Compensation Committee determined not to retain an outside compensation consultant to advise the Committee on matters related to executive compensation for 2007 or 2008. As a result of our dependence on the Kmart business and the scheduled December 2008 expiration of that relationship, the Compensation Committee believes that the target compensation levels and compensation structure developed in the fall of 2006 generally will be sufficient to retain the Company's executive officers, including our named executive officers, through the currently scheduled termination of the Kmart Agreement. However, the Compensation Committee retains its discretion to increase compensation for one or more of our named executive officers based upon individual performance, position, changes

in responsibility, Company profitability or any other factors that it deems appropriate. For example, as discussed below, in the fall of 2006, the Compensation Committee approved increases in certain elements of compensation for our Chief Financial Officer to reflect his new responsibilities.

In making its fall 2006 determinations regarding executive compensation for the remaining terms of the Kmart Agreement, the Compensation Committee considered the results of its analysis of the compensation practices within the market peer group, as well as the unique challenges and uncertainties facing the Company over the remaining term of the Kmart Agreement. The Compensation Committee identified our Chief Executive Officer as the highest level executive position and established base salary and an annual incentive target for this position

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(within the targeted positioning levels described directly below), which is intended to recognize this higher level of responsibility.

During the fall of 2006, the Compensation Committee determined to target Total Cash Compensation, which means base salary plus target performance incentive awards, at the 75th percentile of the market peer group. As established in 2006, Total Cash Compensation of each of our named executive officers in no case exceeded the 75th percentile of our market peer group. The Compensation Committee also determined in the fall of 2006 to target Total Direct Compensation, which means base salary plus annual incentive awards plus retention awards (which we equate with equity awards for peer comparisons), at the 50th percentile of the market peer group. As established in 2006, Total Direct Compensation of each of our named executive officers in no case exceeded the 50th percentile of our market peer group.

This positioning reflects the Compensation Committee's determination, based upon the advice provided by Mercer in late 2006, that a greater reliance on cash, cash performance incentives and cash retention payments than the market peer group was appropriate given the Company's dual objectives of:

maintaining and increasing stockholder value in the short-term, which is directly impacted by cash flow generation during the remaining term of our Kmart Agreement, and

retaining key employees during the remaining term of our Kmart Agreement.

These dual objectives continue to reflect the overarching goals of our executive compensation program during 2007 and 2008 and the Compensation Committee continues to believe that the positioning established in the fall of 2006 is appropriate. As a result, except as otherwise noted below, the Compensation Committee did not materially increase compensation levels for 2007 or 2008 for our named executive officers.

***Structure and Elements of Executive Compensation***

***Employment Agreements.***

As discussed above, each of our current executive officers has an employment agreement, which establishes base compensation levels for each major component of our compensation program. These agreements are intended to help to retain our executive officers by providing them with an increased level of certainty with respect to compensation arrangements. We considered these agreements to be essential to the stability of our business as we prepared to exit from bankruptcy and continue operations through the remaining term of the Kmart Agreement.

Details regarding the material provisions of the agreements are described under the heading "Employment Agreements or Arrangements" following the Summary Compensation Table below. All of the agreements contain restrictive covenants, including non-competition provisions which, among other things, restrict our executive officers from obtaining employment with a list of our key competitors, including Kmart and Sears, Roebuck and Co. The non-compete provisions recognize that the loss of our key executives to these competitors could potentially negatively impact Footstar's business.

For each named executive officer, our compensation program consists of all or some of the following elements:

Base salary;

Performance-based incentive compensation;



Semi-annual retention payments;

Severance payments (comprised of cash payments and/or vesting of restricted stock);

Supplemental Executive Retirement Plan benefits ( SERP );

Benefits; and

Perquisites.

As noted above, although the Compensation Committee retains the authority to exercise its discretion to increase any element of compensation for one or more executive officers, the Committee believes that the target

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compensation levels and compensation structure developed in late 2006 generally will be sufficient to retain the Company's executive officers, including our named executive officers, through the currently scheduled termination of the Kmart Agreement. Our Chief Executive Officer was directly involved in making recommendations to the Compensation Committee concerning increases in base salary and other elements of compensation for key management, including our named executive officers, when the Compensation Committee reviewed the general compensation structure in late 2006. The Compensation Committee intends to continue to consider our Chief Executive Officer's recommendations prior to its approval of compensation for our executive officers (other than his own compensation). Our Chief Executive Officer's performance also is reviewed by the Compensation Committee, which recommends any salary increases subject to the review of the Board of Directors. Our Chief Executive Officer does not participate in making compensation decisions or setting performance goals for his own compensation.

***Base Salary.***

When established in the fall of 2006, base salaries for our named executive officers ranged from approximately the 55th to the 75th percentile of the market peer group. The base salary of each of our named executive officers in no case exceeded the 75th percentile of our market peer group.

The Compensation Committee believes that aligning Total Cash Compensation, of which base salary is a key component, is crucial to remaining competitive and retaining our core executive team. Base salary levels directly impact awards under our semi-annual incentive compensation program, which are expressed in part as a percentage of each executive's base salary. The Compensation Committee reviews base salaries at least annually and, utilizing the benchmarking data provided by the Committee's compensation consultant in 2006, considers increases based on individual performance, position, increases in responsibility, and Company profitability.

The Compensation Committee last approved base salary increases, ranging from 3% to 4% of base salary, for all named executive officers in 2006. In the fall of 2006, the Committee approved an increase in base salary for Mr. Lynch to reflect his new responsibilities as Chief Financial Officer. In the spring of 2007 and 2008, taking into consideration management's recommendation, the Compensation Committee did not approve any base salary adjustments for our executive officers. This decision reflected the Committee's desire to tie increases in compensation for 2007 and 2008 to the achievement of higher levels of performance under our semi-annual incentive plan, which aligns increases in compensation to our executive officers with increases in stockholder value.

***Performance-Based Incentive Compensation.***

Under our performance-based incentive plan, our named executive officers are eligible to earn semi-annual cash incentive awards based on the Company's performance against pre-established financial objectives approved by the Compensation Committee.

Company management, including our Chief Executive Officer, submits recommendations on proposed performance metrics for the applicable performance period to the Compensation Committee, which are subject to adjustment and approval by the Committee.

The incentive awards for 2007 were based on adjusted EBITDA, as described below. The Compensation Committee believes this financial measure approximates operating cash flow. We believe this financial measure focuses our executives on achieving critical short-term cash flow objectives, which in turn results in increased value to our stockholders. The Compensation Committee determined to continue to base incentive awards on adjusted EBITDA for the spring 2008 performance cycle, as described below under Adjusted EBITDA for the Spring 2008 Performance Cycle. The incentive plan also is designed to encourage management and other key associates to retain employment with the Company through the remaining term of the Kmart Agreement by shortening the period between the

beginning of an incentive performance period and actual earned incentive awards. If an executive officer voluntarily terminates employment with the Company (other than in the case of constructive termination), he or she will forfeit the right to receive the next semi-annual cash incentive award under the performance-based incentive plan.

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***Adjusted EBITDA as a Performance Measure.*** For 2007, we used earnings before interest, taxes, depreciation & amortization (sometimes referred to as EBITDA), after certain adjustments, as our performance target to determine the size of the semi-annual incentive awards. Actual EBITDA results are adjusted:

Downward, if the seasonal final aged inventory exceeds 7% of total inventory as indicated on our financial statements. The aged inventory adjustment is designed as an incentive to keep inventory as current as possible in order to maintain the value of our inventory, which is one of our principal assets.

Upward or downward, in the event that store closing levels are above or below previously estimated planned closings. This insures that our executives are neither advantaged nor disadvantaged by Kmart's decisions to close more or fewer stores than planned at the beginning of the performance period.

Upward or downward, if unexpected bankruptcy related charges or professional fees are above or below planned levels.

All adjustments are made pursuant to formulas approved by the Compensation Committee.

We believe these stated adjustments help achieve the performance objectives that the plan is designed to encourage.

***Incentive Opportunities at Target EBITDA.*** Incentive opportunities under our performance-based incentive plan are based on the particular adjusted EBITDA targets established by the Compensation Committee. If adjusted EBITDA equals or exceeds established levels, incentive awards are determined based directly on a designated percentage of base salary for each named executive officer. In the fall of 2006, the Compensation Committee established the actual designated percentages of base salary for each named executive officer at levels intended to ensure competitiveness with the market peer group.

The Compensation Committee may increase an incentive percentage above the percentage originally included in that executive's employment agreement if it deems such increase appropriate. In the fall of 2006, the Compensation Committee determined to increase Mr. Lynch's incentive opportunity by five percentage points (effective January 1, 2007) in order to reflect his new increased responsibilities as Chief Financial Officer for the Company. Following the Compensation Committee's review of executive compensation in both 2007 and 2008, the Committee determined not to increase any other named executive officer's incentive percentage during 2007 or in 2008 based on the Committee's continued belief that the target levels established in 2006 were sufficiently competitive with the market peer group. For 2007, the annual incentive award opportunities, expressed as a percentage of base salary, for our participating named executive officers, were as follows:

Mr. Shepard 100%;

Mr. Lynch 50%;

Mr. Lenich 50%;

Ms. Richards 50%; and

Mr. Proffitt 45%;

***Seasonal EBITDA Targets and Payout.*** Our incentive EBITDA targets are set seasonally, rather than annually. The spring season is January through June and the fall season is July through December. Incentive award payouts are determined by actual adjusted EBITDA results compared against the targets pre-established by the Compensation

Committee for each season. Payouts are determined based on where actual adjusted EBITDA results fall in comparison to Threshold, Target, and Maximum performance.

The incentive award paid out for each season is equal to the percentage indicated above multiplied by one-half of the named executive officer's annual base salary (because each season is one-half of a year) and then multiplying the product by the following scale:

Maximum: 200% payout;

Target: 100% payout (when the plan is achieved); and

Threshold: 50% payout.

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Threshold performance is required to earn the minimum award available. Performance that falls between Threshold and Target or between Target and Maximum are determined on a straight-line basis to the nearest whole percentage point.

Our independent auditors review the actual calculation of payouts and those results are presented to the Compensation Committee for approval.

***2007 Targets and Payouts.*** Target adjusted EBITDA performance established for 2007 was a planned amount, which corresponded to the financial plan approved by the Board for fiscal 2007. Actual adjustments to EBITDA in both the spring and the fall season included downward adjustments for store closings, since fewer stores were closed than planned, as well as downward adjustments for bankruptcy related fees and claims, which were less than planned.

For the spring 2007 season, Target adjusted EBITDA performance was \$23,700,000, Maximum adjusted EBITDA performance was \$32,000,000, and Threshold adjusted EBITDA performance was \$17,780,000. Actual adjusted EBITDA performance for the spring 2007 season was \$26,087,000, which resulted in a 129% payout. For the fall 2007 season, Target adjusted EBITDA performance was \$29,100,000, Maximum adjusted EBITDA performance was \$39,290,000 and Threshold adjusted EBITDA performance was \$21,830,000. Actual adjusted EBITDA performance was \$35,578,000, which resulted in a 163% payout.

Incentive awards made to each of the named executive officers for the year ended December 29, 2007 are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below. The range of possible payouts which were available for fiscal 2007 under the incentive plan is reflected under the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns of the Fiscal Year 2007 Grants of Plan Based Awards Table below.

***Adjusted EBITDA for the Spring 2008 Performance Cycle.*** As noted above, EBITDA will continue to be utilized as the applicable performance metric for the spring 2008 performance cycle of our incentive plan. For the spring 2008 cycle, the calculation of adjusted EBITDA will continue to exclude the impact of store closing levels that are above or below previously estimated planned closings, as well as unexpected bankruptcy related charges and any professional fees that are above or below planned levels. In accordance with the Compensation Committee's determinations, adjusted EBITDA for the spring 2008 cycle will also exclude the financial impact of certain events associated with the currently anticipated wind down of the Company's business upon the scheduled termination of the Kmart Agreement at the end of December 2008. The Compensation Committee believes that these adjustments to EBITDA are more likely to result in an incentive award based upon the target adjusted EBITDA performance levels that correspond to the financial plan for 2008, rather than on unique financial occurrences related to the currently anticipated wind down of our business. As a result, adjusted EBITDA for the spring 2008 cycle will exclude certain events directly related to the Company's preparations to wind down its business including, gains or losses on sales of the Company's assets, any gains from the termination of the Company's retiree medical plan and severance-related charges for planned staff reductions in 2008. In addition, the Compensation Committee has determined that EBITDA will be adjusted downward if aged inventory exceeds 5% of total inventory at the end of December 2008 and will exclude any financial gains or losses recognized as a result of any change to the normal method of calculating aged inventory reserves. These modifications are intended to provide additional incentive to our executive officers to maximize stockholder value upon the expiration of the Kmart Agreement, as Kmart has agreed to purchase the inventory in our Kmart footwear departments, excluding, at our option, aged inventory, upon expiration of that agreement.

***Retention Program.***

In order to foster the Company's objective of retaining its key executives throughout the critical three-year period preceding the termination of the Kmart Agreement, the compensation program combines semi-annual retention payments with severance protection. The severance element of the program consists of lump sum cash payments and, for certain executives, restricted stock that vests upon the occurrence of certain termination events. Each of our named executive officers is entitled to receive retention payments and severance protection, which together we call our retention program. The amount to be paid to each named executive officer under each

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component of the retention program is reflected in his or her employment agreement and was approved by the bankruptcy court.

We established the retention program to provide short-term financial incentives to our key executives, including our named executive officers, while also providing the executives with a sense of greater financial security given their heightened exposure to possible termination upon the expiration of our agreement with Kmart. The cost of the retention program is intended to be essentially equivalent to the change in control severance plan it replaced (see discussion under *Severance Payments* below). Each individual component of the retention program is explained below.

***Retention Payments.*** As part of our retention program, our named executive officers receive a semi-annual retention payment in cash in July and December of each year from 2006 through 2008. As a result of the negotiations with the Equity Committee during our bankruptcy proceedings and as approved as part of our Plan of Reorganization, the amount of the retention payment for each named executive officer was the same amount as the retention payment approved by the bankruptcy court for payment during 2005. However, any retention payments actually made to our named executive officers will be deducted from any lump sum cash severance payment received by the executive upon the occurrence of certain employment termination events, as further discussed below. The Compensation Committee increased the annual retention plan payments for 2007 and 2008 for Mr. Lynch from \$87,745 to \$100,000 in order to reflect his new increased responsibilities as Chief Financial Officer.

Retention payments are made according to this schedule as long as the named executive officer remains employed through each payment date. However, as mentioned above, upon the occurrence of certain employment termination events, our named executive officers would, in effect, receive a lump sum payment of any unpaid retention payments due in 2007 and 2008 at the time of termination as part of their lump sum cash severance payment. The payments were designed to mitigate the effects of the uncertainties facing Footstar by providing incentives for certain key associates, including our named executive officers, to remain employed with the Company through the expiration of the Kmart Agreement. A description of the triggering events that would cause the Company to pay our named executive officers this amount is included under the heading *Potential Payments Upon Termination or Change in Control* below.

Retention payments made to our named executive officers in 2007 are reflected in the *Bonus* column of the Summary Compensation Table below.

***Severance Payments.*** As part of our retention program, our named executive officers are entitled to receive a lump sum cash severance payment, and in the case of the named executive officers who also participate in our Supplemental Retirement Plan (SERP), the release of restrictions on shares of restricted Common Stock granted at the time of our bankruptcy emergence, upon the occurrence of certain employment termination events. Restricted stock was granted in lieu of a portion of the lump sum cash severance payment due upon the occurrence of certain employment termination events. We believed that it was important to offer these competitive levels of severance protection in order to retain our key executives by providing them with a sense of financial security in light of the uncertainties facing the Company.

As described below, the lump sum cash severance payment levels and the number of restricted shares granted as part of the retention program were established using a formula based upon a number of factors negotiated with the Equity Committee and approved as part of the Plan of Reorganization.

Prior to filing for bankruptcy, Mr. Shepard, Mr. Lenich, Ms. Richards and Mr. Proffitt were each parties to individual employment or change in control agreements with the Company, which provided severance benefits of two times base salary plus target bonus in the event of an involuntary termination following a change in control.



In May 2004, the bankruptcy court approved fixed dollar basic severance benefits ( Basic Severance ) equivalent to 18 months of base salary plus target bonus for Mr. Shepard and Ms. Richards, 12 months base salary and target bonus for Mr. Lenich and Mr. Proffitt and 6 months base salary and target bonus for Mr. Lynch.

In December 2004, the bankruptcy court ordered that the severance due upon an involuntary termination following a change in control ( Change in Control Severance ) be set at two years base salary plus target bonus for Mr. Shepard and eighteen months base salary plus target bonus for the other named executive officers.

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As a result of negotiations with the Equity Committee, and as approved in our Plan of Reorganization, it was agreed that the lump sum severance amount that an executive officer would be entitled to receive under our retention program upon the occurrence of certain termination events would be the value of the Change in Control Severance approved by the bankruptcy court in December 2004 minus the value of all semi-annual retention payments that had been previously made to the executive officer in 2006 through 2008, as described above.

In addition, each SERP participant agreed to receive a portion of this severance payment in the form of restricted stock. The amount of severance converted to restricted stock for each of the four executives was the difference between the amount of the Change in Control Severance approved by the bankruptcy court in December 2004 and the value of their Basic Severance approved by the bankruptcy court in May 2004. The number of restricted shares issued was determined by dividing this difference by \$5.00, as agreed upon with the Equity Committee.

The amount of severance due, including restricted stock, was set at a fixed amount for each executive officer in their employment agreement.

Accordingly, effective upon the Company's emergence from bankruptcy on February 7, 2006, Mr. Shepard, Mr. Lenich, Mr. Proffitt and Ms. Richards were granted an award of restricted Common Stock, which comprises part of their severance payment. Each of these named executive officers has all of the rights of a stockholder of the Company with respect to the restricted Common Stock, including the right to vote the stock and receive dividends. As a result, each of these named executive officers was entitled to receive the \$5.00 per share cash distribution declared by our Board in March 2007 to be paid on an equal basis on April 30, 2007 to all stockholders of record as of the close of business on April 13, 2007. The value of the cash distribution to each named executive officer that was granted an award of restricted Common Stock is included under the "All Other Compensation" column of the Summary Compensation Table below.

The restrictions on the stock will only lapse upon the occurrence of certain employment termination triggering events. A description of the triggering events which would entitle our named executive officers to severance payments is included under the heading "Potential Payments Upon Termination or Change in Control" below.

### ***Supplemental Executive Retirement Plan.***

Our SERP was instituted in 1996 and was originally designed to offer key senior executives a competitive level of retirement income. We also intended the SERP to act as additional incentive to these executives to continue their employment with the Company, thereby assuring orderly management succession. Eligibility for participation in the SERP was limited to executives designated by our Compensation Committee.

While the Company was in bankruptcy, the bankruptcy court authorized the Company to continue to honor its obligations under the SERP, subject to certain modifications. No new participants were to be added to the SERP. Of our named executive officers, Mr. Shepard, Mr. Lenich, Mr. Proffitt and Ms. Richards were participants in the SERP when the plan was closed to new participants. Under the court-ordered modification, future benefit calculations were to reflect the current salary levels, but annual incentive award levels for benefit calculation purposes were capped at 2004 levels (i.e., 65%, 50%, 45% and 50% for Mr. Shepard, Mr. Lenich, Mr. Proffitt and Ms. Richards, respectively). In connection with the Company's emergence from bankruptcy, it was further ordered by the bankruptcy court that no participant could receive "normal retirement benefits" under the SERP until the expiration or earlier termination of the Kmart Agreement. This means that even if a named executive officer reaches age 60 and has ten years of credited service with the Company (which is the "normal retirement" condition under the SERP) his or her right to begin receiving his or her SERP benefits is suspended until our agreement with Kmart terminates. Participating named executive officers who have reached the age of 55 (but have not reached "normal" retirement age) and who have at least ten years of credited service with the Company, however, may be entitled to receive a lump sum cash payment of their

accrued SERP benefit if the Compensation Committee approves that person's early retirement. Of our named executive officers, only Mr. Shepard could currently be eligible for approved early retirement, if he receives approval from our Compensation Committee.

Named executive officers who participate in the SERP are entitled to a lump sum cash payment of their accrued SERP benefit upon the occurrence of certain termination triggering events. The manner of calculating this lump

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sum payment is described under Supplemental Executive Retirement Plan following the Pension Benefits Table below and a description of the triggering events which would cause the Company to pay participating named executive officer's this amount are described under the heading Potential Payments Upon Termination or Change in Control below.

### ***Benefits.***

We provide the opportunity for all full-time associates, including our executive officers, to participate in medical, dental, disability, basic, supplemental, and dependent life insurance, business travel accident insurance, and our 401(k) Profit Sharing Plan. Our 401(k) Profit Sharing Plan includes a profit sharing component under which the Company provides an additional match of between .50% to 2.00% of eligible compensation to all participating full-time associates upon the achievement certain pre-established EBITDA goals. For 2007, the profit sharing allocation was 1.46% of eligible compensation. We also provide short-term and long-term disability coverage, vacation and other paid holidays to eligible associates, including the named executive officers. These benefit programs are designed to provide certain basic quality of life benefits and financial protection to Footstar associates and their eligible dependents. We believe these benefits are both reasonable and generally comparable to benefits offered at other similar-sized retail organizations.

Footstar's retiree medical plan, which was frozen to new participants in 1992, was terminated by the Board in April 2008 (effective June 2008) in connection with the anticipated wind-down of our current footwear business following the termination of the Kmart Agreement by no later than December 31, 2008. Mr. Proffitt was the only named executive officer that would have been entitled to benefits under the retiree medical plan, but for its termination.

### ***Perquisites.***

We do not provide significant perquisites or personal benefits to our executives. The perquisites we do provide include: excess long-term disability benefits, financial planning services (including tax preparation), and executive physicals. We also provide a tax gross-up to reimburse our executives for any additional tax liability incurred by reason of either excess disability benefits or financial planning services.

The cost of the perquisites for our named executive officers is included in the All Other Compensation column of the Summary Compensation Table below.

### ***Key Employee Retention Plan Payments in Fiscal 2006***

Early in our bankruptcy proceeding, we identified key employees who we believed were critical to the preservation of the value of the Company. In May 2004, the bankruptcy court approved a Key Employee Retention Plan ( KERP ), which was designed to encourage key employees to remain employed by us throughout the reorganization process. Under the terms of his or her employment agreement, each of our named executive officers was entitled to receive any outstanding KERP payments following our emergence from bankruptcy. KERP payments were made in 2006 upon the Company's emergence from bankruptcy and are included as compensation under the Bonus column of the Summary Compensation Table for fiscal year 2006 below.

### ***Long Term Incentives-Stock Options-Stock Grants***

We do not currently have a long term stock grant or stock option program in effect for key executives, including our named executive officers. The restricted stock grants, discussed under the Retention Program section above, were made to four of the named executive officers when the Company emerged from bankruptcy and are part of the severance package for these named executive officers.

Two earlier stock programs, designed in 1996 to provide eligible associates the opportunity to achieve a financial stake in the Company, the Switch-To-Equity-Plan ( STEP ) and the Career Equity Plan ( CEP ), were discontinued in 2003. Mr. Shepard, Mr. Proffitt and Ms. Richards participated in the STEP and CEP programs.

Under the STEP program, associates could make annual elections to defer for a period of five years, up to 75% of any annual incentive award earned in deferred shares of Company Common Stock. The Company would match

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50% of this associate deferral in shares of deferred Common Stock. The associate's right to receive the Company match required continuous employment until the end of the five year vesting period. The final distribution of STEP shares was made on March 26, 2008. Under the CEP program, selected executives were eligible to receive awards which were based on achieving pre-selected performance metrics in three-year rolling performance cycles. Payouts under the CEP program were paid 50% in cash, 25% in deferred shares that vested in five years and 25% in deferred shares that vested at retirement. As described in more detail under Potential Payments Upon Termination or Change in Control below, under the terms of our named executive officer's employment agreements, had a termination event occurred on the last day fiscal 2007, STEP and CEP shares: (i) would be subject to accelerated vesting in the event that the executive is terminated other than for cause and (ii) would continue to vest as though the executive was still employed by the Company in the event of the executive's normal or approved early retirement.

Dividend equivalents are paid on STEP and CEP shares, but pursuant to the terms of these programs, any dividend equivalents are mandatorily reinvested into additional deferred shares of Common Stock which are paid out at the same time the underlying shares. Accordingly, the cash distribution of \$5.00 per share, which was made by the Company on April 30, 2007 on an equal basis to all stockholders of record as of April 13, 2007, was paid to STEP and CEP program participants as a dividend equivalent and was mandatorily reinvested into additional shares of Company Common Stock that were credited to the participant's account. Additional STEP and CEP shares received as a result of the cash distribution are paid out at the same time as the underlying shares. The value of the cash distribution to each named executive officer that participated in the STEP and CEP programs is included under the All Other Compensation column of the Summary Compensation Table below.

Shares that vested under these programs in 2007 are included in Option Exercises and Stock Vested in Fiscal Year 2007 below and shares subject to vesting are included in Outstanding Equity Awards at Fiscal Year-End 2007 below.

### ***Stock and Option Grant Policy***

Any future equity grants will require approval by the Compensation Committee. In setting the grant price, the Compensation Committee intends to use the average of the highest and lowest stock bid price on the date the grant is approved by the Compensation Committee.

With the exception of the shares received in 2007 by certain named executive officers following the mandatory reinvestment of the cash distribution paid by the Company on April 30, 2007 on shares held under the STEP and CEP programs (as described under Long Term Incentives-Stock Options-Stock Grants above) and the four equity grants made in 2006 (described under Retention Program above), no equity grants have been made to named executive officers or other key associates since 2002.

### ***Tax and Accounting Considerations***

The Compensation Committee considers the deductibility of executive compensation under IRC Section 162(m), which provides that the Company may not deduct compensation of more than \$1,000,000 that is paid to certain executives. The Compensation Committee's general policy is to structure executive compensation to be tax deductible. The Compensation Committee also believes that under some circumstances, such as to attract or retain key executives or to recognize outstanding performance, it may be important to compensate one or more key executives above tax deductible limits.

### ***Stock Ownership Guidelines***

The Company has determined not to establish share ownership requirements for its executives given its recent emergence from bankruptcy and the challenges facing the Company through the term of the Kmart Agreement.

However, as noted under the Retention Program section above, the severance package for several of our named executive officers consists of restricted stock. These restrictions will not lapse while the executive remains employed with the Company.

**Table of Contents****COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Company has reviewed and discussed with management the above Compensation Discussion and Analysis and, based on its review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Compensation Committee of the Board of Directors

Michael O Hara (Chairperson)

Jonathan M. Couchman

Steven D. Scheiwe

*\*This Compensation Committee Report is not deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or the Securities Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under either of such Acts.*

**SUMMARY COMPENSATION TABLE**

The table below summarizes the total compensation paid to or earned by each of the named executive officers for the fiscal years ended December 29, 2007 and December 30, 2006.

Principal	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(3)	Non-Equity Incentive Plan Compensation \$(4)	Change in Pension Value & Non-qualified Deferred	All Other Compensation (\$)	TOT
							Earnings \$(5)		
Shepard & Chief Officer	2007	\$ 676,000	\$ 316,876	\$ 234,425	\$ 17,211	\$ 986,960	\$ 563,853	\$ 831,559(6)	\$ 3,
	2006	\$ 670,000	\$ 1,068,601	\$ 229,041	\$ 138,379	\$ 1,300,000	\$ 355,349	\$ 103,324	\$ 3,
Lynch & Chief Officer	2007	\$ 325,000	\$ 93,873	\$ 0	\$ 538	\$ 237,251	\$ 0	\$ 11,035(7)	\$
	2006	\$ 281,646	\$ 124,745	\$ 0	\$ 9,810	\$ 241,020	\$ 0	\$ 11,900	\$
Lenich Vice President	2007	\$ 504,000	\$ 161,666	\$ 196,204	\$ 0	\$ 367,920	\$ 142,676	\$ 638,655(8)	\$ 2,
	2006	\$ 499,616	\$ 280,666	\$ 179,854	\$ 0	\$ 485,000	\$ 105,624	\$ 30,769	\$ 1,
	2007	\$ 354,000	\$ 123,750	\$ 9,654	\$ 6,024	\$ 258,420	\$ 193,549	\$ 67,695(9)	\$ 1,



Richards ice President, Counsel & e Secretary	2006	\$ 350,769	\$ 536,250	\$ 12,766	\$ 48,433	\$ 340,000	\$ 111,246	\$ 27,634	\$ 1,
roffitt ice President erations	2007	\$ 321,000	\$ 101,082	\$ 121,972	\$ 3,442	\$ 210,897	\$ 209,744	\$ 404,210(10)	\$ 1,
	2006	\$ 318,808	\$ 168,582	\$ 114,818	\$ 27,676	\$ 280,350	\$ 153,286	\$ 19,605	\$ 1,

- (1) The amounts in this column for 2007 represent the fixed, semi-annual retention payments each named executive officer receives under the terms of his or her employment agreement with the Company.
- (2) The amounts in this column reflect the dollar amount recognized in the indicated fiscal year for financial statement reporting purposes, calculated in accordance with FAS 123R (excluding the impact of forfeitures related to service-based vesting conditions). A discussion of the assumptions used in calculating these values may be found in Note 18 to our audited financial statements in the Form 10-K for the fiscal year ended December 29, 2007.

Certain named executive officers received a restricted stock grant on February 7, 2006 valued at \$4.45 per share. The price was determined based upon Footstar's average of the highest and the lowest stock price on the date of grant. Such restrictions will be lifted only upon involuntary termination for reasons other than for cause or upon approved early or normal retirement after the expiration of the Kmart Agreement or the original term of the executive's employment agreement, whichever is earlier. Twelve/thirty-fifths (12/35ths) of the grant was recognized in fiscal year 2007 for financial statement reporting purposes calculated in accordance with FAS 123R. The amounts reflected in this column also include the amounts recognized in fiscal year 2007

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for financial statement reporting purposes calculated in accordance with FAS 123R for deferred shares granted prior to 2003 under the Career-Equity Plan ( CEP ) and the Switch to Equity Plan ( STEP ).

Mr. Shepard: \$210,363 Restricted Stock, \$1,990 CEP and \$22,072 STEP

Mr. Lenich: \$196,204 Restricted Stock

Ms. Richards: \$7,282 Restricted Stock, \$868 CEP and \$1,504 STEP

Mr. Proffitt: \$118,455 Restricted Stock, \$682 CEP and \$2,835 STEP

**NOTE:**

The amounts reported in this column for 2006 were updated to correct an error in the FAS 123R calculation for the STEP and CEP Plans for that period. Mr. Shepard's amount changed from \$52,671 which was originally reported to \$36,208, Ms. Richards' amount changed from \$8,805 which was originally reported to \$6,091 and Mr. Proffitt's amount changed from \$5,093 which was originally reported to \$6,234.

- (3) The amounts reflected in this column reflect the dollar amount recognized for financial statement reporting purposes in 2007 (for options granted in 2002) and in 2006 (for options granted in 2001 and 2002), calculated in accordance with FAS 123R (excluding the impact of forfeitures related to service-based vesting conditions). A discussion of the assumptions used in calculating these values may be found in Note 18 of our audited financial statements in the Form 10-K for the fiscal year ended December 29, 2007.
- (4) Reflects the amount awarded under the Company's semi-annual non-equity incentive program. In 2007, the spring season award was at 129% of the target award and the fall season award was at 163% of the target award.
- (5) Reflects the aggregate change in the actuarial present value of the named executive officer's accumulated benefit under the Supplemental Executive Retirement Plan (which, for 2007, represents the change in value between November 30, 2006 and December 31, 2007, the pension plan measurement dates used for the Company's financial statement reporting purposes). The Company does not offer any Non-Qualified Deferred Compensation Plans.
- (6) Mr. Shepard's All Other Compensation amount for 2007 includes: \$12,285 for participation in the Company's 401(k) Profit Sharing Plan (\$9,000 represents the Company employee contribution match under the plan and \$3,285 represents the tax-deferred profit sharing component calculated at 1.46% of eligible compensation); \$14,420 for financial planning and tax preparation (\$10,500 for services provided and \$3,920 for the tax gross-up on the financial planning portion); \$2,500 for an executive physical; \$59,567 for excess executive long-term disability (\$32,756 for premiums and \$26,811 in tax gross-ups paid by the Company). The premium was determined based upon the difference between the maximum covered compensation under the group plan (a maximum of \$41,666 of monthly compensation) and Mr. Shepard's actual monthly compensation calculated using current base salary and target bonus which was \$112,666. The premium of \$32,756 covers the \$71,000 difference. The premium was then grossed-up at 35% to cover Mr. Shepard's tax liability.

This amount also includes the following amounts received as a result of the \$5.00 per share cash distribution paid by the Company on April 30, 2007 on an equal basis to all stockholders of record: (1) \$650,000 paid on 130,000 shares of restricted stock; (2) \$67,580 paid on 13,516 previously granted Company matching STEP shares (which, per the terms of that program, was re-invested into 15,716 additional STEP shares that vested on March 26, 2008); and (3) \$25,207 paid on 5,041 previously granted CEP retirement shares (which, per the

terms of that program, was re-invested into 5,862 additional CEP shares that will vest at retirement or upon other defined termination events).

- (7) Mr. Lynch's All Other Compensation amount for 2007 includes \$11,035 for participation in the Company's 401(k) Profit Sharing Plan (\$7,750 represents the Company employee contribution match under the plan and \$3,285 represents the tax-deferred profit sharing component calculated at 1.46% of eligible compensation).
- (8) Mr. Lenich's All Other Compensation amount for 2007 includes: \$12,285 for participation in the Company's 401(k) Profit Sharing Plan (\$9,000 represents the Company employee contribution match under the plan and \$3,285 represents the tax-deferred profit sharing component calculated at 1.46% of eligible compensation); \$14,040 for excess executive long-term disability; and \$6,080 for tax preparation.

This amount also includes the following amounts received as a result of the \$5.00 per share cash distribution paid by the Company on April 30, 2007 on an equal basis to all stockholders of record: (1) \$606,250 paid on 121,250 shares of restricted stock.

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- (9) Ms. Richards' All Other Compensation amount for 2007 includes: \$12,285 for participation in the Company's 401(k) Profit Sharing Plan (\$9,000 represents the Company employee contribution match under the plan and \$3,285 represents the tax-deferred profit sharing component calculated at 1.46% of eligible compensation); \$2,211 for excess executive long-term disability; \$11,795 for financial planning and tax preparation (\$8,000 for services provided and \$3,795 in tax gross-ups paid by the Company on the financial planning portion) and \$2,500 for an executive physical.

This amount also includes the following amounts received as a result of the \$5.00 per share cash distribution paid by the Company on April 30, 2007 on an equal basis to all stockholders of record: (1) \$22,500 paid on 4,500 shares of restricted stock; (2) \$4,605 paid on 921 previously granted Company matching STEP shares (which, per the terms of that program, was re-invested into 1,071 additional STEP shares that vested on March 26, 2008); and (3) \$11,799 paid on 2,360 previously granted CEP retirement shares (which, per the terms of that program, was re-invested into 2,744 additional CEP shares that will vest at retirement or upon other defined termination events).

- (10) Mr. Proffitt's All Other Compensation amount for 2007 includes: \$12,285 for participation in the Company's 401(k) Profit Sharing Plan (\$9,000 represents the Company employee contribution match under the plan and \$3,285 represents the tax-deferred profit sharing component calculated at 1.46% of eligible compensation); \$5,450 for tax planning; and \$2,500 for an executive physical.

This amount also includes the following amounts received as a result of the \$5.00 per share cash distribution paid by the Company on April 30, 2007 on an equal basis to all stockholders of record: (1) \$366,015 paid on 73,203 shares of restricted stock; (2) \$8,680 paid on 1,736 previously granted Company matching STEP shares (which, per the terms of that program, was re-invested into 2,019 additional STEP shares that vested on March 26, 2008); and (3) \$9,280 paid on 1,856 previously granted CEP retirement shares (which, per the terms of that program, was re-invested into 2,158 additional CEP shares that will vest at retirement or upon other defined termination events).

***Employment Agreements or Arrangements***

All of our named executive officers are subject to employment agreements with the Company. Additional details regarding each named executive officer's rights upon termination and the restrictive covenants contained in each named executive officer's employment agreement are described under the heading "Potential Payments Upon Termination or Change in Control" below.

Mr. Shepard. Mr. Shepard and the Company entered into an employment agreement on October 28, 2005. The term of Mr. Shepard's employment under the agreement commenced upon the effective date of the Company's Plan of Reorganization, which was February 7, 2006. On that date, Mr. Shepard became the Company's Chief Executive Officer and President of the Company and waived his rights under his former employment agreement with the Company.

Mr. Shepard's employment agreement is for a term ending on December 31, 2008, and is subject to automatic renewal for successive one year terms unless either the Company or Mr. Shepard notifies the other party in writing at least 90 days prior to expiration that he or it is electing to terminate the agreement at the expiration of the then current term of employment. Mr. Shepard's employment agreement provides for payment of an annual base salary that will be reviewed at the discretion of the Compensation Committee, but limits any reduction in base salary during the term of the agreement. His current annual base salary is \$676,000. Mr. Shepard is entitled to participate in the Company's semi-annual cash incentive program, under which he may earn at least 100% of his base salary per year if certain

targets are achieved. Mr. Shepard may continue to accrue benefits under the Company's Supplemental Executive Retirement Plan (SERP), as modified during the bankruptcy proceedings and as further described under Supplemental Executive Retirement Plan following the Pension Benefits Table below. In accordance with the terms of his agreement, Mr. Shepard received retention payments in the amount of \$158,437.50 in July and December of 2006 and 2007 and will receive retention payments in at least the same amount and on the same dates in 2008, subject to certain employment continuation conditions. Upon the Company's emergence from bankruptcy, Mr. Shepard received a Key Employee Retention Plan payment of \$751,725, which had been approved, but not yet paid, under an order entered in the bankruptcy court on May 6, 2004 and a restricted stock grant of 130,000 shares of the Company's Common Stock. The circumstances under which the restrictions will lapse are described in more detail in the Potential Payments Upon Termination or Change in Control section below, where

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other payments and benefits payable to Mr. Shepard upon the occurrence of certain triggering events are further described.

If payments made to Mr. Shepard under the employment agreement become subject to excise tax, the Company will make an additional gross up payment sufficient to ensure that the net after-tax amount retained by Mr. Shepard (taking into account all taxes including those on the gross up payment) is the same as would have been the case had such excise tax not applied.

The agreement obligates the Company to indemnify Mr. Shepard to the fullest extent permitted by law including the advancement of expenses.

*Employment Agreements with Messrs. Lynch, Lenich, Proffitt and Ms. Richards.* On December 16, 2005, the Company entered into employment agreements with Messrs. Lynch, Lenich, Proffitt and Ms. Richards, our other current named executive officers. Except as noted below, the material terms of the agreements are substantially similar. The term of each of these named executive officers' employment under the agreements commenced upon the effective date of the Company's Plan of Reorganization, which was February 7, 2006. On that date, Mr. Lenich, Mr. Proffitt and Ms. Richards each waived their rights under their former employment or change in control agreements with the Company. Mr. Lynch was not previously subject to an employment or change in control agreement with the Company.

The original term of employment under each of the agreements ends on December 31, 2008. The term of employment will be automatically renewed for successive one-year terms unless at least 60 days prior to the expiration of the original term of employment or any renewal term, either the executive or the Company notifies the other party in writing that he or it is electing to terminate at the expiration of the then current term of employment.

The employment agreements provide for payment of an annual base salary that will be reviewed at the discretion of the Compensation Committee, but limit any reduction in base salary during the term of the agreement. The current annual base salaries are: Mr. Lynch \$325,000; Mr. Lenich \$504,000; Ms. Richards \$354,000; and Mr. Proffitt \$321,000. Each executive is entitled to participate in the Company's semi-annual cash incentive program under which the executive is afforded the opportunity to earn not less than a set percentage of their base salary per year if certain targets are achieved. The minimum percentages of base salary that each executive may earn under the individual terms of the agreements are as follows: Mr. Lenich 50%; Ms. Richards 50%; and Mr. Proffitt 45%. Under the terms of his agreement, Mr. Lynch was entitled to earn not less