TrueCar, Inc.
Form S-1
October 28, 2014

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As filed with the Securities and Exchange Commission on October 28, 2014.

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
Under
The Securities Act of 1933

TRUECAR, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7379**	**04-3807511**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

120 Broadway, Suite 200
Santa Monica, California 90401
(800) 200-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Scott Painter
Chief Executive Officer
120 Broadway, Suite 200
Santa Monica, California 90401
(800) 200-2000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate	Amount of Registration Fee

	Offering Price(1)(2)	
Common Stock, par value $0.0001 per share	$125,000,000	$14,525

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes the aggregate offering price of additional shares that the underwriters have the option to purchase.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion: Dated October 28, 2014

Shares

Common Stock

TrueCar, Inc. is offering 1,000,000 shares to be sold in this offering. The selling stockholders identified in this prospectus are offering an additional shares. TrueCar will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

The public offering price per share is $. Our common stock is listed on The NASDAQ Global Select Market under the symbol "TRUE". On October 27, 2014, the last reported sale price of our common stock on The NASDAQ Global Select Market was $17.14 per share.

We are an "emerging growth company" under the federal securities laws and are therefore subject to reduced public company reporting requirements.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 18 to read about factors you should consider before buying shares of our common stock.

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

	Per Share	Total
Public offering price	$	$
Underwriting discounts(1)	$	$
Proceeds, before expenses, to TrueCar	$	$
Proceeds, before expenses, to the selling stockholders	$	$

(1) See "Underwriting" for a description of the compensation payable to the underwriters.

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

Scott Painter, our Founder and Chief Executive Officer, has indicated an interest in purchasing up to an aggregate of approximately $1,000,000 of TrueCar's common stock in this offering at the public offering price. Because this indication of interest is not a binding agreement or commitment to purchase, Mr. Painter may elect not to purchase shares in this offering or the underwriters may elect not to sell any shares in this offering to Mr. Painter. The underwriters will receive the same discount from any shares of our common stock purchased by Mr. Painter as they will from any other shares of our common stock sold to the public in this offering.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2014.

J.P. Morgan **Goldman, Sachs & Co.** **Morgan Stanley** **RBC Capital Markets**

JMP Securities **Cowen and Company**

Prospectus dated , 2014.

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Neither we, the selling stockholders, nor the underwriters have authorized anyone to provide you with information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We and the underwriters take no responsibility for, and provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

For investors outside the United States: Neither we, the selling stockholders, nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about, and to observe any restrictions relating to, this offering and the distribution of this prospectus.

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PROSPECTUS SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this prospectus. This summary may not contain all the information you should consider before investing in our common stock. You should carefully read this prospectus in its entirety before investing in our common stock, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus. Unless the context otherwise requires, we use the terms "TrueCar," the "Company," "we," "us" and "our" in this prospectus to refer to TrueCar, Inc. and, where appropriate, our consolidated subsidiaries.

Overview

Our mission is to transform the car-buying experience for consumers and the way that dealers attract customers and sell cars. We have established an intelligent, data-driven online platform operating on a common technology infrastructure, powered by proprietary data and analytics. We operate our company-branded platform on the TrueCar website and our branded mobile experience. In addition, we customize and operate our platform for affinity group marketing partners, such as USAA and Consumer Reports, financial institutions, and other large enterprises such as Boeing and Verizon. We enable users to obtain market-based pricing data on new and used cars, and to connect with our network of TrueCar Certified Dealers.

We benefit consumers by providing information related to what others have paid for a make and model of car in their area and, where available, estimated prices for that make and model of car, which we refer to as upfront pricing information, from our network of TrueCar Certified Dealers. This upfront pricing information generally includes guaranteed savings off MSRP which the consumer may then take to the dealer in the form of a Guaranteed Savings Certificate and apply toward the purchase of the specified make and model of car. We benefit our network of TrueCar Certified Dealers by enabling them to attract these informed, in-market consumers in a cost-effective, accountable manner, which we believe helps them to sell more cars.

We are currently focused primarily on new car transactions. In the future, we intend to introduce additional products and services designed to improve the car-buying and car-ownership experience through TrueCar Labs, an incubator focused on developing innovative solutions for the automotive ecosystem. TrueCar Labs deploys new products and solutions in their earliest phase in order to seek feedback from consumers and dealers, enabling them to shape a better product experience. For example, we are developing TrueTrade to provide users with an estimated daily market value for their existing cars and a guaranteed trade-in price. In addition, we are developing TrueLoan and TrueLease to provide users with a more convenient way to finance their cars at TrueCar Certified Dealers. We are also in the process of launching a number of new services for our dealers designed to enable them to make better informed inventory management and pricing decisions and to close transactions more efficiently.

Our network of over 9,100 TrueCar Certified Dealers consists primarily of new car franchises, representing all major makes of cars, as well as independent dealers. TrueCar Certified Dealers operate in all 50 states and the District of Columbia. We estimate that users of our platform purchasing cars from TrueCar Certified Dealers accounted for approximately 3.4% of all new car sales in the United States in the second quarter of 2014, excluding fleet car sales, an increase from 2.4% in 2013 and 1.5% in 2012. Since our founding in 2005, TrueCar users have purchased over 1.5 million cars from TrueCar Certified Dealers. We obtain automobile purchase data from a variety of sources and use this data to provide consumers and dealers with highly accurate, geographically specific, real-time pricing information.

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Our subsidiary, ALG, Inc., provides data and consulting services regarding determination of the residual value of an automobile at given points in time in the future. These residual values are used to underwrite automotive loans and leases to determine payments by consumers. In addition, financial institutions use this information to measure exposure and risk across loan, lease and fleet portfolios.

During 2013, we generated revenues of $134.0 million and recorded a net loss of $25.1 million. Of the $134.0 million in revenues, 89% consisted of transaction revenues with the remaining 11% derived primarily from the sale of data and consulting services to the automotive and financial services industries. Revenues from the sale of data and consulting services are derived primarily from the operations of our ALG subsidiary. During the six months ended June 30, 2014, we generated revenues of $94.4 million and recorded a net loss of $25.0 million. Of the $94.4 million in revenues, 91% consisted of transaction revenues with the remaining 9% derived primarily from the sale of data and consulting services to the automotive and financial services industries. Transaction revenues primarily consist of fees paid to us by our network of TrueCar Certified Dealers under our pay-for-performance business model where we generally earn a fee only when a TrueCar user purchases a car from them.

Industry Overview and Market Opportunity

The automotive sector is one of the largest segments of the U.S. economy. There were 15.5 million new cars sold in the United States in 2013 for a total retail value of nearly $500 billion, based on information published by the Bureau of Economic Analysis, or BEA, and the National Automobile Dealers Association, or NADA. In 2013, the largest automotive dealer group accounted for only 1.9% of new vehicle sales, and the top ten dealer groups accounted in the aggregate for only 8.2% of new vehicle sales, according to Automotive News.

Consumers face a number of complex issues when buying a car, including obtaining market pricing information with respect to the car they want to buy and negotiating a transaction. While consumers have a number of available information sources that provide pricing data, these alternatives generally do not have information on what others actually paid for a car. As a result, consumers still lack the market data and upfront pricing information that might shorten the negotiation with the dealer and lead to a successful transaction.

Automobile dealers operate in a highly competitive market in which access to consumers and informed vehicle pricing are essential to dealer profitability. Overall dealer profitability is closely tied to the volume of new car sales as those sales can lead to higher-margin offerings for the dealer such as trade-ins, financing, maintenance and service, and accessories. In addition, dealers can earn financial incentives and improved vehicle allocation from manufacturers based on their volume of new car sales. Automobile dealers are increasingly shifting from reliance on their physical location and offline media and turning to the Internet to attract consumers and broaden their reach. However, dealers must pay high marketing costs to attract customers and lack empirical data on pricing at the local level. As a result of these challenges, automobile dealers are looking for ways to attract informed, in-market consumers in a cost-effective and accountable manner and effectively price their vehicle inventory to achieve their sales goals.

Our Solution

We have established an intelligent, data-driven online platform operating on a common technology infrastructure, powered by proprietary data and analytics. We operate our company-branded platform via the TrueCar website and our branded mobile experience. In addition, we customize and operate our platform for affinity group marketing partners, such as USAA, financial institutions, and other large enterprises such as Boeing and Verizon. We enable users to obtain

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market-based pricing data on new and used cars, and to connect with our network of TrueCar Certified Dealers. We believe the combination of transparent market data, upfront pricing information and guaranteed savings off MSRP benefits both consumers and dealers, resulting in more transactions by users of our platform.

Why consumers choose TrueCar

We believe consumers choose TrueCar.com and our affinity group marketing partner websites to simplify the car-buying process and to achieve confidence in the price they receive for a car. Our platform provides the following benefits:

Upfront pricing information. We access a broad array of transaction data to provide consumers with relevant pricing information on every major make and model of new car sold in the U.S. We also generally provide consumers with an Estimated TrueCar Dealer Price based on data provided by TrueCar Certified Dealers in their area.

Quality of service of our network of TrueCar Certified Dealers. We strive to provide consumers with a superior car-buying experience through our network of TrueCar Certified Dealers. To become a TrueCar Certified Dealer, dealers must agree to adhere to certain conditions, including providing upfront pricing information and guaranteed savings off MSRP, where available.

Price Confidence. Our users generally receive up to three Guaranteed Savings Certificates, which provide a guaranteed savings off MSRP on the user's specified make and model of car. Our platform allows the user to compare relevant market data for their specified make and model of car with the guaranteed savings from MSRP identified in these certificates. For the six months ended June 30, 2014, TrueCar users paid, on average, nearly $3,200 less than MSRP.

Why dealers use TrueCar

We believe dealers use TrueCar to attract informed, in-market consumers in a cost-effective and accountable manner, efficiently price their inventory and, ultimately, sell more cars.

Under our pay-for-performance business model, we generally earn a fee only when a consumer purchases a car, providing dealers with an accountable marketing channel. We typically charge TrueCar Certified Dealers $299 upon the sale of a new car to a TrueCar user. In 2013, the overall industry average advertising expense per new car across all forms of media was $616, according to NADA. By helping dealers better target their acquisition efforts to in-market consumers using our platform, we believe that dealers can improve their close rates, which results in other operating cost efficiencies such as savings on selling expenses and inventory carrying costs.

Why affinity groups partner with TrueCar

For many of our affinity group marketing partners, offering a car-buying service is a valuable benefit for their members, but it is not a service that they can provide easily themselves. Affinity groups partner with TrueCar to extend our platform to their members under their own brands. We generally provide members of these groups with access to the same benefits of the TrueCar website and our branded mobile experience with the added recognition of their affinity membership, and other benefits such as improved financing terms and manufacturer incentives. These affinity group marketing partners include USAA, Consumer Reports, AAA, American Express and PenFed.

The future of the TrueCar solution

In the future, we intend to introduce additional products and services to improve the car-buying and car-ownership experience through TrueCar Labs, an incubator focused on

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developing innovative solutions for the automotive ecosystem. TrueCar Labs deploys new products and solutions in their earliest phase in order to seek feedback from consumers and dealers, enabling them to shape a better product experience. For example, TrueCar Labs announced the release of the SellMyCar mobile application to help consumers receive an upfront price on their trade-in. In addition, we are developing TrueLoan and TrueLease to provide users with a more convenient way to finance their cars at TrueCar Certified Dealers. We are also in the process of launching a number of new services for our dealers designed to enable them to make better informed inventory management and pricing decisions and to close transactions more efficiently. We believe that these innovations will offer an improved car-buying experience that will delight consumers and better enable dealers to generate orders from the Internet.

Our Strengths

We believe that our platform offers a superior car-buying experience for our users and TrueCar Certified Dealers. Our strengths include:

Accountable business model operating at scale with powerful network effects

We operate a pay-for-performance business model that allows in-market car buyers to interact with our network of TrueCar Certified Dealers. In addition, our platform is adaptable on a state-by-state basis in response to the local regulatory environment. As the number of vehicles purchased by our users from our network of TrueCar Certified Dealers continues to grow, we believe the platform will become increasingly attractive to high-quality automobile dealers. In addition, as more in-market consumers utilize our platform, the incremental search, inventory and purchase information generated will increase the utility of our data and analytics platform for all participants.

Nationwide network of TrueCar Certified Dealers representing all major makes sold in the U.S.

We have built our network of TrueCar Certified Dealers to provide broad nationwide coverage to our users. Our network of over 9,100 TrueCar Certified Dealers consists primarily of new car franchises, representing all major makes of cars, as well as independent dealers. TrueCar Certified Dealers operate in all 50 states and the District of Columbia.

Robust data and proprietary analytics platform

Our digital platform is powered by data and proprietary analytics. Our data repository contains a wide variety of information, including vehicle-specific information on automotive transactions, vehicle registration records, consumer buying patterns and behavior, demographic information, and macroeconomic data. Our platform also enables our pay-for-performance business model by identifying sales for which a dealer generally pays us a fee only when a TrueCar user purchases a car or based on other performance-based metrics.

Long-term, strategic relationships with affinity groups

We have built long-term relationships with our affinity group marketing partners for which we operate automobile buying programs. We also offer car-buying programs as an employee benefit directly to corporate customers and, indirectly, through employee benefit plan administrators. We believe that affinity group members represent an attractive audience for our network of TrueCar Certified Dealers because the affinity group or employment relationship creates a deeper level of engagement between the in-market car buyer and the TrueCar Certified Dealer.

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Operations guided by insights derived from quantitative data analysis

We access consumer, dealer and third-party data to power our platform. We believe our quantitative analytical capabilities enable us to derive insights into consumers and dealers that help inform several of our key areas of focus. Our business intelligence organization is also responsible for tracking internal performance metrics, gleaning insights, and helping to improve our operations.

Visionary management team with extensive automotive expertise

Our Founder and Chief Executive Officer, Scott Painter, is a pioneer in the online automotive industry, having founded CarsDirect, one of the industry's first successful online automotive businesses. Scott has dedicated his career in the automotive industry to demonstrating that transparency is a more profitable business model. A team of experienced senior executives, with management backgrounds at automotive manufacturers and retailers, online automotive marketing firms, state dealer associations, Internet companies and financial institutions, augments his leadership.

Growth Strategy

We are in the early stages of pursuing our mission to transform car-buying for consumers and dealers. Key elements of our growth strategy are:

Expand the number of visitors to our platform

We intend to grow traffic on the TrueCar website and our branded mobile applications by building our brand through marketing campaigns that emphasize the value of trust and transparency in the car-buying process and the benefits of transacting with TrueCar Certified Dealers. We intend to grow affinity group marketing partner traffic by promoting creative marketing programs, such as subsidizing interest rates on loans, and providing other incentives from third parties that deliver a tangible economic benefit to transacting members, increasing awareness of the car-buying program among the members of our affinity group marketing partners and adding new affinity group marketing partners that bring additional users to our platform.

Improve the user experience

We seek to increase the number of transactions between users of our platform and TrueCar Certified Dealers through a variety of methods, including consistently evaluating and improving our products to enhance the user experience, engaging users with relevant content about car pricing, available incentives and other benefits, while also expanding and improving the geographic coverage of our network of TrueCar Certified Dealers.

Expand monetization opportunities

Over time, we intend to increase monetization opportunities by introducing additional products and services to improve the car-buying and car ownership experience as well as working more closely with automobile manufacturers. For example, we are developing TrueTrade to provide consumers with an estimated daily market value for their existing cars and a guaranteed trade-in price. In addition, we are developing TrueLoan and TrueLease to provide users with a more convenient way to finance their cars at TrueCar Certified Dealers.

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Risks Affecting Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled "Risk Factors" immediately following this prospectus summary. These risks include, but are not limited to, the following:

- If key industry participants, including car dealers and auto manufacturers, perceive us in a negative light or our relationships with them suffer harm, our ability to grow and our financial performance may be damaged.

- Our recent, rapid growth may not be indicative of our future growth and, if we continue to grow rapidly, we may not be able to manage our growth effectively.

- We may be unable to maintain or grow relationships with information data providers or may experience interruptions in the data feeds they provide, which may limit the information that we are able to provide to our users and dealers as well as the timeliness of such information and may impair our ability to attract or retain consumers and TrueCar Certified Dealers and to timely invoice our dealers.

- We have operated our business at scale for a limited period of time and we cannot predict whether we will continue to grow. If we are unable to successfully respond to changes in the market, our business could be harmed.

- We have a history of losses and we may not achieve or maintain profitability in the future.

- The loss of a significant affinity group marketing partner or a significant reduction in the number of cars purchased from our TrueCar Certified Dealers by members of our affinity group marketing partners would reduce our revenue and harm our operating results.

- Any adverse change in our relationship with United Services Automobile Association, or USAA, could harm our business.

- We are subject to a complex framework of federal and state laws and regulations primarily concerning vehicle sales, advertising and brokering, many of which are unsettled, still developing and contradictory, which have in the past, and could in the future, subject us to claims, challenge our business model or otherwise harm our business.

- We participate in a highly competitive market, and pressure from existing and new companies may adversely affect our business and operating results.

- If we suffer a significant interruption in our ability to gain access to third-party data, our business and operating results will suffer.

- The success of our business relies heavily on our marketing and branding efforts, especially with respect to the TrueCar website and our branded mobile applications, as well as those efforts of the affinity group marketing partners whose websites we power, and these efforts may not be successful.

- We rely in part on Internet search engines to drive traffic to our website, and if we fail to appear prominently in the search results, our traffic would decline and our business would be adversely affected.

The failure to maintain our brand would harm our ability to grow unique visitor traffic and to expand our dealer network.

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Recent Developments

Preliminary financial results and key metrics for the three months ended September 30, 2014

Based on our analysis for the three months ended September 30, 2014, we expect to report the following:

Units	170 thousand - 171 thousand units sold
Total Revenues	$56.6 million - $56.8 million
Adjusted EBITDA	$3.7 million - $3.9 million
Net loss	$(13.8) million - $(13.6) million
Non-GAAP net income	$0.2 million - $0.4 million
Franchise Dealer Count	8,149

The preliminary financial results and key metrics presented above are subject to the completion of our financial closing procedures and related review. Those procedures have not been completed. Accordingly, these results may change and those changes may be material.

The preliminary financial data and key metrics included in this prospectus have been prepared by and are the responsibility of our management. PricewaterhouseCoopers LLP has not audited, reviewed, compiled or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

GAAP

Revenues are expected to be between $56.6 million and $56.8 million, an increase of 51% at the midpoint of the range as compared to $37.5 million for the three months ended September 30, 2013. The estimated increase in revenues is primarily due to an increase in marketing spend and an increase in the number of TrueCar Certified Dealers in our network, platform and product enhancements, and the overall growth in sales of the automotive industry.

Net loss is expected to be between $(13.8) million and $(13.6) million as compared to net loss of $(4.6) million for the three months ended September 30, 2013. The estimated increase in the net loss as compared to the corresponding period in 2013 is primarily due to increased expenses related to an increase in the number of and the grant date fair value of equity based awards.

Non-GAAP

Adjusted EBITDA and Non-GAAP net (loss) income are not measures of our financial performance calculated in accordance with generally accepted accounting principles in the United States, or GAAP, and neither should be considered as an alternative to net (loss) income, operating (loss) income or any other measures derived in accordance with GAAP. See "Non-GAAP Financial Measures" for a description of Adjusted EBITDA and Non-GAAP net (loss) income, how we use them and their limitations.

Adjusted EBITDA is expected to be between $3.7 million and $3.9 million, an increase of 58% at the midpoint of the range, as compared to $2.4 million for the three months ended September 30, 2013. The estimated increase in Adjusted EBITDA is primarily due to increased revenue as well as improved non-GAAP operating margins.

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The following table presents a reconciliation of preliminary Adjusted EBITDA to preliminary net loss for the three months ended September 30, 2014 (in millions):

Preliminary net loss	$	(13.8)	to	$	(13.6)
Non-GAAP Adjustments:					
Interest income			to		
Interest expense			to		
Depreciation and amortization		3.4	to		3.4
Provision for income taxes		0.1	to		0.1
Stock-based compensation		9.4	to		9.4
Warrant expense		3.7	to		3.7
Certain litigation costs(1)		0.9	to		0.9
Preliminary Adjusted EBITDA	$	3.7	to	$	3.9

Non-GAAP net income is expected to be between $0.2 million and $0.4 million, an increase of 130% at the midpoint of the range, as compared to a Non-GAAP net loss of $(1.0) million for the three months ended September 30, 2013. The estimated increase in Non-GAAP net (loss) income is primarily due to increased revenue as well as improved operating margins, exclusive of stock-based compensation.

The following table presents a reconciliation of preliminary Non-GAAP net income to preliminary net loss for the three months ended September 30, 2014 (in millions):

Preliminary net loss	$	(13.8)	to	$	(13.6)
Non-GAAP Adjustments:					
Stock-based compensation		9.4	to		9.4
Warrant expense		3.7	to		3.7
Certain litigation costs(1)		0.9	to		0.9
Preliminary Non-GAAP net income	$	0.2	to	$	0.4

(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc. for trademark infringement and related matters. We have not historically excluded these costs from Adjusted EBITDA; however, as we have incurred increasing costs to advance our claim, we believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

We have provided a range for the preliminary results described above primarily because our financial closing procedures and related review for the three months ended September 30, 2014 are not yet complete. As a result, there is a possibility that our final results will vary from our preliminary estimates. We expect to complete our closing procedures with respect to the three months ended September 30, 2014 in November 2014.

Corporate Information

Our principal executive offices are located at 120 Broadway, Suite 200, Santa Monica, California 90401, and our telephone number is (800) 200-2000. Our websites are www.TrueCar.com and www.True.com. Information contained on, or that can be accessed through, our websites is not incorporated by reference into this prospectus, and you should not consider information on our websites to be part of this prospectus.

We originally incorporated under the name "Zag.com Inc." in Delaware in February 2005. We later changed our name to TrueCar, Inc.

TrueCar, the TrueCar logo and other trademarks or service marks of TrueCar appearing in this prospectus are the property of TrueCar. Trade names, trademarks and service marks of other

companies appearing in this prospectus are the property of their respective holders. We have omitted the ® and designations, as applicable, for the trademarks used in this prospectus.

We are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act) and are therefore subject to reduced public company reporting requirements. We will remain an emerging growth company until the earliest to occur of: the last day of the fiscal year in which we have more than $1.0 billion in annual revenue; the date we qualify as a "large accelerated filer," with at least $700 million of equity securities held by non-affiliates; the issuance, in any three-year period, by us of more than $1.0 billion in non-convertible debt securities; and the last day of the fiscal year ending after the fifth anniversary of our initial public offering.

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THE OFFERING

Common stock offered by us	1,000,000 shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after this offering	77,814,334 shares
Option to purchase additional shares from us	shares
Use of proceeds	We intend to use the net proceeds from this offering primarily for general corporate purposes, including working capital, operating expenses and capital expenditures. We may also use a portion of the net proceeds to acquire or invest in complementary technologies, solutions, products, services, businesses or other assets, although we have no present commitments or agreements to enter into any acquisitions or investments. See "Use of Proceeds."
Concentration of ownership	Upon completion of this offering, the executive officers, directors and 5% stockholders of our company and their affiliates will beneficially own, in the aggregate, approximately % of our outstanding capital stock.
NASDAQ trading symbol	"TRUE"

Scott Painter, our Founder and Chief Executive Officer, has indicated an interest in purchasing up to an aggregate of approximately $1,000,000 of TrueCar's common stock in this offering at the public offering price. Because this indication of interest is not a binding agreement or commitment to purchase, Mr. Painter may elect not to purchase shares in this offering or the underwriters may elect not to sell any shares in this offering to Mr. Painter. The underwriters will receive the same discount from any shares of our common stock purchased by Mr. Painter as they will from any other shares of our common stock sold to the public in this offering.

The number of shares of our common stock to be outstanding after this offering is based on 76,814,334 shares of our common stock outstanding at June 30, 2014, and excludes:

- 26,664,790 shares of common stock issuable upon the exercise of options outstanding at June 30, 2014, with a weighted average exercise price of $9.40 per share;
- 713,539 shares of common stock subject to restricted stock units ("RSUs") outstanding at June 30, 2014;
- 1,273,640 shares of common stock reserved for future issuance under our 2014 Equity Incentive Plan (the "2014 Plan");
- any shares of common stock that become available subsequent to this offering under our 2014 Plan as a result of the expiration, termination without exercise or forfeiture or repurchase of awards granted under our Amended and Restated 2005 Stock Plan (the "2005 Stock Plan") or our 2008 Stock Plan (the "2008 Stock Plan"), as more fully described in "Executive Compensation Employee Benefits and Stock Plans";
- any shares that become available under our 2014 Plan, pursuant to provisions thereof that automatically increase the share reserves under the plan each year, as more fully described in "Executive Compensation Employee Benefits and Stock Plans"; and
- 3,981,198 shares of common stock issuable upon the exercise of warrants outstanding at June 30, 2014, with a weighted average exercise price of $10.73 per share.

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Unless otherwise noted, the information in this prospectus reflects and assumes the following:

- no purchase by our executive officers, directors or 5% stockholders of any shares to be sold in this offering;
- no exercise of outstanding options;
- no exercise of outstanding warrants; and
- no exercise by the underwriters of their option to purchase up to an additional shares of common stock from us in this offering.

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SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables summarize our consolidated financial data. You should read the summary consolidated financial data set forth below in conjunction with our consolidated financial statements, the notes to our consolidated financial statements and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this prospectus.

We have derived the summary consolidated statement of operations data for the years ended December 31, 2011, 2012 and 2013 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the summary unaudited consolidated statement of operations data for the six months ended June 30, 2013 and 2014 and our unaudited consolidated balance sheet data as of June 30, 2014 from our unaudited interim consolidated financial statements included elsewhere in this prospectus. The unaudited interim consolidated financial statements were prepared on a basis consistent with our annual financial statements and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the financial information contained in those statements. Our historical results are not necessarily indicative of the results that may be expected in the future, and our interim results are not necessarily indicative of the results to be expected for the full year or any other period.

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	Year Ended December 31,			Six Months Ended June 30,	
	2011(1)(2)	2012	2013	2013	2014
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$ 76,330	$ 79,889	$ 133,958	$ 56,266	$ 94,427
Cost and operating expenses:					
Cost of revenue (exclusive of depreciation and amortization presented separately below)(3)	7,660	13,559	15,295	7,435	7,858
Sales and marketing(3)	41,992	70,327	75,180	29,409	61,059
Technology and development(3)	18,457	21,960	23,685	11,422	15,843
General and administrative(3)	21,912	34,228	30,857	12,942	27,955
Depreciation and amortization	4,148	11,768	11,569	5,934	6,086
Total costs and operating expenses	94,169	151,842	156,586	67,142	118,801
Loss from operations	(17,839)	(71,953)	(22,628)	(10,876)	(24,374)
Interest income	199	229	121	61	27
Interest expense	(66)	(3,359)	(1,988)	(1,751)	(301)
Other income (expense), net	(20)	(18)	18	14	10
Change in fair value of preferred stock warrant liability	(1,882)				
Loss before (provision) benefit for income taxes	(19,608)	(75,101)	(24,477)	(12,552)	(24,638)
Benefit (provision) for income taxes	10,690	606	(579)	(273)	(317)
Net loss	$ (8,918)	$ (74,495)	$ (25,056)	$ (12,825)	$ (24,955)
Cumulative dividends on Series B, Series C and Series D Preferred Stock	(2,370)				
Net loss attributable to common stockholders of TrueCar, Inc.	$ (11,288)	$ (74,495)	$ (25,056)	$ (12,825)	$ (24,955)
Net loss per share attributable to common stockholders:					
Basic and diluted(4)(5)	$ (0.49)	$ (1.33)	$ (0.43)	$ (0.22)	$ (0.39)
Weighted average shares of common stock outstanding used in computing net loss per share attributable to common stockholders:					
Basic and diluted(4)(5)	22,823	55,828	58,540	57,231	63,962

Other Financial Information:										
Adjusted EBITDA(6)	$	(3,538)	$	(46,523)	$	2,140	$	(2)	$	2,771
Non-GAAP net (loss) income(7)	$	3,137	$	(60,815)	$	(11,875)	$	(7,899)	$	(3,906)

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(1) During the preparation of the financial statements for the year ended December 31, 2011, we identified adjustments relating to timing of revenue recognition, accrued sales taxes and expenses on related party loans affecting 2010 and prior periods. The aggregate amount of these adjustments would have reduced net loss by $360,000 for 2009 and $420,000 for 2010. We concluded these adjustments were not material to any prior reporting period. We also concluded that recording the cumulative effect of these adjustments of $780,000 during the year ended December 31, 2011 was not material individually or in the aggregate to the 2011 financial statements and accordingly, we recorded these adjustments during the year ended December 31, 2011.

(2) In 2011, we completed the acquisitions of Carperks, Honk LLC, and ALG Inc. See Note 3 to our consolidated financial statements for information regarding the purchase accounting associated with these acquisitions.

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(3)

The following table presents stock-based compensation expense included in each respective expense category:

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	(in thousands)				
Cost of revenue	$ 47	$ 122	$ 141	$ 53	$ 163
Sales and marketing	1,076	1,571	2,561	1,104	2,344
Technology and development	1,096	1,428	1,762	783	1,865
General and administrative	3,989	7,199	4,882	1,676	7,168
Total stock-based compensation expense	$ 6,208	$ 10,320	$ 9,346	$ 3,616	$ 11,540

(4)

See Note 2 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net loss per share attributable to common stockholders.

(5)

All share, per-share and related information has been retroactively adjusted, where applicable, to reflect the impact of a 2-for-3 reverse stock split, which was effected on May 2, 2014.

(6)

Adjusted EBITDA is not a measure of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net loss, see "Non-GAAP Financial Measures." Adjusted EBITDA for the six months ended June 30, 2014 excludes amounts related to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc. for trademark infringement and related matters. We have not historically excluded these costs from Adjusted EBITDA; however, as we have incurred increasing costs to advance our claim, we believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

(7)

Non-GAAP net (loss) income is not a measure of our financial performance under GAAP and should not be considered as an alternative to net (loss) income, operating (loss) income or any other measures derived in accordance with GAAP. For a definition of Non-GAAP net (loss) income and a reconciliation of Non-GAAP net (loss) income, see "Non-GAAP Financial Measures."

	At June 30, 2014	
Selected Consolidated Balance Sheet Data	**Actual**	**Pro Forma(1)**
	(in thousands)	
Cash and cash equivalents	$ 111,845	$
Working capital excluding restricted cash	114,450	
Property and equipment, net	17,104	
Total assets	247,593	
Total indebtedness		
Total stockholders' equity	214,722	

(1)

The pro forma column gives effect to the sale and issuance by us of 1,000,000 shares of common stock in this offering based upon an assumed public offering price of $ per share, which is the last reported sale price of our common stock on The NASDAQ Global Select Market on , 2014, after deducting underwriters' discounts and commissions and estimated offering expenses payable by us. Each $1.00 increase or decrease in the assumed public offering price of $ per share would increase or decrease, as applicable, each of cash and cash equivalents, working capital, total assets and total stockholders' equity on a pro forma basis by approximately $ million, assuming that the number of shares offered by us and the selling stockholders, as set forth on the cover page of this prospectus, remains the same.

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Non-GAAP Financial Measures

Adjusted EBITDA and Non-GAAP net (loss) income are financial measures that are not calculated in accordance with GAAP. We define Adjusted EBITDA as net loss adjusted to exclude interest income, interest expense, depreciation and amortization, change in the fair value of preferred stock warrant liability, non-cash warrant expense, transaction costs from acquisitions, change in fair value of contingent consideration, stock-based compensation, IPO-related expenses, ticker symbol acquisition costs, certain litigation costs, and income taxes. We define Non-GAAP net (loss) as net loss adjusted to exclude stock-based compensation, change in fair value of preferred stock warrant liability, non-cash warrant expense, transaction costs from acquisitions, change in the fair value of contingent consideration, ticker symbol acquisition costs, IPO-related expenses, and certain litigation costs. We have provided below a reconciliation of each of Adjusted EBITDA and Non-GAAP net (loss) income to net loss, the most directly comparable GAAP financial measure. Neither Adjusted EBITDA nor Non-GAAP net (loss) income should be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP. In addition, our Adjusted EBITDA and Non-GAAP net (loss) income measures may not be comparable to similarly titled measures of other organizations as they may not calculate Adjusted EBITDA or Non-GAAP net (loss) income in the same manner as we calculate these measures.

We have included Adjusted EBITDA and Non-GAAP net (loss) income in this prospectus as they are important measures used by our management and board of directors to assess our operating performance. We believe that using Adjusted EBITDA and Non-GAAP net (loss) income facilitates operating performance comparisons on a period-to-period basis because these measures exclude variations primarily caused by changes in the excluded items noted above. In addition, we believe that Adjusted EBITDA, Non-GAAP net (loss) income and similar measures are widely used by investors, securities analysts, rating agencies and other parties in evaluating companies as a measure of financial performance and debt service capabilities.

Our use of each of Adjusted EBITDA and Non-GAAP net (loss) income has limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect the payment or receipt of interest or the payment of income taxes;
- neither Adjusted EBITDA nor Non-GAAP net (loss) income reflects changes in, or cash requirements for, our working capital needs;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures or any other contractual commitments;
- neither Adjusted EBITDA nor Non-GAAP net (loss) income reflects the cash costs to advance our claims in respect of our litigation against Sonic Automotive Holdings, Inc.;
- neither Adjusted EBITDA nor Non-GAAP net (loss) income considers the potentially dilutive impact of shares issued or to be issued in connection with share-based compensation or warrant issuances; and
- other companies, including companies in our own industry, may calculate Adjusted EBITDA and Non-GAAP net (loss) income differently from how we do, limiting its usefulness as a comparative measure.

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Because of these limitations, you should consider Adjusted EBITDA and Non-GAAP net (loss) income alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. In addition, in evaluating Adjusted EBITDA and Non-GAAP net (loss) income, you should be aware that in the future we will incur expenses such as those that are the subject of adjustments in deriving Adjusted EBITDA and Non-GAAP net (loss) income, and you should not infer from our presentation of Adjusted EBITDA and Non-GAAP net (loss) income that our future results will not be affected by these expenses or any unusual or non-recurring items.

The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods presented:

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
			(in thousands)		
Reconciliation of Adjusted EBITDA to Net Loss:					
Net loss	$ (8,918)	$ (74,495)	$ (25,056)	$ (12,825)	$ (24,955)
Non-GAAP adjustments:					
Interest income	(199)	(229)	(121)	(61)	(27)
Interest expense	66	3,359	1,988	1,751	301
Depreciation and amortization	4,148	11,768	11,569	5,934	6,086
Change in fair value of preferred stock warrant liability	1,882				
Warrant expense	2,112	1,990	3,740	1,262	4,615
Transaction costs from acquisitions	1,853				
Change in fair value of contingent consideration		1,370	95	48	
Stock-based compensation	6,208	10,320	9,346	3,616	11,540
IPO-related expenses					3,717
Ticker symbol acquisition costs					803
Certain litigation costs(1)					374
Provision (benefit) for income taxes	(10,690)	(606)	579	273	317
Adjusted EBITDA	$ (3,538)	$ (46,523)	$ 2,140	$ (2)	$ 2,771

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(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc. for trademark infringement and related matters. We have not historically excluded these costs from Adjusted EBITDA; however, as we have incurred increasing costs to advance our claim, we believe that their exclusion is appropriate to facilitate period-to-period operating performance comparisons.

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Non-GAAP net (loss) income is not a measure of our financial performance under GAAP. We define Non-GAAP net (loss) as net loss adjusted to exclude stock-based compensation, non-cash warrant expense, change in the fair value of contingent consideration, ticker symbol acquisition costs, IPO-related expenses, certain litigation costs, and transaction costs from acquisitions. We have provided below a reconciliation of Non-GAAP net loss to net loss, the most directly comparable GAAP financial measure. Non-GAAP net (loss) income should not be considered as an alternative to net loss or any other measure of financial performance calculated and presented in accordance with GAAP.

The following table presents a reconciliation of Non-GAAP Net (Loss) income to net loss for each of the periods presented:

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	(in thousands)				
Reconciliation of Non-GAAP Net (Loss) Income to Net Loss:					
Net loss	$ (8,918)	$ (74,495)	$ (25,056)	$ (12,825)	$ (24,955)
Non-GAAP adjustments:					
Stock-based compensation	6,208	10,320	9,346	3,616	11,540
Change in fair value of preferred stock warrant liability	1,882				
Warrant expense	2,112	1,990	3,740	1,262	4,615
Transaction costs from acquisitions	1,853				
Change in fair value of contingent consideration		1,370	95	48	
Ticker symbol acquisition costs					803
IPO-related expenses					3,717
Certain litigation costs(1)					374
Non-GAAP net (loss) income	**$ 3,137**	**$ (60,815)**	**$ (11,875)**	**$ (7,899)**	**$ (3,906)**

(1) The excluded amounts relate to legal costs incurred in connection with a claim we filed against Sonic Automotive Holdings, Inc. for trademark infringement and related matters.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and related notes, before deciding whether to purchase shares of our common stock. If any of the following risks is realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Business and Industry

If key industry participants, including car dealers and automobile manufacturers, perceive us in a negative light or our relationships with them suffer harm, our ability to grow and our financial performance may be damaged.

Our primary source of revenue consists of fees paid by TrueCar Certified Dealers to us in connection with the sales of automobiles to our users. In addition, our value proposition to consumers depends on our ability to provide pricing information on automobiles from a sufficient number of automobile dealers by brand and in a given consumer's geographic area. If our relationships with our network of TrueCar Certified Dealers suffer harm in a manner that leads to the departure of these dealers from our network, then our revenue and ability to maintain and grow unique visitor traffic will be adversely affected.

At the end of 2011 and the beginning of 2012, due to certain regulatory and publicity-related challenges, many dealers cancelled their agreements with us and our franchise dealer count fell from 5,571 at November 30, 2011 to 3,599 at February 28, 2012.

TrueCar Certified Dealers have no contractual obligation to maintain their relationship with us. Accordingly, these dealers may leave our network at any time or may develop or use other products or services in lieu of ours. Further, while we believe that our service provides a lower cost, accountable customer acquisition channel, dealers may have difficulty rationalizing their marketing spend across TrueCar and other channels, which potentially has the effect of diluting our dealer value proposition. If we are unable to create and maintain a compelling value proposition for dealers to become and remain TrueCar Certified Dealers, our dealer network would not grow and may begin to decline.

In addition, although the automobile dealership industry is fragmented, a small number of groups have significant influence over the industry. These groups include state and national dealership associations, state regulators, car manufacturers, consumer groups, individual dealers and consolidated dealer groups. To the extent that these groups believe that automobile dealerships should not partner with us, this belief may become quickly and widely shared by automobile dealerships and we may lose a significant number of dealers in our network. A significant number of automobile dealerships are also members of larger dealer groups, and to the extent that a group decides to leave our network, this decision would typically apply to all dealerships within the group.

Furthermore, automobile manufacturers may provide their franchise dealers with financial or other marketing support, provided that such dealers adhere to certain marketing guidelines. Automobile manufacturers may determine that the manner in which certain of their franchise dealers use our platform is inconsistent with the terms of such marketing guidelines, which determination could result in potential or actual loss of the manufacturers' financial or other marketing support to the dealers whose use of the platform is deemed objectionable. The potential or actual loss of such marketing support may cause such dealers to cease being members of our TrueCar Certified

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Dealer network, which may adversely affect our ability to maintain or grow the number of dealers in our network.

We cannot assure you that we will maintain strong relationships with the dealers in our network of TrueCar Certified Dealers or that we will not suffer dealer attrition in the future. We may also have disputes with dealers from time to time, including relating to the collection of fees from them and other matters. We may need to modify our products, change pricing or take other actions to address dealer concerns in the future. If a significant number of these automobile dealerships decided to leave our network or change their financial or business relationship with us, then our business, growth, operating results, financial condition and prospects would suffer. Additionally, if we are unable to add dealers to our network, our growth could be impaired.

Our recent, rapid growth may not be indicative of our future growth and, if we continue to grow rapidly, we may not be able to manage our growth effectively.

Our revenue grew from $38.1 million in 2010 to $134.0 million in 2013 and from $56.3 million for the six months ended June 30, 2013 to $94.4 million for the six months ended June 30, 2014. We expect that, in the future, as our revenue increases, our rate of growth will decline. In addition, we will not be able to grow as fast or at all if we do not accomplish the following:

- maintain and grow our affinity group marketing partner relationships;
- increase the number of users of our products and services, and in particular the number of unique visitors to the TrueCar website and our branded mobile applications;
- maintain and expand our dealer network;
- further improve the quality of our existing products and services, and introduce high quality new products and services;
- increase the number of transactions between our users and TrueCar Certified Dealers; and
- introduce third party ancillary products and services.

We may not successfully accomplish any of these objectives. We plan to continue our investment in future growth. We expect to continue to expend substantial financial and other resources on:

- marketing and advertising, including a significant increase to our television advertising expenditures;
- product development; including investments in our product development team and the development of new products and new features for existing products; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

In addition, our historical rapid growth has placed and may continue to place significant demands on our management and our operational and financial resources. We have also experienced significant growth in the number of users of our platform as well as the amount of data that we analyze. As we continue to grow, we expect to hire additional personnel. Finally, our organizational structure is becoming more complex as we add additional staff, and we will need to improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to the car-buying experience for the consumer and the economics of the dealer.

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We may be unable to maintain or grow relationships with information data providers or may experience interruptions in the data feeds they provide, which may limit the information that we are able to provide to our users and dealers as well as the timeliness of such information and may impair our ability to attract or retain consumers and TrueCar Certified Dealers and to timely invoice our dealers.

We receive automobile purchase data from many third-party data providers, including our network of TrueCar Certified Dealers, dealer management system data feed providers, data aggregators and integrators, survey companies, purveyors of registration data and our affinity group marketing partners. In the states in which we employ a pay-per-sale billing model, we use this data to match purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer so that we may collect a transaction fee from those dealers and recognize revenue from the related transactions.

From time to time, we experience interruptions in one or more data feeds that we receive from third-party data providers, particularly dealer management system data feed providers, in a manner that affects our ability to timely invoice the dealers in our network. These interruptions may occur for a number of reasons, including changes to the software used by these data feed providers and difficulties in renewing our agreements with third-party data feed providers. In the states in which we employ a pay-per-sale billing model, an interruption in the data feeds that we receive may affect our ability to match automobile purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer, thereby delaying our submission of an invoice to an automobile dealer in our network for a given transaction and delaying the timing of cash receipts from the dealer. The redundancies of data feeds received from multiple providers may not result in sufficient data to match automobile purchases with users that obtained a Guaranteed Savings Certificate from a TrueCar Certified Dealer. In the case of an interruption in our data feeds, our billing structure may transition to a subscription model for automobile dealers in our network until the interruption ceases. However, our subscription billing model may result in lower revenues during an interruption and, when an interruption ceases, we are not always able to retroactively match a transaction and collect a fee. In addition, our likelihood of collection of the fee owed to us for a given transaction decreases for those periods in which we are unable to submit an invoice to automobile dealers. Interruptions which occur in close proximity to the end of a given reporting period could result in delays in our ability to recognize those transaction revenues in that reporting period and these short falls in transaction revenue could be material to our operating results.

We have operated our business at scale for a limited period of time and we cannot predict whether we will continue to grow. If we are unable to successfully respond to changes in the market, our business could be harmed.

Our business has grown rapidly as users and automobile dealers have increasingly used our products and services. However, our business is relatively new and has operated at a substantial scale for only a limited period of time. Given this limited history, it is difficult to predict whether we will be able to maintain or grow our business. We expect that our business will evolve in ways which may be difficult to predict. For example, we anticipate that over time we may reach a point when investments in new user traffic are less productive and the continued growth of our revenue will require more focus on increasing the number of transactions from which we derive revenue. It is also possible that car dealers could broadly determine that they no longer believe in the value of our services. In the event of these or any other developments, our continued success will depend on our ability to successfully adjust our strategy to meet the changing market dynamics. If we are unable to do so, our business could be harmed and our results of operations and financial condition could be materially and adversely affected.

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We have a history of losses and we may not achieve or maintain profitability in the future.

We have not been profitable since inception and had an accumulated deficit of $187.5 million at June 30, 2014. From time to time in the past, we have made significant investments in our operations which have not resulted in corresponding revenue growth and, as a result, increased our losses. We expect to make significant future investments to support the further development and expansion of our business and these investments may not result in increased revenue or growth on a timely basis or at all. In addition, as a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenditures, we have to generate and sustain increased revenue to achieve and maintain profitability.

We may incur significant losses in the future for a number of reasons, including slowing demand for our products and services, increasing competition, weakness in the automobile industry generally, as well as other risks described in this prospectus, and we may encounter unforeseen expenses, difficulties, complications and delays, and other unknown factors. If we incur losses in the future, we may not be able to reduce costs effectively because many of our costs are fixed. In addition, to the extent that we reduce variable costs to respond to losses, this may affect our ability to acquire consumers and dealers and grow our revenues. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses in the future, and this could cause the price of our common stock to decline.

The loss of a significant affinity group marketing partner or a significant reduction in the number of cars purchased from our TrueCar Certified Dealers by members of our affinity group marketing partners would reduce our revenue and harm our operating results.

Our financial performance is substantially dependent upon the number of automobiles purchased from TrueCar Certified Dealers by users of the TrueCar website and our branded mobile applications and the car-buying sites we maintain for our affinity group marketing partners. Currently, a majority of the automobiles purchased by our users were matched to the car-buying sites we maintain for our affinity group marketing partners. As a result, our relationships with our affinity group marketing partners are critical to our business and financial performance. However, several aspects of our relationship with affinity groups might change in a manner that harms our business and financial performance, including:

- affinity group marketing partners might terminate their relationship with us or make such relationship non-exclusive, resulting in a reduction in the number of transactions between users of our platform and TrueCar Certified Dealers;

- affinity group marketing partners might de-emphasize the automobile buying programs within their offerings, resulting in a decrease in the number of transactions between their members and our TrueCar Certified Dealers; or

- the economic structure of our agreements with affinity group marketing partners might change, resulting in a decrease in our operating margins on transactions by their members.

A significant change to our relationships with affinity group marketing partners may have a negative effect on our business in other ways. For example, the termination by an affinity group marketing partner of our relationship may create the perception that our products and services are no longer beneficial to the members of affinity groups or a more general negative association with our business. In addition, a termination by an affinity group marketing partner may result in the loss of the data provided to us by them with respect to automobile transactions. This loss of data may decrease the quantity and quality of the information that we provide to consumers and may also reduce our ability to identify transactions for which we can invoice dealers. If our relationships with

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affinity group marketing partners change our business, revenue, operating results and prospects may be harmed.

Any adverse change in our relationship with United Services Automobile Association, or USAA, could harm our business.

The single largest source of user traffic from our affinity group marketing partners comes from the site we maintain for USAA and USAA is our largest single stockholder. Upon completion of this offering, and after giving effect to its sale of shares in the offering, USAA will own shares, which represents % of our outstanding shares of common stock at June 30, 2014. In 2013, 171,795 units, or 43.0% of all units purchased by users from TrueCar Certified Dealers, were matched to users of the car-buying site we maintain for USAA. We define units as the number of automobiles purchased by our users from TrueCar Certified Dealers through the TrueCar website and our branded mobile applications or the car buying sites we maintain for our affinity group marketing partners. In the six months ended June 30, 2014, 98,464 units, or 36% of all units purchased by users from TrueCar Certified Dealers, were matched to users of the car-buying site we maintain for USAA. As such, USAA has a significant influence on our operating results. In May 2014, we entered into an extension of our affinity group marketing agreement with USAA that extends through February 13, 2020, but we cannot assure you that our agreement with USAA will be extended at the expiration of the current agreement on terms satisfactory to us, or at all. In addition, USAA has broad discretion in how the car-buying site we maintain for USAA is promoted and marketed on its own website. Changes in this promotion and marketing has in the past and may in the future adversely affect the volume of user traffic we receive from USAA. We cannot assure you that changes in our relationship with USAA or its promotion and marketing of our platform will not adversely affect our business and operating results in the future.

We are subject to a complex framework of federal and state laws and regulations primarily concerning vehicle sales, advertising and brokering, many of which are unsettled, still developing and contradictory, which have in the past, and could in the future, subject us to claims, challenge our business model or otherwise harm our business.

Various aspects of our business are or may be subject, directly or indirectly, to U.S. federal and state laws and regulations. Failure to comply with such laws or regulations may result in the suspension or termination of our ability to do business in affected jurisdictions or the imposition of significant civil and criminal penalties, including fines or the award of significant damages against us and our TrueCar Certified Dealers in class action or other civil litigation.

State Motor Vehicle Sales, Advertising and Brokering Laws

The advertising and sale of new or used motor vehicles is highly regulated by the states in which we do business. Although we do not sell motor vehicles, state regulatory authorities or third parties could take the position that some of the regulations applicable to dealers or to the manner in which motor vehicles are advertised and sold generally are directly applicable to our business. If our products and services are determined to not comply with relevant regulatory requirements, we or our TrueCar Certified Dealers could be subject to significant civil and criminal penalties, including fines, or the award of significant damages in class action or other civil litigation as well as orders interfering with our ability to continue providing our products and services in certain states. In addition, even absent such a determination, to the extent dealers are uncertain about the applicability of such laws and regulations to our business, we may lose, or have difficulty increasing the number of, TrueCar Certified Dealers in our network, which would affect our future growth.

Several states in which we do business have laws and regulations that strictly regulate or prohibit the brokering of motor vehicles or the making of so-called "bird-dog" payments by dealers

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to third parties in connection with the sale of motor vehicles through persons other than licensed salespersons. If our products or services are determined to fall within the scope of such laws or regulations, we may be forced to implement new measures, which could be costly, to reduce our exposure to those obligations, including the discontinuation of certain products or services in affected jurisdictions. Additionally, such a determination could subject us or our TrueCar Certified Dealers to significant civil or criminal penalties, including fines, or the award of significant damages in class action or other civil litigation.

In addition to generally applicable consumer protection laws, many states in which we do business have laws and regulations that specifically regulate the advertising for sale of new or used motor vehicles. These state advertising laws and regulations are frequently subject to multiple interpretations and are not uniform from state to state, sometimes imposing inconsistent requirements on the advertiser of a new or used motor vehicle. If the content displayed on the websites we operate is determined or alleged to be inaccurate or misleading, under motor vehicle advertising laws, generaly be issued in connection with stock options, restricted stock, deferred stock and other stock-based awards. Under the 2000 Plan, a maximum of 2,000,000 shares may be issued in connection with stock options, restricted stock, deferred stock and other stock-based awards. No executive officers of the Company are eligible for awards under the 2000 Plan. A total of 200,000 shares of our common stock were reserved for issuance under the Director Plan. Under both the 1996 Plan and the 2000 Plan, employee stock options may not be awarded with an exercise price less than fair market value on the date of grant. Generally, options are exercisable in installments of 20 percent beginning one year from date of grant and expire ten years after the grant date, provided the optionee continues to be employed by us. We may grant deferred restricted stock units under both the 1996 Plan and the 2000 Plan. Deferred restricted stock units were granted to certain officers and key employees. Restricted stock units vest generally five years from date of grant, provided the executive continues to be employed by us. In connection with the grant of these deferred restricted stock units, we recorded a net increase to unearned compensation of $0 million, $0.3 million and $0.6 million in fiscal 2003, 2002 and 2001, respectively. We amortized $0 million, $0.4 million and $0.5 million in 2003, 2002 and 2001, respectively, which is recorded as a component of store operating, selling, general and administrative expenses in the accompanying consolidated statements of operations We may also grant performance-based stock awards under both the 1996 Plan and the 2000 Plan. Performance-based stock awards include the granting of deferred stock units, representing rights to receive cash and/or common stock of the Company, at our discretion, based upon certain performance criteria generally over a three-year performance period. These performance-based stock awards vest over a period of time ranging from a minimum of three years to a maximum of the employee's attainment of retirement age. Compensation expense related to grants under these provisions is based on the current market price of our common stock at the date of grant and the extent to which performance criteria are being met. The 1996 Plan and 2000 Plan also offer incentive opportunities based upon performance results against pre-established earnings targets and other selected measures for each fiscal year. We also make cash award payments which employees may elect to defer up to 75% of such payment in deferred shares and receive a matching Company grant. The elective deferrals and matched amounts are deferred for a five year vesting period. The amount deferred will be paid in shares. In connection with the grant of these performance-based stock awards, we recorded an increase (decrease) to unearned compensation of $0.3 million and ($3.4 million) in 2003 and 2002, respectively. We also amortized $0.7 million, $0 million and $1.6 million into expense in 2003, 2002 and 2001, respectively, which is recorded as a component of store operating, selling, general and administrative F-34 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS expenses in the accompanying consolidated statements of operations. We made no payments in 2003 and paid $0.6 million in cash in 2002. The following table provides information relating to the potential dilutive effect and shares available for grant under each of our stock compensation plans. Number of Shares to be Weighted Number of Shares Number of Shares Issued upon Average Issued, Number of Shares Remaining Available Exercise of Exercise Price Inception to Date Remaining Available for Future Issuance, Outstanding of Outstanding as of for Future Issuance, as of Plan Category Options/Awards Options 1/3/2004 as of 1/3/2004 12/28/2002 --------------------- -------------- -------------- ---------------- ------------------- -------------------- 1996 Incentive Compensation Plan 1,857,667 $ 29 849,870 392,463 189,576 --------- ------------- ------- --------- --------- 2000 Equity Incentive Plan 890,833 $ 29 38,108 1,071,059 1,018,094 --------- ------------- ------- --------- --------- 1996 Non-Employee Director Stock Plan 119,350 $ 29 22,606 58,044 71,390 --------- ------------- ------- --------- --------- Total 2,867,850 $ 29 910,584 1,521,566 1,279,060 ========= ============= ======= ========= ========= The tables below provide information relating to employee stock options, deferred restricted stock units and performance-based stock awards: Employee Stock Options 2003 2002 2001 ---------------------- ---------------------- ---------------------- Employee Average Employee Average Employee Average Stock Option Stock Option Stock Option Options Price Options Price Options Price --------- ------- --------- ------- --------- ------- Outstanding, beginning of year 2,630,379 $ 30 2,286,050 $ 31 1,808,546 $ 25 Granted - - 559,200 $ 26 635,275 $ 45 Cancelled (255,543) $ 30 (179,061) $ 33 (80,401) $ 29 Shares issued - (35,810) $ 22 (77,370) $ 24 --------- --------- ------- --------- ------- Outstanding, end of year 2,374,836 2,630,379 $ 30 2,286,050 $ 31 ========= ========= ======= ========= ======= Exercisable, end of year 1,449,251 1,114,457 739,979 Deferred Restricted Stock Units and Shares and Performance-Based Stock Awards 2003 2002 2001 ----------------------- ----------------------- ---------------------- DEFERRED Deferred Deferred SHARES AND AVERAGE Shares and Average Shares and Average UNITS PRICE Units Price Units Price ---------- ------- ---------- ------- ---------- ------- Outstanding, beginning of year 427,739 $ 30 518,397 $ 29 578,483 $ 25 Granted 119,273 $ 8 49,352 $ 26 102,018 $ 45 Cancelled (119,583) $ 30 (54,000) $ 27 (38,449) $ 25 Shares issued (53,766) $ 29 (86,010) $ 27 (123,655) $ 26 -------- ------- ------- ------- -------- ------- Outstanding, end of year 373,663 $ 23 427,739 $ 30 518,397 $ 29 ======== ======= ======= ======= ======== ======= F-35 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Summarized information about stock options outstanding as of January 3, 2004 is as follows: Options Outstanding Options Exercisable --- ----------------------- Weighted Average Weighted Weighted Remaining Average Average Exercise Number Contractual Exercise Number Exercise Price Range Outstanding Term (Years) Price Exercisable Price ----------- ----------- ----------- -------- ---------- -------- $ 7 - 9 250 0.9 $ 7 50 $ 7 $10 - 19 8,460 1.1 $ 14 1,820 $ 13 $20 - 29 1,461,731 2.5 $ 24 866,492 $ 23 $30 - 39 456,885 1.8 $ 33 385,929 $ 32 $40 - 47 447,510 3.0 $ 46 194,960 $ 46 ======== ======== === ======== ========= ======== Total 2,374,836 2.4 $ 30 1,449,251 $ 29 DIRECTOR STOCK PLAN The Director Plan

is intended to assist us in attracting and retaining highly qualified persons to serve as non-employee directors. Any person who becomes an eligible director receives an initial option to purchase 2,000 shares of common stock. All options are awarded with an exercise price equal to the fair market value of the common stock on the date of grant. Generally, options are exercisable in installments of 20% beginning one year from date of grant and expire ten years after the grant date, provided the non-employee director is still a member of the board. Commencing in 2003, the Director Plan also provides for automatic grants of 4,000 stock units ("Stock Units") to each non-employee director on the date of the annual meeting of our shareholders. Prior to fiscal 2003, the Director Plan provided for automatic amounts of 2,000 stock units. Each Stock Unit represents the right to receive one share of our common stock at the end of a specified period and vests six months and a day after the grant date. Fifty percent of such Stock Units are payable upon vesting, provided the non-employee director has not ceased to serve as a director for any reason other than death, disability or retirement. The remaining fifty percent of such Stock Units are payable upon the latter of ceasing to be a director or attaining age 65, provided that settlement of such Stock Units shall be accelerated in the event of death, disability or a change in control. F-36 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The following tables provide information relating to the status of, and changes in, options and Stock Units granted under the Director Plan: Director Plan Stock Options -- 2003 2002 2001 ------------------ ------------------ ------------------- AVERAGE Average Average STOCK OPTION Stock Option Stock Option OPTIONS PRICE Options Price Options Price ------- ------- ------- ------- ------- ------- Outstanding, at beginning of year 16,000 $ 26 16,000 $ 26 16,000 $ 26 Granted - - - - - - Shares Issued - - - - - - ------- ------- ------- ------- ------- ------- ------- ------- Outstanding, at end of year 16,000 $ 26 16,000 $ 26 16,000 $ 26 ======= ======= ======= ======= ======= ======= Options exercisable, at end of year 15,200 14,400 13,600 Director Plan Stock Units 2003 2002 2001 ----------------- ------------------ ------------------- AVERAGE Average Average STOCK UNIT Stock Unit Stock Unit UNITS(1) PRICE Units Price Units Price -------- ------- ------ ------- ------ ------- Outstanding, at beginning of year 66,000 $ 32 56,000 $ 33 45,000 $ 33 Granted - N/A 14,000 27 14,000 36 Shares Issued - N/A (4,000) 27 (3,000) 36 ------- ------- ------ ------- ------ ------- Outstanding, at end of year 66,000 $ 32 66,000 $ 32 56,000 $ 33 ======= ======= ====== ======= ====== ======= (1) Since there was no annual meeting in fiscal 2003 no Stock Units were granted. ASSOCIATE STOCK PURCHASE PLAN During 1997, we adopted an Associate Stock Purchase Plan ("ASPP") to provide substantially all employees who have completed service requirements an opportunity to purchase shares of our common stock through payroll deductions, up to 10% of eligible compensation to a maximum of $25,000 (in fair market value of common stock purchased) annually. Quarterly, participant account balances are used to purchase shares of stock at 85% of the lower of the fair market value of the shares at the beginning of the offering period or the purchase date. A total of 1,600,000 shares were available for purchase under the plan, with 949,768 available as of January 3, 2004. There were 180,276, 168,187 and 68,216 shares purchased under this plan in fiscal year 2003, 2002, and 2001, respectively. On December 29, 2003, the New York Stock Exchange ("NYSE") suspended trading in our common stock and, at a later date, our common stock was delisted. As a result of the NYSE action, we have suspended purchases of our common stock through the ASPP effective December 29, 2003. F-37 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 23. TREASURY STOCK From May 1997 through the end of fiscal year 2002, our Board of Directors authorized five stock repurchase programs of approximately 3,050,000, 3,000,000, 2,450,000, 2,210,000 and 2,000,000 shares. As of January 3, 2004, an aggregate of 11,218,200 shares for an aggregate purchase amount of $325.3 million, or approximately 37% of the total common stock outstanding prior to the repurchase programs, have been repurchased in the open market during this period. The treasury shares may be used under our equity incentive plans and for other corporate purposes. During fiscal years 2003 and 2002, we issued no shares out of treasury in connection with our stock incentive plans. 24. 401(k) PROFIT SHARING PLAN We have a tax qualified 401(k) Profit Sharing Plan available to full-time employees who meet the plan's eligibility requirements. This plan, which is also a defined contribution plan, contains a profit sharing component, with tax-deferred contributions to each employee based on certain performance criteria, and also permits employees to make contributions up to the maximum limits allowed by the Internal Revenue Code Section 401(k). Under the 401(k) profit sharing component, we match a portion of the employee's contribution under a pre-determined formula based on the level of contribution and years of vesting service. Our contributions to the plan are made in cash. Our stock is not used to fund the plan, nor is it an investment option for employees under the plan. Contributions to the plan by us for both profit sharing and matching of employee contributions were approximately $2.3 million, $2.6 million and $2.6 million for fiscal years 2003, 2002 and 2001, respectively. 25. POSTRETIREMENT BENEFITS We provide postretirement health benefits for current retirees and a "closed" group of active employees who meet certain eligibility requirements. For an active employee to be eligible for future retiree medical benefits, they must meet all of the following criteria: - have a minimum of 10 years of full time active service as of December 31, 1992, and have been enrolled in the medical plan on that date, - have continuously participated in the medical plan since that date, and, - continue employment with us until at least age 60, or have been terminated by us involuntarily due to job elimination and had a minimum of 30 years of continuous service and be at least 50 years of age on the actual termination date. F-38 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The following table represents our change in benefit obligations (in millions): 2003 2002 ------ ------ Benefit obligation at beginning of year $ 19.8 $ 19.8 Service cost 0.3 0.3 Interest cost 1.3 1.3 Amendments - (2.2) Actuarial loss 1.4 2.4 Benefits paid (1.6) (1.4) Participant contributions 0.3 0.2 ------ ------ Benefit obligation at end of year 21.5 $ 20.4 Unrecognized net actuarial gain 0.5 2.0 Unrecognized prior service cost 7.3 8.5 ------ ------ Accrued benefit cost (unfunded) $ 29.3 $ 30.9 ------ ------ 2003 2002 ---- ---- Weighted-average assumptions as of December 31 Discount Rate 6.25% 6.75% ---- ---- For measurement purposes, a 13% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal year 2003. The rate was assumed to decrease gradually to 5.0% for fiscal year 2013 and remain at that level thereafter. The components of our net periodic benefit cost were as follows (in millions): 2003 2002 2001 ------ ------ ------ Service cost $ 0.3 $ 0.3 $ 0.3 Interest cost 1.3 1.3 1.3 Amortization of prior service cost (1.3) (1.2) (1.0) Recognized net actuarial gain - (0.2) (0.3) ------ ------ ------ Net periodic benefit cost $ 0.3 $ 0.2 $ 0.3 ------ ------ ------ Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects: 1-PERCENTAGE 1-PERCENTAGE POINT INCREASE POINT DECREASE ------------- ------------- Effect on total of service and interest cost components 0.2 (0.2) Effect on postretirement benefit obligation 2.9 (2.4) ------- F-39 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Our estimate of our future postretirement health benefit payments, net of participant contributions and estimated medical drug subsidies of approximately $2.4

million for 2006 through 2013, is as follows (in millions): 2004 $ 1.4 2005 1.2 2006 1.1 2007 1.1 2008 1.1 2009 - 2013 5.9 26. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN We have an unfunded Supplemental Executive Retirement Plan ("SERP"). The SERP is designed to provide competitive retirement benefits to selected executives with at least ten years of credited service. The major provisions and assumptions of the SERP are: - The normal retirement benefit commencing at age 60 is equal to 2% of the average of the three highest salary amounts received by the executive in the preceding ten years, plus the target annual incentive, as defined, for each full year of service with the Company. In the case of retirement before age 60, a reduced benefit is provided. - The maximum annual benefit available under the plan is 50% of compensation, as defined. - The benefits are generally payable in annual installments for the life of the executive, but, other forms of payment equivalent to actuarial value may be elected. - The assumed discount rate was 6.75% and 7.25% in fiscal 2003 and 2002, respectively. - The assumed salary rate of increase was 5.0% in both fiscal 2003 and 2002. (Income)/expense related to the SERP was $(5.3) million, $1.5 million and $1.3 million in fiscal years 2003, 2002 and 2001, respectively. The SERP liability was approximately $3.5 million and $8.7 million as of January 3, 2004 and December 28, 2002, respectively. Effective September 12, 2003, J.M. Robinson was terminated as Chairman, President and Chief Executive Officer of the Company as a result of the investigation of the restatement. Mr. Robinson is no longer eligible for benefits under the SERP. Accordingly, during fiscal 2003 we reduced our SERP liability by $7.2 million in connection with his termination (see Note 27 "Commitments and Contingencies"). 27. COMMITMENTS AND CONTINGENCIES On the Petition Date, we commenced the Chapter 11 cases under the Bankruptcy Code. We have continued to manage our business as debtors in possession, subject to the supervision of the Court and in accordance with the provisions of the Bankruptcy Code. An immediate effect of the filing of the Chapter 11 cases was the imposition of the automatic stay under Section 362 of the Bankruptcy Code (the "Automatic Stay"), which, with limited exceptions, enjoins the commencement or continuation of all collection efforts by creditors, enforcement of liens against any assets of the Company, and litigation against us. However, the Automatic Stay is applicable only to litigation against us, and not F-40 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS against any of our officers and directors. We may request the Court to extend the Automatic Stay to cover our respective officers and directors in any litigation filed, but absent Court approval, such litigation may proceed. The Automatic Stay has no effect on the SEC investigation discussed below. Restatement Related Litigation Prior to our November 13, 2002 announcement that management had discovered discrepancies in the reporting of our accounts payable balances, we notified the Staff of the SEC concerning the discovery of the accounting discrepancies. Following that notification, the SEC began a regulatory proceeding captioned, In the Matter of Footstar, Inc., MNY-7122, including an investigation into the facts and circumstances giving rise to the restatement. On November 25, 2003 the SEC issued a Formal Order in that regulatory proceeding, authorizing an investigation and empowering certain members of the SEC staff to take certain actions in the course of the investigation, including requiring testimony and the production of documents. We cannot predict the outcome of these proceedings. The fact-finding investigation authorized by the Formal Order includes determining whether the Company and certain of its present or former directors, officers and employees may have engaged in violations of the federal securities laws in connection with: the purchase or sale of the securities of the Company; required filings with the SEC; maintenance of our books, records and accounts; implementation and maintenance of internal accounting controls; making of false or misleading statements or omissions in connection with required audits or examinations of our consolidated financial statements or the preparation and filing of documents or reports we are required to file with the SEC. The Company has been and intends to continue cooperating fully with the SEC. The Company and certain of its directors and officers were defendants in two derivative suits (consolidated into a single action as described below) and several purported class action lawsuits (also consolidated into a single action as described below) alleging violations of federal securities laws and breaches of fiduciary duties. Messrs. Stearns, Day, Davies and Olshan, members of the Company's Board of Directors, and J.M. Robinson, its former Chairman, President and Chief Executive Officer, and Stephen Wilson, an officer of the Company, were named as defendants in two derivative complaints filed by individual shareowners, one in the United States District Court for the Southern District of New York and one in the Supreme Court of the State of New York, Rockland County. In New York, the Supreme Court is a trial level court. The complaints alleged that these directors and officers breached their fiduciary duties to the Company by failing to implement and maintain an adequate internal accounting control system, sought unspecified damages against the defendants and in favor of the Company, as well as costs and expenses associated with the litigation. These complaints were consolidated in a single action in the United States District Court for the Southern District of New York captioned, Barry Lee Bragger v. J.M. Robinson, et al., Civil Action No. 02 Civ. 9163 (SCR). With Court approval, Footstar and the relevant individual parties mutually agreed to resolve the claims made in the derivative complaints, without any admission of liability, for $9.2 million, all of which has been funded with insurance proceeds paid to the Company. An order has been issued by the court before which this litigation was pending dismissing the matter with prejudice. The Company and Messrs. Robinson and Wilson have been named as defendants in several purported shareholder class action lawsuits for alleged violations of securities laws. These actions seek unspecified monetary damages and costs and expenses associated with the litigation. These initial complaints allege that beginning mid-May 2000, the Company and its officers named above misrepresented our financial performance. The cases have been consolidated into a single action F-41 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS pending in the United States District Court for the Southern District of New York, captioned, Stephen Rush v. Footstar, Inc., et al., 02 Civ. 9130 (SRC) (Consolidated). Footstar and the named plaintiffs have mutually agreed to resolve the claims made in the several purported class action lawsuits, without any admission of liability, for the amount of $14.3 million, all of which will be funded with insurance proceeds. Footstar is in the process of seeking approval from class members and upon such approval, seeking an order from the court before which this litigation is pending, dismissing it with prejudice. Adversary Proceedings Involving Kmart On January 22, 2002, Kmart filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. Kmart's final Plan of Reorganization was confirmed on April 23, 2003 and Kmart assumed our Master Agreement when the plan became effective on May 6, 2003. All proceeds due to Meldisco from the sale of products in the licensed footwear departments at Kmart stores, both before and after the bankruptcy filing date, have been paid to Meldisco in a timely manner. On August 12, 2004, we filed a motion to assume the Master Agreement (the "Assumption Motion"). On September 30, 2004, Kmart filed an objection to this motion (the "Assumption Objection") and cross-moved to lift the Automatic Stay to enable Kmart to terminate the Master Agreement (the "Cross-Motion"). In the Assumption Objection, Kmart argued that the Master Agreement was non-assumable under section 365(c)(1) of the Bankruptcy Code because applicable law rendered the Master Agreement non-assignable. In addition, Kmart argued that the Master Agreement was non-assumable

pursuant to section 365(b)(2)(D) of the Bankruptcy Code because we had defaulted under the Master Agreement and such defaults are incurable. Finally, Kmart disputed the amount of cure we would owe should they be authorized to assume the Master Agreement. We contend that the cure amount is approximately $19.0 million, as of the Petition Date, while Kmart asserts that the cure amount is not less than $57.8 million. In the Cross-Motion, Kmart argued that, because the Master Agreement is non-assumable, it should be entitled to exercise a termination provision pursuant to section 365(e)(2) of the Bankruptcy Code. We contested the factual assertions and arguments contained in the Assumption Objection and the Cross-Motion. Specifically, we argued that applicable nonbankruptcy law does not prevent us from assigning the Master Agreement. In addition, we argued that, even if applicable nonbankruptcy law prevented assignment of the Master Agreement, section 365(c)(1) did not prevent us from assuming the Master Agreement. Finally, we argued that section 365(b)(2)(D) did not prevent assumption. On December 17, 2004, a hearing was held to determine whether, as a matter of law, we can assume the Master Agreement. On February 16, 2005, the Court issued its Decision on Motion to Assume Executory Contracts (the "Assumption Decision"). In the Assumption Decision, the Court overruled the Assumption Objection to the extent it was based upon section 365(c)(1) of the Bankruptcy Code. Specifically, the Court ruled that section 365(c)(1) does not prevent assumption of the Master Agreement by us because we do not intend to assign the Master Agreement. The Court did not reach the issue of whether the Master Agreement was assignable under applicable nonbankruptcy law. The Court reserved its decision on the issue of section 365(b)(2)(D) upon the completion of discovery. F-42 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS The Court has not rendered a decision on the remaining issues raised by the Assumption Objection or the Cross-Motion. On February 28, 2005, Kmart filed its Motion for Reargument of Decision on Motion to Assume Executory Contract (the "Reargument Motion"). In the Reargument Motion, Kmart requested that the Court reconsider its Assumption Decision on the grounds that controlling precedent mandates a reversal of the Assumption Decision. We filed our response to the Reargument Motion on March 18, 2005. The Court held a hearing on the Reargument Motion on March 31, 2005. At this hearing, the Court reaffirmed the Assumption Decision. Kmart has requested additional briefing and argument before the Court with respect to the termination of the Master Agreement pursuant to section 365(e)(2) of the Bankruptcy Code. The hearing date on this matter has been set for April 21, 2005. On March 17, 2005, the Court entered a scheduling order establishing a timetable for the resolution of the remaining issues raised by the Assumption Motion, the Assumption Objection, and the Cross-Motion. While the Court did not schedule a final hearing date, we anticipate a final hearing will be held in July of 2005. There is no guarantee that the Court will authorize us to assume the Master Agreement or Kmart to terminate the Master Agreement under section 365(e)(2) of the Bankruptcy Code. Additionally, we cannot be sure what cure amounts will be owing to Kmart if the Court authorizes us to assume the Master Agreement. In June 2004, Kmart announced the sale of 54 of its retail store locations to Sears, Roebuck and Co. ("Sears") but agreed that Kmart would continue to operate such stores until Sears could complete its conversion plans. Thereafter, in November 2004, Kmart announced plans to acquire Sears (the "Sears Acquisition"), which closed on March 24, 2005. Following the announcement of the Sears Acquisition, we received inconsistent information from Kmart regarding its plans to convert certain of its stores to a different retail format. Initially, Kmart advised us of its intent to convert approximately 25 of the 54 stores to a Sears retail format, and that Kmart expected us to discontinue operating the footwear departments in those stores. Kmart then informed us that only 11 of these 25 stores were slated for a format conversion. After receiving inconsistent information from Kmart regarding its plans for the stores, we filed a motion with the Court on January 28, 2005 (the "Examination Motion") seeking to compel Kmart to produce certain documents relating to the proposed Sears Acquisition and Kmart's business plans relating to the operation of footwear departments in its stores. Shortly after we filed the Examination Motion, Kmart announced its plan to begin the reconfiguration of some of the stores slated for conversion to a new Sears format. We then received a notice from Kmart instructing us that we should either vacate approximately 24 stores or have the footwear departments relocated within the stores while the reconfiguration took place. We believe that the Master Agreement continues to grant us the exclusive right to operate footwear departments in all stores which are directly or indirectly owned by Kmart and which at one time operated as Kmart stores, whether or not Kmart converts certain of the stores to a different discount retail format, such as the Sears format. Accordingly, after receiving the notice from Kmart, we filed a motion (the "Enforcement Motion") requesting that the Court adjudge and determine Kmart to be in contempt for violation of the Automatic Stay and assess compensatory damages. Kmart replied to the Enforcement Motion by arguing that the automatic stay did not prevent Kmart from converting the stores to a F-43 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS different format because our rights under the Master Agreement to sell footwear in the converting stores expires upon their conversion. On February 24, 2005, the Court held a preliminary hearing with respect to the Enforcement Motion and ruled that the automatic stay barred Kmart from taking any actions to remove us from the stores absent a motion for relief from the automatic stay. Accordingly, on March 4, 2005, Kmart filed a motion seeking relief from the Automatic Stay to require us to vacate approximately 24 stores on or before April 13, 2005 (the "Kmart Stay Motion"). On April 6, 2005, the Court heard legal arguments concerning our claim that we have the right to continue to operate in the converted stores and reserved decision. Footstar and Kmart are discussing a schedule for discovery on any factual issues relating to the Kmart Stay Motion that might remain outstanding after the Court renders an opinion on the issues raised at the April 6, 2005 hearing. Other Matters Mr. Robinson's employment as our Chairman, President and Chief Executive Officer was terminated on September 12, 2003. Mr. Robinson had an employment agreement with us and initiated arbitration proceedings against us for benefits under such agreement. In July 2004, the parties agreed to settle such matter for $5.1 million. This amount was accrued in fiscal 2003, and was offset by the reversal of his $7.2 SERP liability (see Note 26 "Supplemental Executive Retirement Plan"). In 2002, we estimated our contingent liability for various payroll tax related exposures, all of which relate to our discontinued Athletic Segment, to be in the range of $4.2 million to $10.2 million and provided for $4.2 million as of December 28, 2002. As of January 3, 2004, we provided $1.9 million for the estimated various payroll tax related exposures. We will continue to assess this estimated reserve in future periods as amounts are settled with taxing authorities. We are involved in other various claims and legal actions arising in the ordinary course of business. We do not believe that any of them will have a material adverse effect on our financial position. 28. SUPPLEMENTAL CASH FLOW INFORMATION Cash payments for income taxes and interest for the fiscal years ended January 3, 2004, December 28, 2002 and December 29, 2001 were as follows (in millions): 2003 2002 2001 ---- ------ ------ Income taxes 5.1 $ 15.2 $ 35.1 Interest 21.1 13.9 16.8 ---- ------ ------ 29. VENDOR CONCENTRATION In general, the retailing business is highly competitive. Price, quality and selection of merchandise, reputation, store location, advertising and customer service are important competitive factors in our business. In fiscal 2003, approximately 92% of Meldisco's

products were manufactured in China. F-44 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30. SUMMARY OF QUARTERLY RESULTS - UNAUDITED (in millions, except per share data) 1ST QTR 2ND QTR 3RD QTR(2) 4TH QTR(3) -- -------- ------- ---------- ---------- NET SALES(1) 2003 $ 240.9 $ 262.4 $ 239.6 $ 272.7 2002 $ 315.6 $ 367.6 $ 321.6 $ 341.2 -------- ------- ---------- ---------- GROSS PROFIT(1) 2003 $ 66.9 $ 89.7 $ 71.5 $ 95.7 2002 $ 85.4 $ 124.9 $ 96.9 $ 121.4 -------- ------- ---------- ---------- (LOSS) INCOME FROM CONTINUING OPERATIONS(1) 2003 (3)(6)(8) $ (6.4) $ 13.7 $ 2.5 $ (24.3) 2002 (3)(4)(5)(7) $ (20.8) $ 5.1 $ (14.0) $ (7.3) -------- ------- ---------- ---------- (LOSS) INCOME FROM DISCONTINUED OPERATIONS(1) -------- ------- ---------- ---------- 2003 (9) $ (4.5) $ (4.0) $ (1.7) $ (29.7) 2002 $ (2.4) $ (5.3) $ (39.6) $ (19.2) -------- ------- ---------- ---------- NET (LOSS) INCOME 2003 $ (10.9) $ 9.7 $ 0.8 $ (54.0) 2002 $ (23.2) $ (0.2) $ (53.6) $ (26.5) (LOSS) EARNINGS PER SHARE(10) 2003 Basic and Diluted Continuing operations $ (0.31) $ 0.66 $ 0.12 $ (1.18) Discontinued operations (0.22) (0.19) (0.09) (1.44) -------- ------- ---------- ---------- Net (loss) income $ (0.53) $ 0.47 $ 0.03 $ (2.62) 2002 Basic and Diluted Continuing operations $ (1.02) $ 0.25 $ (0.68) $ (0.36) Discontinued operations (0.12) (0.26) (1.94) (0.94) -------- ------- ---------- ---------- Net loss $ (1.14) $ (0.01) $ (2.62) $ (1.30) (1) The Athletic Segment, which consisted of certain Footaction stores sold to Foot Locker together with the closure of the underperforming Just For Feet Footaction stores, has been accounted for as discontinued operations. (2) During the first quarter of 2003, we recorded restructuring and asset impairment charges totaling $18.2 million related to inventory write-downs, employee severance and asset impairments in connection with the closing of 316 Kmart stores. (3) During the first quarter of 2002, we recorded restructuring and asset impairment charges totaling $16.0 million related to inventory write-downs and employee severance in connection with the closing of 283 Kmart stores. (4) In connection with our adoption of FASB No. 142, we recorded a retroactive reduction in net income of $24.3 million in 2002 as a cumulative effect of a change in accounting principle. (5) During the second quarter of 2002, we recorded restructuring, asset impairment and other charges totaling $14.6 million in inventory write-downs, asset impairment charges, lease exit costs and severance costs associated with our decision to terminate two unprofitable licensed footwear departments. In addition, we recorded a charge for bad debts of $9.2 million in connection with our receivable from Ames. (6) During the third quarter of 2003, we recorded a reversal of SERP liability of $7.2 million and other income of $5.4 million related to the Land Rover trademark. (7) During the third quarter of fiscal year 2002, we recorded restructuring, asset impairment and other charges totaling $13.3 million and which related to inventory write-downs, employee severance and asset impairment charges associated with Ames' decision to liquidate and close all of its stores. (8) During the fourth quarter of 2003, we recorded charges totaling $14.5 million related to the write-off of deferred financing costs, returns and allowances, fixed assets and taxes other than income taxes. F-45 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (9) During the fourth quarter of 2003, we recorded charges in discontinued operations totaling $10.5 million related to the write-off of Just For Feet intangible assets and the write-down of inventory. (10) Computations for each quarter are independent. EPS data would neither be restated retroactively nor adjusted currently to obtain quarterly (or other period) amounts to equal the amount computed for the year to date due to fluctuations in stock price. F-46 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. FOOTSTAR, INC. By /s/ DALE W. HILPERT ------------------------------------ DALE W. HILPERT Chairman of the Board, Chief Executive Officer and President Pursuant to the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated. Signature Title Date ----------------------- -------------------------------- ------------- /s/ DALE W. HILPERT Chairman of the Board and ----------------------- Chief Executive Officer Dale W. Hilpert (Principal Executive Officer) April 5, 2005 /s/ NEELE E. STEARNS, JR. Interim Vice Chairman and Director April 4, 2005 ----------------------- Neele E. Stearns, Jr. /s/ RICHARD L. ROBBINS Senior Vice President Financial ----------------------- Reporting and Control Richard L. Robbins (Principal Financial Officer and Principal Accounting Officer) April 7, 2005 /s/ ROBERT A. DAVIES, III Director April 7, 2005 ----------------------- Robert A. Davies, III /s/ GEORGE S. DAY Director April 7, 2005 ----------------------- George S. Day /s/ STANLEY P. GOLDSTEIN Director April 4, 2005 ----------------------- Stanley P. Goldstein /s/ BETTYE MARTIN MUSHAM Director April 4, 2005 ----------------------- Bettye Martin Musham /s/ KENNETH S. OLSHAN Director April 4, 2005 ----------------------- Kenneth S. Olshan /s/ JEFFREY A. SHEPARD Director April 2, 2005 ----------------------- Jeffrey A. Shepard 86 FOOTSTAR, INC. AND SUBSIDIARY COMPANIES Valuation and Qualifying Accounts for the Fiscal Years ended January 3, 2004, December 28, 2002 and December 29, 2001 (in millions) Schedule II Additions Balance at Charged to Beginning Costs and Balance at Description of Fiscal Year Expenses(3) Deductions(2)(3) End of Fiscal Year ----------------------------------- ------------- ---------- ---------------- ----------------- Fiscal Year Ended January 3, 2004 Allowance for Doubtful Accounts $ 2.3 $ 0.2 ($ 2.2) $ 0.3 Aged Inventory Reserve $ 0.5 $ 0.5 - $ 1.0 Allowance for Sales Returns $ 0.4 $ 1.4 - $ 1.8 Fiscal Year Ended December 28, 2002 Allowance for Doubtful Accounts $ 1.9 $ 9.7(1) $ (9.3) $ 2.3 Aged Inventory Reserve $ 0.9 - ($ 0.4) $ 0.5 Allowance for Sales Returns $ 0.5 - ($ 0.1) $ 0.4 Fiscal Year Ended December 29, 2001 Allowance for Doubtful Accounts $ 1.9 $ 0.1 ($ 0.1) $ 1.9 Aged Inventory Reserve $ 0.6 $ 0.3 - $ 0.9 Allowance for Sales Returns $ 0.5 - - $ 0.5 Note: This Schedule II has been restated to reflect continuing operations only. (1) Additions include $9.2 million of expense relating to uncollectible receivables from Ames Department Stores. (2) Deductions of allowance for doubtful accounts include write-offs, net of recoveries. (3) We determine the aged inventory reserve and allowance for sales returns as of the end of each reporting period. Accordingly, the above schedule reflects net additions (deductions) for each period, as applicable. 87 EXHIBIT INDEX Exhibit Number DESCRIPTION ------- ---------- 2.1 Form of Distribution Agreement among Melville Corporation ("Melville"), Footaction Center, Inc., and Footstar, Inc. (incorporated by reference to Exhibit 2.1 to Footstar, Inc.'s Form 10/A Information Statement filed on September 13, 1996). 3.1 Amended and Restated Certificate of Incorporation of Footstar, Inc. (incorporated by reference to Exhibit 3.1 to Footstar, Inc.'s Form 10/A Information Statement filed on September 13, 1996). 3.2 Bylaws of Footstar, Inc. (incorporated by reference to Exhibit 3.2(a) to Footstar, Inc.'s Annual Report on Form 10-K filed on March 30, 2001). 4.1 Rights Agreement, dated as of March 8, 1999, between Footstar, Inc. and ChaseMellon Shareholder Services, L.L.C. (now Mellon Investor Services LLC), as Rights Agent, which includes, as Exhibit A, the Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of Footstar, Inc., as Exhibit B, the Form of Right Certificate, and as Exhibit C, the Summary of Rights to Purchase Preferred Shares (incorporated by reference to Exhibit 1 to Footstar, Inc.'s Form 8-A filed on March 9, 1999) and Amendment No. 1 dated as of May 31, 2002 (incorporated by reference to Exhibit 2 to Footstar, Inc.'s Form 8-A filed on June 4, 2002). 10.1 Master Agreement, dated as of June 9, 1995, as amended, between the Kmart Corporation and Footstar,

Inc. (incorporated by reference to Exhibit 10.1 to Footstar, Inc.'s Form 10/A Information Statement filed on May 24, 1996 and the exhibits filed with Exhibit 10.1 to Footstar, Inc.'s Form 10/A Information Statement filed on July 23, 1996. Certain portions of these Exhibits have been accorded confidential treatment). 10.2 Form of Tax Disaffiliation Agreement between Melville and Footstar, Inc. (incorporated by reference to Exhibit 10.2 to Footstar, Inc.'s Form 10/A Information Statement filed on September 13, 1996). 10.3 1996 Incentive Compensation Plan of Footstar, Inc. (incorporated by reference to Exhibit 10.3 to Footstar, Inc.'s Form 10/A Information Statement filed on September 13, 1996).* 10.4 1996 Non-Employee Director Stock Plan of Footstar, Inc. (incorporated by reference to Exhibit 10.4 to Footstar, Inc.'s Form 10/A Information Statement filed on September 13, 1996).* 10.5 Motion of the Registrant to Assume the Employment Contract with Dale W. Hilpert and Establish a Retention Plan for Key Employees with Related Orders Dated May 6, 2004 and May 27, 2004 (incorporated by reference to Exhibit 10.5 of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.5(a) Amended and restated Employment Agreement for Dale W. Hilpert as amended by Court order dated May 27, 2004.* 10.5(b) Employment Agreement with Neele E. Stearns, Jr. (incorporated by reference to Exhibit 99.2 to Footstar, Inc.'s 8-K filed on February 18, 2004). * 88 10.5(c) Employment Agreement with Stephen R. Wilson (incorporated by reference to Exhibit 10.5(d) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004).* 10.5(d) Settlement Agreement with J.M. Robinson (incorporated by reference to Exhibit 99.2 to Footstar, Inc.'s Form 8-K filed on July 7, 2004). 10.5(e) Agreement and General Release with R. Shawn Neville (incorporated by reference to Exhibit 10.5(k) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.5(f) Agreement and General Release with Mark G. Morrison (incorporated by reference to Exhibit 10.1 to Footstar Inc.'s Form 8-K filed on February 22, 2005). 10.5(g) Agreement and General Release with James DeVeau. 10.5(h) Confidentiality and Non-Competition Agreement with Jeff Shepard.* 10.5(i) Confidentiality and Non-Competition Agreement with Maureen Richards.* 10.5(j) Confidentiality and Non-Competition Agreement with Richard Robbins.* 10.6 Footstar Deferred Compensation Plan (incorporated by reference to Exhibit 10.8 to Footstar, Inc.'s 1996 Annual Report on Form 10-K filed on March 28, 1997).* 10.7(a) Supplemental Retirement Plan for Footstar, Inc., as Amended and Restated effective on June 19, 2002 (incorporated by reference to Exhibit 10.9(a) to Footstar, Inc.'s Quarterly Report on Form 10-Q filed on August 13, 2002).* 10.7(b) Compensation program covering executive officers (incorporated by reference to Footstar, Inc.'s Current Report on Form 8-K filed on December 20, 2004). * 10.7(c) Performance Criteria under 2005 Annual Bonus Plan (incorporated by reference to Footstar, Inc.'s Current Report on Form 8-K filed on January 28, 2005). * 10.8(a) Credit Agreement, dated as of October 18, 2002, by and among Footstar, Inc., Footstar Corporation, the Lenders listed therein, Fleet National Bank, as Swingline Lender and Administrative Agent, Fleet Retail Finance, Inc., as Collateral Agent, Congress Financial Corporation and Wells Fargo Retail Finance, LLC, as Syndication Agents and JPMorgan Chase Bank, as Documentation Agent ("Credit Agreement") (incorporated by reference to Exhibit 99.1 of Footstar, Inc.'s Current Report on Form 8-K filed on October 23, 2002). 10.8(b) Amendment No. 1, dated as of January 3, 2003, to Credit Agreement (incorporated by reference to Exhibit 10.2 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.8(c) Amendment No. 2, dated as of March 21, 2003, to Credit Agreement (incorporated by reference to Exhibit 10.3 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.8(d) Amendment No. 3, dated as of June 28, 2003, to Credit Agreement (incorporated by reference to Exhibit 10.6 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.8(e) Amendment No. 4, dated as of September 24, 2003, to Credit Agreement (incorporated by reference 89 to Exhibit 99.1 of Footstar, Inc.'s Current Report on Form 8-K filed on September 29, 2003). 10.8(f) Amendment No. 5 dated as of October 31, 2003 to Credit Agreement (incorporated by reference to Exhibit 99.1 of Footstar, Inc.'s Current Report on Form 8-K filed on November 3, 2003). 10.8(g) Amendment No. 6 dated as of January 30, 2004 to Credit Agreement (incorporated by reference to Exhibit 10.8(g) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004).* 10.8(h) Amendment No. 7 dated as of February 11, 2004 to Credit Agreement (incorporated by reference to Exhibit 10.8(h) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004).* 10.8(i) Waiver, dated as of November 12, 2002, to Credit Agreement (incorporated by reference to Exhibit 10.1 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.8(j) Waiver, dated as of April 30, 2003, to Credit Agreement (incorporated by reference to Exhibit 10.4 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.8(k) Waiver, dated as of May 29, 2003, to Credit Agreement (incorporated by reference to Exhibit 10.5 of Footstar, Inc.'s Current Report on Form 8-K filed on September 16, 2003). 10.10 Asset Purchase Agreement, dated as of February 16, 2000, by and among Footstar, Inc. and Just For Feet, Inc., Just For Feet of Nevada, Inc., Sneaker Stadium Inc., Just For Feet of Texas, Inc., Just For Feet Specialty Stores, Inc., SNKR Holding Corp. and Athletic Attic Marketing, Inc. (incorporated by reference to Exhibit 10.10 to Footstar, Inc.'s Current Report on Form 8-K filed on March 22, 2000). 10.11 2000 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to Footstar, Inc.'s 1999 Annual Report on Form 10-K filed on March 31, 2000). * 10.12 Asset Purchase Agreement, dated as of November 16, 2000, by and among Footstar Corporation, J. Baker, Inc., JBI, Inc. and Morse Shoe, Inc. (incorporated by reference to Exhibit 10.13 to Footstar, Inc.'s 2000 Annual Report on Form 10-K filed on March 30, 2001). 10.13(a) Debtor-In-Possession Credit Agreement dated as of March 4, 2004 among Footstar, Inc., as Lead Borrower for Footstar, Inc. and Footstar Corporation; the Lenders party thereto, Fleet National Bank, as Administrative Agent and Swingline Lender; Fleet Retail Group, Inc. as collateral Agent; General Electric Capital Corporation and Congress Financial Corporation , as Syndication Agents; Back Bay Capital Funding LLC, as Term Agent; and JP Morgan Chase Bank and Wells Fargo Foothill, LLC, as Documentation Agents (incorporated by reference to Exhibit 10.13(a) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004).* 10.13(b) Amended and Restated Debtor-In-Possession Credit Agreement dated as of May 11, 2004 among Footstar, Inc., as Lead Borrower for Footstar, Inc. and Footstar Corporation; the Lenders party thereto; Fleet National Bank, as Administrative Agent and Swingline Lender; Fleet Retail Group , Inc., as Collateral Agent; General Electric Capital Corporation as Syndication Agent; and Wells Fargo Foothill, LLC as Documentation Agent (incorporated by reference to Exhibit 10.13(b) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.13(c) Amended and Restated Debtor-In-Possession and Exit Credit Agreement dated as of June 25, 2004 among Footstar, Inc., as Lead Borrower for Footstar, Inc. and Footstar Corporation; the Lenders party thereto; Fleet National Bank, as Administrative Agent and Swingline Lender; Fleet Retail Group, Inc., as Collateral Agent; General Electric Capital Corporation, as Syndication Agent; and Wells Fargo Foothill, LLC, as Documentation Agent (incorporated by reference to Exhibit 10.13(c) 90 of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.13(d) Waiver, dated as of January 24, 2005, to Amended and Restated Debtor-in-Possession and Exit Credit Agreement. 10.14 Receiving, Warehousing and Physical Distribution Services Agreement dated as of July 8, 2004 by and between Footstar Corporation and FMI International, LLC, as amended (incorporated by reference to Exhibits 99.2 and 99.3 to

Footstar, Inc.'s Current Report on Form 8-K filed on August 5, 2004). 10.14(a) Purchase and Sale Agreement and Escrow Instructions dated as of July 19, 2004 between Footstar Corporation, as Seller, and Thrifty Oil Co., as Buyer (incorporated by reference to Exhibit 10.14(a) of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.15 Asset Purchase Agreement dated as of April 13, 2004 by and among Footstar, Inc. and its subsidiaries set forth on the signature pages thereto; FL Specialty Operations LLC; FL Retail Operations LLC; Foot Locker Stores, Inc.; Foot Locker Retail, Inc. and Foot Locker, Inc. as amended by First Amendment to Asset Purchase Agreement dated as of April 28, 2004 and Second Amendment to Asset Purchase Agreement dated as of May 7, 2004 (incorporated by reference to Exhibit 10.15 of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.16 First Amendment to Asset Purchase Agreement dated as of April 28, 2004 by and among Footstar, Inc. and its subsidiaries set forth on the signature pages thereto; FL Specialty Operations LLC; FL Retail Operations LLC; Foot Locker Stores, Inc.; Foot Locker Retail, Inc. and Foot Locker, Inc. (incorporated by reference to Exhibit 10.16 of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.17 Second Amendment to Asset Purchase Agreement dated May 7, 2004 by and among Footstar, Inc. and its subsidiaries set forth on the signature pages thereto; FL Specialty Operations LLC; FL Retail Operations LLC; Foot Locker Stores, Inc.; Foot Locker Retail, Inc. and Foot Locker, Inc. (incorporated by reference to Exhibit 10.17 of Footstar, Inc.'s 2002 Annual Report on Form 10-K filed on September 3, 2004). 10.18 Agreement of Sale and Purchase dated as of August 16, 2004 between Footstar Corporation, as Seller and ADS Logistics Services - Gaffney LLC, as Buyer. 21.1 Description of subsidiaries of Footstar, Inc. 23.1 Consent of Independent Registered Public Accounting Firm. 23.2 Consent of Independent Registered Public Accounting Firm. 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 31.2 Certification of Senior Vice President of Financial Reporting and Control (Principal Financial Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 99 Joint Plan of Reorganization and related Disclosure Statement as filed with the United States Bankruptcy Court for the Southern District of New York (Case No. 04-22350(ASH)) on November 12, 2004 (incorporated by reference to Item 9.01 to Footstar, Inc.'s Form 8-K filed on November 15, 2004 and to Footstar, Inc.'s Form 8-K filed on November 23, 2004). 91 * Management contract or compensatory plan. 92