SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 3, 2004
Commission File Number 1-11681

FOOTSTAR, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	22-3439443
(State of incorporation)	(IRS Employer Identification No.)

933 MACARTHUR BLVD., MAHWAH, NEW JERSEY 07430
(Address of principal executive offices)

Registrant's telephone number, including area code: (201) 934-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock (par value $.01 per share)
(Title of Class)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ ] No [X]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [X] No [ ]

The aggregate market value of the common stock held by non-affiliates of the registrant as of February 26, 2005, was approximately $97.9 million.

Number of shares outstanding of common stock, par value $.01 per share, as of February 26, 2005: 20,308,849.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FOOTSTAR, INC.
ANNUAL REPORT ON FORM 10-K

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Footstar, the Footstar logo, Footaction, Shoe Zone, Just For Feet, Thom McAn, Cobbie Cuddlers, Texas Steer, Cara Mia, Players University and Starclub are, or were as of January 3, 2004, trademarks and/or service marks of Footstar, Inc.'s subsidiaries or affiliates. All other trademarks mentioned are the property of their respective owners.

PART I

INTRODUCTORY NOTE

Footstar, Inc., which may be referred to as "Footstar", the "Company", "we", "us" or "our", is today filing this Annual Report on Form 10-K for its fiscal year ended January 3, 2004. We have not filed our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 29, 2003, June 28, 2003 and September 27, 2003. In lieu of filing such Quarterly Reports, this Form 10-K includes summarized quarterly financial data and other material information that would have been available in our 2003 Quarterly Reports on Form 10-Q. These reports were delayed as a result of our internal investigation, the restatement of our consolidated financial statements included in our previously filed fiscal 2002 Annual Report on Form 10-K and our operation under protection of the bankruptcy laws, each described below. Similarly, we intend to include in our fiscal 2004 Annual Report on Form 10-K, which we plan to file as soon as practicable following the filing of this 2003 Form 10-K, summarized financial data and other material information that would have been available in our 2004 Quarterly Reports on Form 10-Q. We also intend to file our Form 10-Q's for fiscal 2005 as soon as practicable following the filing of our fiscal 2004 Annual Report on Form 10-K. In this Annual Report, words such as "today," "recently," "current" or "currently," or phrases such as "as of the date hereof" or "as of the date of this report," refer to on or about the date we are filing this report with the Securities and Exchange Commission (the "SEC").

On November 13, 2002, we announced that management had discovered discrepancies in the reporting of our accounts payable balances. An investigation of the discrepancies was conducted with the oversight of the Audit Committee of the Board of Directors and the assistance of outside legal advisors and forensic accountants.

The investigation determined that a restatement of previously issued financial statements over a five-and-one-half year period from the beginning of fiscal year 1997 through June, 2002 was required. This restatement was included in our fiscal year 2002 Annual Report on Form 10-K that was filed on September 3, 2004.

We have implemented an Internal Process and Control Plan in order that the weaknesses identified in internal controls be remedied and we are prepared to emerge from Chapter 11 protection in full compliance with SEC reporting requirements and the requirements of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley".) See Item 9A - Controls and Procedures

Prior to the Company's November 13, 2002 announcement, we notified the Staff of the SEC concerning the discovery of the accounting discrepancies. Following that notification, the SEC began a regulatory proceeding including an investigation into the facts and circumstances giving rise to the restatement. The Company has been and intends to continue cooperating fully with the SEC. We cannot predict the outcome of this proceeding. For a further description of this and other restatement related litigation, see "Restatement Related Litigation" under Item 3 - Legal Proceedings.

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. The NYSE stated that it decided to take these actions in view of the overall uncertainty surrounding our previous announcement that

a restatement of our results for 1997 through 2002 would be required and the continued delay in fulfilling our financial statement filing requirements.

Commencing March 2, 2004 ("Petition Date"), Footstar and substantially all of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code ("Bankruptcy Code" or "Chapter 11") in the United States Bankruptcy Court for the Southern District of New York in White Plains ("Court"). The Chapter 11 cases are being jointly administered under the caption "In re: Footstar, Inc., et al. Case No. 04-22350 (ASH)" (the "Chapter 11 cases"). The Debtors are currently operating their businesses and managing their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. As a debtor-in-possession, we are authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the approval of the Court, on notice and an opportunity to be heard.

As of the Petition Date, our operations were comprised of two distinct business segments: the discount and family footwear segment ("Meldisco" or "Meldisco Segment") and the athletic footwear and apparel segment ("Athletic" or "Athletic Segment"). Meldisco sells family footwear through licensed footwear departments and wholesale arrangements. Athletic sold athletic footwear and apparel through various retail chains (for example, Footaction and Just For Feet), and via catalogues and the Internet.

Meldisco has operated licensed footwear departments in discount chains since 1961, and is the only major operator of licensed footwear departments in the United States today. As of February 26, 2005, Meldisco operated licensed footwear departments in 1,479 Kmart Corporation ("Kmart") stores and 860 Rite Aid Corporation ("Rite Aid") stores located on the West Coast. Meldisco also supplies certain retail stores, including stores operated by Wal-Mart Stores, Inc. ("Wal-Mart") and Rite Aid, with family footwear on a wholesale basis.

Prior to the Petition Date, Athletic specialized in the sale of branded athletic footwear, apparel and accessories. Athletic used its three retail chains, Footaction, Just For Feet and Uprise, to conduct retail sales. Each of the retail chains in Athletic sold footwear and apparel from all of the major brand-name vendors. Athletic's Consumer Direct operations conducted sales through catalogues and the Internet to support the Footaction and Just For Feet retail chains.

We sought bankruptcy protection after we determined we could not obtain necessary liquidity from our lending syndicate or additional debt or equity financing. This decline in liquidity primarily resulted from unprofitable results in the Athletic Segment, a reduction in trade credit by certain Athletic vendors, unprofitable results of operations from recent acquisitions and the effect of the Kmart bankruptcy. Other factors included intense competition in the discount retailing industry, unsuccessful sales and marketing initiatives and capital market volatility.

Since the Petition Date, we have exited the Athletic Segment entirely by closing certain underperforming stores and selling the remainder of the stores and the other assets. Our financial statements have been restated to reflect the Athletic Segment as a discontinued operation for all periods presented.

In the initial stages of the Chapter 11 cases, we sought to streamline our Meldisco business by selling or exiting selected stores. As a result of our continued analysis of our businesses, we determined to sell or liquidate all of our Shoe Zone stores. We also exited the footwear departments in 44 Gordmans, Inc. ("Gordmans") stores and the footwear departments in 87 stores operated by subsidiaries of Federated Department Stores, Inc. ("Federated").

We have sold other assets, including our distribution centers in Mira Loma, California ("Mira Loma") and Gaffney, South Carolina ("Gaffney"). The purchaser of Mira Loma, Thrifty Oil Co. has leased Mira Loma to FMI International LLC, a logistics provider, which will provide us with warehousing and distribution services through June 30, 2012 under a receiving, warehousing and distribution services agreement.

Effective March 4, 2004, we entered into a two year, $300.0 million senior secured Debtor-in-Possession Credit Agreement ("DIP Credit Agreement") with a syndicate of lenders co-led by Fleet National Bank ("Fleet") and GECC Capital Markets Group, Inc. The DIP Credit Agreement was subsequently amended and, as is currently constituted (the "DIP and Exit Facility"), we have access to up to $100.0 million of secured DIP financing, including a sub-limit for letters of credit with availability determined by a borrowing base formula based upon inventory and accounts receivable. Upon emergence from Chapter 11, we may, at our option, and subject to satisfaction of certain conditions, convert the DIP and Exit Facility to post-emergence financing (the "Exit Facility"), which will provide for up to $160.0 million in revolving commitments, including a sub-limit for letters of credit. The conditions include the absence of any default or event of default, confirmation of a proposed joint plan of reorganization (the "Plan"), which we filed with the Court on November 12, 2004 and occurrence of all conditions related thereto, resolution of all issues related to our assumption of the Master Agreement with Kmart effective as of July 1, 1995, as amended ("Master Agreement"), our delivery of forward looking projections acceptable to the lender and specified availability levels. Borrowings under the DIP and Exit Facility bear interest at either Fleet's prime rate plus 0.0% to 0.5% or LIBOR plus 1.75% to 2.50%, at our option, with the applicable margin based on excess availability levels. A quarterly fee of 0.3% per annum is payable on the unutilized balance.

The DIP and Exit Facility has a total term not to exceed five years from the Petition Date and expires upon Plan confirmation. The Exit Facility is effective upon our emergence from bankruptcy and its term will be three years. Because there could be a number of months between confirmation and emergence, we plan to work with our current lenders to ensure the DIP and Exit Facility is amended to provide financial support to us during the period from Plan confirmation to emergence. As of February 26, 2005, there were no loans outstanding under the DIP and Exit Facility and outstanding letters of credit thereunder totaled $20.2 million. For further information on the DIP and Exit Facility, see "Liquidity and Capital Resources; The DIP and Exit Facility" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Pursuant to Court orders, we have been authorized to pay certain pre-petition operating liabilities incurred in the ordinary course of business and reject certain of our pre-petition obligations. We notified all known pre-petition creditors of the establishment of a bar date by which creditors must file a proof of claim, which date has now passed for all creditors. Differences between liability amounts recorded by us and claims filed by creditors are being reconciled and, if necessary, the Court will make a final determination of allowable claims. We continue to evaluate the amount of our pre-petition liabilities on an ongoing basis and recognize any additional liabilities, which may be material.

The following is an overview of the pre-petition claims filed against us as of March 15, 2005:

STATUS	CLAIMS (#)	C
Total claims received from Creditors	6,296	$ 6
Claims officially withdrawn by Creditors (through Court)	(46)	
Claims objected to which were subsequently expunged by the Court	(358)	(3
Other Claims formally objected to(1)	(2,048)	(2
Claims agreed to "As Submitted"	(624)	
Claims still being reviewed	(65)	
Claims still to be reconciled(2)	3,155	$ 1

(1) A formal objection was filed on March 11, 2005; the Creditor's response deadline is April 13, 2005 and the hearing on the objection is scheduled for April 19, 2005

(2) The remaining 3,155 claims consist of:

Expenses Payable	33	$ 806,297
Real Estate	285	55,760,024
Claims Involving Litigation	31	14,786,343
Payroll Tax	140	1,150,885
Income/Sales/All Other Tax	2,666	29,645,351
	3,155	$102,148,900

Under the Bankruptcy Code, we have the ability to reject executory contracts, including leases, subject to the approval of the Court and certain other conditions. Parties affected by the rejection of a contract may file claims against us in the Court in accordance with the Bankruptcy Code. We have rejected a number of executory contracts, and the claims made against us with respect to those rejected contracts on or prior to March 15, 2005 are included in the tables above. We expect that as a result of our rejection of additional executory contracts, including leases of nonresidential real property, additional claims will be filed. Under the Bankruptcy Code, we may choose to assume executory contracts subject to the approval of the Court and certain other conditions, including our payment or "cure" of all outstanding liabilities thereunder. Due to the uncertain nature of many of the claims, which have been or may be asserted against us, we are unable to project the total magnitude of all such claims with any degree of certainty. We have incurred, and will continue to incur, significant costs associated with the Chapter 11 cases.

In order to exit Chapter 11 successfully, we will need to obtain Court confirmation of a Chapter 11 plan that satisfies the requirements of the Bankruptcy Code. At this time, it is not possible to accurately predict the effect of the Chapter 11 cases on our business, creditors or stockholders or when we may emerge from Chapter 11, if at all.

On November 12, 2004, we filed the Plan with the Court. The Plan provides for an orderly reorganization of the Company and cash distributions to impaired parties and is subject to a vote by eligible ballot holders. Alternatively, the Plan allows for a sale of all or substantially all of our assets and/or equity interests in the Meldisco business, following notice and a hearing.

The Plan provides for some flexibility in the timing of its confirmation and our emergence from bankruptcy. Key events that could impact this timing include determinations by the Court on our motion to assume the Master Agreement (including a determination of Kmart's cure claim prior to Plan confirmation). See "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The Plan also provides that we will not emerge from bankruptcy until we are current in filing our periodic reports with the SEC.

If and when the Plan is confirmed, we expect to make an initial distribution of cash to creditors. The amount of this initial distribution will be based upon our cash balance remaining after payment of, or establishing reasonable reserves for, administrative claims, cure claims to the extent applicable, priority tax claims, secured tax claims and convenience claims as well as establishing a working capital cash reserve of $28.0 million. As set forth in the Plan, if the initial distribution does not exceed the lesser of $121.0 million or 85% of the then estimated general unsecured claims, we will apply up to $21.0 million of our working capital cash reserve to increase the initial distribution to an amount equal to the lesser of $121.0 million or 85% of the then estimated general unsecured claims. Balances due creditors after the initial distribution, if any, will be paid subject to our generation of free cash flow, as defined. Such amounts will be distributed following the first and third quarters of each fiscal year until such obligations have been satisfied.

As we have sold or otherwise disposed of all of the assets of our Athletic Segment, the Meldisco business is our sole remaining business and our business relationship with Kmart is critical to Meldisco. Our sale of discount family footwear at Kmart stores currently generates over 89% of Meldisco's revenues. If we lose the revenues from all or a substantial number of Kmart stores, we will not be able to continue our operations; any reorganization of the Company depends upon our continued ability to generate revenues through the sale of footwear at Kmart stores.

Our relationship with Kmart is governed by the Master Agreement and certain sub-agreements governing the operation of footwear departments in each of Kmart's stores. We have sought Court approval for us to assume those agreements so that we can continue operating shoe departments in those stores. Kmart has objected to our motion to assume the agreements and disputed the amount that we claim would be required to cure defaults under the Master Agreement if we are allowed to assume it. In addition, Kmart has sought to lift the automatic stay which is imposed under Section 362 of the Bankruptcy Code (the "Automatic Stay") so that it can terminate the Master Agreement. For a more complete discussion of our relationship with Kmart and this important litigation, see "Risk Factors" under Item 1 - Business, "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; and "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

Even if we are successful in assuming the Master Agreement and sub-agreements, we have lost and will continue to lose revenues whenever Kmart closes stores or transfers stores to entities that are not subject to the Master Agreement. During the first six months of 2002, while operating under the protection of Chapter 11 of the U.S. Bankruptcy Code, Kmart closed 283 stores. Kmart closed an additional 319 stores during the first four months of 2003. While Kmart emerged from bankruptcy protection on May 6, 2003, we believe that Kmart has continued and will continue to consider sales of both performing and underperforming stores. Store sales by Kmart will adversely affect us since virtually all of the footwear departments in those stores are operated at a profit by us.

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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.

We received a notice from Kmart instructing us to either vacate approximately 24 of these stores or have the footwear departments relocated within the stores while their reconfiguration to a new Sears store called Sears Essentials took place. We believe that the Master Agreement continues to grant us the exclusive right to operate footwear departments in those stores despite their conversion to Sears Essentials stores. We asked the Court to find Kmart in contempt for violation of the Automatic Stay and assess compensatory damages. Kmart replied by arguing that the Automatic Stay did not prevent them from converting the stores to Sears Essentials stores because our rights under the Master Agreement to sell footwear in the stores expires upon their conversion.

Following a preliminary hearing on February 24, 2005, the Court ruled that the Automatic Stay barred Kmart from taking any actions to remove us from the 24 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. For a more complete discussion of our dispute with Kmart over this and the related important litigation, see "Risk Factors" under Item 1 - Business, "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; and "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

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ITEM 1. BUSINESS

GENERAL

We are a holding company and operate our businesses through our subsidiaries. We are principally a retailer conducting business through our Meldisco Segment and, prior to our sale of certain stores to Foot Locker on May 2, 2004 and the closing of underperforming stores, our Athletic Segment. Meldisco sells family footwear through licensed footwear departments and wholesale arrangements. Athletic sold athletic footwear and apparel through various retail chains (for example, Footaction and Just For Feet), and via catalogues and the Internet.

See "Introductory Note" for a description of certain important events which occurred subsequent to January 3, 2004, including our Chapter 11 filing, the exit from the footwear departments of Federated and Gordmans stores and the closing and sale of the Shoe Zone stores within the Meldisco Segment and the closing of certain stores and the sale of all remaining stores within the

Athletic Segment.

MELDISCO

Meldisco sells family footwear through licensed footwear departments and wholesale arrangements. Meldisco has operated licensed footwear departments since 1961 and is the only major operator of licensed footwear departments in the United States today.

As of January 3, 2004, Meldisco operated licensed footwear departments in 1,511 Kmart stores, in 863 Rite Aid drugstores, in 44 Gordmans stores, and in children's footwear departments in 87 stores operated by Federated. As of February 26, 2005, Meldisco operated licensed footwear departments in 1,479 Kmart stores and in 860 Rite Aid drugstores located on the West Coast. In October 2002, Meldisco began selling family footwear on a wholesale basis to Wal-Mart. In April 2003, the licensed footwear agreement between the Company and Rite Aid covering approximately 2,500 Rite Aid drugstores located in the eastern half of the United States changed to a wholesale arrangement. As of January 3, 2004, Meldisco also operated Shoe Zone, a chain of stand-alone family footwear retail stores, that sold quality leather and value-priced fashion footwear, including the Company-owned Thom McAn and Cara Mia brands.

Meldisco's core licensed footwear operation sells family footwear and lower-priced basic and seasonal footwear in Kmart and Rite Aid stores and, as of January 3, 2004, its "better" licensed business sold branded and other higher-end footwear in department and specialty stores, including Gordmans and certain Federated stores. In its licensed footwear departments, Meldisco generally sells a wide variety of family footwear, including men's, women's and children's dress, casual and athletic footwear, work shoes and slippers.

Meldisco had pursued a strategy to increase its licensed footwear business with other retail outlets since 2001. In February 2001, Meldisco acquired from J. Baker, Inc. ("J. Baker") 13 new license agreements with retailers covering over 1,000 licensed footwear departments, but subsequently exited these businesses as none of them performed as expected. See "Meldisco - Acquisition and Disposition of the Footwear Assets of J. Baker; the Ames Bankruptcy Proceeding". In August 2001, Meldisco expanded its business in the Rite Aid stores from those located primarily in the western portion of the United States to include Rite Aid's operations in the eastern portion of the

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United States. In January 2002, we announced new licensed footwear department agreements with Federated and Gordmans. See "Introductory Note" for a description of our exit from the footwear departments of Federated and Gordmans stores.

We operated 39 Shoe Zone stores as of January 3, 2004. These family footwear stores featured a selection of fashion accessories, including belts, handbags and wallets. See "Introductory Note" for a description of our sale or liquidation of all of our Shoe Zone stores.

In October 2002, Meldisco began supplying Thom McAn family footwear on a wholesale basis to 300 Wal-Mart stores. In February 2003, we expanded our arrangement with Wal-Mart to supply Thom McAn family footwear on a wholesale basis to up to 1,500 Wal-Mart stores in the United States. As of February 26, 2005, we were supplying Thom McAn family footwear to 1,562 Wal-Mart stores in the United States and Puerto Rico. Wal-Mart is not contractually obligated to continue its existing level of purchases from us or to expand the Thom McAn line into any of its other stores.

Significant Kmart Relationship

The business relationship between Meldisco and Kmart is extremely important to us. The licensed footwear departments in Kmart have historically provided a significant portion of our total sales and profits, and comprise an even greater percentage of our sales and profits now that we have exited all of our Athletic Segment businesses and most of our other Meldisco businesses. The loss of Meldisco's Kmart business, a significant further reduction in customer traffic in Kmart stores or the closing of a significant number of Kmart stores would have a material adverse effect on us and would likely not allow us to continue to operate.

We operate licensed footwear departments in every Kmart store in the United States, the U.S. Virgin Islands, Puerto Rico and Guam, through subsidiaries ("Shoemart Subsidiaries" or "Shoemart") that own the inventory and are responsible for staffing the footwear departments. Kmart owns a 49% equity interest in each of the Shoemart Subsidiaries, with the exception of 29 Shoemart Subsidiaries in which we have a 100% equity interest as of February 26, 2005. Meldisco has operated licensed footwear departments in Kmart since 1961.

Our arrangement with Kmart is governed by the Master Agreement. The Master Agreement provides us with the non-transferable, exclusive right and license to operate the footwear departments in Kmart's stores. The initial term of the Master Agreement expires on July 1, 2012, and is renewable for a 15 year term upon mutual agreement, unless either party gives notice of termination at least four years prior to the end of the applicable term. Certain sub-license agreements for particular Kmart stores allow the parties to terminate those agreements under specified circumstances.

We have sought Court approval for us to assume the Master Agreement and the sub-agreements so that we can continue operating shoe departments in those stores. Kmart has objected to our motion to assume the agreements and disputed the amount that we claim will be required to cure defaults under the Master Agreement if we are allowed to assume it. In addition, Kmart has sought to lift the Automatic Stay so that it can terminate the Master Agreement. For a more complete discussion of our relationship with Kmart and this important litigation, see "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; and "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

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Even if we are successful in assuming the Master Agreement and sub-agreements, we have lost and will continue to lose revenues whenever Kmart closes stores or transfers stores to entities that are not subject to the Master Agreement. During the first six months of 2002, while operating under the protection of Chapter 11 of the U.S. Bankruptcy Code, Kmart closed 283 stores. Kmart closed an additional 319 stores during the first four months of 2003. While Kmart emerged from bankruptcy protection on May 6, 2003, we believe that Kmart has continued and will continue to consider sales of both performing and underperforming stores. Store sales by Kmart will adversely effect us since virtually all of the footwear departments in those stores are operated at a profit by us.

In June 2004, Kmart announced the sale of 54 of its retail store locations to Sears but agreed that Kmart would continue to operate such stores until Sears could complete its conversion plans. Thereafter, in November 2004, Kmart announced the Sears Acquisition, which closed on March 24, 2005.

Prior to this closing, we received a notice from Kmart instructing us to either vacate approximately 24 stores or have the footwear departments relocated within the stores while their reconfiguration to a new Sears store called Sears

Essentials took place. We believe that the Master Agreement continues to grant us the exclusive right to operate footwear departments in those stores despite their conversion to Sears Essentials stores. We asked the Court to find Kmart in contempt for violating the Automatic Stay and assess compensatory damages. Kmart replied by arguing that the Automatic Stay did not prevent them from converting the stores to Sears Essentials stores because our rights under the Master Agreement to sell footwear in the stores expires upon their conversion.

Following a preliminary hearing on February 24, 2005, the Court 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 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.

If Kmart sells stores to independent third parties (i.e., not Sears) we may lose our right to operate footwear departments in such stores. If the Court rules in Kmart's favor in connection with the Sears/Kmart conversion litigation, Kmart is likely to continue to take the position pre and post-bankruptcy that we are not entitled to sell footwear in stores that get converted to Sears Essentials or any other name that does not include the Kmart name.

For further information regarding the impact of the Kmart store closings, our relationship with Kmart, the Master Agreement, our dispute with Kmart over this issue and the related important litigation, see "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

Merchandising

Meldisco's merchandising strategy is focused on building upon its position in family footwear. The essence of this strategy is to satisfy Meldisco's customers with high in-stock availability of its footwear products and a wide selection of well-known national brands such as Thom McAn and Cobbie Cuddlers (which are Company-owned) and Everlast.

In its licensed footwear operations, Meldisco seeks to attract non-footwear shoppers into the footwear departments from other areas of the stores. To this end, Meldisco consistently offers selected high-quality footwear at prices significantly lower than those at which comparable merchandise is sold. These branded products are also intended to differentiate Meldisco merchandise from that of its competitors. Brands currently available at Meldisco's operations include Thom McAn, Cobbie Cuddlers and Texas Steer (which are Company-owned) and Everlast, Route 66, Thalia and Joe Boxer. Meldisco conducts consumer research on an ongoing basis to gauge new opportunities for brand extensions and to determine price and positioning of new brands. Our strategy is to leverage our expertise in branded products to expand our sales in existing licensed departments as well as in our wholesale operations.

Meldisco's traditional strength has been in quality leather footwear which it currently offers under the Thom McAn brand, as well as seasonal, work, value-priced athletic, women's casual and children's shoes. Meldisco builds on its strength in these segments by focusing on customer satisfaction. Meldisco's "narrow and deep" merchandising strategy and its merchandise planning systems are designed to ensure that each store is well stocked in product lines that are particularly popular with Meldisco's core customers. Meldisco's demand-driven merchandise replenishment system has been designed to permit inventory management at the store, style and size levels.

Marketing

Meldisco believes that the typical footwear customer in its licensed footwear departments in Kmart generally resembles the average Kmart softlines shopper: a 25 to 49 year-old mother with children, who is employed at least part-time, has at least one child under the age of 18 and reports a total annual household income between $25,000 and $65,000. Meldisco's marketing initiatives are designed to support its overall business strategy of increasing purchases among traditional footwear shoppers, as well as appealing to the growing customer segments that include African Americans and Hispanics.

Meldisco's marketing strategy in its Kmart footwear departments is designed to convey to prospective customers that Kmart carries the right value combination of brands, product selection, quality, comfort and price to make Kmart footwear departments their footwear destination of choice. This message is communicated primarily through weekly advertising in newspaper inserts and in-store presentations. Meldisco pays Kmart a sales promotion fee, which Kmart applies toward footwear advertisements in the Kmart weekly newspaper inserts, a publication which had a weekly circulation of approximately 44.5 million as of February 26, 2005.

Competitive Environment

The family footwear business, where the majority of Meldisco's business is generated, is highly competitive. Competition is concentrated among a limited number of retailers and discount department stores, including Kmart, Wal-Mart, Payless ShoeSource, Kohl's and Target, with a

number of traditional off-price and value retailers such as Shoe Carnival, Famous Footwear and Rack Room also selling lower-priced footwear. Many of our competitors have grown more rapidly and have substantially greater financial and marketing resources than us. We rely on the high consumer acceptance of Meldisco's brands, particularly Thom McAn, to provide a competitive advantage. We have extended distribution of the Thom McAn brand into Wal-Mart stores.

Acquisition and Disposition of the Footwear Assets of J. Baker; the Ames Bankruptcy Proceeding

In February 2001, we acquired, for cash consideration of $59.0 million, the footwear assets and related license agreements of J. Baker in a transaction accounted for as a purchase. As of the date of the acquisition, J. Baker operated 1,163 licensed footwear departments under 13 agreements with retail chains, including Ames Department Stores, Inc. ("Ames"), Variety Wholesalers, Inc. and its affiliates (collectively, "Variety"), Stein Mart, Inc. ("Stein Mart") and Spiegel, Inc. ("Spiegel"). Assets purchased included inventory, store fixtures, trademarks and license agreements.

During fiscal year 2001, Ames filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On August 14, 2002, Ames announced that, as a result of continued weak sales, it would cease operations and close all of its 327 store locations. We continued to operate licensed footwear departments within Ames' stores until October 2002 when all stores were closed.

We recorded a charge in fiscal year 2002 of $9.2 million as an allowance for bad debt in connection with our receivable from Ames. We are pursuing our claim with respect to the $9.2 million through litigation. Also during fiscal year 2002, we recorded restructuring, asset impairment and other charges of $14.0 million, $11.2 million of which related to costs associated with exiting the Ames business as a result of Ames' announcement in August 2002 that it would close its remaining stores.

During fiscal year 2002, we announced that we had decided to end two unprofitable licensed footwear relationships that were part of the J. Baker acquisition. We exited Variety during fiscal year 2002 and ceased operating the footwear departments in Stein Mart stores at the end of February 2003, when that contract expired.

In addition, during fiscal year 2002, we decided to exit Spiegel and five other smaller licensed footwear relationships that were part of the J. Baker acquisition. As of April 2003, we had exited substantially all of the licensed footwear departments acquired in the J. Baker acquisition.

As of the first day of fiscal year 2002, we adopted Statement of Financial Accounting Standards Board No. 142, Goodwill and Other Intangible Assets, recording $24.3 million as a cumulative effect of a change in accounting principle, resulting from the write-off of goodwill arising from the acquisition of the J. Baker business.

CHIEF EXECUTIVE OFFICER

Since January 19, 2004, Dale W. Hilpert has been our Chairman and Chief Executive Officer. Prior to joining us, Mr. Hilpert spent two years as Chief Executive Officer of Williams-Sonoma, Inc. In 1995, he joined Foot Locker where he was Chairman and CEO. Prior to that, he spent 17 years at May Department Stores serving in senior management positions, including Chairman and CEO of its Payless ShoeSource division.

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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. Neele E. Stearns, Jr., a member of the Board of Directors and the then Chairman of the Audit Committee, was appointed Chairman and Chief Executive Officer on an interim basis. Mr. Stearns served as our Interim Chairman and Chief Executive Officer until January 18, 2004 and currently serves as our Interim Vice Chairman.

RISK FACTORS

Set forth below are certain important risks and uncertainties that could adversely affect our results of operations or financial condition and cause our actual results to differ materially from those expressed in forward-looking statements made by the Company or its management. See "Forward-Looking Statements" in Item 7 for additional risk factors.

IF WE ARE UNABLE TO SUCCESSFULLY REORGANIZE OUR CAPITAL STRUCTURE AND OPERATIONS AND IMPLEMENT OUR BUSINESS PLAN THROUGH THE CHAPTER 11 PROCESS, WE MAY NEVER EMERGE FROM BANKRUPTCY AND MAY BE REQUIRED TO LIQUIDATE OUR ASSETS.

Commencing March 2, 2004, the Company and most of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. Risk factors involving the Chapter 11 filing include, but are not limited to, the following:

- The Chapter 11 cases may adversely affect our business. We believe that any such adverse effects may worsen if confirmation of the Plan is protracted.

- There can be no assurance that the Court will confirm our Plan.

- There can be no assurance regarding any adverse actions that creditors or equity holders of the Company or other parties in interest in the Chapter 11 cases may take that may have the effect of preventing or unduly delaying confirmation of the Plan.

- There can be no assurance as to the overall long-term viability of our operational reorganization and Plan.

- There can be no assurance as to our ability to maintain sufficient financing sources to fund our Plan and meet future obligations.

- We may be unable to retain top management and other key personnel through the process of reorganization.

In addition, the uncertainty regarding the eventual outcome of our restructuring, and the effect of other unknown adverse factors, could threaten our existence as a going concern. Continuing on a going concern basis is dependent upon, among other things, the success and Court approval of our Plan, including the assumption of our Master Agreement with Kmart, maintaining the support of key vendors and retaining key personnel, along with financial, business, and other factors, many of which are beyond our control.

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MELDISCO IS OUR ONLY CONTINUING BUSINESS AND SUBSTANTIALLY ALL OF OUR CONTINUING NET SALES AND PROFITS RESULT FROM MELDISCO'S BUSINESS RELATIONSHIP WITH KMART. KMART STORE CLOSINGS AND REDUCED TRAFFIC IN THE REMAINING KMART STORES HAVE HAD, AND CONTINUE TO HAVE, A NEGATIVE EFFECT ON SALES AND PROFITS OF MELDISCO. WE ARE CURRENTLY IN LITIGATION WITH KMART IN THE COURT OVER OUR ABILITY TO ASSUME THE MASTER AGREEMENT. A FURTHER MATERIAL REDUCTION IN THE NUMBER OF KMART STORES OR A TERMINATION OF THIS RELATIONSHIP WOULD HAVE A MATERIALLY ADVERSE EFFECT ON US AND WOULD LIKELY NOT ALLOW US TO CONTINUE TO OPERATE.

We have exited our Athletic Segment business and certain portions of our Meldisco business. Our sales in the footwear departments operated by Meldisco in Kmart stores accounted for 89% of our sales and 69% of our profits during 2003.

We are currently in litigation with Kmart regarding numerous aspects of our business relationship with them. Among other things, Kmart has challenged our right to assume the Master Agreement, challenged the cure amount associated with the assumption, and sought to have the Automatic Stay lifted so that it can terminate the Master Agreement.

Even if we are successful in assuming the Master Agreement, we have lost and will continue to lose revenues whenever Kmart closes stores or transfers stores to entities that are not subject to the Master Agreement. While operating under the protection of Chapter 11 of the U.S. Bankruptcy Code during 2002 and the first four months of 2003, Kmart closed approximately 600 stores. Kmart has continued, and we believe will continue, to consider sales of both performing and underperforming stores. Store sales by Kmart will adversely effect us since virtually all of the footwear departments in those stores are operated at a profit by us.

In June 2004, Kmart announced the sale of 54 of its retail store locations to Sears but agreed that Kmart would continue to operate such stores until Sears could complete its conversion plans. Thereafter, in November 2004, Kmart announced the Sears Acquisition which closed on March 24, 2005.

We are involved in litigation with Kmart regarding their instructions for us to either vacate approximately 24 stores or have the footwear departments relocated within the stores while their reconfiguration to a new Sears store called Sears Essentials took place. While we assert that the Master Agreement continues to grant us the exclusive right to operate footwear departments in those stores despite the operation of the stores as Sears Essentials stores, Kmart asserts that our rights under the Master Agreement to sell footwear in the stores expires upon their conversion.

If Kmart sells stores to independent third parties (i.e., not Sears) we may lose our right to operate footwear departments in such stores. If the Court rules in Kmart's favor in connection with the Sears/Kmart conversion litigation, Kmart is likely to continue to take the position pre and post-bankruptcy that we are not entitled to sell footwear in stores that are operated under the Sears Essentials name or any other name that does not include the Kmart name.

If Kmart were to close a significant number of additional stores or convert a significant number of stores to formats in which we did not have the right to operate, it would have a material adverse effect on our net sales and profits. With or without additional store closings, a continued decline in

our per store sales in the remaining Kmart stores would have a material adverse effect on our net sales and profits.

For further information regarding the impact of the Kmart store closings, our relationship with Kmart, the Master Agreement, our dispute with Kmart over this issue and the related important litigation, see "Significant Kmart Relationship" under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; and "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

WE ARE A DEFENDANT IN CERTAIN SECURITIES LITIGATION AND ARE THE SUBJECT OF AN SEC REGULATORY PROCEEDING AND CANNOT YET DETERMINE WITH CERTAINTY WHETHER OUR INSURANCE COVERAGE IS ADEQUATE TO COVER THE CLAIMS. WE MAY ALSO BE SUBJECT TO ADDITIONAL LITIGATION OR REGULATORY ACTION.

On the Petition Date, we commenced the Chapter 11 cases by filing petitions for relief under Chapter 11 of the Bankruptcy Code. We have continued to manage our business and property 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 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 against our officers and directors. We may request the Court to extend the stay to cover our officers and directors, but absent Court approval, such litigation may proceed. Also, the Automatic Stay has no effect on the SEC investigation.

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 including an investigation into the facts and circumstances giving rise to the restatement. The Company has been and intends to continue cooperating fully with the SEC. We cannot predict the outcome of this proceeding.

The investigation overseen by the Audit Committee of the Board of Directors and the restatement led to a delay in the filing of this and other SEC reports. See "Introductory Note". Because of these delays, we were not in compliance with the listing standards of the NYSE and the NYSE delisted our common stock.

The Company and certain of its directors and officers were defendants in several purported class action lawsuits (consolidated into a single action) alleging violations of federal securities laws and breaches of fiduciary duties. 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. See Item 3 - Legal Proceedings. We are 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.

Litigation or other regulatory actions against us by the SEC, the NYSE or other regulatory bodies could have a material adverse effect on us, and would also have adverse secondary effects, such as

negative reactions from our stockholders, creditors or vendors. For a further description of our restatement related litigation, see "Restatement Related Litigation" under Item 3 - Legal Proceedings.

A FAILURE BY US TO EFFECTIVELY AND EFFICIENTLY MAINTAIN INTERNAL CONTROL OVER FINANCIAL REPORTING WOULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS OR FINANCIAL RESULTS.

We have implemented an Internal Process and Controls Plan to address areas of control weakness identified in the investigation and the related restatement. The Internal Process and Controls Plan addresses our control environment, organization and staffing, policies, procedures and documentation, and information systems. The Audit Committee of the Board of Directors and management periodically review and assess the effectiveness of internal controls and procedures. This Internal Process and Controls Plan supports our efforts to comply with the requirements of Sarbanes-Oxley.

We are prepared to and may be required to forego sales growth or cost savings opportunities that might threaten the maintenance of effective internal control over financial reporting. The Company has and may continue to incur increases in employee levels, capital expenditures and operating expenses with respect to the implementation of these changes. If we are unable to implement these changes effectively or efficiently, or if we are found by our independent external auditor not to be in compliance with the requirements of Sarbanes-Oxley, or if we or our independent external auditor determine that we have deficiencies in our internal control over financial reporting that constitute "significant deficiencies" or "material weaknesses" as defined by the Public Company Accounting Oversight Board's Audit Standard No. 2, it could have a material adverse effect on our financial condition, results of operations or liquidity.

WE RELY ON KEY VENDORS AND THIRD PARTIES TO MANUFACTURE AND DISTRIBUTE OUR PRODUCTS.

Product sourcing in the family footwear business is driven by relationships with foreign manufacturers. If these foreign manufacturers are unable to secure sufficient supplies of raw materials or maintain adequate manufacturing capacity, they may be unable to provide Meldisco with timely delivery of products of acceptable quality. In addition, if the prices charged by these manufacturers increase, our cost of acquiring merchandise would increase. Should we not be able to recover these cost increases with increased pricing to our customers, it could have a material adverse effect on our operations and financial condition. In addition, if the terms under which these vendors deal with us, including payment terms, change adversely, there could be a material adverse impact on our operations and financial condition.

Meldisco also depends on third parties to receive, transport and deliver its products. If these third parties are unable to perform for any reason, or if they increase the price of their services, including but not limited to, as a result of increases in the cost of fuel, there could be a material adverse effect on our operations and financial performance.

WE MAY BE UNABLE TO ATTRACT AND RETAIN TALENTED PERSONNEL.

Our success is dependent upon our ability to attract and retain qualified and talented individuals. We have instituted several retention programs designed to retain key executives and employees. However, if we are unable to attract or retain key executives and employees, including senior management, and qualified accounting and finance, marketing, and merchandising personnel, it could adversely affect our businesses. This risk is acute while we remain in bankruptcy.

DECLINES IN OUR SALES WILL HAVE A MAGNIFIED IMPACT ON PROFITABILITY BECAUSE OF OUR FIXED COSTS.

A significant portion of our operating expenses are fixed costs that are not dependent on our sales performance, as opposed to variable costs, which vary proportionately with sales performance. These fixed costs include the costs associated with operating as a public company, the expense of being in bankruptcy, and a substantial portion of our labor expenses. If our sales continue to decline, we will be unable to reduce our operating expenses proportionately.

THERE ARE RISKS ASSOCIATED WITH OUR IMPORTATION OF PRODUCTS.

Approximately 92% of Meldisco's products are manufactured in China. Substantially all of this imported merchandise is subject to customs duties and tariffs imposed by the United States. Penalties may be imposed for violations of labor and wage standards by foreign contractors. In addition, China and other countries in which our merchandise is manufactured may, from time to time, impose additional new quotas, tariffs, duties, taxes or other restrictions on its merchandise or adversely change existing quotas, tariffs, duties, taxes or other restrictions. Any such changes could adversely affect our ability to import our products and, therefore, our results of operations. Any deterioration in the trade relationship between the United States and China, issues regarding China's compliance with its agreements related to its entry into the World Trade Organization, or any other disruption in our ability to import products from China could adversely affect our business, financial condition or results of operations.

Other risks inherent in sourcing products from foreign countries include economic and political instability, social unrest and the threat of terrorism, each of which risks could adversely affect our business, financial condition or results of operations. In addition, we incur costs as a result of security programs designed to prevent acts of terrorism such as those imposed by government regulations and our participation in the Customs-Trade Partnership Against Terrorism implemented by the United States Bureau of Customs and Border Protection. Significant increases in such costs could adversely affect our business, financial condition or results of operations.

The outbreak and spread of severe acute respiratory syndrome ("SARS") in southern China during the early part of 2003 severely curtailed travel to and from, as well as general business activities within China. Although our ability to purchase and import our merchandise from our China-based manufacturers was not negatively impacted during this outbreak of SARS, an additional outbreak of SARS, Avian Flu or outbreaks of other infectious diseases could prevent the manufacturers we use from manufacturing our merchandise or hinder our ability to import such merchandise, either of which could have an adverse effect on our results of operations.

Our ability to successfully import merchandise into the United States from foreign sources is also dependent on stable labor conditions in the major ports of the United States. Any instability or deterioration of the domestic labor environment in these ports could result in increased costs, delays or disruption in merchandise deliveries that could cause loss of revenue, damage to customer relationships and have a material adverse effect on our business operations and financial condition.

WE OPERATE IN THE HIGHLY COMPETITIVE FOOTWEAR RETAILING INDUSTRY.

The family footwear industry, where our business is now concentrated, is highly competitive. Competition is concentrated among a limited number of retailers and discount department stores, including Payless ShoeSource, Kmart, Wal-Mart, Kohl's, Sears and Target, with a number of traditional mid-tier retailers such as Shoe Carnival, Famous Footwear and Rack Room also selling lower-priced footwear. Many of our competitors have grown more rapidly and have substantially greater financial and marketing resources than us.

If we are unable to respond effectively to our competitors, our operations and financial condition could be materially adversely affected.

THE FOOTWEAR RETAILING INDUSTRY IS HEAVILY INFLUENCED BY GENERAL ECONOMIC CYCLES.

Footwear retailing is a cyclical industry that is heavily dependent upon the overall level of consumer spending. Purchases of footwear, apparel and related goods tend to be highly correlated with the cycles of the levels of disposable income of our customers. As a result, any substantial deterioration in general economic conditions could have a material adverse effect on our operations and financial condition.

WE MAY BE UNABLE TO ADJUST TO CONSTANTLY CHANGING FASHION TRENDS.

Our success depends, in large part, upon our ability to gauge the evolving fashion tastes of our customers and to provide merchandise that satisfies those fashion tastes in a timely manner. The retailing industry fluctuates according to changing fashion tastes and seasons, and merchandise usually must be ordered well in advance of the season, frequently before consumer fashion tastes are evidenced by consumer purchases. In addition, in order to ensure sufficient quantities of footwear in the desired size, style and color for each season, we are required to maintain substantial levels of inventory, especially prior to peak selling seasons when we build up our inventory levels.

As a result, if we fail to properly gauge the fashion tastes of consumers or to respond to changes in fashion tastes in a timely manner, this failure could adversely affect retail and consumer acceptance of our merchandise and leave us with substantial unsold inventory. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow-moving inventory, which may harm our business and financial results.

WE MUST PROVIDE CONSUMERS WITH SEASONALLY APPROPRIATE MERCHANDISE, MAKING OUR SALES HIGHLY DEPENDENT ON SEASONAL WEATHER CONDITIONS.

If the weather conditions for a particular period vary significantly from those typical for that period, such as an unusually cold spring like we experienced in 2003, or an unusually warm winter,

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consumer demand for seasonally appropriate merchandise that we have available in our footwear departments will be lower, and our net sales and margins will be adversely affected. Lower sales may leave us with excess inventory of our basic products and seasonally appropriate products, forcing us to sell both types of our products at significantly discounted prices and, thereby, adversely affecting our net sales and margins.

TRADEMARKS AND SERVICE MARKS

Footstar or its subsidiaries own all rights in the United States to the marks Thom McAn, Cobbie Cuddlers and Cara Mia for use in connection with footwear and/or related products and services. The Company or its subsidiaries have registered or have common law rights in the United States to over 100 trademarks and/or service marks under which we market merchandise or services. The Company either has registered or is in the process of registering its trademarks and service marks in foreign countries in which it operates or may operate in the future. We vigorously protect our trademarks and service marks both domestically and internationally.

EMPLOYEES

As of February 26, 2005, we had 4,677 employees, of which 1,591 were full-time and 3,086 were part-time employees.

AVAILABLE INFORMATION

We make available free of charge through our web site, www.footstar.com, all materials that we file electronically with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. During the period covered by this Form 10-K, we made all such materials available through our web site as soon as reasonably practicable after filing such materials with the SEC. As discussed in the Introductory Note, certain 2003 and 2004 SEC reports have not been filed to date.

You may also read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, and you may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet web site, www.sec.gov, that contains reports, proxy and information statements and other information which we file electronically with the SEC.

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ITEM 2. PROPERTIES

As of January 3, 2004, Meldisco operated licensed footwear departments in 2,503 stores and 39 Company-owned Shoe Zone stores. As of February 26, 2005, Meldisco operated licensed footwear departments in 2,339 stores. The licensed footwear departments are located in all 50 states, Guam, Puerto Rico and the U.S. Virgin

Islands. Of the licensed departments operated as of January 3, 2004 and February 26, 2005, respectively, 1,511 and 1,479 were located in Kmart discount stores; 863 and 860 licensed departments were in Rite Aid drugstores; 44 and none were located in Gordmans stores; and 87 and none were located in Federated stores.

Kmart and other retail host stores provide Meldisco with store space to sell footwear in exchange for certain payments. Meldisco-operated footwear departments in Kmart stores range from 900 to 4,400 square feet.

Our corporate headquarters and Meldisco's corporate offices are now located in 129,000 square feet of owned office space in Mahwah, New Jersey. Our corporate tax department is located in 3,500 square feet of leased office space in Worcester, Massachusetts.

We no longer operated any Footaction or Just For Feet stores as of February 26, 2005. As of January 3, 2004, we operated 433 Footaction stores in 39 states and Puerto Rico and we operated 89 Just For Feet stores. Footaction's average store size was 4,800 square feet. Just For Feet's stores ranged from 6,000 to 33,000 square feet with an average store size of 17,000 square feet. Footaction stores were all leased with a typical lease term of 10 years. Three of Just For Feet's stores were owned by us; the remainder were leased, with a typical initial lease term of 15 years.

Until the fourth quarter of 2004, our headquarters was located in 43,000 square feet of leased office space in West Nyack, New York. Until its relocation to our Mahwah office building during the third and fourth quarters of 2004, our Shared Services Center was located in 57,000 square feet of leased office space in Dallas, Texas. The Athletic Segment's corporate offices were located in approximately 63,000 square feet of leased office space in Mahwah, New Jersey; the lease expired as of September 30, 2004. We also maintained approximately 8,300 square feet of leased office space in Wausau, Wisconsin in which our direct marketing operations were primarily located; that lease ended as of June 2004. We previously operated out of two owned distribution facilities located in Mira Loma, California, and Gaffney, South Carolina, with a total of 1.2 million square feet. In addition, we leased a 200,000 square foot distribution facility in Morrow, Georgia; that lease ended as of January 31, 2005.

See "Introductory Note" for a discussion of our disposition of our facilities.

ITEM 3. LEGAL PROCEEDINGS

As stated in the "Introductory Note" above, we commenced the Chapter 11 cases by filing petitions for relief under Chapter 11 of 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 is the imposition of 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 against any of our officers and directors. We may request the Court to extend the 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.

In addition to the matters described below, we are involved in other legal proceedings, lawsuits and other claims incidental to the conduct of our business and estimates of the probable costs for resolution of these claims are accrued to the extent that they can be reasonably estimated. These estimates are based on an analysis of potential results, assuming a combination of litigation and settlement strategies. These estimates also take into account that bar dates have been established in connection with our bankruptcy proceedings. These bar dates, all of which have passed, require that any claims relating to events that occurred prior to our bankruptcy filing be reported in a proof of claim filed with the Court in our bankruptcy case. However, legal proceedings are subject to significant uncertainties, the outcomes are difficult to predict, and assumptions and strategies may change. Consequently, except as specified above, we are unable to ascertain the ultimate financial impact of any legal proceedings.

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.

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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 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. We are 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 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, as of the Petition

Date, the cure amount is approximately $19.0 million, while Kmart asserts that the cure amounts are no less than $57.8 million. In the Cross-Motion, Kmart argued that, because the Master Agreement is non-assumable, Kmart 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 resolve 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) until the completion of discovery.

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 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 whether or not the Court authorizes us to assume the Master Agreement. See "Risk Factors" under Item 1 - Business.

In June 2004, Kmart announced the sale of 54 of its retail store locations to Sears but agreed that Kmart would continue to operate such stores until Sears could complete its conversion plans. Subsequently, in November 2004, Kmart announced 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 Sears Essentials stores, 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 to either vacate approximately 24 stores or have the footwear departments relocated within the stores while their 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 or operates certain of the stores under a different discount retail name, such as the Sears Essentials name. 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 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 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 currently 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during fiscal year 2003 as no annual meeting was held.

PART II

ITEM 5. MARKET PRICES FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock was listed on the NYSE under the trading symbol "FTS". On December 29, 2003, the NYSE suspended trading in our common stock and, at a later date, our common stock was delisted. See "Introductory Note". Since December 30, 2003, our common stock has been traded on the over-the-counter bulletin board ("OTCBB") under the symbol "FTSTQ:PK". Prices shown for quarters 2002 and 2003 reflect the high and low sales prices for the common stock for each such quarter as reported in the consolidated transaction reporting system. Prices shown for periods during 2004 reflect the high and low bid prices for the common stock as reported on the OTCBB System. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily reflect actual transactions. As of February 26, 2005, the closing price of our common stock was $5.50 and there were 2,444 shareholders of record. Information concerning the market prices of our common stock is set forth below:

	High	LOW
2002		
First Quarter	$ 31.87	$ 22.65
Second Quarter	$ 32.43	$ 23.04
Third Quarter	$ 24.46	$ 7.72
Fourth Quarter	$ 8.88	$ 5.00
2003		
First Quarter	$ 10.00	$ 5.87
Second Quarter	$ 13.39	$ 8.12
Third Quarter	$ 13.56	$ 6.65
Fourth Quarter	$ 7.42	$ 3.10
2004		
First Quarter	$ 5.55	$ 1.26
Second Quarter	$ 6.75	$ 2.15
Third Quarter	$ 5.60	$ 2.60

Fourth Quarter	$ 4.85	$ 2.40

We have not paid dividends at any time since we became a public company and we do not expect to pay any dividends for the foreseeable future. The DIP and Exit Facility prohibits cash dividends without lender consent.

ITEM 6. SELECTED FINANCIAL DATA
FIVE-YEAR HISTORICAL FINANCIAL SUMMARY
(dollars in millions)

	2003	2002	2001	2000	1999
STATEMENT OF OPERATIONS DATA					
Net sales	$1,015.6	$ 1,346.0	$1,444.2	$1,310.1	$1,236.
Cost of sales	691.8	917.4	986.9	883.1	845.
Gross profit	323.8	428.6	457.3	427.0	391.
Store operating, selling, general and administrative expenses	269.5	316.8	323.2	272.3	257.
Bad debt expense - Ames Department Stores	-	9.2	-	-	
Depreciation and amortization	21.1	20.3	18.9	15.1	14.
Loss on investment	-	-	-	3.0	
Other income	(5.4)	-	-	-	
Restructuring, asset impairment and other charges (reversals), net	2.5	14.0	3.3	-	(1.
Operating profit	36.1	68.3	111.9	136.6	121.
Interest expense	31.0	17.9	21.5	32.8	29.
Interest income	(7.7)	(9.2)	(19.3)	(32.8)	(31.
Provision for income taxes(1)	10.0	35.2	27.8	39.4	38.
Minority interests in net income	17.3	37.1	44.8	51.4	44.
(Loss) earnings from operations of discontinued Athletic Segment(2)(3)	(39.9)	(66.5)	(67.7)	(1.4)	20.
Cumulative effect of a change in accounting principle(4)	-	24.3	-	-	
Net (loss) income	$ (54.4)	$ (103.5)	$ (30.6)	$ 44.4	$ 60.
BALANCE SHEET DATA					
Current assets:					
Cash and cash equivalents	$ 1.1	$ 13.4	$ 12.5	$ 14.3	$ 31.
Inventories	179.7	360.9	389.5	392.1	281.
Other	39.7	87.5	123.7	90.5	77.
Assets held for sale	284.5	-	-	-	
Total current assets	505.0	461.8	525.7	496.9	390.
Property and equipment, net	147.2	266.7	256.2	258.5	198.
Other assets	12.5	46.8	116.9	58.4	32.
Total assets	664.7	775.3	898.8	813.8	621.
Notes payable	198.0	146.8	146.9	74.0	
Other current liabilities	133.2	319.0	322.4	287.7	243.

Liabilities held for sale	110.5	-	-	-	
Total current liabilities	441.7	465.8	469.3	361.7	243.
Other liabilities	58.9	72.8	81.5	71.5	44.
Minority interests in subsidiaries	42.2	61.9	70.1	78.9	73.
Total liabilities	542.8	600.5	620.9	512.1	360.
Shareholders' equity	121.9	174.8	277.9	301.7	261.
Total liabilities and equity	$ 664.7	$ 775.3	$ 898.8	$ 813.8	$ 621.

(1) In connection with the preparation of our fiscal 2003 and 2002 consolidated financial statements, we reviewed the valuation of our deferred tax assets based on projections of our future taxable earnings. Primarily due to our historical losses and projected results, for accounting purposes we cannot rely on anticipated long-term future profits to utilize certain of these deferred tax assets. As a result, we could not conclude that it is more likely than not that the deferred tax assets will be realized and have recorded in fiscal year 2003 an additional non-cash valuation allowance of $24.7 million, of which approximately $17.6 million is applicable to discontinued operations and in fiscal 2002 recorded $70.2 million, of which $48.9 million is applicable to discontinued operations.

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(2) In 2004 we sold/liquidated our Athletic Segment. We have restated our financial statements to reflect the Athletic Segment as a discontinued operation for all periods presented as the process for sale commenced prior to fiscal 2004. (See Note 3 of Notes to Consolidated Financial Statements).

(3) During fiscal 1999, we reversed $3.8 million ($2.4 million after taxes) of a discontinued business charge of $85.0 million originally recorded in fiscal year 1996 which related to our Meldisco Segment.

(4) Represents write-off of goodwill recorded in connection with the acquisition of J. Baker assets upon the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". Amortization of goodwill in fiscal years 2001, 2000 and 1999 was $2.3 million, $0.7 million and $0.8 million, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by the use of words such as "anticipate," "estimates," "should," "expect," "guidance," "project," "intend," "plan," "believe" and other words and terms of similar meaning, in connection with any discussion of our financial statements, business, results of operations, liquidity and future operating or financial performance. Factors that could affect our forward-looking statements include, among other things:

- our ability to successfully assume, with Court approval, the Master Agreement with Kmart, and to cure defaults thereunder at a cost substantially higher than our estimate thereof;

- changes to our relationship with Kmart relating to the Sears Acquisition;

- the degree to which Kmart transfers additional store locations to Sears or to independent third parties, and the success in litigation of our position that stores converted to the Sears format remain subject to the Master Agreement;

- our ability to emerge from bankruptcy protection and operate successfully as a going concern;

- our ability to operate pursuant to the terms of the DIP and Exit Facility and to otherwise obtain financing necessary to operate our business on satisfactory terms both during and after our emergence from bankruptcy protection;

- our ability to obtain Court approval and any other required approvals with respect to motions in the Chapter 11 proceeding prosecuted by us from time to time;

- our ability to develop, prosecute, confirm and consummate one or more plans of reorganization with respect to the Chapter 11 cases;

- risks associated with third parties seeking and obtaining court approval to terminate or shorten the exclusivity period that we have to propose and confirm one or more plans of reorganization, to appoint a Chapter 11 trustee or to convert the cases to Chapter 7 cases;

- our ability to obtain and maintain normal terms with vendors and service providers and to maintain contracts that are critical to our operations;

- the audit of the 2004 fiscal year and the review of subsequent quarters by our independent external auditors;

- our compliance with the requirements of Sarbanes-Oxley;

- negative reactions from our stockholders, creditors or vendors to the delay in providing financial information caused by the investigation and restatement and the delisting of our common stock by the NYSE;

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- the impact and result of any litigation (including private litigation), any action by the SEC or any investigation by any other governmental agency related to us or the financial statement restatement process;

- additional delays in the filing of other reports with the SEC;

- our ability to successfully implement internal controls and procedures that ensure timely, effective and accurate financial reporting;

- higher than anticipated employee levels, capital expenditures and operating expenses, including our ability to reduce overhead and rationalize assets, both generally and with respect to changes being implemented to address the results of the investigation and the restatement;

- adverse results on our business relating to increased review and scrutiny by regulatory authorities, media and others of financial reporting issues and practices or otherwise;

- any adverse developments in existing commercial disputes or legal proceedings; and

- intense competition in the markets in which we compete.

Additionally, due to material uncertainties, it is not possible to predict the length of time we will operate under Chapter 11 protection, the outcome of the proceeding in general, whether we will continue to operate under our current organizational structure, or the effect of the proceeding on our businesses and the interests of various creditors and security holders.

Because the information in this Annual Report on Form 10-K is based solely on data currently available, it is subject to change and should not be viewed as providing any assurance regarding our future performance. Actual results and performance may differ from our current projections, estimates and expectations and the differences may be material, individually or in the aggregate, to our business, financial condition, results of operations, liquidity or prospects. Additionally, we assume no obligation to update any of our forward looking statements based on changes in assumptions, changes in results or other events subsequent to the date of this Annual Report on Form 10-K.

OVERVIEW

Management confronts major challenges in reorganizing the Company through the Chapter 11 process. We decided to seek bankruptcy protection after management determined it was unable to obtain necessary liquidity from our lending syndicate or additional debt or equity financing. We suffered a decline in our liquidity primarily resulting from unprofitable results in the Athletic Segment, a reduction in trade credit by certain Athletic vendors, unprofitable results of operations from recent acquisitions and the effect of the Kmart bankruptcy. Other factors included intense competition in the discount retailing industry, unsuccessful sales and marketing initiatives and capital market volatility. As a debtor-in-possession, we are authorized to continue to operate as an ongoing business but may not engage in transactions outside the ordinary course of business without the approval of the Court, on notice and an opportunity to be heard.

Since the Petition Date, actions to collect pre-petition indebtedness are stayed and other contractual obligations against us may not be enforced. In addition, under the Bankruptcy Code, we may assume or reject executory contracts, including leases of non-residential real property. Parties affected by these rejections may file claims with the Court in accordance with the Bankruptcy Code and orders issued by the Court. In a Chapter 11 case, holders of pre-petition, general, unsecured

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claims are entitled to receive at least as much as they would receive if we were liquidated under Chapter 7 of the Bankruptcy Code. In a Chapter 11 case, creditors and equity holders are generally allowed to vote to approve a Chapter 11 plan. For the period from the Petition Date to February 26, 2005, we incurred $28.0 million in costs associated with the Chapter 11 cases. We expect to continue to incur significant additional costs through the remaining Chapter 11 process.

We have not filed our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 29, 2003, June 28, 2003 and September 27, 2003. In lieu of filing such Quarterly Reports, this Form 10-K includes summarized quarterly financial data and other material information that would have been disclosed in our 2003 Quarterly Reports on Form 10-Q. These reports were delayed as a result of our internal investigation, the restatement of our consolidated financial statements included in our previously filed fiscal 2002 Annual Report on Form 10-K and our operation under protection of the bankruptcy laws. Similarly, we intend to include in our fiscal 2004 Annual Report on Form 10-K, which we plan to file as soon as practicable following the filing of this 2003 Form 10-K, summarized financial data and other material information that would have been available in our 2004 Quarterly Reports on Form 10-Q. We also intend to file our Form 10-Q's for fiscal 2005 as soon as practicable following the filing of our fiscal 2004 Annual Report on Form 10-K. Although an Internal Process and Controls Plan has been implemented, there is no guarantee that it will result in timely and accurate financial reporting in the future.

As part of our initial reorganization plans after filing for Chapter 11, we closed 166 underperforming stores within the Athletic Segment, all 88 Just For Feet stores, 75 Footaction stores and three Uprise stores.

After filing for bankruptcy protection, we received indications of significant interest from potential acquirers of the remaining 353 Footaction retail stores comprising the Athletic Segment. We determined that a sale of these stores was the best way to maximize the value of that business. This decision was driven in part by the absence of a commitment from Nike USA, Inc., the largest supplier of the Athletic Segment, to supply the Athletic Segment for more than a limited period of time in accordance with past business practices. Accordingly, we decided to establish an orderly sale process for the remaining Footaction retail stores.

On March 26, 2004, we filed a motion seeking Court approval to conduct an auction accepting all types of bids with respect to our Athletic Segment, including, but not limited to, going concern bids, liquidation bids, lease purchase bids, and any combination of the foregoing. On April 6, 2004, the Court approved the Procedures Order.

On April 21, 2004, we received Court approval to accept an offer from Foot Locker to purchase 349 of the remaining Footaction stores (including all lease rights and inventory at these stores), along with the remaining inventory from the four remaining Footaction stores. Effective May 2, 2004, these assets were sold to Foot Locker for $225.0 million in cash, subject to adjustment. Approximately $13.0 million of the sale price was placed in escrow with respect to 14 store locations that were on month-to-month leases on the following basis: if Foot Locker enters into a new lease for any of these store locations, the escrow amount relating to that location will be paid to us. The escrow amount relating to any location for which Foot Locker has not entered into a new lease within one year after the closing is to be paid to Foot Locker, thereby reducing the purchase price by that amount. As of February 26, 2005, we have been paid approximately $9.1 million from

the escrow account, Foot Locker has been paid approximately $2.2 million and approximately $1.7 million remained in escrow.

The sale to Foot Locker together with the closure of the Just For Feet and Footaction stores has been accounted for as discontinued operations in accordance with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets". Accordingly, our financial statements have been restated to reflect the Athletic Segment as a discontinued operation for all periods presented. The estimated gain on the sale of the Athletic Segment, including the effect of the closing of the 166 underperforming stores, is approximately $14.6 million, including the escrow payments through February 26, 2005. The $14.6 million will increase by any remaining escrowed cash that is released to us.

Under the Procedures Order, we pursued the sale of certain other assets, including our Mira Loma and Gaffney distribution centers. We sold Mira Loma to Thrifty Oil Co. ("Thrifty") for approximately $28.0 million. Pursuant to the terms of the pertinent sale documents, Thrifty has leased Mira Loma to FMI International, LLC, a logistics provider, which has agreed to provide us with warehousing and distribution services for the next eight years under a receiving, warehousing and distribution services agreement. The sale of Mira Loma closed on July 22, 2004 and resulted in a loss of approximately $24.8 million. On September 8, 2004, we sold Gaffney to Automated Distribution Systems, L.P., a logistics provider, for approximately $20.2 million. The gain on the sale of Gaffney was approximately $0.5 million.

We previously operated a Shared Services Center in Dallas, Texas. The Shared Services Center administered accounts payable, loss prevention, payroll, benefits, store accounting and inventory control for the entire Company and also contained our information system's data center. In connection with our decision to sell the Athletic Segment and streamline our Meldisco business, we determined that from both an internal control and cost perspective, the Shared Services Center was no longer a viable concept given our significantly reduced operating structure. Accordingly, during 2004 we transitioned all Shared Services Center functions to the Meldisco headquarters building in Mahwah, New Jersey.

Meldisco has historically maintained inventory levels sufficient to support sales growth potential in the event that Kmart store traffic grew and/or favorable weather increased seasonal footwear sales. Following its emergence from bankruptcy in May 2003, Kmart pursued a strategy, which included reducing advertising in weekly sale circulars that had the effect of lessening traffic in Kmart stores and, therefore, negatively impacting sales in Meldisco footwear departments in Kmart stores. We did not anticipate this decline in advertising and thus were not able to adjust our inventories commensurate with the reduced customer traffic and sales levels because product purchase lead times are generally six months. As a result of this inventory situation, we made a determined effort to both improve the aged content and reduce overall inventory levels in 2004. In order to effect an improvement in inventory quality and quantity, we increased markdowns in an effort to move product. This resulted in gross margins in 2004 being approximately 330 basis points lower than historical levels. By the end of fiscal 2004, inventory balances were 38% below year-end 2003 and the aged content of the inventory improved from 15% of total inventory in fiscal 2003 to 6% by fiscal 2004 year end. Our expectation and focus will be to continue to operate with significantly lower levels of inventory, particularly in the aged category. We believe this strategy will result in higher gross margins and more attractive product offerings to the Shoemart consumer. This focus

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on maintaining lower and fresher inventory levels is part of our broader strategy to maximize free cash flow by reducing our working capital requirements.

On November 12, 2004, we filed our Plan with the Court. The Plan provides for an orderly reorganization of the Company and cash distributions to impaired parties and is subject to a vote by eligible ballot holders. Alternatively, the Plan allows for a sale of all or substantially all of our assets and/or equity interests in the Meldisco business, following notice and a hearing.

The Plan provides for some flexibility in the timing of its confirmation and our emergence from bankruptcy. Key events that could impact this timing include determinations by the Court on our motion to assume the Master Agreement prior to Plan confirmation. The Plan also provides that we will not emerge from bankruptcy until we are current in filing periodic reports with the SEC.

If and when the Plan is confirmed, we expect to make an initial distribution of cash to creditors. The amount of this initial distribution will be based upon our cash balance remaining after payment of, or establishing reasonable reserves for, administrative claims, cure claims to the extent applicable, priority tax claims, secured tax claims and convenience claims as well as establishing a working capital cash reserve of $28.0 million. As set forth in the Plan, if the initial distribution does not exceed the lesser of $121.0 million or 85% of the then estimated general unsecured claims, we will apply up to $21.0 million of our working capital cash reserve to increase the initial distribution to an amount equal to the lesser of $121.0 million or 85% of the then estimated general unsecured claims. Balances due creditors after the initial distribution, if any, will be paid subject to our generation of free cash flow, as defined. Such amounts will be distributed following the first and third quarters of each fiscal year until such obligations have been satisfied.

The DIP and Exit Facility expires upon Plan confirmation and the ensuing Exit Facility is effective upon our emergence from bankruptcy (See "Introductory Note"). Because there could be a number of months between confirmation and emergence, we plan to work with our current lenders to ensure the DIP and Exit Facility is amended to provide continuous financial support to us during this interim period.

Meldisco's sales decreased $191.3 million, or 18.8%, from $1,015.6 million in fiscal 2003 to $824.3 million in fiscal 2004. Fiscal 2004 was a 52 week period compared with a 53 week period in fiscal 2003. The additional week in fiscal 2003 represented approximately $12.2 million in increased sales compared with 2004. Shoemart sales declined by $137.9 million with approximately $57.7 million due to stores closed during 2003 and 2004 as a result of Kmart's bankruptcy and their store rationalization strategy. In addition, Shoemart experienced a 9.8% comparable store sales decline in 2004 primarily due to Kmart's strategy of increasing gross margins at the expense of customer traffic and sales. This comparable store sales decline in 2004 resulted in an $80.2 million sales decrease. During the twelve months ended January 26, 2005, Kmart stores registered an overall 11.0% comparable store sales decline and the apparel division registered a 13.5% comparable store sales decline. The balance of the Meldisco sales decline in 2004 of $41.2 million was primarily due to our decision to streamline our Meldisco businesses by selling or liquidating all of our Shoe Zone stores ($11.6 million) and exit the footwear departments in Federated ($8.8 million) and Gordmans ($7.5 million).

SIGNIFICANT KMART RELATIONSHIP

The business relationship between Meldisco and Kmart is extremely important to us. The licensed footwear departments in Kmart have historically provided a significant portion of our total sales and profits, and comprise an even greater percentage of our sales and profits now that we have exited all of our Athletic Segment businesses and most of our other Meldisco businesses. The loss of Meldisco's Kmart business, a significant further reduction in customer traffic in Kmart stores or the closing of a significant number of Kmart stores would have a material adverse effect on us and would likely not allow us to continue to operate.

We operate licensed footwear departments in every Kmart store in the United States, the U.S. Virgin Islands, Puerto Rico and Guam, through Shoemart Subsidiaries that own the inventory and are responsible for staffing the footwear departments. Kmart owns a 49% equity interest in each of the Shoemart Subsidiaries, with the exception of 29 Shoemart Subsidiaries in which we have a 100% equity interest as of February 26, 2005. Meldisco has operated licensed footwear departments in Kmart since 1961.

Our arrangement with Kmart is governed by the Master Agreement. The Master Agreement provides us with the non-transferable, exclusive right and license to operate a footwear department in every Kmart store. The initial term of the Master Agreement expires on July 1, 2012, and is renewable for a 15 year term upon mutual agreement, unless either party gives notice of termination at least four years prior to the end of the applicable term. Certain sub-agreements for particular Kmart stores allow the parties to terminate those agreements under specified circumstances.

On August 12, 2004, we filed the Assumption Motion. Assuming that the Court concludes that we have the right to assume the Master Agreement, we will be required under Section 365 of the Bankruptcy Code to cure existing defaults under the Master Agreement as a pre-condition to that assumption. Kmart asserts that the cure amounts are no less than $57.8 million. Without taking into account any claims we may have against Kmart in connection with Kmart's cure claim, we estimate that, as of the Petition Date, we owed Kmart no more than approximately $19.0 million.

Kmart objected to our motion to assume the Master Agreement and the sub-agreements, arguing that assumption is barred as a matter of law under Section 365(a) of the Bankruptcy Code and challenging the cure amount associated with the assumption. Kmart has also sought to lift the Automatic Stay so that it can terminate the Master Agreement. On February 16, 2005, the Court issued a decision overruling Kmart's objection that assumption is barred as a matter of law under Section 365(a). Kmart then filed a motion for reargument of the decision on the motion to assume the Master Agreement, which was the subject of a hearing held on March 31, 2005. At this hearing, the Court reaffirmed the Assumption Decision. For a more complete discussion of this important litigation and other hearings on the Assumption Motion, see "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

Even if we are successful in assuming the Master Agreement and sub-agreements, we have lost and will continue to lose revenues whenever Kmart closes stores or transfers stores to entities that are not subject to the Master Agreement. During the first six months of 2002, while operating under the protection of Chapter 11 of the U.S. Bankruptcy Code, Kmart closed 283 stores. Kmart closed an additional 319 stores during the first four months of 2003. Kmart emerged from bankruptcy

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protection on May 6, 2003 and Kmart has continued and we believe will continue, to consider sales of both performing and underperforming stores. Store sales by Kmart will adversely effect us since virtually all of the footwear departments in those stores are operated at a profit by us.

In June 2004, Kmart announced the sale of 54 of its retail store locations to Sears but agreed that Kmart would continue to operate such stores until Sears could complete its conversion plans. Thereafter, in November 2004, Kmart announced the Sears Acquisition which closed on March 24, 2005.

Following the announcement of the Sears Acquisition, Kmart advised us of its intent to convert certain of the 54 stores to a Sears retail format, and that Kmart expected us to discontinue operating the footwear departments in those stores. We received a notice from Kmart instructing us to either vacate approximately 24 stores or have the footwear departments relocated within the stores while their reconfiguration to a new Sears format 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 were at one time operated as Kmart stores, whether or not Kmart operates certain of the stores under a different retail name, such as Sears Essentials. Accordingly, we filed 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 different format because our rights under the Master Agreement to sell footwear in the converting stores expire 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 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. For a more complete discussion of this important litigation, see "Adversary Proceedings Involving Kmart" under Item 3 - Legal Proceedings.

If Kmart sells stores to independent third parties (i.e., not Sears) we may lose our right to operate footwear departments in such stores. If the Court clearly rules in Kmart's favor in connection with the Sears/Kmart conversion litigation after any appeals have been exhausted, Kmart is likely to continue to take the position pre and post-bankruptcy that we are not entitled to sell footwear in stores that are converted to Sears Essentials or any other name that does not include the Kmart name.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with and is qualified in its entirety by our Consolidated Financial Statements and the Notes thereto that appear elsewhere in this report.

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FISCAL 2003 VERSUS 2002

Meldisco represents substantially all of our operations. Corporate expenses, net of royalties and commissions, were approximately $13.6 million in 2003 and $10.0 million in 2002.

2003 VERSUS 2002 - CORPORATE

Royalties and commissions, which were approximately $19.5 million in 2003 and $17.9 million in 2002, consisted of the following:

- The royalties Footstar charges Meldisco on the corporate trademarks which we own and Meldisco utilizes on its products.

- Commissions on goods sourced to third parties.

- Fees associated with third party services, such as the testing lab.

Corporate expenses, which were approximately $33.1 million in 2003 and $27.9 million in 2002, consisted of the following:

- General expenses not allocated.

- Depreciation on assets located at our former headquarters in West Nyack, New York.

- Amortization of Company-owned trademarks.

- In fiscal 2002, we recorded a $2.8 million write-down of trademarks acquired from J. Baker.

MELDISCO FINANCIAL PERFORMANCE - 2003 VERSUS 2002

(in millions)	1st Quarter 2003	1st Quarter 2002	2nd Quarter 2003	2nd Quarter 2002	3rd Quarter 2003	3rd Quarter 2002	FU 2003
Net Sales	$ 240.9	315.6	$ 262.4	367.6	$ 239.6	321.6	$ 1,015.
Gross Profit	63.7	81.1	84.5	119.8	65.9	92.7	304.
SG&A Expenses	63.2	78.0	58.6	71.6	60.6	69.0	236.
Bad Debt Expense - Ames	-	-	-	9.2	-	-	
Depreciation/Amortization	3.8	3.9	4.2	4.0	4.1	3.8	16.
Restructuring, Asset Impairment & Other Charge	2.5	1.7	-	7.0	-	4.9	2.
Operating (Loss) Profit	$ (5.8)	(2.5)	$ 21.7	28.0	$ 1.2	15.0	$ 49.

Meldisco operates through our Shoemart subsidiaries primarily in the discount footwear market through its operation of 1,511 Kmart licensed footwear departments as of January 3, 2004, as well as other licensed footwear and retail businesses. Meldisco competes primarily with other discount department stores, discount footwear retailers, as well as off-price and value retailers. As a result, Meldisco is heavily dependent on the ability of its host retailers to attract traffic into their stores through their promotional and advertising programs. Our Shoemart Subsidiaries accounted for 89%, 86% and 84% of Meldisco's sales in 2003, 2002 and 2001, respectively.

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MELDISCO - FULL YEAR RESULTS

NET SALES

Net sales decreased $330.4 million, or 24.5%, in 2003, to $1,015.6 million compared with $1,346.0 million in 2002. The 2003 sales results include a fifty-three week period compared with a fifty-two week period in 2002. This sales decrease was primarily due to Kmart store closures ($193 million), a 7.8% comparable store sales decline in Shoemart during 2003 predominantly due to weaker seasonal product sales and reduced Kmart advertising in the second half of 2003 ($60 million), the closing of all Ames stores ($81 million) and the decision to exit other unprofitable landlords acquired as part of the J. Baker acquisition ($53 million). This sales decrease was partially offset by increased store counts at Wal-Mart for Thom McAn product ($35 million), the first full year of operations in both the Federated and Gordmans licensed footwear businesses ($17 million) and an expansion of Shoe Zone stores ($11 million).

GROSS PROFIT

Gross profit decreased $106.3 million, or 25.9%, to $304.4 million in 2003 compared with $410.7 million in 2002. This decrease is primarily due to the aforementioned 24.5% decrease in sales. Overall gross margin rates deteriorated to 30.0% in 2003 from 30.5% in 2002. This reduction in gross margin rates was primarily due to additional markdowns in Shoemart that were taken in connection with our efforts to liquidate inventory in the Kmart stores that were closed during 2003.

SG&A EXPENSES

Store operating, selling, general and administrative expenses ("SG&A expenses") decreased $58.0 million, or 19.7%, to $236.2 million in 2003 compared with $294.2 million in 2002. SG&A expenses in Shoemart decreased by $36 million, or 15%, compared with the balance of Meldisco which declined by $22 million, or 45%. The overall SG&A rate as a percentage of sales increased to 23.3% in 2003 compared with 21.9% in 2002, as Shoemart was unable to reduce store selling and fixture rental costs commensurate with the overall sales decline due to a certain portion of these costs being fixed in nature.

RESTRUCTURING, ASSET IMPAIRMENT AND OTHER CHARGE

In 2003, we incurred approximately $18.2 million of restructuring and asset impairments relating to the closing of 316 Kmart stores. These charges included approximately $15.7 million for inventory write-downs which are included as a component of cost of sales. The other charges, which amounted to $2.5 million, included $1.9 million for severance costs and $0.6 million for asset impairments. These other charges were offset by $0.2 million of reserve reversals in the 2003 fourth quarter.

During 2002, we approved several plans in which we recorded net restructuring, asset impairment and other charges of $43.9 million principally in connection with our exiting various license arrangements acquired in the J. Baker acquisition and the closing of certain Kmart stores. The inventory portion, which amounted to $29.1 million, is included as a component of cost of sales.

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The inventory write-downs did not materially impact the decrease in gross margin rates in 2003 versus 2002.

The other charges, which amounted to $13.6 million, related to asset impairments of $7.9 million, severance costs of $4.2 million and lease exit costs of $1.5 million.

OPERATING PROFIT

Operating profit decreased $28.5 million, or 36.4%, to $49.8 million in 2003 compared with $78.3 million in 2002. Operating profit margin rates decreased to 4.9% in 2003 from 5.8% in 2002 primarily due to the reasons noted above.

MELDISCO - FIRST QUARTER RESULTS

	2003	2002	% SALES - 2003	% SALES - 2002
Net Sales	$240.9	$315.6		
Gross Profit	63.7	81.1	26.4%	25.7%
SG&A Expenses	63.2	78.0	26.2%	24.7%
Depreciation/Am				