

**IN THE MATTER OF** the Securities Legislation of  
British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick,  
Nova Scotia, Prince Edward Island and Newfoundland

**AND IN THE MATTER OF** the Mutual Reliance Review System  
for Exemptive Relief Applications

**AND IN THE MATTER OF** Payless ShoeSource, Inc.

**MRRS DECISION DOCUMENT**

**WHEREAS** the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland (the "Jurisdictions") has received an application from Payless ShoeSource, Inc. ("Payless" or the "Company") for a decision pursuant to the Securities legislation of the Jurisdictions (the "Legislation") that intended trades (the "Trades") to, by, with or on behalf of employees ("Employees") of Payless or of its affiliates (collectively, the "Payless Companies") resident in the Jurisdictions (the "Canadian Employees") in shares of common stock of Payless (the "Shares"), options on Shares ("Options"), stock appreciation rights ("Stock Appreciation Rights"), restricted stock ("Restricted Stock") and performance units ("Performance Units", Options, Stock Appreciation Rights, Restricted Stock and Performance Units are, collectively, "Awards") in connection with Payless' 1996 Stock Incentive Plan as such plan may be amended, supplemented, superceded or re-enacted from time to time (the "Plan") shall not be subject to the registration requirement and the prospectus requirement as each term is defined in National Instrument 14-101 (collectively, the "Registration and Prospectus Requirements");

**AND WHEREAS** pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Nova Scotia Securities Commission is the principal regulator for this application;

**AND WHEREAS** Payless has represented to the Decision Makers as follows:

1. Payless is a corporation incorporated under the laws of the state of Delaware, is not a reporting issuer or the equivalent under the Legislation and has no present intention of becoming a reporting issuer or the equivalent under the Legislation.
2. The authorized share capital of Payless consists of 240,000,000 Shares, par value US\$0.01 per share, and 25,000,000 shares of preferred stock ("Preferred Shares"). As of July 29, 2000 there were 29,376,958 Shares and no Preferred Shares issued and outstanding.
3. Payless is subject to the requirements, including the reporting requirements of the Securities Exchange Act of 1934, as amended, of the United States, and the Shares are listed for trading on the New York Stock Exchange (the "NYSE").
4. Payless ShoeSource Canada Inc. ("Payless Canada") is an indirect wholly-owned subsidiary of Payless. It is a corporation incorporated under the federal laws of Canada.

5. Payless Canada is not a reporting issuer or the equivalent under the Legislation of any of the Jurisdictions and has no present intention of becoming a reporting issuer or the equivalent in any of the Jurisdictions.

6. In connection with the Plan, Payless proposes to use the services of an agent (the "Agent"). The current Agent under the Plan is PaineWebber Incorporated ("PaineWebber"). The current Agent is, and if replaced will be, a corporation registered under applicable U.S. securities or banking legislation and has been or will be authorized by Payless to provide services under the Plan. PaineWebber is not a registrant in any of the Jurisdictions and if replaced, the Agent is not expected to be a registrant in any of the Jurisdictions.

7. The Agent's role in the Plan may include (i) assisting Canadian Employees with the exercise of Options, including cashless exercises; (ii) holding, on behalf of Canadian Employees, Shares issued by Payless upon the exercise of Options; and (iii) facilitating the resale of Shares acquired by Canadian Employees outside of Canada.

8. Shares offered under the Plan are registered with the Securities and Exchange Commission (the "SEC") in the United States under the Securities Act of 1933.

9. The purpose of the Plan is to aid the Company and its subsidiaries in attracting, retaining, and motivating management Employees and only Employees (including Employees who are directors or officers, or both) are eligible to participate in the Plan. As of July 6, 2000, there were approximately ten (10) Employees in each of the Jurisdictions eligible to participate in the Plan.

10. Participation in the Plan by Canadian Employees is voluntary and Canadian Employees have not been and will not be induced to participate in the Plan or to exercise Awards, by expectation of employment or continued employment with the Payless Companies.

11. Awards may, in the discretion of the Company, be granted to eligible Employees participating in the Plan. Unless otherwise determined by the committee appointed by Payless' board of directors to administer the Plan, the Awards are non-transferable otherwise than by will or the laws of descent and distribution.

12. At the time of the granting of an Award, persons or companies whose last address as shown on the books of the Company was in Canada do not hold more than 10% of the outstanding Shares and do not represent in number more than 10% of the total number of holders of Shares.

13. Payless will concurrently distribute to all Canadian Employees who participate in the Plan the same disclosure material relating to the Plan and to Payless as is furnished to participants in the United States or with respect to the Plan, Canadianized versions of these documents.

14. An exemption from the registration requirement is not available in all of the Jurisdictions for acts in furtherance of trades by Payless Companies when they select or identify Canadian Employees to be granted Awards and when they distribute Plan materials to Canadian Employees.

15. An exemption from the Registration and Prospectus Requirements is not available in all of the Jurisdictions for the grant of Awards to Canadian Employees who are not employed directly by Payless but who are employed by Payless Companies.

16. An exemption from the Registration and Prospectus Requirements is not available in all of the Jurisdictions for (i) the exercise of Awards by Canadian Employees through the Agent; (ii) the issuance of Shares to the Agent on behalf of Canadian Employees; (iii) the withholding of Shares by the Agent in payment of withholding taxes or other exercise costs; and (iv) the delivery of Shares by the Agent to Canadian Employees upon a withdrawal of such Shares from the custody of the Agent.

17. An exemption from the Registration and Prospectus Requirements is not available in all of the Jurisdictions for first trades by Canadian Employees effected through the Agent.

18. Because there is no market for the Shares in Canada and none is expected to develop, it is expected that the resale by Canadian Employees of the Shares acquired under the Plan will be effected through the facilities of, and in accordance with the rules and laws applicable to, a stock exchange or organized market outside of Canada on which the Shares may be listed or quoted for trading.

**AND WHEREAS** pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

**AND WHEREAS** each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

**THE DECISION** of the Decision Makers pursuant to the Legislation is that the Registration and Prospectus Requirements shall not apply to the Trades, including those described in paragraphs 14 to 17 above, provided that the first trade in Shares acquired under this Decision shall be deemed a distribution or a primary distribution to the public unless:

a) at the time of the first trade, Payless is not a reporting issuer or its equivalent in any Jurisdiction; and

b) such first trade is effected through the facilities of a stock exchange or organized market outside of Canada on which the Shares may be listed or quoted for trading or on the Nasdaq Stock Market.

DATED at Halifax, Nova Scotia, this "5<sup>th</sup>" day of September, 2000.