

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

PAYLESS SHOESOURCE INC /DE/

CIK: **1060232** | IRS No.: **431813160** | State of Incorporation: **DE** | Fiscal Year End: **0130**
Type: **10-K** | Act: **34** | File No.: **001-14770** | Film No.: **1606576**
SIC: **5661** Shoe stores

Mailing Address
3231 S E 6TH ST
TOPEKA KS 66607-2207

Business Address
3231 SOUTH EAST SIXTH
STREET
TOPEKA KS 66607-2207
9132335171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 3, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-14770

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

43-1813160
(I.R.S. Employer
Identification
Number)

3231 SOUTH EAST SIXTH AVENUE, TOPEKA, KANSAS
(Address of principal executive offices)

66607-2207
(Zip Code)

(785) 233-5171
(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 X No

--- ---

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 definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. []

The aggregate market value of Registrant's Common Stock held by non-affiliates based on the closing price of \$58.90 on April 9, 2001, was \$1,278,088,711. For purposes of this disclosure, the Registrant has assumed that its Directors and Executive Officers are affiliates of the Registrant.

The Registrant had 22,174,647 shares of \$.01 par value Common Stock issued and outstanding as of April 9, 2001.

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DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Annual Report to Shareowners for the fiscal year ended February 3, 2001, (the "2000 Annual Report") are incorporated into Part II, as described herein.
2. Portions of the Registrant's 2001 Proxy Statement for the Annual Meeting to be held on May 25, 2001, are incorporated into Part III, as described herein. Such proxy statement will be filed within 120 days after the end of the fiscal year covered by this annual report on Form 10-K.

This report contains, and from time to time, the Company may publish, forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, future store openings and international expansion, possible strategic alternatives and new business concepts and similar matters. Statements including the words "expects," "anticipates," "intends," "plans," "believes," "seeks," or variations of such words and similar expressions are forward-looking statements. The Company notes that a variety of factors could cause its actual results and experience to differ materially from the anticipated results or other expectations expressed in its forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: changes in consumer spending patterns; changes in consumer preferences and overall economic conditions; the impact of competition and pricing; changes in weather patterns; the financial condition of the suppliers and manufacturers from whom the Company sources its merchandise; changes in existing or potential duties, tariffs or quotas; changes in relationships between the United States and foreign countries, changes in relationships between Canada and foreign countries, economic and political instability in foreign countries or restrictive actions by the governments of foreign countries in which suppliers and manufacturers from whom the Company sources are located or in which the Company operates stores; changes in trade and/or tax laws; fluctuations in currency exchange rates; availability of suitable store locations on appropriate terms; the ability to hire, train and retain associates; and general economic, business and social conditions in the countries from which the Company sources products, supplies or has or intends to open stores. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Company does not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date hereof or thereof or to reflect the occurrence of unanticipated events.

Payless ShoeSource, Inc.
Form 10-K Annual Report
For the fiscal year ended February 3, 2001

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PART I

ITEM 1. BUSINESS

GENERAL

Payless ShoeSource, Inc., a Delaware corporation, together with its subsidiaries, ("Payless," the "Company" or the "Registrant") is the largest family footwear retailer in the United States with approximately \$2.95 billion in revenue in the fiscal year ended February 3, 2001 ("2000"). The Company sold approximately 225 million pairs of shoes in 2000.

As of February 3, 2001, the Company operated 4,633 Payless ShoeSource(R) stores in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, Saipan, Canada and Costa Rica. Payless ShoeSource(R) stores feature fashionable, quality footwear for men, women and children, including athletic, casual, dress, sandals, work boots and slippers. In addition, the Company operated 269 Parade stores in 23 states, the District of Columbia and Puerto Rico, and a 10 store chain of value-priced specialty stores selling socks, hosiery and undergarments located in the New York city area. Parade offers fashionable women's leather and fine fabric footwear and accessories at moderate prices.

EXPANSION

In September 2000, the Company announced a joint venture agreement with PLP, S.A., a holding company formed by Central American and Caribbean local partners, to open and operate Payless ShoeSource family footwear stores in Central America and the Caribbean. These stores offer a selection of the same footwear and accessories available at other Payless ShoeSource locations. The Company opened four stores in Costa Rica in the fourth quarter of 2000. In April of 2001, the Company opened its first stores in Guatemala. The Company currently intends to open stores in El Salvador, the Dominican Republic and Trinidad in the first three quarters of fiscal 2001.

In November 2000, the Company acquired a 10-store chain of value-priced specialty stores in the New York area. These stores operate primarily in mall locations and sell socks, hosiery and undergarments.

STORES

During 2000, the Company had a net increase of 141 Payless ShoeSource stores (419 openings and 278 closings), 49 Parade stores (73 openings and 24 closings) and 10 value-priced specialty stores. Year-end 2000 store count was 4,633 Payless ShoeSource stores, 269 Parade stores, and 10 value-priced specialty stores.

HISTORY

The Company was founded in Topeka, Kansas in 1956 with a strategy of selling low cost, high quality family footwear on a self-service basis. In 1962, Volume Distributors, as the Company was known at the time, became a public company. In 1979, the Company (then called Volume Shoe Corporation) was acquired by The May Department Stores Company of St. Louis, Missouri ("May"). The Company changed its name to Payless ShoeSource, Inc. in 1991. On May 4, 1996, Payless became an independent public company incorporated in Missouri as a result of its spin-off from May. In June 1998, Payless was reorganized into a holding company structure with the retail operations centralized in Payless ShoeSource, Inc., a Missouri corporation, the indirect, wholly-owned subsidiary of Payless ShoeSource, Inc., a Delaware corporation. The Company is listed for trading on the New York Stock Exchange under the symbol "PSS."

The average size of the Company's Payless ShoeSource(R) stores in the United States and Canada is approximately 3,300 square feet. Each store carries on average 8,200 pairs of shoes selected from approximately 500 styles offered. Payless ShoeSource(R) stores operate in a variety of real estate formats, including shopping malls, central business districts, free-standing buildings, strip centers and the new "store-within-a-store." Of the 4,633 Payless ShoeSource(R) locations open at the end of 2000 (including ShopKo locations), 695 stores incorporated a "Payless Kids(R)" area which consists of approximately 1,000 additional square feet of selling space devoted to an expanded assortment of children's shoes and seven stores were exclusively "Payless Kids(R)" stores. The stores that include a "Payless Kids(R)" area and those that are dedicated "Payless Kids(R)" stores are located throughout the country, have wider aisles, children-friendly seating and an entertainment center for children. Payless(R) intends to phase out the remaining exclusively "Payless Kids(R)" stores.

The Company's Payless ShoeSource(R) stores operate in rural, suburban and urban environments. The 10 states with the largest concentration of the Company's Payless ShoeSource(R) stores are identified below (along with the total number of Payless ShoeSource(R) stores including ShopKo locations):

<TABLE>

<CAPTION>

STATE -----	NO. OF PAYLESS SHOESOURCE(R) STORES -----
<S>	<C>
CALIFORNIA	611
TEXAS	380
FLORIDA	271
NEW YORK	267
ILLINOIS	212
PENNSYLVANIA	187
OHIO	174
MICHIGAN	151
NEW JERSEY	131
WASHINGTON	103
OTHER (INCLUDING NON-U.S. STORES)	2,146 -----
TOTAL	4,633

</TABLE>

The Company's Payless ShoeSource(R) stores are highly automated, each with an electronic point of sale register (excluding the ShopKo locations) and a back office computer which not only records transactions from the register (not in ShopKo or Central American stores), but also serves many other store supporting functions including price look-up, accumulation of associate hours worked and communications with the Company's headquarters in Topeka, Kansas. Store associates receive regular weekly communications from the Company's headquarters describing promotional and display requirements.

The Company's Payless ShoeSource(R) operations are directed centrally by a senior officer and a small support staff.

The average Payless ShoeSource(R) store in the United States and Canada has a manager and approximately five associates. The stores are organized into districts. District managers, to whom the store managers report, themselves report to the division offices and have full responsibility for the stores in their district. Division offices also have loss prevention and inventory control functions. Human resources, merchandising support and other more general support services, are provided from the Company's headquarters.

PARADE STORES

The Company's Parade division, which was acquired in March 1997, from J. Baker, Inc., of Canton, Massachusetts, emphasizes the retail sale of fashionable, quality, primarily leather, women's shoes. As of February 3, 2001, the Company operated 269 Parade stores as a separate division supported by Payless sourcing, distribution, information systems, real estate, human resources and financial operations.

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Major markets include New York City, Chicago, Boston, Philadelphia, Washington, D.C., Miami and Puerto Rico. The average size of a Parade store is approximately 2,300 square feet. These stores operate in a variety of real estate formats including shopping malls, central business districts and strip centers.

EMPLOYEES

During 2000, the Company's average number of employees was approximately 27,700 including approximately 13,700 U.S. and 900 Canadian full-time associates and 12,500 U.S. and 600 Canadian part-time associates. Approximately 650 of the Company's distribution center general warehouse associates are covered by collective bargaining agreements. Approximately 120 of the Company's other associates are covered by collective bargaining agreements. Management believes it has a good relationship with its employees.

The Company is led by a team of 20 senior management executives who have an average of 18.7 years of retail industry experience, including an average of 14 years with the Company and May.

PRODUCTS

The Company's Payless ShoeSource(R) stores offer a broad assortment of fashionable, quality footwear sold at affordable prices for men, women and children, including athletic, casual, dress, sandals, work boots and slippers. Shoes are constructed with leather, canvas and man-made materials. Styling is updated regularly in an effort to remain current with proven fashion trends. During 2000, shoes at Payless ShoeSource(R) stores sold at an average retail price of \$11.82/pair. In addition to shoes, Payless ShoeSource(R) stores offer accessories, including handbags, shoe polish and hosiery. Parade stores feature fashionable women's dress, casual and athletic footwear priced in the \$20 to \$40/pair range.

The Company's merchandising effort is led by the President and two general merchandise managers with an average of 20 years of retail experience. They direct teams of buyers, planners and distributors that interact with agents and

factory representatives to design, select, produce, inspect and distribute footwear and accessories to Payless ShoeSource(R) and Parade stores.

CUSTOMERS

The Company sells footwear to women, men and children of all age groups. The Company has significant market penetration with its target customers: women between the ages of 18 and 44. The Company believes that more than 51% of its target customers purchased at least one pair of shoes from the Company last year. In 2000, the Company sold more pairs of shoes than any other U.S. footwear retailer.

SEASONALITY

The retail footwear market is characterized by four high volume seasons: Easter, early Summer, back-to-school and Winter holiday. The Company must increase inventory levels during these periods to support the increased demand for seasonal styles. Unseasonable weather patterns may affect planned sales of seasonal products such as sandals and boots.

PURCHASING

The Company, both on its own account and through its indirect, wholly-owned subsidiary, Payless ShoeSource Merchandising, Inc., utilizes a network of agents and factories in the United States and 12 foreign countries to obtain its products. These products are manufactured to meet the Company's specifications and standards. The strength of the Company's relationships with agents and factories, some dating back over 40 years, has allowed the Company to revise its sourcing strategies to reflect changing political and economic environments. In the past, many of the Company's agents and factory owners have played significant roles in developing production in new factories and in new countries without compromising production capacity or product quality.

PAYLESS SHOESOURCE(R) STORES

Factories in the People's Republic of China are a source of approximately 74% of the Company's merchandise and two additional foreign countries and domestic sources account for approximately 25% of the Company's products based on units sold. There can be no assurance that a change in political climate with or in China would not have a material adverse effect on the Company. The Company does not purchase "seconds" or "overruns" and does not own any manufacturing facilities. The Company closely integrates its merchandise purchasing requirements with various manufacturers through its sourcing organization which has offices in Kansas, Taiwan, China, Brazil and Vietnam. Management believes it has good relationships with the entities from which it sources, although there can be no assurance that such relationships will remain good or that such entities believe that such relationships are good.

Worldwide, approximately 57 percent of the Company's merchandise calculated on an at cost basis is acquired through a network of third-party agents. Payless ShoeSource International, Inc., the Company's indirect subsidiary in Taipei, Taiwan, arranges directly with factories for the design, selection, production management, inspection and distribution of approximately 43 percent of the shoes

acquired for the Company.

Risks inherent in foreign manufacturing (i.e., manufacturing outside the United States) include economic and political instability, transportation delays and interruptions, restrictive actions by foreign governments, the laws and policies of the United States affecting importation of goods, including duties, quotas and taxes, trade and foreign tax laws and fluctuations in currency exchange rates. As the Company expands internationally, the Company faces similar risks in each country in which it has operations. While the Company has not historically experienced material adverse effects resulting from the occurrence of these types of risks, there is no assurance that in the future the occurrence of these risks will not result in increased costs and delays or disruption in product deliveries that could cause loss of revenue and damage to customer relationships and have a material adverse effect on the Company.

Currently, imports from China enjoy "permanent normal trade relations" ("PNTR") treatment under United States tariff laws. PNTR treatment provides the most favorable level of United States import duty rates.

QUALITY ASSURANCE

The Company's quality assurance organization sets standards and specifications for product manufacture, performance and appearance. It communicates those standards and specifications through its copyrighted quality assurance manual. The Company stands behind the quality of the shoes it sells to its customers by permitting return of purchased merchandise with proper documentation evidencing purchase.

The quality assurance organization also provides technical design support for the Company's direct purchasing function. It is responsible for review and approval of agent and factory technical design, for worldwide laboratory testing of materials and components, and for performing in-factory product inspections to ensure that materials and factory production techniques are consistent with Company specifications. The Company locates its field inspection personnel close to the factories and freight consolidation facilities it uses throughout the world.

PRODUCTION MANAGEMENT

The production management organization manages an ongoing process to qualify and approve new factories, while continually assessing existing factory service and quality of performance. New factories must meet specified quality standards for shoe production and minimum capacity requirements. They must also agree to the Company's production control processes and certify that neither they nor their suppliers use forced or child labor. Factory performance must continually improve or the factory runs the risk of being removed from the list of approved factories. The production management organization utilizes a unique, internally developed production control process by which the Company is electronically linked to the factories and

agents. This process is designed to ensure on-time deliveries of merchandise with minimum lead time and without unnecessary costs.

The Company believes that maintaining strong factory relationships, improving key factory performance factors and improving factory profitability is critical to long-term sourcing stability. The Company's manufacturing services group, based in Asia, provides direction and leadership to key factories in the areas of overall productivity improvement and lead time reduction.

MERCHANDISE DISTRIBUTION

The Company believes that its distribution system provides it with a competitive advantage. The Company's merchandise distribution teams are able to track shoes by the pair from order placement through sale to the customer by the use of perpetual inventory, product planning and retail price management systems. These systems are maintained by experienced information systems personnel and are enhanced regularly to improve the product distribution process. Distribution analysts review sales and inventory by size and style to maintain availability of product within the Company's stores.

The Company, through its indirect, wholly-owned subsidiary, Payless ShoeSource Distribution, Inc., operates a single 807,000 square foot distribution center, including office space and a 12,000 square foot manufacturing facility, in Topeka, Kansas (the "DC"). The DC is capable of replenishing in-store product levels by style, color and size. The DC currently handles approximately 70 percent of the Company's distribution needs and operates seven days-a-week, 20 to 24 hours per day. Management believes this facility is one of the most highly-automated and cost-efficient distribution facilities in the retail footwear industry. The remaining 30 percent of the Company's distribution needs are handled by a fully automated third party facility in Los Angeles, California.

The Company believes its distribution center system has sufficient capacity to support more than 5,000 stores. The Company regularly monitors the capacity of the DC. Stores generally receive new merchandise at least twice a week, in an effort to maintain a constant flow of new and replenished merchandise.

INDUSTRY SEGMENTS

The retail footwear industry can be divided into high, moderate and value-priced segments. The high priced segment is comprised principally of department stores. The moderate priced segment, which includes specialty shoe chains, mass merchandisers, and junior department stores, has no single dominant competitor. The Company and national discount mass-merchandisers are predominant in the value-priced segment.

Payless ShoeSource considers itself part of the value-priced segment of the footwear industry. Parade operates in the moderate priced segment. Based on industry data, the United States footwear market is estimated to be approximately \$39 billion/year, and has remained relatively constant over the past several years. Industry data suggests that the quality offered in the value-priced segment has improved significantly in recent years.

COMPETITION

The Company operates in a highly competitive retail market competing primarily with national and regional discount mass-merchandisers, as well as with other discount shoe stores and off-price outlet stores. Competition is based on product selection, quality and availability, price, store location, customer service and promotional activities. The Company believes that it has a leadership position in the footwear market.

INTELLECTUAL PROPERTY

The Company, through its wholly-owned subsidiaries, owns certain copyrights, trademarks, patents and domain names which it uses in its business and which it regards as valuable assets. The trademarks include Payless(R), Payless ShoeSource(R), Payless Kids(R), Parade(sm), and Parade of Shoes(R) and domain

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names including: Payless.com(sm). The Company owns all rights to the yellow and orange logo used in its Payless ShoeSource(R) signs and advertising. In the United States, the Company has registered over 180 key marks and owns over 20 common law marks under which it markets private label merchandise in its Payless ShoeSource(R) stores. In addition, the Company owns over 37 registered and common law marks under which it markets private label merchandise in its Parade stores. The Company also owns registrations for Payless ShoeSource(R) in over 55 foreign countries. All of the Company's registered trademarks may be renewed indefinitely.

MARKETING

The Company's marketing efforts are multi-dimensional, including nationally broadcast television advertising, newspaper and mail inserts in support of major promotional periods. In addition to media support, the Company utilizes in-store promotional materials, including posters, signs and point of sale items. Also, the Company communicates through the promotional funds, media funds, merchants' associations and similar efforts that are part of the leasing agreements from its various landlords. Finally, the Company uses publicity efforts to gain low cost awareness of Payless and its core business.

In addition to its marketing staff, the Company uses professional firms to assist in advertising, creative services, media purchase, publicity, business and market planning and consumer research.

ENVIRONMENT

Compliance with federal, state and local statutes, rules, ordinance, laws and other provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not expected to have, a material effect on capital expenditures, earnings or the competitive position of the Company.

FOREIGN OPERATIONS

In late 1997, the Company, through its indirect wholly-owned Canadian subsidiary, Payless ShoeSource Canada Inc., opened its first store in Canada. By the end of fiscal year 1999, the Company had opened 180 Canadian stores. In February of 1999, the Company opened its first store in French-speaking Quebec Province. In 2000, the Company opened its first stores in Costa Rica and in the first quarter of 2001, the Company opened its first stores in Guatemala.

DIRECTORS OF THE COMPANY

Listed below are the names and present principal occupations or, if retired, most recent occupations of the Company's Directors:

<TABLE>
<CAPTION>

NAME ----	PRINCIPAL OCCUPATION -----
<S>	<C>
STEVEN J. DOUGLASS	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER OF THE COMPANY
DANIEL BOGGAN JR.	SENIOR VICE PRESIDENT OF THE NATIONAL COLLEGIATE ATHLETIC ASSOCIATION
HOWARD R. FRICKE	CHAIRMAN OF THE BOARD OF THE SECURITY BENEFIT GROUP OF COMPANIES
THOMAS A. HAYS	RETIRED, FORMERLY DEPUTY CHAIRMAN OF THE MAY DEPARTMENT STORES COMPANY
KEN C. HICKS	PRESIDENT OF THE COMPANY
MYLLE B. MANGUM	CHIEF EXECUTIVE OFFICER OF MMS INCENTIVES, LLC
MICHAEL E. MURPHY	RETIRED, FORMERLY VICE CHAIRMAN AND CHIEF ADMINISTRATIVE OFFICER OF SARA LEE CORPORATION
ROBERT L. STARK	RETIRED, FORMERLY EXECUTIVE VICE PRESIDENT HALLMARK CARDS, INC.
IRWIN ZAZULIA	RETIRED, FORMERLY PRESIDENT AND CHIEF EXECUTIVE OFFICER OF HECHT'S

</TABLE>

EXECUTIVE OFFICERS OF THE COMPANY

Listed below are the names and ages of the executive officers of the Company as of April 19, 2000 and offices held by them with the Company.

<TABLE>
<CAPTION>

NAME ----	AGE ---	POSITION AND TITLE -----
<S>	<C>	<C>
STEVEN J. DOUGLASS	51	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
KEN C. HICKS	48	PRESIDENT
DUANE L. CANTRELL	45	EXECUTIVE VICE PRESIDENT
JOHN N. HAUGH	38	SENIOR VICE PRESIDENT
ULLRICH E. PORZIG	55	SENIOR VICE PRESIDENT -- CHIEF FINANCIAL OFFICER AND TREASURER
WILLIAM J. RAINEY	54	SENIOR VICE PRESIDENT -- GENERAL COUNSEL AND SECRETARY
GARY M. STONE	52	SENIOR VICE PRESIDENT

</TABLE>

STEVEN J. DOUGLASS is 51 years old and has served as Chairman of the Board and Chief Executive Officer of Payless since May 4, 1996, the date on which the Payless Common Stock was distributed in a spin-off by The May Department Stores

Company ("May") to its Shareowners (the "Spin-off"). Mr. Douglass served as Chairman and Chief Executive Officer of Payless from April 1995 to the Spin-off. He joined Payless in 1993 and served as Senior Vice President/Director of Retail Operations from 1993 to January 1995 and as Executive Vice President/Director of Retail Operations from January 1995 to April 1995. Prior to his association with Payless, Mr. Douglass held several positions at divisions of May, serving as Chairman of May Company, Ohio (1990- 1993) and Senior Vice President and Chief Financial Officer of J.W. Robinsons (1986-1990). Mr. Douglass is a director of The Security Benefit Group of Companies. Mr. Douglass has served as a Director of Payless since April 30, 1996.

KEN C. HICKS is 48 years old and has served as President of Payless since January 28, 1999. Before joining Payless, he was Executive Vice President and General Merchandise Manager for Home Shopping Network, Inc. Prior to his association with Home Shopping Network, Inc., Mr. Hicks held several positions with May serving as Senior Vice President and General Merchandise Manager of Foley's Department Stores (1995-1998), Senior Vice President and General Merchandise Manager for May Merchandising Company (1990-1995) and as Senior Vice President of Strategic Planning for May (1987-1990). Mr. Hicks has served as a Director of Payless since January 28, 1999.

DUANE L. CANTRELL is 45 years old and has served as Executive Vice President - Operations since April 1999. Prior to that, he served as Executive Vice President - Retail Operations from May 1997 to April 1999 and as Senior Vice President - Retail Operations from May 1995 to May 1997. He also served as Senior Vice President - Merchandise Distribution and Planning (1992- 1995) and Senior Vice President - Merchandise Distribution (1990-1992). Mr. Cantrell has been employed by the Company since 1978.

JOHN N. HAUGH is 38 years old and has served as Senior Vice President - Marketing since January 2000. He served as Executive Vice President Marketing and Sales for Universal Studios (1998-1999) and prior to that he worked for Carlson Companies, Inc. (1993-1998) where he held positions of increasing responsibility including, Vice President of Marketing and Retail Operations (1997-1998) and General Manager/Vice President Awards Division (1995-1997).

ULLRICH E. PORZIG is 55 years old and has served as Senior Vice President - Chief Financial Officer and Treasurer since February, 1996 and from 1986 to 1988. Between 1993 and 1996, Mr. Porzig was Senior Vice President-Chief Financial Officer and Treasurer of Petro Stopping Centers L.P. From 1982 to

1993 he was employed by May in various capacities including Senior Vice President-Finance and Chief Financial Officer of Foley's (1988-1993).

WILLIAM J. RAINEY is 54 years old and has served as Senior Vice President General Counsel and Secretary since April, 1996. Prior to joining the Company, Mr. Rainey served as Executive Vice president, General Counsel and Secretary of Fourth Financial Corporation (1994-1996) and Vice President and General Counsel of Cabot Corporation (1991-1993).

GARY M. STONE is 52 years old and has served as Senior Vice President - Corporate Development since November 1999. Prior to that he was Senior Vice President - Store Development (1997-1999). Prior to joining the Company, Mr.

Stone was employed by PepsiCo, Inc. as Senior Vice President and General Manager-Restaurant Services (1995-1997) and Vice President, Asset Development - Pizza Hut (1990-1995).

ITEM 2. PROPERTIES

The Company leases substantially all of its stores. The leases typically have a primary term of 5 or 10 years, with none to two five-year renewal options. During 2001, approximately 615 of the Company's leases, including 83 leases which, as of February 3, 2001, were month-to-month tenancies or were lease modifications out for signature, are due to expire. Leases usually require payment of base rent, applicable real estate taxes, common area expenses and, in some cases, percentage rent based on the store's sales volume. Payless ShoeSource stores in the United States and Canada average approximately 3,300 square feet and Parade stores average approximately 2,300 square feet. The Company owns and operates, directly or through its wholly-owned subsidiaries, a 305,000 square foot central office building, a 795,000 square foot distribution facility including a 12,000 square foot manufacturing facility, including office space, all of which are located in Topeka, Kansas.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to ordinary private litigation incidental to their business.

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

There were no matters submitted to a vote of security holders during the 13 weeks ended February 3, 2001.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS

There were approximately 16,698 registered holders of the Company's Common Stock as of February 3, 2001 compared to approximately 18,514 registered holders as of January 29, 2000. The information set forth under the headings "Management's Discussion and Analysis -- Review of Financial Condition - Common Stock and Market Prices" in the Company's 2000 Annual Report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the heading "Summary of Selected Historical Financial Information" of the Company's 2000 Annual Report is incorporated herein by reference.

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

The information set forth under the heading "Management's Discussion and Analysis" of the Company's 2000 Annual Report is incorporated herein by

reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the heading "Management's Discussion and Analysis -- Review of Financial Condition - Interest Rate Risk" and "- Currency Risk" of the Company's 2000 Annual Report is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Statement of Earnings for the fiscal years 1998, 1999 and 2000, the Consolidated Balance Sheet as of January 29, 2000 and February 3, 2001, the Consolidated Statement of Shareowners' Equity, the Consolidated Statement of Cash Flows for fiscal years 1998, 1999, 2000, the Notes to Consolidated Financial Statements and the Report of Independent Public Accountants contained in the Company's 2000 Annual Report to Shareowners are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

a) Directors -- The information set forth in the Company's definitive proxy statement to be filed in connection with its Annual Meeting to be held on May 25, 2001, under the captions "Election of Directors -- Directors and Nominees for Directors" and "Additional Information -- Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

b) Executive Officers -- Information regarding the Executive Officers of the Company is as set forth in Item 1 of this report under the caption "Executive Officers of the Company." The information set forth in the Company's definitive proxy statement to be filed in connection with its Annual Meeting to be held on May 25, 2001, under the caption "Additional Information -- Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth in the Company's definitive proxy statement to be filed in connection with its Annual Meeting to be held on May 25, 2001, under the captions "Election of Directors -- The Board and Committees of the Board - Compensation of Directors," "Compensation and Nominating Committee Report -- EICP" and "-- Retail EICP" and "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth in the Company's definitive proxy statement to be filed in connection with its Annual Meeting to be held on May 25, 2001, under the caption "Beneficial Stock Ownership of Directors, Nominees, Executive Officers and Persons Owning More Than Five Percent of Common Stock " is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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(a) Documents filed as part of this report:

(1) Financial Statements. The following financial statements are incorporated herein by reference to the Company's 2000 Annual Report to Shareowners:

	PAGE IN
	ANNUAL REPORT
Financial Statements:	
Consolidated Statement of Earnings for the three fiscal years ended February 3, 2001	6
Consolidated Balance Sheet -- February 3, 2001 and January 29, 2000	7
Consolidated Statement of Shareowners' Equity for the three fiscal years ended February 3, 2001	8
Consolidated Statement of Cash Flows for the three fiscal years ended February 3, 2001	19
Notes to Consolidated Financial Statements	20-25
Report of Independent Public Accountants	27

(2) EXHIBITS.

NUMBER	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of the Registrant.(1)
3.2	Amended and Restated Bylaws of the Registrant.(2)
4	Stockholder Protection Rights Agreement, dated as of April 20, 1998, between the Registrant and UMB Bank, N.A.(1)
10.1	Tax Sharing Agreement, dated April 2, 1996, between The May Department Stores Company and the Registrant.(3)
10.2	Sublease, dated as of April 2, 1996, between The May Department Stores Company and the Registrant.(4)
10.3	Credit and Guaranty Agreement dated as of April 17, 2000 among Payless ShoeSource Finance, Inc., as Borrower, Payless

ShoeSource, Inc. and Certain of its Subsidiaries, as Guarantors, various Lenders, Goldman Sachs Credit Partners L.P., as Sole Lead Arranger and Sole Syndication Agent, Bank One, NA, as Administrative Agent, and First Union National Bank, as Documentation Agent. (7)

- 10.4 Administrative Services Agreement, dated as of April 2, 1996, between The May Department Stores Company and the Registrant.(4)
- 10.5 Payless ShoeSource, Inc. 1996 Stock Incentive Plan, as amended March 16, 2000. (7)
- 10.6 Spin-Off Stock Plan, Payless ShoeSource, Inc.(4)
- 10.7 Spin-Off Cash Plan, Payless ShoeSource, Inc.(4)
- 10.8 Restricted Stock Plan for Non-Management Directors, as amended April 20, 1998, effective immediately prior to

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the effective time of the Merger (as defined therein).(1)

- 10.9 Form of Employment Agreement between the Registrant and certain executives of the Registrant. The Registrant has entered into Employment Agreements in the form contained in this exhibit with each of the named executive officers which expire at various dates on or before May 31, 2003, which contain agreements not to compete of 1-2 years beyond the expiration date of the respective Employment Agreements, and provide for annual base salaries at rates not less than the amounts presently paid to them. (7)
- 10.10 Payless ShoeSource, Inc. Supplementary Retirement Plan, as amended November 16, 2000.*
- 10.11 Payless ShoeSource, Inc, 401(k) Profit Sharing Plan, as amended and restated effective March 20, 2000.*
- 10.12 Payless ShoeSource, Inc. Deferred Compensation Plan, as amended July 20, 2000.*
- 10.13 Executive Incentive Compensation Plan of Registrant, as amended November 16, 2000.*
- 10.14 Form of Control Agreement. The Registrant has entered into Change of Control Agreements with the named executive officers in the form contained in this exhibit (7)
- 10.15 Form of Directors' and Officers' Indemnity Agreement of Registrant. (7)

- 10.16 Payless ShoeSource, Inc. Deferred Compensation Plan for Non-Management Directors, as amended March 16, 2000. (7)
- 10.17 Executive Incentive Compensation Plan for Business Unit Management of Registrant, as amended April 20, 1998, effective immediately prior to the effective time of the Merger. (1)
- 10.18 The Stock Appreciation and Phantom Stock Unit Plan of Payless ShoeSource, Inc. and its Subsidiaries for Payless ShoeSource International Employees, as amended March 16, 2000. (7)
- 10.19 Payless ShoeSource, Inc. Profit Sharing Plan for Puerto Rico Associates, as amended and restated effective March 20, 2000.*
- 10.20 Stock Ownership Plan of Registrant, as amended effective June 1, 1998. (1)
- 10.21 Assumption Agreement, dated as of May 22, 1998, between Registrant and Payless. (1)
- 10.22 Consulting Agreement between the Registrant and Richard A. Jolosky. (5)
- 10.23 Executive Incentive Compensation Plan for Annual Awards for Merchandising and Retail Operators Functions, effective May 28, 1999. (6)
- 10.24 Consulting Contract between the Registrant and Jed L. Norden entered into as of December 22, 2000.*
- 10.25 Employment Agreement between the Registrant and Steven J.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM

Douglass entered into as of November 16, 2000.*

- 10.26 Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan effective October 1, 2000.*
- 11.1 Computation of Net Earnings Per Share.*
- 12.1 Computation of Ratio of Earnings to Fixed Charges.*
- 13. 2000 Annual Report to Shareowners of Payless ShoeSource, Inc. (only those portions specifically incorporated by reference shall be deemed filed with the Commission).*
- 21.1 Subsidiaries of Registrant*
- 23.1 Consent of Arthur Andersen, LLP.*

* Filed herewith

- (1) Incorporated by reference from the Registrant's Form 8-K (File Number 1-14770) dated June 1, 1998.
- (2) Incorporated by reference from the Registrant's Form 10-K (File Number 1-14770) for the fiscal year ended January 30, 1999.
- (3) Incorporated by reference from Exhibit 10.1 of the Registrant's Form 10-Q (File Number 1-11633) for the quarter ended May 4, 1996.
- (4) Incorporated by reference from the correspondingly numbered Exhibit to Registrant's Registration Statement on Form 10 (File Number 1-11633) dated February 23, 1996 as amended through April 15, 1996.
- (5) Incorporated by reference from the Registrant's Form 10-Q (File Number 1-14770) for the quarter ended October 30, 1999.
- (6) Incorporated by reference from the Registrant's Form 10-Q (File Number 1-14770) for the quarter ended July 31, 1999.
- (7) Incorporated by reference from the Registrant's Form 10-K (File Number 1-14770) for the year ended January 29, 2000

THE COMPANY WILL FURNISH TO SHAREOWNERS UPON REQUEST, AND WITHOUT CHARGE, A COPY OF THE 2000 ANNUAL REPORT AND THE PROXY STATEMENT, PORTIONS OF WHICH ARE INCORPORATED BY REFERENCE IN THE FORM 10-K. THE COMPANY WILL FURNISH ANY OTHER EXHIBIT AT COST.

(b) Reports on Form 8-K:

None.

All other schedules and exhibits of the Company for which provision is made in the applicable regulations of the Securities and Exchange Commission have been omitted, as they are not required or are inapplicable or the information required thereby has been given otherwise.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 19, 2001

PAYLESS SHOESOURCE, INC.

By: /s/ Ullrich E. Porzig

Ullrich E. Porzig
Senior Vice President, Chief
Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Steven J. Douglass Date: April 19, 2001

Steven J. Douglass
Chairman, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Ullrich E. Porzig Date: April 19, 2001

Ullrich E. Porzig
Senior Vice President, Chief Financial
Officer and Treasurer
(Principal Financial and Accounting
Officer)

By: /s/ Ken C. Hicks Date: April 19, 2001

Ken C. Hicks
President and Director

By: /s/ Daniel Boggan Jr. Date: April 19, 2001

Daniel Boggan Jr.
Director

By: /s/ Howard R. Fricke Date: April 19, 2001

Howard R. Fricke
Director

By: /s/ Thomas A. Hays Date: April 19, 2001

Thomas A. Hays
Director

By: /s/ Mylle B. Mangum Date: April 19, 2001

Mylle B. Mangum
Director

By: /s/ Michael E. Murphy Date: April 19, 2001

Michael E. Murphy
Director

By: /s/ Robert L. Stark Date: April 19, 2001

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Robert L. Stark
Director

By: /s/ Irwin Zazulia

Date: April 19, 2001

Irwin Zazulia
Director

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EXHIBIT INDEX

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10.7 Spin-Off Cash Plan, Payless ShoeSource, Inc.(4)

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PAYLESS SHOESOURCE, INC.

SUPPLEMENTARY RETIREMENT PLAN

As Amended November 16, 2000

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PAYLESS SHOESOURCE, INC. SUPPLEMENTARY RETIREMENT PLAN

This document constitutes and sets forth the terms of the Payless ShoeSource, Inc. Supplementary Retirement Plan (hereinafter referred to as the "Plan"), effective as of the date Payless ShoeSource, Inc. was "spun-off" from and ceased to be a subsidiary of The May Department Stores Company, May 4, 1996 (the "Effective Date"). Capitalized terms, not otherwise defined herein, which are defined in the Payless Profit Sharing Plan shall have the meanings set forth in such plan.

SECTION 1. DEFINITIONS.

1.1 Act means the Social Security Act as in effect from time to time.

1.2 Actuarial Equivalent means a benefit of equivalent value when computed on the basis of the actuarial principles and tables adopted or otherwise approved by the Committee.

1.3 Annual Compensation means an Associate's Compensation during a fiscal year of the Company, on an accrual basis, and shall include all of the Associate's Compensation accrued for services during such fiscal year, regardless of when such compensation is paid or credited.

1.4 Annual Estimated Social Security Benefits means:

(a) the estimated initial annual amount of the Primary Insurance Amount or the Disability Insurance Benefit (as such terms are defined in the Act), whichever is applicable, determined by the Committee from available records and such other information as the Committee may request the Member to furnish, to which the Member would be entitled under the Act as in effect at the beginning of the calendar year in which cessation of employment occurs assuming the Member is not thereafter in employment covered under the Act. The estimated Primary Insurance Amount shall be applicable under this Plan in all cases except as hereinafter provided in certain cases of Total Disability and shall be adjusted in the manner provided in the Act as of the date of retirement if such retirement occurs on or after the member's 62nd birthday or as if the Member's age at retirement were 62 if such retirement occurs before the Member's 62nd birthday. The estimated Disability Insurance Benefit shall be applicable to a Member who sustains Total Disability and qualifies for LTD Plan benefits which are reduced on account of Disability Insurance Benefits under the Act; and

(b) the estimated initial annual amount of benefit to which the Member would be entitled under any public pension or welfare system of any country other than the United States of America which is similar to the Primary Insurance Amount or the

Disability Insurance benefit under the Act, as determined by the Committee in its sole and absolute discretion.

1.5 Annual Minimum Benefit Amount means:

(a) for all years in which the Member participated in the Payless Profit Sharing Plan or the May Profit Sharing Plan, the amount of the Company contribution and forfeitures which would have been allocated to the Member's Company Accounts in the May and Payless Profit Sharing Plans but for the limitation on annual additions imposed by Section 415(c)(1) and Section 415(c)(2) of the Internal Revenue Code (the "Code"), and the limitation under Code Section 401(a)(17) on the amount of such Member's Compensation which may be taken into account in determining 1) the Member's basic contributions under the May Profit Sharing Plan and 2) the Member's Allocation Pay Amount under the Payless Profit Sharing Plan. The Minimum Benefit Amount with respect to the Payless Profit Sharing Plan shall be determined as if the Company Contribution for the applicable year or years was invested in the investment fund(s) in which the Company Contribution actually allocated for the Member was invested. (The amount determined under this paragraph shall be converted to an annual benefit which would be produced if the amount determined were paid in the form of an Actuarially Equivalent immediate life annuity with appropriate adjustments to the amount on account of investment experience actually experienced by the Profit Sharing Plan); and

(b) the difference between the annual amount of Retirement Pension, if any, to which the Member is entitled under the May Retirement Plan paid in the form of an immediate life annuity and the annual amount of such Retirement Pension which would be payable to the Member but for (i) the limitation on benefits under Section 415(b) of the Code, (ii) the limitation under Code Section 401(a)(17) on the amount of such Member's Compensation which may be taken into account in determining such Member's annual amount of Retirement Pension, and (iii) the limitation under Code Section 415(e) on the benefit payable to a Member who participates in both a defined benefit plan and a defined contribution plan, to the extent applicable.

1.6 Annual Retirement Income means the amount determined by multiplying two percent (2%) of the Member's Average Annual Compensation by the number of years and fractions thereof (to the closest one-twelfth) of Plan Service, up to a maximum of twenty-five (25) years of Plan Service, completed by the Member on his actual Retirement Date.

1.7 Annual Retirement Benefits Offset means the total of the following annual amounts:

(a) the annual amount of Retirement Pension that would be produced if the benefits payable under the May Retirement Plan were paid to the Member in the form of an immediate life annuity.

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(b) the annual amount of Retirement Pension that would be produced under any other retirement plan to which the Company or a related entity contributes and which credits employment included in Plan Service if the benefits thereunder were payable in the form of an Actuarially Equivalent immediate life annuity,

(c) the annual amount of benefits that would be produced if the amount payable from the Member's Company Accounts under the Payless Profit Sharing Plan (including Company Accounts which were Employer or Company Accounts under the May Profit Sharing Plan or Plans merged into the May Profit Sharing Plan) were paid in the form of an Actuarially Equivalent immediate life annuity, assuming that;

- (i) for each calendar year that the Member was eligible to participate as a Member of the May Profit Sharing Plan and for such period of time that the Member is eligible to share in Company matching contributions under the Payless Profit Sharing Plan, the Company Contribution and forfeitures allocated to the Member's Company Accounts were and are deemed to be in an amount equal to the product of the May or Company matching rate (as applicable) actually applicable to such year or period of time multiplied by the maximum basic contributions under the May or Payless Profit Sharing Plan(s) which could have been contributed by the Member for such calendar year or other period of time;
- (ii) appropriate adjustments on account of investment experience were made to such amount based on the actual investment experience of the May Profit Sharing Plan, as the Committee shall determine.

(d) the May Retirement Plan and May Profit Sharing Plan offsets set forth in this Section 1.7 shall apply only if the period of membership in those Plans is included in Plan Service under this Plan.

1.8 Average Annual Compensation means the average of the three highest amounts of Annual Compensation of the Member accrued with respect to three (not necessarily consecutive) of the most recent five fiscal years of the Company ending before the Member's actual Retirement Date.

1.9 Associate means any associate of an Employer under the Payless Profit Sharing Plan.

1.10 CEO means the Company's Chief Executive Officer as of February 15, 2001, and any successive Chief Executive Officer of the Company to whom the

Board grants the benefits specifically set forth in this Plan for the CEO.

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1.11 Committee means the committee established by Section 4 of this Plan.

1.12 Company means Payless ShoeSource, Inc., a Delaware corporation, and any other organization which may be a successor to it.

1.13 Compensation means the total compensation from an Employer (or, for the period prior to the date Payless ceases to be a subsidiary of May, from an Employer or from any member of the controlled group of corporations determined in accordance with Section 414(b) of the Code or is a trade or business under common control in accordance with Section 414(c) of the Code, which includes an Employer) with respect to an Associate for services rendered prior to the Associate's actual Retirement Date, including all regular pay commissions, overtime pay, cash incentives, prize awards, amounts which an Associate elected to have the Employer contribute directly to the May or Payless Profit Sharing Plans on the Associate's behalf in accordance with Section 4.01(b) of each such Plan, amounts not otherwise includable in the Associate's taxable income pursuant to Section 125 of the Code, and amounts subject to the Payless ShoeSource, Inc. Deferred Compensation Plan or the Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan. Compensation shall not include a pension, retirement allowance, severance pay, retainer or fee under contract, any special payments, cash or otherwise, relating to the spinoff of Payless or distributions from the Profit Sharing Plan.

1.14 Competing Business means any single (i) retail department store; (ii) discount department store; (iii) catalog showroom store; (iv) specialty store; (v) furniture store; (vi) shoe store; (vii) clothing store; or a group of any of the type of stores referred to in (i) through (vii) hereof, which such store or group of stores had, in its fiscal year ending within the twelve month period immediately preceding the date of such Member's Retirement Date, a gross sales volume, including sales in leased or licensed departments, in excess of \$25,000,000.

1.15 Effective Date means May 4, 1996. The effective date of this amendment and restatement is the effective date of the Merger.

1.16 Employer means an employer designated as an Employer under the Payless Profit Sharing Plan.

1.17 Gender. Whenever applicable, the masculine pronoun as used herein shall include the feminine pronoun.

1.18 May means The May Department Stores Company.

1.19 May Profit Sharing Plan means The May Department Stores Company Profit

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1.20 May Retirement Plan means The May Department Stores Company Retirement Plan.

1.21 (a) Member means any person included in the membership of the Plan as provided in Section 2.

(b) Retired Member means a Member who retires after the Effective Date and becomes entitled to a supplementary retirement benefit under this Plan in accordance with its provisions.

1.22 Payless means Payless ShoeSource, Inc., a Delaware corporation.

1.23 Payless Profit Sharing Plan means the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan, as amended from time to time, and any other successor retirement plan which may be designated by the Committee, including the Payless ShoeSource, Inc. Profit Sharing Plan from Puerto Rico Associates.

1.24 Plan Service means Years of Service determined using the elapsed time method. Plan Members shall receive a Year of Plan Service on each anniversary date of their commencement of employment with the Employer, subject to any limitations or restrictions as may be imposed in connection with such Employer's adoption of the Plan.

1.25 Retirement Date means the last day of the month in which a Member retires under the Payless Profit Sharing Plan or an earlier date set forth in Section 3.2 of this Plan under which a Member is eligible for benefits hereunder.

1.26 Termination Without Cause means the involuntary termination of Member's employment for any other reason than specified in Section 3.2(d) and (e).

1.27 Total Disability means a disability qualifying a Member for benefits under the Payless ShoeSource, Inc. Long-Term Disability Plan.

SECTION 2. MEMBERSHIP.

2.1 Eligibility for Membership. Each Associate who is a member of The May Department Stores Company Supplementary Retirement Plan on the day Payless ceased to be a subsidiary of May shall become a Member of the Plan as of that date. Each other Associate of an Employer who has Compensation from an Employer in any later calendar year completed prior to his Retirement Date equal to at least twice the amount of "wages" which are subject to the payment of F.I.C.A. tax by the Associate in such year shall become a Member as of the January 1 thereafter. The Committee, in its discretion, may permit any other Associate to become a Member if the Committee determines that the Associate's Compensation from an Employer in any calendar year does not adequately reflect the Associate's full Compensation for such year.

2.2 Eligibility for Benefits. A Member shall become entitled to benefits under the Plan only if, and to the extent that, the Plan so provides. The fact that an Associate becomes a Member shall not, by itself, entitle the Associate to any benefit under the Plan.

SECTION 3. BENEFITS.

3.1 Normal Retirement.

(a) Subject to the remaining provisions of this Section 3, the annual supplementary retirement benefit payable to a Member who retires on or after attaining age 65 shall be equal to the excess, if any, of:

(i) such Members Annual Retirement Income, or

(ii) the sum of:

. his Annual Estimated Social Security Benefits, and

. his Annual Retirement Benefits Offset.

(b) If the benefit payable under subsection (a) above is less than the Annual Minimum Benefit Amount computed pursuant to Section 1.5, the Member shall receive the Annual Minimum Benefit Amount.

3.2 Early Retirement.

(a) (i) A Member may retire early under this Plan at any time after attaining age 55 and completing 5 years of Plan Service. Subject to the remaining provisions of this Section 3, the annual supplementary retirement benefit determined under Sections 3.1(a) and 3.1(b) above, payable to a Member who retires prior to attaining age 65 shall be first

computed on the basis provided by Section 3.1(a), taking into account only years of Plan Service and Average Annual Compensation to the Member's Retirement Date or, if applicable, on the basis provided by Section 3.1(b), which amount shall be reduced as follows:

AGE AT RETIREMENT -----	REDUCTION TO PAYMENT -----
65 or older	No reduction
64	2.0% of Average Annual Compensation
63	4.0% of Average Annual Compensation
62	6.0% of Average Annual Compensation
61	6.5% of Average Annual Compensation
60	7.0% of Average Annual Compensation
59	7.5% of Average Annual Compensation
58	8.0% of Average Annual Compensation
57	8.5% of Average Annual Compensation
56	9.0% of Average Annual Compensation
55	9.5% of Average Annual Compensation
54	10% of Average Annual Compensation
53	10.5% of Average Annual Compensation
52	11% of Average Annual Compensation
51	11.5% of Average Annual Compensation

(a) (ii) The CEO shall be eligible for benefits under the Plan upon an involuntary Termination Without Cause. If Terminated Without Cause prior to attaining age 65, the benefits payable to the CEO shall first be computed on the basis provided by Section 3.1(a), taking into account only years of Plan Service and Average Annual Compensation to the Member's Retirement Date or, if applicable, on the basis provided by Section 3.1(b), which amount shall be reduced as specified in the chart provided under Section 3.2(a) (i).

(a) (iii) The CEO shall be eligible for benefits under the Plan upon Total Disability. If the CEO experiences Total Disability prior to attaining age 65, the benefits payable to the CEO shall first be computed on the basis provided by Section 3.1(a) taking into account only years of Plan Service and Average Annual Compensation to the Member's Retirement Date or, if applicable, on the basis provided by Section 3.1(b), which amount shall be reduced as specified in the chart provided under Section 3.2(a) (i).

(b) Notwithstanding the other provisions of this Section 3.2, if a Member's retirement occurs prior to his 62nd birthday, then during the period between his Retirement Date and the Member's 62 birthday only, in the calculation of the Member's supplementary retirement benefit, such Member's supplementary retirement benefit shall not be reduced by his Annual Estimated Social Security Benefits.

(c) Notwithstanding anything else to the contrary provided in this Section 3.2 or otherwise in the Plan, if, during the five-year period following the occurrence of a Change in Control of the Company, the Company or an Employer terminates a Member's employment, who is not the CEO, other than as a Termination For Cause and such Member had attained age 50 on the date on which the Change in Control occurred, then such Member's annual supplementary retirement benefit shall be computed and paid to such Member as if such Member had retired at age 55 with at least five years of service on the date of termination with benefits to be determined as if such Member had been employed through age 55 at a level of Compensation equal to the Member's Average Annual Compensation. Notwithstanding anything to the contrary provided in this Section 3.2, or otherwise in the Plan, the CEO shall be eligible (prior to age 55) for benefits under the Plan immediately upon a Change of Control of the Company and benefits shall be determined in accordance with this Section 3.2(c). For the purposes stated in this Section 3.2(c), the Average Annual Compensation of the specified Member shall be deemed to be the greater of his Average Annual Compensation determined (i) as of the date of the Change in Control or (ii) as of the date of termination of employment.

(d) A "Change in Control of the Company" shall be deemed to have occurred if:

- (i) any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that, for purposes of this Section 3.2(d), none of the following shall constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company or (iv) any acquisition by any corporation pursuant to a transaction that complies with Sections 3.2(d)(iii)(A), 3.2(d)(iii)(B) and 3.2(d)(iii)(C) or (v) any acquisition by the Company which, by reducing the number of shares of Outstanding Company Common Stock or Outstanding Company Voting Securities, increases the proportionate number of shares of Outstanding Company Common Stock or Outstanding Company Voting Securities beneficially

owned by any Person to 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities; provided, however, that, if such Person shall thereafter become the beneficial owner of any additional shares of Outstanding Company Common Stock or Outstanding Company Voting Securities and beneficially owns 20% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities, then such additional acquisition shall constitute a Change of Control; or

- (ii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

- (iii) a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination") is consummated, in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50%, respectively, of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination

(including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business

Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination or

(v) the stockholders of the Company approve of a complete liquidation or dissolution of the Company.

(e) "Termination for Cause" by the Company or by an Employer of the Company means termination upon:

(i) the willful and continued failure by the Member to substantially perform his duties with the Company or an Employer (other than any such failure resulting from disability or any such actual or anticipated failure after the Member notifies the Company or an Employer of termination for good reason) after a written demand for substantial performance is delivered to the Member by the Company or Employer, which demand specifically identifies the manner in which the Company or Employer believes the Member has not substantially performed his duties, or

(ii) the willful engaging by the Member in conduct that is

demonstrably and materially injurious to the Company or Employer, monetarily or otherwise.

For the purposes of this subparagraph, "good reason" means, without the Member's express written consent, the occurrence of any of the following circumstances during the one-year period following a change in Control of the Company, unless such circumstances are fully corrected (effective retroactive to and including the date the circumstances first occurred) within 30 days of the Company or Employer receiving notice of the member's termination:

- (i) a reduction by the Company or Employer or a subsidiary, as appropriate, in the Members annual base salary, bonus opportunity or benefits as the same may be increased from time to time except for across-the-board salary, bonus opportunity or benefit reductions

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similarly affecting all management personnel of the Company, Employer and/or subsidiaries (and all management personnel of any person in control of the Company or Employer and of all persons, firms, corporations and partnerships and other entities controlled by such person); or

- (ii) the relocation of the Company's or Employer's (or subsidiary's) offices at which the Member is principally employed to a location more than 35 miles from such location or the Company's or Employer's (or subsidiary's) requiring the Member to be based anywhere other than the Company's or Employer's (or subsidiary's) offices at such location.

3.3 Cessation of Benefits. Subject to the provisions of Sections 3.4, 3.5 and 3.6, all payments of supplementary retirement benefits hereunder shall cease upon the death of the Member.

3.4 Form of Benefit. Subject to subsection (b) below, the standard form of the supplementary retirement benefit payable hereunder shall be an immediate life annuity; provided, however, that one of the following optional forms of payment may also be elected:

- (a) 100% Joint Annuity. This option is an actuarially reduced benefit payable to a Member during his life and, after his death, payable for life to such person he shall have designated as his contingent annuitant.
- (b) 50% Joint and Survivor Annuity. This option is an actuarially reduced benefit payable to a Member during his life and, after his death, a benefit at one-half the rate of such actuarially reduced benefit payable for life to such person as he shall have designated as his contingent annuitant. Unless the Member's spouse consent to another

optional form of payment, this will be the standard form of payment for a Member who is married at Retirement Date. The Member's spouse will be the contingent annuitant.

- (c) Period Certain Annuity (10 years). This option is an actuarially reduced benefit payable to a Member during his life with periodic payments certain terminating at the end of ten years, with provision that if the Member dies before receiving all the periodic payments for such ten year period, (i) periodic payments for the remainder of such period shall be paid to a designated beneficiary, and (ii) if there is no such designated beneficiary, to his estate.

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- (d) Period Certain Annuity. (15 years). This option is an actuarially reduced benefit payable to a Member during his life with periodic payments certain terminating at the end of fifteen years, with provision that if the Member dies before receiving all the periodic payments for such fifteen year period, (i) periodic payments for the remainder of such period shall be paid to a designated beneficiary, and (ii) if there is no such designated beneficiary, to his estate.

The supplementary retirement benefit payable under an optional form shall be the Actuarial Equivalent of the supplementary retirement benefit otherwise payable in the form of an immediate life annuity.

3.5 Standard Payment Period. Supplementary retirement benefit payments shall be made in monthly installments, except that the Committee may, in its discretion at any time and from time to time prior or subsequent to retirement, direct that such payments be made other than at monthly intervals, or direct that either a lump sum settlement or a different form of payment be made equal to the Actuarial Equivalent of the benefit or remainder thereof otherwise payable.

3.6 Limitation on Payments.

(a) It is recognized that a Member's duties during the period of employment with the Company or an Employer entail the receipt of confidential information concerning not only the current operations and procedures of the Company or an Employer but also its short-range and long-range plans. If (A) the Member during any portion of the period of two (2) years following his retirement (1) has an aggregate investment (as determined from time to time) in a Competing Business equal to at least the greater of (i) \$100,000, (ii) 1% in value of such Competing Business or (iii) such greater amount as the Committee may establish on a case by case basis or (2) personally renders services to a Competing Business in any manner, including without limitation, as owner, partner, director, trustee, officer, employee, consultant or advisor thereof,

and (B) the Committee determines, in its discretion, that such investment or rendering of personal services is contrary to the best interests of the Company, then all rights to receive any benefits under the Plan shall immediately cease if the Member does not reduce such aggregate investment to an amount permitted hereunder or cease rendering such personal services, within 60 days of receipt of written notice of such determination from the Committee. The term "value" as used herein shall mean the net worth of such Competing Business, as disclosed by the balance sheet of such Competing Business, as of the close of the last preceding fiscal year; provided, however, that with respect to an investment in stock or other securities of a Competing Business, if such stock or other securities are part of a class of stock or other securities listed on any stock exchange, the term "value" shall mean the market value of such class of stock or other securities of such Competing Business, as of the date of any such determination by the Committee.

(b) Any and all rights to benefits payable to or for the account of a Member shall at all times be subject to termination (i) if the Committee shall find such Member guilty of

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dishonesty or any other unlawful act causing injury or harm to the Company or an Employer or their employees or customers, or (ii) if such Member voluntarily terminates his employment without the written consent of the Company or his Employer or in violation of a written contract of employment.

(c) Notwithstanding any other provisions of the Plan, in the event that the aggregate amount of benefits paid under this Plan in any benefit year (the period commencing on July 1 of any year and ending on the following June 30), after taking into account the tax effect on the Company or an Employer, shall exceed five percent (5%) of the average consolidated net earnings of the Company as shown in the Company's annual report to shareowners for the three (3) most recent consecutive fiscal years, ending prior to the conclusion of the benefit year, then all benefits otherwise payable hereunder during the next following benefit year shall be reduced or if necessary terminated. Such reduction shall be made by reducing the benefits otherwise payable during such next following benefit year in the same proportion that the benefits for the immediately preceding benefit year (before the imposition of the limitations provided for by this paragraph) would have had to have been reduced so that no excess would have occurred during such immediately preceding benefit year.

(d) Notwithstanding anything provided in this Section 3.6 or otherwise in the Plan, to the contrary, the terms of subsections (a), (b) and (c) of this Section 3.6 shall cease to apply and shall be null and void immediately upon the occurrence of a Change in Control of the Company, as defined in Section 3.2(d) of the Plan.

3.7 Indirect Payment of Benefits. If any retired Member or his beneficiary is, in the judgment of the Committee, legally, physically or mentally incapable or incompetent, payment may be made to the guardian or other legal representative

of such retired Member or beneficiary or, if there be none, to such other person or institution who or which, in the opinion of the Committee, based on information furnished to the Committee, is then maintaining or has custody of such retired Member or beneficiary. Such payment shall constitute a full discharge with respect thereto.

3.8 Termination and Rehire. Except as provided in Section 3.2(a)(ii), 3.2(a)(iii) and 3.2(c), in the event a Member's employment is terminated prior to eligibility for early retirement, as described in Section 3.2, or in the event that a Member dies prior to the date as of which supplementary retirement benefits hereunder would otherwise commence, then no benefits shall be payable under this Plan. If a terminated Member is rehired under circumstances which result in reinstatement of membership under the Payless Profit Sharing Plan, reinstatement of membership under this Plan will occur at the same time. Such reinstatement will result in cessation of payment of benefits under this Plan. Upon the subsequent retirement of a Member whose benefits had ceased by reason of this Section 3.8, supplementary retirement benefits shall again be payable based upon such adjustments in amounts as the Committee may deem equitable.

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3.9 Withholding. The Employer shall withhold from amounts otherwise payable under this Plan any amounts required to be withheld under federal, state or local law or regulations, such amounts to be remitted on a timely basis to the appropriate governmental authorities.

SECTION 4. ADMINISTRATION OF THE PLAN.

4.1 The Committee. Except as otherwise provided herein, the Plan shall be administered by the Committee constituted under the Payless Profit Sharing Plan.

4.2 Delegation of Duties. In the administration of the Plan, the Committee may, from time to time, appoint agents and delegate to such agents and to the Administrative Subcommittee such duties as it considers appropriate and to the extent that such duties have been so delegated, the Administrative Subcommittee or agent, as the case may be, shall be exclusively responsible for the proper discharge of such duties. The Committee, the Administrative Subcommittee or any agent may from time to time consult with counsel who may be counsel to the Company.

4.3 Authority. Any decision or action of the Committee (or, with respect to any duty delegated to it, any decision or action of the Administrative Subcommittee or of a duly appointed agent) in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be in its absolute discretion and shall be final, conclusive and binding upon all persons having any interest in the Plan.

SECTION 5. CERTAIN RIGHTS AND OBLIGATIONS.

5.1 Rights of Members, Members' Spouses and Beneficiaries. The rights of the Members, their spouses, their beneficiaries and other persons are hereby expressly limited as set forth herein and shall be determined solely in accordance with the provisions of the Plan.

5.2 Employer-Associate Relationship. The establishment of the Plan shall not be construed as conferring any legal or other rights upon any Associate or any other person for a continuation of employment or as interfering with or affecting in any manner the right of the Company or any Employer to discharge any Associate or otherwise act with relation to such Associate. The Company or an Employer may take action (including discharge) with respect to any Associate or other person and may treat him without regard to the effect which such action or treatment might have upon him under the Plan.

5.3 Unfunded Nature of Plan. The Plan shall be unfunded. Neither an Employer nor the Committee shall be required to segregate any assets in connection with benefits provided by the Plan. Neither the Company, an Employer nor the Committee shall be deemed to be a trustee of any amounts to be paid under the Plan. Any liability of the Company or an Employer to any person with respect to benefits payable under the Plan shall be based solely upon such contractual obligations, if any, as shall be created by the Plan and shall be only a claim against the general assets of the Company or the Employer, and no such liability shall

be deemed to be secured by any pledge or any other encumbrance on any specific property of the Company or any Employer.

SECTION 6. NON-ALIENATION OF BENEFITS

6.1 Provisions with Respect to Assignment and Levy. No benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, levy upon or charge the same shall be void; nor shall any such benefit be in any manner liable for or, subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, except as specifically provided herein.

6.2 Alternate Application. If any Member, Member's spouse or beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, except as specifically provided herein, or any benefit shall be levied upon, garnished or attached, then such benefit shall, in the discretion of the Committee, cease, and in that event the Committee may hold or apply the same or any part thereof to or for the benefit of such Member, Member's spouse or beneficiary,

children or other dependents, or any of them, or in such other manner and in such proportion as the Committee may deem proper.

SECTION 7. AMENDMENT AND TERMINATION

7.1 Company's Rights. The Company reserves the right at any time and from time to time in its sole discretion to modify or amend in whole or in part any or all of the provisions of the Plan, provided that no amendment shall reduce any supplementary retirement benefit with respect to a Member who had already retired and no amendment shall reduce the amount of any supplementary retirement benefit with respect to a Member who, at the time of amendment, was eligible for retirement under the terms of the Plan, to a level below that determined as if retirement were effective at the time of amendment.

Notwithstanding anything provided to the contrary in the Section 7.1 or the next Section 7.2, following a Change in Control of the Company the Plan may not be amended or terminated in a manner that would adversely affect the rights of any Member to his vested annual supplementary retirement benefits. Without limiting the generality of the foregoing, Section 3.2(c) through (e) may not be amended or deleted following a Change of Control of the Company.

7.2 Rights to Terminate. Except as provided in the previous Section 7.1, the Company reserves the right at any time and from time to time in its sole discretion to terminate the Plan, in whole or in part. In the event the Plan is terminated, the Employer shall be under no further obligation to provide benefits under the Plan, except to the extent of any supplementary retirement benefit with respect to a Member who had already retired and to the extent of any supplementary retirement benefit with respect to a Member who, at the time of termination, was eligible for retirement under the terms of the Plan, including

Sections 3.2(a)(i), 3.2(a)(ii), 3.2(a)(iii) and 3.2(c), determined as if retirement were effective at the time of Plan termination. If the Plan is partially terminated, the preceding sentence shall apply to Members in the class with respect to which the Plan is terminated.

SECTION 8. CONSTRUCTION.

The provisions of the Plan shall be construed, regulated, administered and enforced according to the laws of the State of Kansas.

PAYLESS SHOESOURCE, INC. 401(k)
PROFIT SHARING PLAN

As Amended and Restated Effective March 20, 2000, or as otherwise specified

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PAYLESS SHOESOURCE, INC.
401(k) PROFIT SHARING PLAN

INTRODUCTION

Effective April 1, 1996, Payless ShoeSource, Inc. withdrew from and ceased to be a participating Employer in The May Department Stores Company Profit Sharing Plan (the "May Plan"), and established the Payless ShoeSource, Inc. Profit Sharing Plan (the "Plan"). Effective January 1, 1997, a portion of the Plan covering Associates of Payless ShoeSource of Puerto Rico, Inc. was spun off. As of August 1, 1997, Payless amended and restated the Plan, primarily to establish a company matching contribution based on Members' contributions effective January 1, 1998, to institute automatic enrollment in before-tax contributions by Members, and to comply with certain changes in the law. On June 1, 1998, Payless restructured its corporate organization into a holding company structure with Payless ShoeSource, Inc., a Delaware corporation, as the parent corporation and the named Company for this Plan.

Now, effective March 20, 2000, or as otherwise specified, the Company is amending and restating the Plan, primarily to include provisions for loans and the acceptance of rollover contributions from other qualified plans, a change to daily valuation and other miscellaneous changes. Such amendment and restatement applies only to Associates or former Associates who were employed by an Employer on or after the effective date(s) of the respective amended provisions, and the rights and benefits of persons thereunder are to be determined solely in accordance with the provisions of the Plan in effect on the date an Associate's employment was or is terminated. Notwithstanding the preceding sentence, the change in valuation date shall be effective for all Associates and former Associates, without regard to employment after the effective date.

The terms and provisions of this new plan are as follows:

SECTION 1

DEFINITIONS

1.01 ACCOUNTS means the Company Accounts and Member Accounts established under Section 6.

1.02 ADMINISTRATIVE DELEGATE means one or more persons or institutions to which the Committee has delegated certain administrative functions pursuant to a written agreement.

1.03 AFTER-TAX CONTRIBUTIONS means Member Contributions which are not Before-Tax Contributions and which are made by the Member in accordance with Section 4.01(a).

1.04 ALLOCATION PAY AMOUNT means with respect to each eligible Member, (a) one (1) times the amount of Pay as defined in Section 1.33 up to the Social Security Wage Base ("SSWB") for the Plan Year, plus (b) two (2) times the amount of such Pay in excess of the SSWB for the Plan Year. Notwithstanding any provision of this Section 1.04 or of Section 3.03 to the contrary, in no event shall the percentage of Members' Pay to be allocated for any year below the SSWB be less than fifty percent (50%) of the percentage of Pay allocated with respect to Members' Pay in excess of the SSWB, nor may the latter percentage of Pay (above the SSWB) exceed the former percentage of Pay (below the SSWB) by more than 5.7% (or such other percentage as may be the maximum permitted differential under Code Section 401(1) from time to time).

In determining each eligible Member's Allocation Pay Amount, only Pay received during the part of the Plan Year the Member is eligible for the Company Contribution feature of the Plan, pursuant to Section 2, shall be considered, and the SSWB to be applied for such Member shall be proportionally prorated if such eligibility is for less than a full Plan Year.

Notwithstanding the foregoing, with respect to any Plan Year for which applying the definition of Allocation Pay Amount set forth above would cause the allocation made pursuant to Section 3.03 to violate the permitted disparity limitations of Treas. Reg. Section 1.401(1)-2, Allocation Pay Amount shall be adjusted to permit Section 3.03 to operate in compliance with the limitations of Treas. Reg. Section 1.401(1)-2.

1.05 ASSOCIATE means any person who is classified as an employee by an Employer and who receives Pay from an Employer. The term Associate also may include, based upon the express written determination of the Company or the Committee, a U.S. citizen employed, at the request of the Company, by a member of the Group (defined in Section 1.21) to the extent such employee otherwise qualifies for membership under Section 2, in which case such Group member shall be deemed to be an "Employer" hereunder, as to such person or persons only. The term "Associate" shall not include (i) any person covered under a collective bargaining agreement unless and until the Employer and the collective bargaining representatives so agree, (ii) any non-resident alien, and (iii) any "leased employee" within the meaning of Code Section 414(n)(2).

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1.06 AUTHORIZED LEAVE OF ABSENCE means any leave of absence authorized by the Employer under rules established by the Employer.

1.07 BEFORE-TAX CONTRIBUTIONS means contributions which the Member elects (in accordance with Section 4.01(b)) to have the Employer make directly to the Plan on behalf of the Member, which election shall constitute an election under Code Section 401(k)(2)(A). The "Member's Before-Tax Contributions" shall refer to Before-Tax Contributions made to the Plan by the Employer on behalf of the Member.

1.08 BENEFICIARY means the person or persons entitled under Section 9.02 to receive any payments payable under this Plan on account of a Member's death.

1.09 BOARD means the Board of Directors of the Company.

1.10 CODE means the Internal Revenue Code of 1986, as amended from time to time.

1.11 COMMITTEE means the Profit Sharing Committee comprised of three or more members as determined and appointed from time to time by the Board.

1.12 COMPANY means Payless ShoeSource, Inc., a Delaware corporation, and any other organization which may be a successor to it.

1.13 COMPANY ACCOUNTS means accounts reflecting the portion of each Member's interest in the Investment Funds which are attributable to Company Matching Contributions ("Company Matching Accounts") and to Company Profit Sharing Contributions ("Company Profit Sharing Accounts") and to any contributions made by an Employer under prior plans, as well as to any income and/or earnings attributable to such Company Contributions and prior plan contributions.

1.14 COMPANY MATCHING CONTRIBUTIONS means contributions made by the Company or an Employer, based on a Member's Before-Tax and/or After-Tax Contributions, pursuant to Section 3.02.

1.15 COMPANY PROFIT SHARING CONTRIBUTIONS means discretionary contributions made by the Company or an Employer, based on Net Profits, pursuant to Section 3.03.

1.16 EFFECTIVE DATE originally meant April 1, 1996. However, the effective date of this amendment and restatement of the Plan shall be March 20, 2000, unless otherwise specified herein.

1.17 EMPLOYER means the Company and, if authorized by the Company to participate herein, any subsidiary of the Company or any affiliated corporation, partnership or sole proprietorship which elects to participate herein.

1.18 ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

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1.19 FIDUCIARY means the Employer, the Trustee, each of the members of the Committee described in Section 14, and any investment manager designated pursuant to Section 15.

1.20 FISCAL YEAR means the Company's Fiscal Year.

1.21 GROUP means the Company and any other company which is related to the Company as a member of a controlled group of corporations in accordance with Code Section 414(b), as a trade or business under common control in accordance with Code Section 414(c) or as an affiliated service group in accordance with Code Section 414(m) or the regulations under Code Section 414(c). For the purposes of the Plan, for determining whether or not a person is an employee of the Group and the period of employment of such person, each such other company shall be included in the "Group" only for such period or periods during which such other company is a member with the Company of a controlled group or under common control.

1.22 HOUR OF SERVICE means any hour for which an Associate (including a leased employee) is directly or indirectly compensated, or entitled to compensation, by the Employer or by any member of the Group, whether or not such Group member has adopted the Plan, for any of the following:

(a) the performance of duties during the applicable computation period;

(b) a period during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, Military Service, or Authorized Leave of Absence;

(c) a period for which back pay is awarded or agreed to, provided that no Hour of Service has been credited under subsection (a) or (b) with respect to the same period.

Hours of Service and applicable computation periods shall be determined in accordance with the requirements of 29 C.F.R. Section 2530.200b.

1.23 INVESTMENT FUND means any fund for investment of contributions as described in Section 5.01.

1.24 MAY PLAN means The May Department Stores Company Profit Sharing Plan.

1.25 MEMBER means any person included in the membership of this Plan as provided in Section 2.

1.26 MEMBER ACCOUNTS means the Member Before-Tax Accounts, the Member After-Tax Accounts and the Member Rollover Contribution Accounts. To the extent an Associate makes a Rollover Contribution pursuant to Section 11.02 and the Associate is otherwise eligible

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but has not yet completed the participation requirements of Section 2.01, such contribution shall also be a Member Account.

1.27 MEMBER AFTER-TAX ACCOUNTS means the Member Accounts with respect to a Member's After-Tax Contributions.

1.28 MEMBER BEFORE-TAX ACCOUNTS means the Member Accounts with respect to a Member's Before-Tax Contributions.

1.29 MEMBER CONTRIBUTIONS means the Member's Before-Tax Contributions and After-Tax Contributions.

1.30 MEMBER ROLLOVER CONTRIBUTION ACCOUNTS means the Member Accounts with respect to an Associate's or Member's Rollover Contributions.

1.31 MILITARY SERVICE means effective December 13, 1996, any period of obligatory military service with the Armed Forces of the United States of America, or voluntary service in lieu of such obligatory service, provided that the Associate returns to active employment with the Employer within the period during which the Employer would be required to re-employ the Associate under Federal law. Notwithstanding any provision of this Plan to the contrary, contributions, benefits, loan repayment and service credit with respect to qualified Military Service will be provided in accordance with Code Section 414(u).

1.32 NET PROFITS means the consolidated net profits of the Company for any given Fiscal Year, determined by generally accepted accounting principles except that (i) no deduction or provision shall be made for any federal, state or other taxes measured by net income, nor for any contributions to the Trust or to any other pension or profit sharing plan, and (ii) there shall be excluded any proceeds from life insurance of which the Company is beneficiary (whether paid in a single sum or otherwise) and any gains or losses on the sale of capital assets. Such term shall also mean any accumulated and undistributed Net Profits (as defined in the preceding sentence) earned in prior Fiscal Years to the extent that such accumulated and undistributed Net Profits constitute surplus of the Company and its subsidiaries available for contributions hereunder.

1.33 PAY means the aggregate of (i) all regular pay, commissions, overtime pay, cash incentives, prizes and cash awards, plus (ii) amounts which the Associate elects to have the Employer contribute directly to the Plan on the Associate's behalf in accordance with Section 4.01(b). Pay shall include any amounts not otherwise includable in the Member's taxable income pursuant to Code Section 125. Pay shall not include amounts for a pension, a retirement allowance, a retainer or a fee under contract, deferred compensation (including amounts deferred under the Deferred Compensation Plan of The May Department Stores Company and the Deferred Compensation Plan of Payless ShoeSource, Inc.), severance pay, distributions from this Plan or items of extraordinary income including but not limited to amounts resulting from the exercise of stock options, spinoff cash, spinoff stock and restricted stock awards. Pay in excess of \$170,000 shall be disregarded, although such amount shall be adjusted at the same time and in such manner as permitted under Code Section 415(d).

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1.34 POOLED INVESTMENT ACCOUNT means an account established pursuant to an administrative services agreement between the Company and the Trustee.

1.35 PLAN means this Payless ShoeSource Inc. 401(k) Profit Sharing Plan.

1.36 PLAN YEAR means a calendar year ending each December 31.

1.37 PRIOR PLAN means either The May Department Stores Company Profit Sharing Plan, the Volume Shoe Corporation Profit Sharing Plan, or such other qualified plan as may be so designated by the Committee.

1.38 QUALIFIED DOMESTIC RELATIONS ORDER means a "qualified domestic relations order" as that term is defined in Code Section 414(p), provided that such order was entered on or after January 1, 1985.

1.39 RETIREMENT means a Member's termination of employment on or after age 55 and after completing at least five (5) Years of Service or attaining the fifth anniversary of participation, as of which date the Member's benefit shall be nonforfeitable.

1.40 ROLLOVER CONTRIBUTIONS means contributions which the Associate or Member, as applicable, elects to make in accordance with Section 11.02.

1.41 SOCIAL SECURITY WAGE BASE means, with respect to each Plan Year, the maximum amount of wages which are subject to tax in such year under the Federal Old Age, Survivors and Disability Insurance System.

1.42 TOTAL AND PERMANENT DISABILITY OR DISABILITY means the total incapacity of a Member for the continued performance of regular active employment with an Employer, which disability is expected to be permanent, as determined by the Committee, provided that a Member shall not be considered totally and permanently disabled for purposes of this Plan unless he qualifies for disability benefits under Title 11 of the Federal Social Security Act.

1.43 TRANSFERRED ACCOUNTS means Member and Company Accounts transferred from the May Plan.

1.44 TRUST AGREEMENT means the agreement or agreements provided for in Section 14, as amended from time to time.

1.45 TRUST FUND means all the assets of the Investment Funds and any other assets which are held in one or more trusts by the Trustee or Trustees for the purposes of this Plan.

1.46 TRUSTEE means the corporation(s), person or persons which may at any time be acting as Trustee or Trustees under the Trust Agreement.

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1.47 UNIT means one of the units representing an interest in an Investment Fund as provided in Section 6.03.

1.48 UNIT VALUE means the value of each Unit in an Investment Fund as of the Valuation Date as determined pursuant to Section 6.04.

1.49 VALUATION DATE means any day that the New York Stock Exchange is open for business or any other date chosen by the Committee. Prior to March 31, 2000, Valuation Date means the last business day of each calendar month and any other date chosen to perform a valuation.

1.50 YEAR OF SERVICE for purposes of determining eligibility under Section 2 means a year of employment during which the Associate has been paid for not less than 1,000 Hours of Service for an Employer or any other member of the Group. An Associate shall be credited with a year of employment on each anniversary date of his commencement of employment with an Employer during which he earns not less than 1,000 Hours of Service for an Employer or any other member of the Group. Periods of temporary illness, temporary layoff, Military Service, and Authorized Leaves of Absence shall not be deemed as breaking continuity of employment and shall be counted in determining Years of Service. The term "Year of Service" shall also include an employment year during which, except to the extent otherwise provided in Treasury Regulations, a "leased

employee" within the meaning of Code Section 414(n) has been paid for not less than 1,000 Hours of Service for the Employer even though during such period the leased employee was not an Associate as defined in Section 1.05. The term "Year of Service" shall include any period required to be included by the Family and Medical Leave Act of 1993.

The extent to which service with another organization, part or all of whose business operations are acquired by the Company (or by an Employer), shall be credited as "Years of Service" hereunder or as "Vesting Service" under Section 1.51 shall be determined by the Company or by the Committee on a case-by-case basis.

1.51 VESTING SERVICE for purposes of determining a Member's vested interest under Section 6.07 is based on "elapsed time" and is to be determined in accordance with the following definitions:

- (a) "EMPLOYMENT COMMENCEMENT DATE" means the date upon which an Associate first performs an Hour of Service.
- (b) "HOUR OF SERVICE" means an hour for which an Associate is paid or entitled to payment for the performance of duties for the Employer or any other member of the Group.
- (c) "PERIOD OF SERVICE" means a period beginning on the Associate's Employment Commencement Date (or Reemployment Commencement Date, as the case may be) and ending on his Severance from Service Date.

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- (d) "SEVERANCE FROM SERVICE DATE" means the earlier to occur of:
 - (i) the last date upon which an Associate terminates employment with the Employer or any other member of the Group (either voluntarily or involuntarily), retires or dies; or
 - (ii) the first anniversary of the date upon which the Associate was first absent from service with the Employer (with or without pay) for any other reason (i.e., vacation, sickness, disability, leave of absence or layoff).

Notwithstanding the foregoing, the Severance from Service Date of an Associate who is absent from service with the Employer beyond the first anniversary of the first day of such absence on account of maternity or paternity (as described in Code Sections 410(a)(5)(E) or 411(a)(6)(E)) shall be the second anniversary of the first day of such absence; and the period of time between such first and second anniversaries shall not be treated as a Period of Service or as a Period of Severance.

- (e) "PERIOD OF SEVERANCE" means a period beginning on an Associate's Severance from Service Date and ending upon the Associate's Reemployment Commencement Date.
- (f) "REEMPLOYMENT COMMENCEMENT DATE" means the first date, following a Severance from Service Date, upon which the Associate performs an Hour of Service for the Employer or any other member of the Group.
- (g) "SERVICE SPANNING RULES." In determining whether or not an Associate has completed a twelve month Period of Service for purposes of vesting, the following Periods of Severance shall be treated as Periods of Service:

- (i) If an Associate terminates employment with the Employer (either voluntarily or involuntarily) or retires, and then performs an Hour of Service within the twelve month period beginning on the Severance from Service Date, such Period of Severance shall be treated as a Period of Service; and
- (ii) If an Associate terminates employment with the Employer (either voluntarily or involuntarily) or retires during an absence from service of twelve months or less for any reason other than a termination or retirement, and then performs an Hour of Service within a period of twelve months from the date the Employee was first absent from service, the Period of

SECTION 2

MEMBERSHIP

2.01 CONDITIONS OF ELIGIBILITY.

(a) Each Associate who on March 19, 2000 was a Member of or is eligible to be a Member of the Plan shall continue to be a Member of this Plan entitled to make Member Contributions pursuant to Section 4 and eligible to share in Company Contributions pursuant to Section 3.

(b) Each other Associate shall be eligible to become a Member of the Plan when the Associate has completed one Year of Service and attained age 21, with membership to commence as of the first day of the month coincident with or following the date he has met these eligibility requirements. Such Associate shall be eligible:

- (i) to make Member Contributions pursuant to Section 4;
- (ii) to share in Company Matching Contributions pursuant to Section 3.02;
- (iii) to share in Company Profit Sharing Contributions, if any, pursuant to Section 3.01.

(c) Each Member shall be deemed to have elected to make a three percent (3%) Before-Tax Contribution pursuant to Section 4.01(b), commencing with the first paycheck issued with respect to the first payroll period beginning on or after the first day of the month coincident with or following the date the Employer determines he met the foregoing eligibility requirements. Notwithstanding this "deemed" election, an Associate or Member may elect pursuant to procedures established by the Committee to not make, or to suspend making, said three percent (3%) automatic Before-Tax Contribution, or pursuant to Section 4.01(a) or (b) to make an After-Tax or a Before-Tax Contribution of an amount other than three percent (3%).

(d) All Years of Service with an Employer and Years of Service with The May Department Stores Company ("May") while the Employer was part of the Group which included May are counted toward eligibility, provided that, if an Associate has a 1-year break in service before a Year of Service, service with an Employer or May before such break will not be taken into account. For the purposes of this Section 2.01, "break in service" means a 12 consecutive month employment year as used in Section 1.50 during which the Associate does not complete more than 500 Hours of Service with the Employer and/or May while part of the Group.

(e) Associates employed by the Company's Puerto Rican Subsidiaries are not eligible for membership hereunder. If any such Associate has Accounts in this Plan, such

Accounts shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04.

2.02 RE-EMPLOYMENT. A former Member who has retired or has otherwise terminated employment and is rehired shall become a Member on the first day of the calendar month after the Employer becomes aware of his rehire.

COMPANY CONTRIBUTIONS

3.01 AMOUNT OF COMPANY PROFIT SHARING CONTRIBUTION. The Company or an Employer may contribute to the Trust, as of the end of each Plan Year, a percentage of the Company's Net Profits as a Company Profit Sharing Contribution. The amount of such contribution, if any, shall be determined by the Board of Directors in its discretion. Any such contribution shall be made as soon as practicable after the close of the Company's Fiscal Year. All such contributions advanced to the Plan by the Company shall be reimbursed to the Company by the Employer.

3.02 AMOUNT OF COMPANY MATCHING CONTRIBUTION. The Company shall, in its discretion, contribute to the Trust, as of the end of each Plan Year, a total combined amount as to this Plan and the Payless ShoeSource, Inc. Profit Sharing Plan for Puerto Rico Associates ("Puerto Rico Plan") equal to 2 1/2% of its Net Profits, until determined otherwise by the Board of Directors, in the form of a Company Matching Contribution. Such contribution may be made by an Employer, rather than by the Company, as to that Employer's participating Associates. The total amount of such contribution shall be allocated in proportion to the amount that each Member's Contributions under Sections 4.01(a) and (b) for such Plan Year, up to a total of 5% of such Member's Pay, bears to the total amount of all Member Contributions up to 5% of such Members' Pay. Such Company Matching Contribution shall be determined and paid to the Trustee as soon as practicable after the close of each Fiscal Year.

3.03 ALLOCATION OF COMPANY CONTRIBUTIONS. The Company Contributions shall be allocated only to the Company Accounts of Members who are employed by the Employer on the last day of the Plan Year and on behalf of Members whose employment has terminated during the Plan Year by reason of Retirement, death or Disability. Company Profit Sharing Contributions shall be credited to eligible Members' Company Profit Sharing Contribution Accounts. Company Profit Sharing Contributions allocated prior to or as of July 31, 1997 shall be fully vested; Company Profit Sharing Contributions allocated thereafter shall be subject to the vesting provisions of Section 6.07. Company Matching Contributions shall be subject to the vesting provisions of Section 6.07 and to the withdrawal penalty provisions of Section 8.02(a). No Company Matching Contribution shall be made with respect to a Member Before-Tax Contribution in excess of the Code Section 402(g) limit, as revised from time to time.

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3.04 PROFIT SHARING ALLOCATION FORMULA. The Company Profit Sharing Contribution, if any, shall be allocated to all Members eligible to share in the contribution according to the ratio that each Member's Allocation Pay Amount for the Plan Year bears to the total Allocation Pay Amount for all eligible Members for the Plan Year. For this purpose the term eligible Members includes Members in both the Puerto Rico Plan and this Plan.

3.05 INVESTMENT OF THE COMPANY CONTRIBUTION. The amounts allocated to each Member pursuant to Section 3.03 shall be credited to his Company Accounts and invested in one or more of the Investment Funds described in Section 5.01 and in the percentages designated by the Member in the investment election filed pursuant to Section 5.02 effective at the time the amount is allocated.

3.06 RETURN OF COMPANY CONTRIBUTIONS.

(a) If, after the Company Contribution has been made and allocated, it should appear that, through oversight or a mistake of fact or law, a Member (or an Associate who should have been considered a Member) who should have been entitled to share in such contribution, receives no allocation or receives an allocation which was less than he should have received, the Company may, at its election and in lieu of reallocating such contribution, make a special make-up contribution for the Company Account of such Member in an amount sufficient to provide for him the same addition to his Company Account as he should have received. Similarly, if a Member received an allocation which was more than he should have received (or an Associate was inappropriately included in the Plan), the Company, at its election, may reallocate such contribution, offset other Company contributions against such

allocation, or use such allocation to pay Plan expenses.

(b) Each contribution made to the Trust shall be made on the condition that it is currently deductible by the Company or Employer under Code Section 404 for the taxable year with respect to which the contribution is made. If a contribution subsequently is determined, whether in whole or in part, not to be currently deductible as provided in the preceding sentence, then, within one year of the date of disallowance of the deduction of such Company Contribution, an amount equal to the disallowed deduction shall be returned to the Company or Employer.

(c) Earnings attributable to a contribution that is returned pursuant to Subsection (a) or (b) above shall not be withdrawn, but losses attributable thereto shall reduce the amount returned to the Company and/or Employer.

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SECTION 4

MEMBER CONTRIBUTIONS

4.01 PROCEDURE FOR MAKING CONTRIBUTIONS.

(a) AFTER-TAX CONTRIBUTIONS. Subject to the limitations set forth in Sections 4.02, 4.03 and 4.04, each Member may contribute to the Plan an amount equal to not less than 1% nor more than 15% (in whole percentage points) of his Pay as he shall have designated pursuant to procedures established by the Company (which may establish lower permissible After-Tax Contributions for Highly Compensated Employees); provided, however, that a Member shall not contribute, or elect to have contributed on his behalf, amounts with respect to Pay received by him after the close of the calendar year during which his employment terminates and further provided that any Before-Tax Contributions made on behalf of the Member shall reduce, by the percentage which he elects to have contributed pursuant to Section 4.01(b)(i), the percentage of Pay that the Member may contribute pursuant to this Section 4.01(a).

(b) BEFORE-TAX CONTRIBUTIONS.

(i) Subject to the limitations set forth below, each Member may elect that his Employer shall contribute directly to the Trust Fund an amount equal to a whole percentage of his Pay, not less than 1% nor greater than such percentage as may be determined from time to time by the Company which amount shall be his Before-Tax Contribution. The maximum Before-Tax Contribution by a Member determined to be a Highly Compensated Employee under Section 4.02, for the Plan Year in question, may be further restricted or limited by the Company or Committee from time to time.

(ii) Pursuant to Section 2.01(c), each eligible Member shall be deemed to have elected to make a three percent (3%) Before-Tax Contribution, unless the Member elects otherwise in accordance with procedures established by the Committee.

(c) Notwithstanding any election in accordance with Section 4.01(b), if the Committee at any time determines that all or any portion of the Member's Before-Tax Contributions should be treated as After-Tax Contributions in order for the Before-Tax Contribution provisions of the Plan to qualify as a "qualified cash or deferred arrangement" for purposes of Code Section 401(k), or if the Actual Deferral Percentage standards set forth in Code Section 401(k)(3) are not met at the end of the Plan Year, then the Committee, in its sole and absolute discretion,

(i) may, in accordance with Section 4.02 below, limit the amount which shall be contributed by the Employer as Before-Tax Contributions after the date of such determination

(ii) may, except with respect to situations in which Section 4.01(h) applies, (and prior to March 15 of the calendar year following the Plan Year in which such contributions are made) declare all or such portion of the Before-Tax Contributions theretofore or thereafter made on behalf of all or a portion of the Members to be After-Tax Contributions.

(d) The Employer shall (i) deduct a Member's After-Tax Contributions from the Pay of the Member in such installments as the Employer may deem appropriate, (ii) contribute a Member's Before-Tax Contributions on behalf of the Member, and (iii) reduce the Pay that is paid to the Member directly in cash by an amount equal to the Member's Before-Tax Contributions in such installments as the Employer shall deem appropriate. The amounts so deducted and so contributed shall be paid by the Employer to the Trustee not later than 15 days following the end of the month with respect to which such amounts are to be so deducted and contributed or within such shorter period of time as may be designated under the Code, ERISA or related regulations. The Employer may, from time to time, make estimated contribution payments to the Trustee during each month.

(e) Effective with the first payroll period beginning in any calendar month, or as of such other effective time as may be determined by the Committee, a Member may elect to change the rate of his After-Tax Contributions to any other rate permitted by Subsection (a) of this Section 4.01 and may elect to change the amount to be contributed by the Employer directly to the Trust Fund as Before-Tax Contributions to an amount equal to an amount permitted by Subsection (b) of this Section 4.01 with respect to such contributions to be made after the effective date of the election, pursuant to procedures established by the Committee.

(f) Not later than 15 days prior to the beginning of a payroll period of a Member, or not later than such other date as may be determined by the Committee, such Member may elect, pursuant to procedures established by the Committee, (i) to suspend making After-Tax Contributions and (ii) that the Employer should suspend making Before-Tax Contributions on his behalf, all as of the beginning of such payroll period. Not later than 15 days prior to the beginning of a payroll period of a Member, or not later than such other date as may be determined by the Committee, such Member may elect (i) to resume making After-Tax Contributions and, (ii) that the Employer shall resume making Before-Tax Contributions on his behalf, by indicating any amount of contributions permitted under Subsection (a) and designating an amount equal to any amount of Pay as Before-Tax Contributions that is permitted under Subsection (b) hereof.

(g) Contributions pursuant to this Section 4.01 shall be credited to Member Accounts.

(h) Notwithstanding any election in accordance with Subsection (b), the total amount of a Member's Before-Tax Contributions and other contributions made by the Member under Code Section 401(k) to another plan qualified under Code Section 401(a) for any calendar year shall not exceed \$10,500 (as adjusted from time to time by the Secretary of the Treasury or his delegate, pursuant to Code Section 415(d)). If any Member may reach

the \$10,500 limit (as adjusted) the Committee can direct that all or any portion of such Member's Contributions during such year shall be After-Tax Contributions regardless of such Member's elections pursuant to Sections 4.01(a) and 4.01(b).

(i) As of April 1, 2000, all then currently existing flat dollar Member Contributions shall be converted to Member Contributions based

on 1% increments calculated by dividing such flat dollar amount by the Member's Pay for the prior year and rounding the product to the nearest whole percent; provided that no flat dollar contribution shall be converted to a percent contribution of less than 1%.

(j) Notwithstanding this Section 4.01, effective March 20, 2000, during the black out period as determined by the Committee and the Trustee established to change to daily valuation or a change in recordkeepers, no contribution rate changes or suspensions may be made by a Member except as provided by the Committee.

4.02 LIMITATIONS ON AND DISTRIBUTIONS OF BEFORE-TAX CONTRIBUTIONS FOR HIGHLY COMPENSATED EMPLOYEES.

The Committee is authorized to reduce to the extent necessary the maximum contributions under Section 4.01(b) for Highly Compensated Employees prior to the close of the Plan Year if the Committee reasonably believes that the reduction is necessary to prevent the Plan from failing Code Section 401(k)(3). Such adjustments shall be made in accordance with rules prescribed by the Employer.

If the Plan fails to satisfy Code Section 401(k)(3), the Plan shall correct the failure within 12 months after the last day of such Plan Year under any method of combination of methods allowed under Code Section 401(k)(8) or Treasury Regulation Section 1.401(k)-1(f), taking into account any adjustments necessary due to changes to Code Section 401(k)(8)(C) that are reflected in the regulations. For purposes of this Section 4.01, the actual deferral percentage of Non-Highly Compensated Employees shall be determined as of the the Plan Year for which the Plan must satisfy one of the tests in Code Section 401(k)(3), unless the Employer elects to determine such actual deferral percentage as of the Plan Year preceding the Plan Year for which the Plan must satisfy one of the tests in Code Section 401(k)(3). Any such election shall not be changed except as provided by the Secretary of the Treasury.

4.03 DISTRIBUTIONS OF EXCESS DEFERRALS.

(a) Notwithstanding any other provision of the Plan, Excess Before-Tax Deferrals (as hereinafter defined) and earnings allocable thereto as determined pursuant to such rules and regulations as are prescribed by the Internal Revenue Service, shall be distributed no later than April 15 to Members who claim such allocable Excess Before-Tax Amounts (which shall be the "Excess Before-Tax Deferrals" plus earnings, if any) for the preceding calendar year.

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(b) For purposes of this Section 4.03, "Excess Before-Tax Deferral" means the amount of elective deferrals (within the meaning of Code Section 402(g)(3)) which is a Member Contribution under Section 4.01 for a calendar year that the Member allocates to this Plan pursuant to the claim procedure set forth in subsection 4.03(c) hereof.

(c) The Member's claim shall be in writing; shall be submitted to the Committee no later than March 1; shall specify the amount of the Member's Excess Before-Tax Deferral for the preceding calendar year; and shall be accompanied by the Member's written statement that if such amounts are not distributed, the Excess Before-Tax Deferrals, when added to amounts deferred under other plans or arrangements described in Code Sections 401(k), 408(k) or 403(b), exceeds the limit imposed on the Member in accordance with the applicable provisions of the Code for the year in which the deferral occurred.

(d) Notwithstanding any provision of Sections 3 or 4 to the contrary, any Company Matching Allocation which would have been attributable to an Excess Before-Tax Deferral distributed to a Member under Section 4.02(a) shall not be retained or distributed, but shall be held unallocated in a suspense account and, as of the end of the Plan Year, forfeited and added to and allocated with Company Contributions in the next following Plan Year.

4.04 LIMITATIONS ON AND DISTRIBUTIONS OF AFTER-TAX EMPLOYEE CONTRIBUTIONS AND MATCHING CONTRIBUTIONS FOR HIGHLY COMPENSATED EMPLOYEES.

The Committee is authorized to reduce to the extent necessary the maximum amount of Employee After-Tax Contributions and Employer Matching Contributions under Sections 4.01(a) and 3.02 contributed on behalf of any Highly Compensated Employee prior to the close of the Plan Year if the Committee reasonably believes that such adjustment is necessary to prevent the Plan from failing Code Section 401(m)(2). Such reduction shall be made in accordance with rules prescribed by the Employer.

If the Plan fails to satisfy Code Section 401(m)(2), the Plan shall correct the failure within 12 months after the last day of such Plan Year under any method or combination of methods allowed under Treasury Regulation 1.401(m)-1(e), taking into account any adjustments necessary due to changes to Code Section 401(m)(6)(c) that are not reflected in the regulations. For purposes of this Section 4.04, the actual contribution percentage of Non-Highly Compensated Employees shall be determined as of the Plan Year for which the Plan must satisfy one of the tests in Code Section 401(m)(2), unless the Employer elects to determine such actual contribution percentage as of the Plan Year preceding the Plan Year for which the Plan must satisfy one of the tests in Code Section 401(m)(2). Any such election shall not be changed except as provided by the Secretary of the Treasury.

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4.05 LIMITATIONS ON MULTIPLE USE OF ALTERNATIVE LIMITATION.

(a) Determination of Multiple Use.

The Committee will determine whether or not multiple use of the alternative limitation has occurred. Such determination will be made in accordance with Section 401(m)(9) of the Code.

(b) Correction Of Multiple Use.

If a multiple use of the alternative limitation occurs, the Committee shall correct such multiple use by reducing the actual contribution percentages of Highly Compensated Employees in the manner set forth in Section 4 so that there is no multiple use of the alternative limitation.

(c) Special Definitions.

All terms used in this Section 4 shall have the meaning given such terms in Code Sections 401(k) and 401(m) and the regulations thereunder.

SECTION 5

INVESTMENT PROVISIONS

5.01 INVESTMENT FUNDS.

(a) There shall be established as part of the Trust Fund a reasonable range of investment options. The Committee may from time to time, in its discretion, change, delete or add Investment Funds available within the Trust Fund; provided that unless and until the Plan is amended accordingly, the Plan shall continue to provide a Payless Common Stock Fund as an investment option.

(b) Income from and proceeds of sales of investments in each Investment Fund shall be reinvested in the same Investment Fund. Any

income or other taxes payable with respect to a Fund shall be charged to such Fund.

(c) A Trustee may, from time to time, make temporary investments in short term obligations of the United States Government, commercial paper, or other investments of a short term nature, pending investment in an Investment Fund.

5.02 INVESTMENT DIRECTION.

(a) A Member may elect that his Member Contributions be invested in 1% increments totaling 100% in one or more of the Investment Funds. Such election must be made

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pursuant to procedures prescribed by the Committee. Such election shall be effective until and unless a Member makes a different election for any period, but only as provided for under Subsection 5.02(b) and Subsection 5.02(c). If the Member fails to file a timely initial investment election, he shall be deemed to have elected to have 100% of his Member Contributions invested in the stable, fixed income investment as may be determined by the Committee. Until such time as the Committee determines otherwise and so notifies Members, a Member's share of any Company Contributions, when allocated as of Plan Year-end, shall be invested in the same Investment Funds in the same proportions as the Member has elected in connection with investment of his Member Contributions at the time the Company Contribution is contributed to the Trust.

(b) A Member may change his election with respect to future Member and Company Contributions effective pursuant to procedures prescribed by the Committee and may not change his election in any other manner except as provided in Subsection 5.02(c).

(c) Effective as of the date determined by the Committee, and pursuant to procedures prescribed by the Committee, a Member may elect to have any or all of the value in any of the Investment Funds which are credited to his Member and/or Company Accounts transferred and invested in any one or more of the Investment Funds.

(d) Notwithstanding this Section 5.02, effective March 20, 2000, during the black out period as determined by the Committee and the Trustee established to change to daily valuation or a change in recordkeepers, no investment transfers or changes may be made by a Member unless provided in Section 6.06. Notwithstanding anything to the contrary, no loans, withdrawals or distributions shall be made during any such blackout period except as provided by the Committee.

SECTION 6

ACCOUNTS

6.01 MEMBER ACCOUNTS. The Committee shall maintain or cause to be maintained for each Member under each Investment Fund in which his Member Contributions are invested separate Member Accounts which shall reflect the portion of his interest in such Investment Fund which is attributable to his contributions. The Member's After-Tax Contributions shall be credited to a separate Member After-Tax Account. The Member's Before-Tax Contributions shall be credited to a separate Member Before-Tax Account. The Member's or Associate's Rollover Contribution shall be credited to a separate Member Rollover Contribution Account.

6.02 COMPANY ACCOUNTS. The Committee shall maintain or cause to be maintained for each Member under each Investment Fund in which his Company Contributions are invested separate Company Accounts which shall reflect the portion of his interest in such Investment Fund which is attributable to Company Contributions, as well as to contributions made by an Employer under prior plans and to any income or earnings attributable to such Company

Contributions and prior plan contributions. The Member's Company Matching Contributions shall be credited to a separate Company Matching Contribution Account. The Member's Company Profit Sharing Contribution, if any, shall be credited to a separate Company Profit Sharing Contribution Account.

6.03 MAINTENANCE OF ACCOUNTS. For the purposes of maintaining Accounts pursuant to this Section 6, each Investment Fund shall be divided into Units, and the Interest of each Member in such Investment Fund shall be evidenced by the number of Units in such Investment Fund credited to his Accounts.

6.04 VALUATION OF ACCOUNTS. As of each Valuation Date the Committee shall determine the value of a Unit in each Account by dividing the current market value of all property in each such Account as of such Valuation Date (after deducting any expenses or other amounts including withdrawals properly chargeable against such Account) by the number of Units then outstanding to the credit of all Members in each such Account.

6.05 MEMBER STATEMENTS. The Committee shall furnish or cause to be furnished to each Member a statement of his Company and Member Accounts, at least once each year, or more frequently if required by applicable law.

6.06 SHARES OF PAYLESS SHOESOURCE, INC. ("PAYLESS STOCK") IN THE PAYLESS COMMON STOCK FUND.

(a) Each Member (or beneficiary of a deceased Member) who has Accounts invested in the Payless Common Stock Fund shall, as a named fiduciary within the meaning of Section 403(a)(1) of ERISA, have the right to direct the Trustee with respect to the vote of the number of shares of Payless Stock attributable to Units credited to him in the Payless Common Stock Fund as of the latest practicable Valuation Date prior to or contemporaneous with the record date set by the Company for each meeting of shareowners of the Company. For such purpose the Trustee shall furnish to each such Member prior to each such meeting the proxy statement for such meeting, together with a form to be returned to the Trustee on which may be set forth the Member's instructions as to the manner of voting such shares of stock. Upon receipt of such instructions, the Trustee shall vote such shares in accordance therewith. If a Member's instructions are not received by the Trustee in a timely manner, the Trustee shall vote such Member's shares in the same proportion as the shares of Common Stock for which instructions were actually timely received from Members. The Trustee shall not divulge the instructions of any Member.

(b) Each Member (or beneficiary of a deceased Member) who has Accounts invested in the Payless Common Stock Fund shall, as a named fiduciary within the meaning of Section 403(a)(1) of ERISA, have the right with respect to the number of shares of Payless Stock attributable to Units credited to him in the Payless Common Stock Fund as of the latest practicable Valuation Date, to direct the Trustee in writing as to the manner in which to respond to a tender or exchange offer with respect to Payless Stock, and the Trustee

shall utilize its best efforts to timely distribute or cause to be distributed to each Member such information as will be distributed to shareowners of the Company in connection with any such tender or exchange offer, together with a form requesting instructions on whether or not such shares will be tendered or exchanged. If the Trustee shall not receive timely direction from a Member as to the manner in which to respond to such a tender or exchange offer, the Trustee shall not tender or exchange any shares of Payless Stock with respect to which such Member has the right of direction. Tenders as a result of a self-tender offer by the Company shall continue notwithstanding any investment change

blackout. The Trustee shall not divulge the instructions of any member. The proceeds from the tender or exchange of shares attributable to Units in Payless Common Stock Investment Fund accounts of Members shall be transferred to one of the Investment Funds described in Section 5.01 and pursuant to a procedure established by the Committee.

6.07 VESTING IN MEMBER AND COMPANY ACCOUNTS

(a) VESTING SCHEDULE. A Member shall have a fully vested interest at all times (i) in his Member Accounts and (ii) in his Company Profit Sharing Contribution Account balance determined as of July 31, 1997. A Member who has completed at least two full Years of Service as of August 1, 1997 also shall be fully vested at all times (i) in his Company Matching Contributions Account and (ii) in his Company Profit Sharing Contribution Account determined at any time after July 31, 1997. The Company Matching Contribution Account of a Member who is not or was not credited with at least two Years of Service as of August 1, 1997 and his Company Profit Sharing Contribution Account attributable to Company Profit Sharing Contributions, if any, based on such Member's eligibility for such contributions after August 1, 1997, shall vest according to the following schedule:

<TABLE>
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Vesting Service -----	Vested Interest -----
<S>	<C>
Fewer than 2 years	0%
2 years	25%
3 years	50%
4 years	75%
5 years or more	100%

</TABLE>

Notwithstanding the foregoing, a Member's interest in his Company Matching Contribution Account and his Company Profit Sharing Contribution Account shall become fully vested upon the Member's Retirement, death or Disability.

(b) CASH-OUT DISTRIBUTIONS TO PARTIALLY VESTED MEMBERS AND RESTORATION OF FORFEITURES. If, pursuant to Section 10.01, a partially-vested Member receives a cash-out distribution before he incurs a Forfeiture Break in Service (as defined in Subsection (e) below), the cash-out distribution will result in an immediate forfeiture of the nonvested portion(s) of the Member's Company Matching and Company Profit Sharing Contribution Account(s). See Subsection (e) below. A partially-vested Member is a Member whose Vested Interest, determined under Section 6.07(a), in either his Company Matching Contribution Account or his Company Profit Sharing Contribution Account, or both, is less than 100%. A cash-out distribution is a distribution of the entire vested portion of the Member's Account(s).

(i) A partially-vested Member who is reemployed by an Employer after receiving a cash-out distribution of the vested portion of his Account(s) shall have such forfeited amount restored, unless the Member no longer has a right to restoration under this subparagraph (i). The amount restored by the Plan Administrator shall be the same dollar amount as the dollar amount of his Account(s) on the Valuation Date immediately preceding the date of the cash-out distribution, unadjusted for any gains or losses occurring subsequent to that Valuation Date but reduced by the amount of the prior cash-out distribution. Restoration of the Member's Account balance(s) includes restoration of all US Code Section 411(d)(6) protected benefits with respect to the restored Account(s) in accordance with applicable Treasury regulations. The Plan Administrator will not restore a reemployed Member's Account balance(s) under this subparagraph (i) if the Member has incurred a Forfeiture Break in Service (as defined

in Subsection (d) below).

(ii) If restoration of the Member's Account(s) is permitted under subparagraph (i) above, the Plan Administrator will restore the Member's Account(s) as of the last day of the Plan Year during which such Member was reemployed by an Employer. To restore the Member's Account(s), the Plan Administrator, to the extent necessary, will allocate to the Member's Account(s):

(A) first, the amount, if any, of Member forfeitures otherwise available for allocation under Subsection (e) below;

(B) second, deductible Employer contributions for the Plan Year to the extent made under a discretionary formula; and

(C) third, as otherwise permitted by law.

The Plan Administrator will not take into account any allocation under this subsection (b) in applying the limitation on allocations under Section 13.

(iii) The deemed cash-out rule applies to a 0% vested Member. A 0% vested Member is a Member whose Account(s) derived from Employer contributions is

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(are) entirely forfeitable at the time of his termination of employment. Under the deemed cash-out rule, the Plan Administrator will treat the 0% vested Member as having received a cash-out distribution on the date of the Member's termination of employment or, if the Member's Account(s) is (are) entitled to an allocation of Employer contributions for the Plan Year in which he terminates employment, on the last day of that Plan Year.

(c) DETERMINATION OF VESTING SERVICE. For purposes of determining a Member's Vested Interest in his Company Contributions Account(s) under subsection (a) above, a Member shall be credited with that number of years of Vesting Service determined by adding together all of the Associate's Periods of Service, whether or not consecutive. Notwithstanding the foregoing, Vesting Service shall not include any Period of Service before the Plan Year in which an Associate attains age eighteen (18). Only whole years of service shall be taken into account for purposes of applying the schedule set forth in subsection (a) above, and, for purposes of determining a Member's number of whole years of service, non-successive Periods of Service must be aggregated, with 365 days of service being deemed to constitute one year. For purposes of determining a Member's Period of Service, the Service Spanning rules described in Section 1.52(g) shall apply.

(d) FORFEITURE BREAK IN SERVICE. For purposes of this Section 6.07, a "Break in Service" is a Period of Severance of at least 365 consecutive days. A "Forfeiture Break in Service" occurs when a Member of former Member incurs 5 consecutive Breaks in Service.

(e) FORFEITURE OCCURS. A Member's forfeiture, if any, of his Account balance(s) derived from Company contributions occurs under the Plan on the earlier of:

(i) the last day of the last pay period ending within the Plan Year in which the Member first incurs a Forfeiture Break in Service; or

(ii) the date the Member receives a cash-out distribution.

The Plan Administrator shall determine the percentage of a Member's Account(s) forfeiture, if any, under this Subsection (e) solely by reference to the vesting schedule of Section 6.07(a). As of the last day of each Plan Year, the total amount of forfeitures which occurred during such Plan Year shall be calculated and such amount shall be applied (i) to restore under (b) above any amounts previously forfeited from rehired Members' Accounts and (ii) the balance, if any, shall be added to and allocated with the Company Matching Contribution for that Plan Year.

(f) FORMER MAY PLAN MEMBERS. The provisions of this subsection (g) apply to a Member who previously was employed by the Employer, when it was part of the Group which included The May Department Stores Company, and who at the termination of his employment had Company Accounts in the May Plan which were forfeited as a result of termination of employment. If such Member has not incurred five consecutive one-year Breaks in

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Service as defined in Section 6.07(d), the value of the Member's Company Account forfeited under the May Plan will be restored under this Plan (in the manner described in Subsection (b) above) and will be 100% vested.

SECTION 7

EXPENSES

7.01 ADMINISTRATIVE EXPENSES. To the extent permitted by applicable law, the costs and expenses for administering this Plan, consisting of Trustee fees and expenses, Investment Manager fees and expenses, fees and expenses of outside experts, expenses of maintaining records under Section 6 of the Plan, and all other administrative expenses of the Plan, shall be paid out of the Trust Fund unless the Company or the Employer elects to pay them with its own funds. Costs incident to the purchase and sale of securities, such as brokerage fees, commissions and stock transfer fees, are not regarded as administrative expenses and shall be borne by the appropriate Investment Fund as determined by the Trustee or Committee.

SECTION 8

WITHDRAWALS DURING EMPLOYMENT

8.01 WITHDRAWALS PROHIBITED UNLESS SPECIFICALLY AUTHORIZED. No withdrawal from the Plan shall be permitted prior to a Member's termination of employment, except as provided in Section 8.02.

8.02 AUTHORIZED WITHDRAWALS.

(a) Prior to his termination of employment, a Member may elect to withdraw, in cash, any or all of the value in his Member After-Tax Accounts. However, in the event a Member elects to withdraw all or a portion of his After-Tax Contributions made after August 1, 1997, such Member shall forfeit his right to fifty percent (50%) of the Company Matching Contribution, if any, otherwise allocable in connection with his Member Contributions for the Plan Year in which the withdrawal occurs.

(b) Prior to his termination of employment, a Member may elect to withdraw, in the event of a "hardship", an amount in cash equal to (i) the total amount of the Before-Tax Contributions made to the Trust on his behalf, or (ii) the value in his Member Before-Tax Account whichever is less provided, however, that no withdrawal will be permitted to the extent that loans from the Plan are available to the Member. In any event the amount withdrawn may not be greater than the amount determined by the Committee as being required to meet the immediate financial need created by the "hardship" and not reasonably available from other resources of the Member, whichever amount is less. The term "hardship" means a heavy financial hardship in light of immediate and heavy financial needs as determined by the Committee in accordance with the PR Code regulations. The amount of an immediate and heavy financial need may include any amounts necessary to pay any federal, state or local taxes or penalties reasonably anticipated

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to result from the distribution. The determination shall be made in a

nondiscriminatory manner. Hardship shall include but not be limited to the following:

- (i) Medical expenses described in PR Code Section 1023(aa) (2) (P), previously incurred by the Member, the Member's spouse, or any of the Member's dependents (as defined in PR Code Section 1025);
- (ii) Purchase (excluding mortgage payments) of a principal residence for the Member;
- (iii) Payment of tuition, related educational fees, and room and board expenses for the next 12 months of post-secondary education for the Member, his or her spouse, children, or dependents (as defined in PR Code Section 1025);
- (iv) The need to prevent the eviction of the Member from his or her principal residence or foreclosure on the mortgage of the Member's principal residence.

The Committee may adopt written guidelines which identify additional circumstances constituting hardship and which provide procedures to be followed in the administration of hardship withdrawal requests, which guidelines are hereby incorporated herein.

In addition, such hardship must be one which in the judgment of the Committee, based on the Member's representations, cannot be relieved (1) through reimbursement or compensation by insurance or otherwise, (2) by reasonable liquidation of the Member's assets to the extent such liquidation would not itself cause an immediate and heavy financial need, (3) by cessation of Member Contributions under the Plan or (4) by other distributions from employee benefit plans maintained by the Company or any other employer or by borrowing from commercial sources on reasonable commercial terms. The Member shall be required to submit documentation, to be determined by the Committee, with his hardship withdrawal request to enable the Committee to make a judgment regarding the validity of such hardship withdrawal request. For any Member who has attained age 59 1/2, the "hardship" requirement shall be deemed waived.

(c) A Member who was a Participant in or eligible to be a Participant in the Volume Shoe Corporation Profit Sharing Plan (the "Volume Plan") as of December 31, 1988 and who had an account balance in the Volume Plan attributable to Employer Contributions made to the Volume Plan before July 31, 1976 and which account became a Company Account under The May Department Stores Company Profit Sharing Plan and which has been transferred to this Plan, shall be entitled to withdraw the market value of such account balance determined (and frozen) as of December 31, 1988.

(d) Associates with Member Rollover Contribution Accounts may elect to withdraw their Member Rollover Contribution Accounts prior to termination of employment.

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(e) A withdrawal election shall be made pursuant to application procedures established by the Committee. For any withdrawal under this Section 8.02, if the amount which may be withdrawn exceeds \$100, the Member may not withdraw less than \$100, and if the amount which may be withdrawn is less than \$100, the Member shall be required to withdraw all of such amount. Contribution totals and Account values shall be determined as of the Valuation Date coinciding with or next following the filing of the withdrawal election. If the Member Accounts from which withdrawal is made are in more than one Investment Fund, the withdrawal shall be pro rata from each such Investment Fund except in the case the Member is subject to Section 16 of the Securities Exchange Act of 1934 or has been designated as a "Designated Insider," in which case such Member's withdrawal will be taken first from such Member's Investment Funds other than the Payless Common Stock Fund.

SECTION 9

BENEFITS UPON RETIREMENT, DEATH, DISABILITY OR TERMINATION OF EMPLOYMENT

9.01 BENEFITS. Upon a Member's Retirement, death, Disability, or other termination of employment, the value of his Member Accounts and of his vested Company Accounts shall be determined as of the Valuation Date prior to the date the distribution is calculated. A temporary Authorized Leave of Absence for Military Service or for other purposes approved by the Employer shall not, while any such Authorized Leave of Absence is validly in effect, be regarded as a termination of employment.

9.02 BENEFICIARY. Any benefits payable on account of a Member's death shall be paid to such Member's spouse. If such Member has no spouse or if such Member's spouse shall have consented to the naming of another beneficiary, such benefits shall be paid to the person or persons (including, without limitation, estates, trust, or other entities) last named as beneficiary by such Member on an appropriate form filed with the Committee. A spouse's consent shall acknowledge the effect of the consent and be in writing, witnessed by a Plan representative or notary public. A spouse's consent shall be irrevocable. If no beneficiary has been so named or the named beneficiary does not survive the Member, any payment to be made under this Plan on account of a Member's death shall be paid to such Member's spouse, or, if he has no spouse, to such Member's estate. Whenever permitted by the Code or regulations thereunder, the Committee may waive the requirements that a spouse's consent be obtained. Such waiver may be on a case by case basis or by categories.

SECTION 10

PAYMENT OF BENEFITS

10.01 TIME OF PAYMENT.

(a) All amounts distributable to a Member or Beneficiary pursuant to Section 9 shall, unless the Member makes an approved election pursuant to Section 10.01(b) or 10.01(c), be paid in a lump sum payment to be made as soon as practicable after the Valuation Date

as of which the Account values are determined pursuant to Section 9.01; provided, however, that any additional amounts which may be allocated to a Member's Company Accounts resulting from a Company Contribution in respect of the calendar year in which employment terminates shall be paid as soon as practicable after such contribution.

Notwithstanding any provision of this Section 10 to the contrary, if the present value of the nonforfeitable accrued benefit of a Member, including Company and Member Contributions (but excluding accumulated deductible employee contribution, if any) exceeds (or for distributions made prior to March 22, 1999, ever has exceeded) \$5,000, no partial or total distribution shall be made unless the Member has consented thereto in writing in the manner required by law.

(b) A Member who was a Member of the May Plan as of June 30, 1990 may elect that all Transferred Accounts distributable to him pursuant to Section 9 shall be paid in annual installments over a period not to exceed ten years beginning with the Valuation Date as of which the lump sum payment would otherwise be made. In the event of the death of a Member prior to the expiration of such period, all amounts which have not been distributed to him shall be paid in a lump sum to his designated Beneficiary or his estate if there is no designated Beneficiary. Subject to the foregoing, each such installment shall be paid as of a Valuation Date and, until all the Accounts of the Member have been fully distributed, they shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04.

Notwithstanding the paragraph above, a Member who as of December 31, 1988 was or was entitled to be a Participant in the Volume

Shoe Corporation Profit Sharing Plan may elect that all Transferred Accounts distributable to him pursuant to Section 9 be paid in the form of equal monthly installments over a period not to exceed 120 months. Such payments shall otherwise be made in accordance with the foregoing portion of this Subsection 10.01(b).

(c) A Member who is entitled to receive a distribution in excess of \$5,000 may elect to defer such distribution to age 65. An election to defer distribution shall conform to such requirements as to form, content, manner, and timing as shall be determined by the Committee and which requirements shall be applied in a manner which does not discriminate in favor of Members who are highly compensated employees (within the meaning of Code Section 414(q)). All Accounts of a Member who elects to defer his distribution shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04. A deferred distribution shall be paid when such Member attains the age of 65 years or at such earlier or later time as shall be determined by the Committee as permitted by law. In the event of the death of a Member prior to distribution of the deferred amounts, all amounts shall be distributed in a lump sum to his designated Beneficiary or to his estate if there is no designated Beneficiary. The value for payment shall be determined as of the Valuation Date coincident with or next following such Member's 65th birthday or such other payment date determined by the Committee.

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10.02 FORM OF PAYMENT. All distributions shall be made in the form of cash, except that distributions from the Payless Common Stock Fund shall be made in the form of full shares of Payless Common Stock, as applicable (with payment in cash for a fraction of a share) or in cash if elected by the Member or Beneficiary. The rights extended to a Member hereunder shall also apply to any Beneficiary or alternate payee of such Member.

10.03 INDIRECT PAYMENT OF BENEFITS. If any Member or Beneficiary has been adjudged to be legally, physically or mentally incapable or incompetent, payment may be made to the legal guardian or other legal representative of such Member or Beneficiary as determined by the Committee. Such payments shall constitute a full discharge with respect thereto.

10.04 INABILITY TO FIND MEMBER. If a Member or Beneficiary or other person to whom a benefit payment is due cannot be found during the three years subsequent to the date a distribution was required to be made under this Plan, the Accounts shall be forfeited at the end of such three-year period. The value of such Accounts as of the date the distribution was required to be made shall be restored if such Member or Beneficiary or other person makes a claim.

10.05 COMMENCEMENT OF BENEFIT DISTRIBUTION TO MEMBERS. In accordance with Code Section 401(a)(9) and Treasury Regulations promulgated thereunder, distributions to a Member must commence not later than the first day of April following the calendar year in which the Member attains age 70 1/2. Notwithstanding the foregoing, distribution to a Member who is not a "five percent owner" as defined in Section 20.10(f)(3) shall commence not later than April 1 following the calendar year in which the Member attains age 70 1/2 or, if later, the calendar year in which the Member retires.

10.06 COMMENCEMENT OF BENEFIT DISTRIBUTION TO BENEFICIARY. Distributions to the Beneficiary entitled under Section 9.02 to receive any payments payable under this Plan on account of a Member's death shall be made in a lump sum payment not later than December 31 of the calendar year following the calendar year in which the Member died.

10.07 COMMENCEMENT OF BENEFIT DISTRIBUTION TO ALTERNATE PAYEE. Distributions to an alternate payee entitled under Section 16.01 to receive any payments payable under this Plan pursuant to the terms of a Qualified Domestic Relations Order shall be made in accordance with the terms of such Qualified Domestic Relations Order and this Plan on or after the date on which the Member has attained his "earliest retirement age" (as defined under Code Section 414(p)) under the Plan. Notwithstanding the foregoing, distribution to an alternate payee may be made prior to the Member's attainment of his earliest retirement age if, but only if: (1) the Qualified Domestic Relations Order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; (2) the distribution

is a single sum distribution of the alternate payee's entire benefit entitlement under the Plan; and (3) in the event the present value of the alternate payee's benefits under the Plan exceeds \$5,000, the alternate payee consents to any distribution occurring prior to the Member's attainment of earliest retirement age.

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Nothing in this Section 10.07 shall be construed to permit a Member to (1) receive a distribution at a time not otherwise permitted under the Plan, (2) permit the alternate payee to receive a form of payment not otherwise permitted under the Plan, or (3) cause his Plan accounts to be valued or otherwise determined in a manner not otherwise permitted under the Plan.

SECTION 11

PERMITTED ROLLOVER OF PLAN DISTRIBUTIONS

11.01 ROLLOVER TO OTHER PLANS. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and pursuant to procedures prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. Such distribution may commence no less than thirty (30) days nor more than ninety (90) after any notice required under Treas. Reg. Section 1.411(a)-11(c) (or its successor) and explanation of his right to rollover his distribution and tax explanation in accordance with Internal Revenue Rules are given to a Member or other distributee, provided that the Member has been clearly informed that he has a right to a period of at least thirty (30) days after receiving said notice to consider the decision as to whether to elect a distribution or, if applicable, a distribution option, and the Member nevertheless affirmatively elects distribution preceding the expiration of thirty (30) days.

11.02 ROLLOVER FROM OTHER PLANS. An Associate eligible to participate in the Plan, regardless of whether he has satisfied the participation requirements of Section 2.01, may transfer to the Plan an Eligible Rollover Distribution provided that such distribution is from an Eligible Retirement Plan. If such transfer is not a direct transfer, such a transfer may be made only if the following conditions are met:

(a) the transfer occurs on or before the 60th day following the Associate's receipt of the distribution from the Eligible Retirement Plan; and

(b) The amount transferred is equal to any portion of the distribution the Associate received from the Eligible Retirement Plan, not in excess of the fair market value of all property received in such a distribution reduced by employee contributions, as defined in Code Section 402(a)(5)(E).

The Committee shall develop such procedures, and may require such information, from a Member desiring to make such a transfer, as it deems necessary or desirable to determine that the proposed transfer will meet the requirements of the Section. Upon approval by the Committee or its Administrative Delegate, the amount transferred shall be deposited in the Trust Fund and shall be credited to the Member's account. Such rollover amount shall be one hundred percent (100%) vested in the Member, shall share in the income allocations in accordance with Section 5, but shall not share in the Company Profit Sharing Contributions, the Company Matching Contributions or the forfeiture allocations. Upon termination

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of employment, the total amount of the rollover contribution shall be distributed in accordance with the terms of the Plan.

Upon such a transfer by an Associate who is otherwise eligible

to participate in the Plan but who has not yet completed the participation requirement of Section 2.01, his rollover amount shall represent his sole interest in the Plan until he becomes a Member.

11.03 DEFINITIONS. The following definitions shall apply for the purposes of this Section 11:

(a) ELIGIBLE ROLLOVER DISTRIBUTION. An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee as defined in Code Section 402(c), except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's beneficiary or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any hardship distribution attributable to Before-Tax Contributions.

(b) ELIGIBLE RETIREMENT PLAN. An eligible retirement plan is an individual retirement account described in Code Section 408(u), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), which accepts or will make, as applicable, an Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to a Member's surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(c) DISTRIBUTEES. A distributee includes a Member or former Member. In addition, the Member or former Member's surviving spouse and the Member's or former Member's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse.

(d) DIRECT TRANSFER. A direct transfer is a payment by the Plan to the eligible retirement plan specified by the distributee as described in Code Section 401(a)(31).

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SECTION 12

LOANS

12.01 AVAILABILITY OF LOANS. Loans shall be permitted under this Plan as established by the policy of the Committee. Any such loan shall be subject to such conditions and limitations as the Committee deems necessary for administrative convenience and to preserve the tax-qualified status of the Plan. Loans are available to Associates who have a Member Rollover Contribution Account.

12.02 AMOUNT OF LOANS. No loan to any Associate, Member or Beneficiary may be made to the extent that such loan, when added to the outstanding balance of all other loans to the Associate, Member or Beneficiary, would exceed the lesser of (a) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made, over the outstanding balance of loans from the Plan on the date the loan is made, or (b) one-half the present value of the nonforfeitable accrued benefit of the Participant. For the purpose of the above limitation, all loans from all plans of the Employer and other members of a group of employers described in Code Sections 414(b), 414(c), 414(m) and 414(o) are aggregated. Furthermore, any loan shall by its terms require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly, over a period not extending beyond four and one-half years from

the date of the loan. If such loan is used to acquire a dwelling unit which within a reasonable time (determined at the time the loan is made) will be used as the principal residence of the Participant, the repayment period shall not extend beyond twenty nine and one-half years from the date of the loan. An assignment or pledge of any portion of the Participant's interest in the Plan and a loan, pledge, or assignment with respect to any insurance contract purchased under the Plan will be treated as a loan under this paragraph.

12.03 TERMS OF LOANS.

(a) Loans shall be made available to all Associates, Members and Beneficiaries on a reasonably equivalent basis.

(b) Loans shall not be made available to Highly Compensated Employees (as defined in Code Section 414(q)) in an amount greater than the amount made available to other Employees.

(c) Loans must be adequately secured using not more than fifty percent (50%) of the Member's Vested Account balance, and bear a reasonable interest rate as determined from time to time by the Committee.

(d) An Associate or Member loan for less than \$1,000 is not permitted; provided, however, that if such Associate or Member also receives a loan from the Puerto Rico Plan, such minimum amount limitation shall not apply.

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(e) In the event of a default, foreclosure on the note and attachment of security will not occur until a distributable event occurs under the Plan with respect to the Member.

(f) No loans will be made to any Associate or Member who on any day during the Company's applicable fiscal year is a beneficial owner of more than five percent (5%) of the outstanding stock of the Company.

(g) All loans shall be made pursuant to a written Member loan program incorporated herein by reference.

(h) Loans are available from the following accounts, and will be withdrawn from the Members accounts in the following hierarchy:

- (a) Member Accounts
- (b) Vested Company Accounts
- (c) Member Rollover Contribution Accounts

(i) Loans will be taken and repaid from and to the Investment Funds on a pro rata basis, except in the case the Member is subject to Section 16 of the Securities Exchange Act of 1934 or has been designated as a "Designated Insider," in which case such Member's loan will be taken first from such Member's Investment Funds other than the Payless Common Stock Fund.

SECTION 13

LIMIT ON CONTRIBUTIONS TO THE PLAN

This Section 13 is intended to conform the Plan to the requirements of Code Section 415 and limits the contributions that can be made by and for an individual under the Plan.

13.01 LIMIT ON CONTRIBUTIONS. Notwithstanding any provision of the Plan to the contrary:

(a) The amounts allocated to a Participant during the Limitation Year under the Plan and allocated to the Participant under any other defined contribution plan to which the Employer or any other member of the Group has contributed shall be proportionately reduced, to the extent necessary, so that the Annual Addition does not exceed the least of:

- (1) \$30,000; or

- (2) 25% of the Participant's remuneration from the Employer or any member of the Group during the Limitation Year; or
- (3) such other limits set forth in Code Section 415.

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The amount set forth in subparagraph (1) above shall automatically be adjusted to reflect adjustments made by applicable law. Remuneration for purposes of this Section means remuneration as defined in Treasury Regulation Section 1.415-2(d) and shall also include the deferrals described in Code Section 415(c)(3)(D).

(b) For purposes of this Section, Limitation Year means the 12 month period commencing on January 1 and ending on December 31.

(c) For purposes of this Section, Annual Additions means the sum for the Limitation Year of Employer contributions, Employee contributions (determined without regard to any rollover contributions as defined in Code Sections 402(a)(5), 403(a)(4), 403(b)(8) and 408(d)(3) and without regard to Employee contributions to a simplified employee pension plan which are excludible from gross income under 408(k)(6) of the Code) and forfeitures.

13.02 ADJUSTMENT FOR EXCESSIVE ANNUAL ADDITIONS.

(a) If, as a result of the allocation of forfeitures, a reasonable error in estimating a Member's Pay or other facts and circumstances to which Treasury Regulation Section 1.415-6(b)(6) shall be applicable, the "annual additions" under this Plan would cause the maximum "annual additions" to be exceeded for any Member, the Committee shall (1) return any Member Contributions credited for the "limitation year" to the extent that the return would reduce the "excess amount" in the Member's Accounts, (2) hold any "excess amount" remaining after the return of any member Contributions in a "Section 415 suspense account", (3) use the "Section 415 suspense account" in the next "limitation year" (and succeeding "limitation years" if necessary) to reduce either Company Contributions for that Member if that Member is covered by the Plan as of the end of the "limitation year" or if such Member is not covered by the Plan at the end of the "limitation year" to reduce Company Contributions for all Members in the Plan, before any Company Contributions or Member Contributions which would constitute "annual additions" are made to the Plan for such "limitation year," (4) reduce Company Contributions for such "limitation year" by the amount of the "Section 415 suspense account" allocated and reallocated during such "limitation year." For purposes of (3) above, the Plan may not distribute "excess amounts" to Members or former Members.

(b) For purposes of this Section, "EXCESS AMOUNT" for any Member for a "limitation year" shall mean the excess, if any, of (1) the "annual additions" which would be credited to his account under the terms of the Plan without regard to the limitations of Code Section 415 over (2) the maximum "annual additions" determined pursuant to Section 13.01(a).

(c) For purposes of this Section, "SECTION 415 SUSPENSE ACCOUNT" shall mean an unallocated account equal to the sum of "excess amount" for all Members in the Plan during the "limitation year." The "Section 415 suspense account" shall not share in any earnings or losses of the Trust Fund.

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SECTION 14

14.01 PLAN ADMINISTRATOR. The Company shall be the Plan Administrator of the Plan for purposes of ERISA and shall be a "named fiduciary" as determined in ERISA Section 402(a)(2).

14.02 DELEGATION OF AUTHORITY.

(a) Authority to administer the Plan has been delegated to the Committee and the Administrative Subcommittee, if any, in accordance with Sections 1.42 (Total and Permanent Disability), 4.01 (Member Contributions), 6.01 (Member Accounts), 6.02 (Company Accounts), 6.05 (Member Statements), 8.02 (Authorized Withdrawals), 13.02 (Adjustment for Excessive Annual Additions), 20.02 (Withdrawal of an Employer) and this Section 14.

(b) Authority with respect to the Investment Funds of the Plan has been delegated to the Trustee in accordance with Sections 7.01 (Administrative Expenses), 5.01(c) (Investment Funds), 15 (Management of the Trust Fund) and 6.06 (shares of Payless ShoeSource, Inc. (Payless Stock) in the Payless Common Stock Fund).

(c) Authority to direct the investment of the Plan's funds has been delegated to the Investment Subcommittee, if any, in accordance with Section 15.03(b), (c) and (d) (Investments and Reinvestments).

(d) The Committee shall also have the authority and discretion to engage an Administrative Delegate who shall perform, without discretionary authority or control, administrative functions within the frame work of policies, interpretations, rules practices and procedures made by the Committee or other Plan Fiduciary. Any action made or taken by the Administrative Delegate may be appealed by an affected Member to the Committee in accordance with the claims review procedure in Section 16.05. Any decisions which call for interpretations of the Plan provisions not previously made by the Committee shall be made only by the Committee. The Administrative Delegate shall not be considered a fiduciary with respect to the services it provides.

14.03 COMMITTEE AND SUBCOMMITTEES.

(a) The Committee may appoint two subcommittees (an "Administrative Subcommittee" and an "Investment Subcommittee"), each Subcommittee to consist of at least three persons, who need not be members of the Board. The Committee and each Subcommittee, if appointed, shall elect from its members a Chairman and a Secretary, and may appoint one or more Assistant Secretaries who may, but need not be, members of the Committee or such Subcommittee, and may employ such agents, such legal counsel and such clerical, medical,

accounting, actuarial and other services as it may from time to time deem advisable to assist in the administration of the Plan. The Committee and each Subcommittee may, from time to time, appoint agents and delegate to such agents such duties as it considers appropriate and to the extent that such duties have been so delegated, the agent shall be exclusively responsible for the proper discharge of such duties.

(b) The Administrative Subcommittee shall have the general responsibility for the administration of the Plan and the carrying out of its provisions, and shall have general powers with respect to Plan administration, including, but not limited to, the powers listed in this Section 14.03. The Administrative Subcommittee shall have the discretionary authority to interpret and construe the Plan, the power to establish rules for the administration of the Plan and the transaction of its business, the power to remedy and resolve inconsistencies and omissions, and the power to determine all questions which arise in the administration, interpretation, or application of the Plan, including but not limited to questions regarding the eligibility, status, Account value and any rights of any Member, Beneficiary, and any other person hereunder.

(c) The Investment Subcommittee shall have the powers provided for in Section 15.03(b).

(d) The Committee and each Subcommittee shall act by a majority of its members and the action of such majority expressed by a vote at a meeting, or in writing without a meeting, shall constitute the action of the Committee or such Subcommittee. All decisions, determinations, actions or interpretations with respect to the Plan by the Committee or either Subcommittee and the individual committee or subcommittee members shall be in the Committee's, Subcommittee's or individual member's sole discretion. The decision, determination, action or interpretation of the Committee or either Subcommittee and the respective individual members of the Committee or Subcommittee in respect to all matters within the scope of its authority shall be conclusive and binding on all persons. No member of the Committee or either Subcommittee shall have any liability to any person for any action or omission except each for his own individual willful misconduct. If a Subcommittee is not appointed, the Committee shall exercise such Subcommittee's authority and perform its duties as described herein.

(e) Nothing in this Section 14 or in any other provision of the Plan shall be deemed to relieve any person who is a fiduciary under the Plan for purposes of ERISA from any responsibility or liability for any responsibility, obligation or duty which Part 4 of Title I of ERISA shall impose upon such person with respect to this Plan.

14.04 ACCOUNTS AND REPORTS. The Committee shall maintain or cause to be maintained accounts reflecting the fiscal transactions of the Plan and shall keep in convenient form such data as may be necessary for the administration of the Plan. The Committee shall prepare annually a report showing in reasonable detail the assets and liabilities of the Plan and setting forth a brief account of the operation of the Plan for the preceding year.

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14.05 NON-DISCRIMINATION. Neither the Committee nor either Subcommittee shall exercise its discretion in such a way as to result in discrimination in favor of officers, shareholders or highly compensated employees (within the meaning of Code Section 414(q)).

SECTION 15

MANAGEMENT OF THE TRUST FUND

15.01 USE OF THE TRUST FUND. All assets of the Plan shall be held as a Trust Fund in one or more trusts and shall be used to provide the benefits of this Plan. No part of the corpus or income shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries under this Plan and administrative expenses of this Plan.

15.02 TRUSTEES. The Trust Fund may, at the direction of the Company, be divided into one or more separate trusts, each of which may have a separate Trustee appointed from time to time by the Company and subject to removal by the Company. The Trustee or Trustees of each trust shall have complete authority and discretion with respect to the investment and reinvestment of the assets of each trust, subject, however, to (i) the provisions in the Trust Agreements between the Trustee or Trustees and the Company, and (ii) the provisions of this Plan. Any or all of such separate trusts shall be referred to collectively from time to time as the Trust Fund. Any division of the Trust Fund into one or more separate trusts shall be at the direction of the Company.

15.03 INVESTMENTS AND REINVESTMENTS. The investment and reinvestment of the assets of the Trust Fund shall be in accordance with the following:

(a) The Company shall have the authority to instruct the Trustee or Trustees to accept and follow the instructions of any designated investment manager (within the meaning of ERISA Section 3(38)) with respect to the investment and reinvestment of the assets constituting a money market or stable value fund, a fixed income fund, a common stock fund, or any other Investment Funds the Company may designate.

(b) The Investment Subcommittee shall have the powers, with respect to investment and reinvestment of the assets constituting the Investment

Funds, to promulgate limitations, restrictions, rules or guidelines with respect to the investment policies and classes of investments in which the assets of the Investment Funds may be invested or reinvested by the Trustee or Trustees, including any such investments made pursuant to the instructions of any investment manager. In the event an investment manager designated pursuant to Section 15.03(a) resigns or otherwise is unable to act, the Investment Subcommittee shall have such power and authority as otherwise would be exercisable by such Investment Manager.

(c) In the event that the assets of the Trust Fund shall be divided into one or more separate trusts pursuant to the authority provided for in Section 15.02, then the powers of the Investment Subcommittee as provided for in Section 15.03(b) may be exercised with respect to one or more of such trusts within the discretion of the Investment Subcommittee.

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(d) The powers of the Investment Subcommittee as provided in Section 15.03(b) may be exercised at any time or from time to time by the Investment Subcommittee within the discretion of the Investment Subcommittee and shall be pursuant to a written agreement between the Investment Subcommittee and the Trustee or Trustees or, if an investment manager has been appointed, between the Investment Subcommittee and the investment manager.

(e) The Trust Agreement between the Company and the Trustee or Trustees implementing the Plan shall contain provisions effectuating the provisions of this Section 15 of the Plan.

SECTION 16

CERTAIN RIGHTS AND OBLIGATIONS OF EMPLOYERS AND MEMBERS

16.01 DISCLAIMER OF EMPLOYER LIABILITY.

(a) No liability shall attach to any Employer with respect to a benefit or claim hereunder and Members and their Beneficiaries, and all persons claiming under or through them, shall have recourse only to the Trust Fund for payment of any benefit hereunder.

(b) The rights of the Members, their Beneficiaries and other persons are hereby expressly limited and shall be only in accordance with the provisions of the Plan. Nothing contained herein shall be deemed to give a Member any interest in any specific property of the Trust or any interest other than a right to receive payments pursuant to the provisions of the Plan.

16.02 EMPLOYER-ASSOCIATE RELATIONSHIP. Neither the establishment of this Plan nor its communication through a Summary Plan Description (or otherwise) shall be construed as conferring any legal or other rights upon any Associate or any other person to continue in employment or as interfering with or affecting in any manner the right of an Employer to discharge any Associate or otherwise act with relation to him. Each Employer may take any action (including discharge) with respect to any Associate or other person and may treat him without regard to the effect which such action or treatment might have upon him as a Member of this Plan.

16.03 BINDING EFFECT. Each Member, by executing an enrollment form, beneficiary designation and otherwise agreeing to participate in the Plan agrees for himself, his beneficiary(ies), heirs, successors and assigns to be bound by all of the provisions of the Plan.

16.04 CORPORATE ACTION. With respect to any action permitted or required by the Plan, the Company may act through its appropriate officers.

16.05 CLAIM AND APPEAL PROCEDURE. A Member or beneficiary may file with the Committee or its designee at any time a written claim in connection either with a benefit payable

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hereunder or otherwise. The Committee or its designee, normally within 90 days after receipt of a written claim, shall render a written decision on the claim, unless an additional 90 days is required by special circumstances which shall be explained to the claimant. If the claim is denied, either in whole or in part, the decision shall include the reason or reasons for the denial; a specific reference to the Plan provision or provisions which are the basis for the denial; a description of any additional material or information necessary for the claimant to perfect the claim; an explanation as to why the information or material is necessary; and an explanation of the Plan's entire claim procedure. The claimant may file with the Committee, within 60 days after receiving the written decision from the Committee, a written notice of request for review of the Committee's decision. The review shall be made by a committee of up to three individuals (which may include members of the Committee) appointed by the Company or by the Committee. Said committee shall render a written decision on the claim containing the specific reasons for their decision, including a reference to the Plan's provisions, normally within 60 days after receipt of the request for review, unless an additional 60 days is required by special circumstances which shall be explained to the claimant. If a Member or beneficiary does not file written notice of a claim with the Committee or its designee at the times set forth above, he shall have waived any right to a benefit other than as originally proposed by the Company or the Committee.

SECTION 17

NON-ALIENATION OF BENEFITS

17.01 PROVISIONS WITH RESPECT TO ASSIGNMENT AND LEVY. No benefit payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, encumber, levy upon or charge the same shall be void; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, except as specifically provided herein. Notwithstanding the foregoing, the creation, assignment, or recognition of a right to any benefit payable to an alternate payee with respect to a Qualified Domestic Relations Order shall not be treated as an assignment or alienation prohibited by this Section. Any other provision of the Plan to the contrary notwithstanding, if a Qualified Domestic Relations order requires the distribution of all or part of a Member's benefits under the Plan, the establishment or acknowledgment of the alternate payee's right to benefits under the Plan in accordance with the terms of such Qualified Domestic Relations Order shall in all events be deemed to be consistent with the terms of the Plan.

Notwithstanding the above a Member's benefit will be offset against any amount he or she is ordered or required to pay to the Plan pursuant to an order or requirement which arises under a judgment of conviction for a crime involving the Plan, under a civil judgment entered by a court in an action involving a fiduciary breach, or pursuant to a settlement agreement between the Participant and the Department of Labor or the Pension Benefit Guaranty Corporation. Any such offset shall be made pursuant to Section 206(d) of ERISA.

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17.02 ALTERNATE APPLICATION. If a Member or Beneficiary under this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under this Plan, except as specifically provided herein, or if any benefit shall, in the discretion of the Committee, cease, and in that event the Committee may hold or apply the same or any part thereof to or for the benefit of such Member or Beneficiary, his spouse, children or other dependents, or any of them, or in such other manner and in such proportion as the Committee may deem proper.

SECTION 18

AMENDMENTS

18.01 COMPANY'S RIGHTS. The Company reserves the right at any time and from time to time in its sole discretion to alter, amend, or modify, in whole or in part, any or all of the provisions of this Plan, provided, however,

no such alteration, amendment or modification shall be made which shall decrease the accrued benefit of any Member. Anything in this Plan to the contrary notwithstanding, the Company in its sole discretion may make any modifications or amendments, additions or deletions in or to this Plan as to benefits or otherwise and retroactively if necessary, and regardless of the effect thereof on the rights of any particular Member or Beneficiary, which it deems appropriate and/or necessary in order to comply with or satisfy any conditions of any law or regulation relating to the qualification of this Plan and the trust or trusts created pursuant hereto and to keep this Plan and said trusts qualified under Code Section 401(a) and to have the trust or trusts declared exempt from taxation under Code Section 501(a).

18.02 PROCEDURE TO AMEND. This Plan may be amended by action of the Company's Board of Directors and evidenced by a written amendment signed by the Company's Secretary or by any other person so authorized by or pursuant to authority of the Board of Directors.

18.03 PROVISION AGAINST DIVERSION. No part of the assets of the Trust Fund shall, by reason of any modification or amendment or otherwise, be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries under this Plan and administrative expenses of this Plan.

SECTION 19

TERMINATION

19.01 RIGHT TO TERMINATE. The Company reserves the right to terminate this Plan, in whole or in part, at any time and, if this Plan shall be terminated either in its entirety or with respect to any Employer included hereunder, the provisions of Section 19.03 shall apply and the Accounts of affected Members shall become (or remain) fully vested and nonforfeitable.

19.02 WITHDRAWAL OF AN EMPLOYER. If an Employer shall cease to be a participating Employer in this Plan, the Trust Fund and the Accounts of the Members of the withdrawing Employer and their Beneficiaries shall be revalued as if such withdrawal date were a Valuation

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Date. The Committee shall then direct the Trustee either to distribute the Accounts of the Members of the withdrawing Employer as of the date of such withdrawal on the same basis as if the Plan had been terminated pursuant to Section 19.03 or to deposit in a trust established by the withdrawing Employer pursuant to a plan substantially similar to this Plan assets equal in value to the assets of the Trust Fund allocable to the Accounts of the Members of the withdrawing Employer.

19.03 DISTRIBUTION IN EVENT OF TERMINATION OF TRUST. If this Plan is terminated at any time including a partial termination as defined in Code Section 411(d)(3), or if contributions are completely discontinued and the Company determines that the trust shall be terminated, in whole or in part, the Trust Fund and all Accounts shall be revalued as if the termination date were a Valuation Date and the affected Members' Accounts shall be distributed in accordance with Section 10.

19.04 ADMINISTRATION IN EVENT OF CONTINUANCE OF TRUST. If this Plan shall be terminated in whole or in part or contributions completely discontinued but the Company determines that the trust shall be continued pursuant to the terms of the Trust Agreement, the trust shall continue to be administered as though the Plan were otherwise in effect. Upon the subsequent termination of the trust, in whole or in part, the provisions of Section 19.03 shall apply.

19.05 MERGER, CONSOLIDATION OR TRANSFER. In the case of any merger or consolidation with, or transfer of Plan assets or liabilities to, any other plan, each Member shall be entitled to receive a benefit immediately after the merger, consolidation or transfer (if the transferee plan then terminated) which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).

SECTION 20

CONSTRUCTION

20.01 APPLICABLE LAW. The provisions of this Plan except as otherwise governed by ERISA shall be construed, regulated, administered and enforced according to the laws of the State of Kansas and, whenever possible, to be in conformity with the applicable requirements of ERISA and the Internal Revenue Code.

20.02 GENDER AND NUMBER. Wherever applicable, the masculine pronoun as used herein shall include the feminine pronoun and the singular pronoun shall include the plural.

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SECTION 21

TOP-HEAVY REQUIREMENTS

21.01 GENERALLY. For any Plan Year in which the Plan is a Top-Heavy Plan, the provisions of Sections 21.02 and 21.03 shall automatically take effect in accordance with Code Section 416.

21.02 MINIMUM ALLOCATIONS.

(a) Minimum Employer Allocations and allocations of Plan forfeitures for a Member who is not a Key Employee shall be required under the Plan for the Plan Year as set forth in Section 21.02 (b) and(c).

(b) The amount of the minimum allocation shall be the lesser of the following, percentages of Pay: (i) four percent (4%) or, (ii) the highest percentage at which such allocations are made under the Plan for the Plan Year on behalf of a Key Employee. For purposes of this paragraph (b), all defined contribution plans required to be included in an Aggregation Group shall be treated as one plan. This paragraph (b) shall not apply if the Plan is required to be included in an Aggregation Group and the Plan enables a defined benefit plan required to be included in the Aggregation Group to meet the requirement of Code Sections 401(a)(4) or 410. For purposes of this paragraph (b), the calculation of the percentage at which allocations are made for a Key Employee shall be based only on his Pay not in excess of \$170,000, such amount to be adjusted periodically for increases in the cost of living in accordance with Code Section 401(a)(17). The minimum allocation described in this paragraph (b) shall be in addition to (and shall not be reduced by) any Member Contributions under Section 4 (whether Before-Tax or After-Tax) and any allocation of forfeitures, if any, to which a Member may be entitled.

(c) For purposes of this Section 21.02, the term "Member" shall be deemed to refer to all Members who have not separated from service at the end of the Plan Year including, without limitation, individuals who declined to make contributions to the Plan.

21.03 PARTICIPANTS UNDER DEFINED BENEFIT PLANS. If any Member other than a Key Employee is also a participant under a defined benefit plan of an Employer which is a Top-Heavy Plan, then Section 21.03(a) shall not apply and the required minimum annual contribution for such Member under this Plan shall be 7 percent (7 %) of such Member's Pay. Such contribution shall be made without regard to the amount of contribution, if any, made to the Plan on behalf of Employees.

21.04 DETERMINATION OF TOP HEAVINESS.

(a) The determination of whether a plan is Top-Heavy shall be made in accordance with paragraphs (b) through (d) of this Section 21.04.

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(b) If the Plan is not required to be included in an Aggregated Group with other plans, then it shall be Top-Heavy only if when considered by itself, it is a Top-Heavy Plan and it is not included in a permissive Aggregation Group that is not a Top-Heavy Group.

(c) If the Plan is required to be included in an Aggregation Group with other plans, it shall be Top-Heavy only if the Aggregation Group, including any permissively aggregated plans, is Top-Heavy.

(d) If a plan is not a Top-Heavy Plan and is not required to be included in an Aggregation Group, then it shall not be Top-Heavy even if it is permissively aggregated in an Aggregation Group which is a Top-Heavy Group.

21.05 CALCULATION OF TOP-HEAVY RATIOS. A plan shall be Top-Heavy and an Aggregation Group shall be a Top-Heavy Group with respect to any Plan Year as of the Determination Date if the sum as of the Determination Date of the Cumulative Accrued Benefits and the Cumulative Accounts of Employees who are Key Employees for the Plan Year exceeds 60 percent (60%) of a similar sum determined for all Employees, excluding former Key Employees.

21.06 CUMULATIVE ACCOUNTS AND CUMULATIVE ACCRUED BENEFITS.

(a) The Cumulative Accounts and Cumulative Accrued Benefits for any Employee shall be determined in accordance with paragraphs (b) through (e) of this Section 21.06.

(b) Cumulative Account shall mean the sum of the amount of an Employee's accounts under a defined contribution plan (for an unaggregated plan) or under all defined contribution plans included in an Aggregation Group (for aggregated plans) determined as of the most recent plan Valuation Date within a 12-month period ending on the Determination Date, increased by any allocations due after such Valuation Date and before the Determination Date.

(c) Cumulative Accrued Benefit means the sum of the present value of an Employee's accrued benefits under a defined benefit plan (for an unaggregated plan) or under all defined benefit plans included in an Aggregation Group (for aggregated plans), determined under the actuarial assumptions set forth in such plan or plans, as of the most recent plan Valuation Date within a 12-month period ending on the Determination Date as if the Employee voluntarily terminated service as of such Valuation Date.

(d) Accounts and benefits shall be calculated to include all amounts attributable to both Matching Allocations and Employee contributions but excluding amounts attributable to voluntary deductible Employee contributions.

(e) Accounts and benefits shall be increased by the aggregate distributions during the five-year period ending on the Determination Date made with respect to an Employee under the plan or plans as the case may be or under a terminated plan which, if it had not been terminated, would have been required to be included in the Aggregation Group.

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(f) Rollovers and direct plan-to-plan transfers shall be handled as follows:

(i) If the transfer is initiated by the Employee and made from a plan maintained by one Employer to a plan maintained by another Employer, the transferring plan continues to count the amount transferred under the rules for counting distributions. The receiving plan does not count the amount if accepted after December 31, 1983, but does count it if accepted prior to December 31, 1983.

(ii) If the transfer is not initiated by the Employee or

is made between plans maintained by the Employers, the transferring plan shall no longer count the amount transferred and the receiving plan shall count the amount transferred.

(iii) For purposes of this subsection (f), all Employers aggregated under the rules of Code Sections 414(b), (c) and (m) shall be considered a single employer.

21.07 OTHER DEFINITIONS.

(a) Solely for purposes of this Section 21, the definitions in paragraphs (b) through (i) of this Section 21.07 shall apply, to be interpreted in accordance with the provisions of Code Section 416 and the regulations thereunder.

(b) AGGREGATION GROUP means a plan or group of plans which included all plans maintained by the Employer in which a Key Employee is a participant or which enables any plan in which a Key Employee is a participant to meet the requirements of Code Section 401(a)(4) or Code Section 410, as well as all other plans selected by the Company for permissive aggregation, the inclusion of which would not prevent the group of plans from continuing to meet the requirements of such Code sections.

(c) DETERMINATION DATE means, with respect to any Plan Year, the last day of the preceding Plan Year.

(d) EMPLOYEE means any person employed by an Employer and shall also include any Beneficiary of such persons, provided that the requirements of Sections 21.02 and 21.03 shall not apply to any person included in a unit of Employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between Employee representatives and one or more Employers if there is evidence that retirement benefits were the subject of good faith bargaining between such Employee representatives and such Employer or Employers.

(e) EMPLOYER means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Company or any trades or businesses (whether or not incorporated) which are under common control (as defined in Code Section 414(c)) with the Company, or a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Company,

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(f) KEY EMPLOYEE means any Employee or former Employee who is, at any time during the Plan Year, or was, during any one of the four preceding Plan Years any one or more of the following: (1) an officer of an Employer who has annual Pay of more than 50% of the amount in effect under Code Section 415(b)(1)(A) for such Plan Year, unless fifty (50) other such officers have higher annual Pay; (2) one of the 10 persons employed by an Employer having annual Pay greater than the limitation in effect under Code Section 415(c)(1)(A), and owning (or considered as owning within the meaning of Code Section 318) the largest interests in the Employers (if two Employees have the same interest, the one with the greater Compensation shall be treated as owning the larger interest); (3) any person owning (or considered as owning within the meaning of the Code Section 318) more than five percent of the outstanding stock of an Employer or stock possessing more than five percent of the total combined voting power of such stock; (4) a person who would be described in subsection (3) above if "one percent" were substituted for "five percent" each place it appears in subsection (3) above, and who has annual Pay of more than \$150,000 (for purposes of determining ownership under this subsection, Code Section 318(a)(2)(C) shall be applied by substituting "five percent" for "50 percent" and the rules of subsections (b), (c) and (m) of Code Section 414 shall not apply).

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by a duly authorized officer this 20th day of March, 2000.

PAYLESS SHOESOURCE, INC.

By: /s/ Jeffrey A. Long

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PAYLESS SHOESOURCE, INC.
DEFERRED COMPENSATION PLAN
(Amended July 20, 2000)

SECTION 1. PURPOSE.

The purpose of this Plan is to provide an additional incentive to the key employees of Payless ShoeSource, Inc. to achieve superior performance.

SECTION 2. DEFINITIONS.

(a) Board means the Board of Directors of Payless, as hereinafter defined.

(2) Committee means the Committee appointed to administer the Plan, as hereinafter defined, as provided in Section 8 hereof.

(c) Common Stock means the Common Stock of Payless, as hereinafter defined.

(d) Corporation means Payless, as hereinafter defined, or any subsidiary of Payless which is an employer of an Executive, as hereinafter defined, who is a Participant, as hereinafter defined, in the Plan, as hereinafter defined.

(e) Executive means any individual employed by the Corporation in an executive capacity who receives regular stated compensation in respect of such employer-employee relationship other than a pension, retainer or fee under a contract.

(f) Fiscal Year means the fiscal year of the Corporation as established from time to time.

(g) Payless means Payless ShoeSource, Inc., a Delaware corporation.

(h) Participant means an Executive who has been designated by the Committee as eligible, and who has elected to participate in the Plan, as hereinafter defined.

(i) Plan means the Deferred Compensation Plan of the Corporation, as described herein.

(j) Stock Unit means an accounting equivalent of one share of Common Stock.

(k) Stock Unit Account means an account on the records of the

Corporation in respect of Stock Units which have been and/or may be allocated to a Participant in the manner hereinafter set forth.

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SECTION 3. METHODS OF PAYMENT.

(a) Except as hereinafter provided, prior to the commencement of the calendar year that includes the first day of a Fiscal Year, each Participant shall be afforded the opportunity of making an election to have any one or more of the following alternative methods of payment applied to all or a part of any portion (which such portion shall not exceed one-half, unless specifically provided for to the contrary in the participant's written contract of employment) of any compensation of which such Participant shall be the recipient in respect of his performance during such Fiscal Year:

(i) Alternative (i): Payment of any such compensation that is paid in the form of a bonus on the first day of April next following the close of such Fiscal Year or on such subsequent date as the amount thereof is ascertainable.

(ii) Alternative (ii): Payment thereof at a deferred date or dates either in a lump sum or in annual installments, as may be determined by the Committee, such payment when made to include interest, as hereinafter provided, from the first day of April next following the Fiscal Year in respect of which the compensation was payable to the date of payment.

(iii) Alternative (iii): Payment thereof at a deferred date or dates either in a lump sum or in annual installments, as may be determined by the Committee, and either in cash or in Common Stock or in both cash and Common Stock, as may be determined by the Committee, in respect of Stock Units to be allocated to the Participant as hereinafter provided.

If any Participant shall fail to make an election with respect to any year, he shall be deemed to have elected not to defer any portion of his compensation for such year. Notwithstanding the requirements imposed by this paragraph (a) with respect to the time by which an election must be made, an employee who is designated by the Committee as a Participant for the first time may, within 60 days of such designation, make any election otherwise permitted under this paragraph (a) with respect to the Participant's compensation in respect of employment subsequent to the date on which the election is made.

(b) In connection with all determinations to be made by the Committee as respects Alternative (ii) and, except for the determination of whether payment thereunder is to be made in cash or in Common Stock or in both cash and Common Stock (which determination shall be in the absolute discretion to the Committee), Alternative (iii), the Participant shall be given an opportunity at the time he makes his election of indicating his preferences, which preferences shall be taken into account by the Committee in making its

determinations. Except as provided in Section 12 and Section 13 in no event shall payments under Alternative (ii) or (iii) commence prior to the earliest of the Participant's retirement, termination of employment or death (or prior to the occurrence of a severe financial hardship, as provided below).

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The Committee shall make its determination with respect to the payment schedule (i.e., a lump sum payment or payments in annual installments) under Alternative (ii) or (iii) prior to the commencement of the calendar year that includes the first day of the Fiscal Year for which such alternative is elected. Except in the event of a severe financial hardship, as provided below, the Committee's determination with respect to a payment schedule shall become irrevocable as of the first day of the calendar year that includes the first day of the Fiscal Year for which the determination is made. However, upon the written request of the Participant (or if applicable, the beneficiary or distributee) the payment schedule may be revised by the Committee, in its absolute discretion, in the event that the Participant (or if applicable, the beneficiary or distributee) incurs a severe financial hardship. Such severe financial hardship must have been caused by an accident, illness or other event which was beyond the control of the Participant (or, if applicable, the beneficiary or distributee); and the Committee shall revise the payment schedule that it had previously established only to the extent that the Committee considers necessary to eliminate the severe financial hardship. Notwithstanding the requirements imposed by this paragraph (b) regarding the date by which the Committee must make a determination with respect to the payment schedule under Alternative (ii) or (iii) and the date as of which such determination shall become irrevocable (except in the event of a severe financial hardship), when a Participant makes an election pursuant to the last sentence of paragraph (a) of this Section 3, the Committee shall make its determination with respect to the payment schedule at any time prior to the date as of which the Participant's election becomes effective, and its determination shall become irrevocable (except in the event of a severe financial hardship) as of such effective date.

(c) In the case of a Participant who elects to have all or any part of his compensation for a particular Fiscal Year paid under Alternative (iii), Stock Units shall be allocated to such Participant by crediting the same to his Stock Unit Account, and the number of Stock Units to be so credited for such Fiscal Year shall be the sum of the following:

(i) the quotient, disregarding fractions, resulting from dividing the dollar amount of such portion of the Participant's compensation as is to be so applied to Alternative (iii) by the average closing price of the Common Stock on the New York Stock Exchange during the month of February ending in the Fiscal Year next following the Fiscal Year in respect of which such compensation was payable; plus

(ii) the quotient, disregarding fractions, resulting from dividing the aggregate dollar amount of cash dividends which would have been paid to the Participant during such Fiscal Year had the Stock Units standing in his Stock Unit Account from time to time during such Fiscal Year been shares of Common Stock by the average dosing price of the Common Stock on the New York Stock Exchange during the month of February ending in the year next following such Fiscal Year; plus

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(iii) the number of shares of Common Stock, disregarding fractions, which would have been received by the Participant as stock dividends during such Fiscal Year had the Stock Units standing in his Stock Unit Account at the date or dates of payment of such stock dividend(s) been shares of Common Stock.

Any allocation of Stock Units to a Participant's Stock Unit Account required to be made pursuant to this paragraph (c) shall be made as of the first day of April next following the Fiscal Year in respect of which such compensation was payable or such dividends were paid, as the case may be. The aggregate value of the fraction or fractions remaining after making the applicable calculations referred to in subparagraphs (c) (i), (c) (ii) and (c) (iii) of this Section 3 (based upon the average closing price of Common Stock on the New York Stock Exchange during the month of February next preceding such month of April), shall not be converted into Stock Units but shall be allocated and added to the amount elected by the Participant to be paid to him under Alternative (ii) above, or, if the Participant shall have made no such election under Alternative (ii), then such remaining amount shall be paid to the Participant as if he had made an election under Alternative (i) above to be so paid.

(d) Notwithstanding the provisions of Section 3(c) to the contrary, in the event of a recapitalization of Payless pursuant to which the outstanding shares of Common Stock shall be changed into a greater or smaller number of shares (including, without limitation, a stock split or a stock dividend of 25% or more of the number of outstanding shares of Common Stock), the number of Stock Units credited to a Participant's Stock Unit Account shall be appropriately adjusted as of the effective date of such recapitalization.

(e) Interest to be paid under Alternative (ii) shall be credited annually as of April 1 of each year and shall be at a rate shall be equal to the average yield on long-term United States Government Bonds (as determined by the Board of Governors of the Federal Reserve Board and published in the Federal Reserve Bulletin) for the calendar year prior to said April 1, compounded annually, provided, however, that if the method of calculation of such average yield shall be changed, or if the determination and/or the publication thereof be discontinued, then the Committee shall substitute therefor such alternative method of determining such interest rate as it, in its discretion, shall deem

appropriate.

SECTION 4. LIMITATION OF STOCK UNITS.

In no event shall the aggregate number of Stock Units allocated under this Plan in respect of compensation for any Fiscal Year exceed a number equal to 1/2 of 1% of the total number of shares of Common Stock outstanding at the close of such Fiscal Year.

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SECTION 5. DISTRIBUTION FROM THE STOCK UNIT ACCOUNT.

(a) Distribution from a Participant's Stock Unit Account shall be made in accordance with the determinations made by the Committee, as provided in this Plan. Stock Units shall be adjusted from time to time in accordance with this Plan until all distributions to which a Participant is entitled hereunder shall have been made.

(b) If the Committee determines that distribution to a Participant is to be made in annual installments, the Committee may determine from time to time whether each particular installment shall be distributed in cash or in Common Stock or in both cash and Common Stock.

(c) If the Committee determines that a distribution to a Participant is to be made in a lump sum in Common Stock, the number of shares of Common Stock to be so distributed to such Participant shall equal the number of Stock Units then in his Stock Unit Account. For the purpose of determining the number of shares of Common Stock to be distributed on a particular annual installment distribution date, the Committee shall make its calculations as if that annual installment and all subsequent annual installments were in fact to be made in shares of Common Stock, as follows: the number of shares of Common Stock which would be then so distributable, except in the case of the last distribution, shall be equal to the product, disregarding fractions, of the total number of Stock Units then credited to the Participant's Stock Unit Account, multiplied by a fraction, the numerator of which shall be one and the denominator of which shall be the number of remaining installments; and in the case of the last distribution, shall be the number of shares of Common Stock equal to the Stock Units then remaining in the Participant's Stock Unit Account. The Participant's Stock Unit Account shall be decreased by one Stock Unit for each share of Common Stock distributed to a Participant.

(d) If the Committee determines that a particular distribution to a Participant is to be made in cash, a computation shall first be made of the number of shares of Common Stock which would then be distributable pursuant to paragraph (c) of this Section 5 if such distribution were to be made in shares

of Common Stock. The number of shares thus determined shall then be converted into cash in respect of each such distribution by valuing such shares at the average dosing price of the Common Stock on the New York Stock Exchange during the month of February next preceding the date of such distribution, and the resulting amount of cash shall be distributed to the Participant. The Participant's Stock Unit Account shall then be decreased by one Stock Unit for each share of Common Stock which would have been distributed to the Participant had such cash distribution been made in shares of Common Stock.

(e) If the Committee determines that a distribution is to be made in part in Common Stock and in part in cash, paragraphs (c) and (d) of this Section 5 shall be applied separately to

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the respective parts of such distribution and to the respective parts of the Stock Unit Account with respect to which the distribution is to be made.

SECTION 6. DEATH OF PARTICIPANT.

In the event of the death of a Participant prior to complete distribution under Alternatives (ii) and/or (iii) hereof, all cash and/or Stock Units then remaining undistributed, or which shall thereafter become distributable to him pursuant to such Alternatives, shall be distributed to such beneficiary as the Participant shall have designated in writing to the Corporation, or, in the absence of such designation, to his personal representative. Such distribution shall be made at such date or dates either in a lump sum or in annual installments, as may be determined by the Committee prior to the beginning of the calendar year that includes the first day of the Fiscal Year for which such alternative is elected (or, where applicable, the date specified by the last sentence of Section 3(b)); provided, however, that in the event of a severe financial hardship, the Committee may subsequently revise its determination in accordance with the applicable provisions of Section 3(b).

SECTION 7. PARTICIPANT'S RIGHT UNSECURED; INVESTMENTS.

The right of a Participant to receive any distribution hereunder shall be an unsecured claim against the general assets of the Corporation. Nothing in this Agreement shall require the Corporation to invest any amount, the payment of which has been deferred under Alternative (ii) or (iii), in Common Stock or in any other medium.

SECTION 8. ADMINISTRATION OF THE PLAN COMMITTEE.

(a) The Plan shall be administered by a Committee of not less than two nor more than five persons designated by the Board (which may, but need not, be the compensation committee of the Board), all of whom shall be directors of

the Corporation and shall serve at the pleasure of the Board. In no event shall any member of the Committee be a Participant. The Committee shall act by vote or written consent of a majority of its members (except in the case of a two person Committee in which case any vote or written consent must be unanimous). The Plan may be amended, modified or terminated by the Board, except that no change may be made without the approval of the Common Shareowners of Payless (i) the maximum number of shares or Stock Units deliverable or allocable in respect of any Fiscal Year under the plan or (ii) in the provisions of subparagraphs (c) (i) and (c) (ii) of Section 3 of this Plan relating to the method of determining the number of Stock Units allocable to a Participant.

(b) The Committee shall prescribe such forms as it considers appropriate for the administration of the Plan. The forms shall set forth such terms and conditions not inconsistent with the terms of the Plan as the Committee may determine and shall designate:

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(i) the alternative or alternatives elected by the Participant pursuant to Section 3(a);

(ii) the Committee's determination of the time or times when payment of such compensation will be made to the Participant pursuant to Section 3(b) (in the absence of a severe financial hardship);

(iii) the beneficiary (if any) designated by the Participant pursuant to Section 6; and

(iv) the Committee's determination of the time or times when payment of such compensation will be made after the Participant's death pursuant to Section 6 (in the absence of a severe financial hardship).

SECTION 9. SUCCESSORS.

The provisions of the Plan with respect to each Participant shall bind the legatees, heirs, executors, administrators or other successors in interest of such Participant.

SECTION 10. ALIENATION.

(a) Subject to the provisions of Section 6 and paragraph (b) of this Section 10, no amount, the payment of which as been deferred under Alternative (ii) or (iii), shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, levy or charge the same shall be void; nor shall any such amount be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit.

(b) Nothing in this Section 10 shall prohibit the personal representative of a Participant from designating that any amount be distributed in accordance with the terms of the Participant's will or pursuant to the laws of descent and distribution.

SECTION 11. WITHHOLDING.

There shall be deducted from all amounts paid under this Plan any taxes required to be withheld by any federal, state or local government. The Participants and their beneficiaries, distributees and personal representatives will bear any and all federal, foreign, state, local or other income or other taxes imposed on amounts paid under this Plan as to which no amounts are withheld, irrespective of whether withholding is required.

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SECTION 12. DISCRETIONARY PAYMENT.

(a) Notwithstanding any other provision in any other Section of the Plan to be contrary, the Committee may, in its sole and absolute discretion, direct an immediate payment of cash and/or distribution of Stock with respect to amounts (except those referred to in the next proviso) previously deferred under this Plan if the Committee determines that such action is in the best interests of Payless, the Participants and their beneficiaries.

(b) In the event that the Committee shall so direct an immediate payment, distribution and/or release in accordance with Section 12(a), then

(i) the amounts of cash and the numbers of shares of Stock to be so paid and/or distributed shall be determined by the Committee so as to reflect fairly and equitably appropriate interest and dividends since the preceding April 1 and so as to reflect fairly and equitably such other facts and circumstances as the Committee deems appropriate, including, without limitation, recent price of the Stock;

(ii) amounts which were otherwise deferred or to be deferred with respect to the Fiscal Year or long-term period in which such payment or distribution occurs shall be paid when otherwise payable (such amounts which would otherwise have been payable prior to the date of such payment or distribution shall be paid as soon as practicable thereafter);

(iii) in the event that cash is not paid or made available to a Participant when otherwise due or that shares of Stock are not distributed or otherwise made available to a Participant when otherwise due, then such Participant may file a claim for such payment or distribution and, if such Participant is successful, then the Corporation shall reimburse such Participant

for reasonable attorneys' fees actually paid by the Participant in enforcing such Participant's rights to such payment or distribution; and

(iv) in the event that cash is not paid or made available to a Participant when otherwise due, then interest will accrue with respect to such unpaid amount from the date it was otherwise due until the date it is actually paid at a rate equal to two percentage points over the prime rate as in effect from time to time, as determined in good faith the Committee based on the prime rate charged from time to time by major banks in the City of New York.

SECTION 13. CHANGE IN CONTROL.

Notwithstanding any other provision in any other Section of this Plan to the contrary, (i) the value of all amounts deferred by a Participant which have not yet been credited to the Participant's accounts under this Plan and (u) the value of all of a Participant's accounts under this Plan shall be paid to such Participant in each case in a lump sum cash payment on the occurrence of a Change in Control of the Corporation or as soon thereafter as practicable, but in no event later than five days after the Change in Control of the Corporation. The

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amounts of cash credited to each Participant's accounts prior to determining the amount of cash to be paid from these accounts shall be determined by the Committee (which, for this purpose, shall be comprised of members of the Board prior to the Change in Control of the Corporation) so as to reflect fairly and equitably appropriate interest and dividends since the preceding April 1 and so as to reflect fairly and equitably such other facts and circumstances as the Committee deems appropriate, including, without limitation, recent price of the stock. For purposes of payments under this Section 13, the value of Stock Unit shall be computed as the greater of (a) the closing price of shares of Common Stock as reported on the New York Stock Exchange on or nearest the date on which the Change in Control is deemed to occur (or, if not listed on such exchange, on a nationally recognized exchange or quotation system on which trading volume in the Common Stock is highest) or (b) the highest per share price for shares of Common Stock actually paid in connection with any Change in Control.

For the purposes of this Plan, a "Change in Control" shall be deemed to have occurred if:

(a) any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (a "Person") acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of

directors (the "Outstanding Company Voting Securities"); provided, however, that, for purposes of this Section 13, none of the following shall constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company or (iv) any acquisition by any corporation pursuant to a transaction that complies with Sections 13(c) (A), 13(c) (B) and 13(c) (C) or (v) any acquisition by the Company which, by reducing the number of shares of Outstanding Company Common Stock or Outstanding Company Voting Securities, increases the proportionate number of shares of Outstanding Company Common Stock or Outstanding Company Voting Securities beneficially owned by any Person to 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities; provided, however, that, if such Person shall thereafter become the beneficial owner of any additional shares of Outstanding Company Common Stock or Outstanding Company Voting Securities and beneficially owns 20% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities, then such additional acquisition shall constitute a Change of Control; or

(b) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be

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considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination") is consummated, in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50%, respectively, of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation

resulting from such Business Combination, (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) the stockholders of the Company approve of a complete liquidation or dissolution of the Company.

SECTION 14. TERMINATION AND ALTERNATE PLANS.

(a) In the event that the Company adopts an alternate non-qualified deferred compensation plan, then all obligations (except for such portion invested at Participants' direction in the Participants' Stock Unit Accounts) due Participants under this Plan as of the effective date of such alternate plan shall be transferred to such alternate plan and shall become obligations under such alternate plan pursuant to the terms of this Section 14;

(b) In the event of termination of this Plan, and the prior adoption of an alternate non-qualified deferred compensation plan, all obligations remaining under this Plan

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prior to termination shall become obligations of such alternate plan in the manner determined by the Committee and Participants shall not be permitted to elect to defer the receipt of his or her compensation on or after the date of termination of this Plan and have such amount be considered an obligation under this Plan.

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PAYLESS SHOESOURCE, INC.
 EXECUTIVE INCENTIVE COMPENSATION PLAN
 AMENDED NOVEMBER 16, 2000

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PAYLESS SHOESOURCE, INC.
 EXECUTIVE INCENTIVE COMPENSATION PLAN

This document constitutes and sets forth the terms of the Payless ShoeSource, Inc. Executive Incentive Compensation Plan for Payless Executives.

Section 1. PURPOSES OF THE PLAN. The purposes of the Plan are (i) to provide a means to attract, retain and motivate talented personnel and (ii) to provide to participating management employees added incentive for high levels of performance and for additional effort to improve the Company's financial performance. Payments of awards under this Plan are intended to qualify for tax deductibility under the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Notwithstanding any other provisions of this Plan, if any decision must be made before a specified date in order for payments to qualify for such tax deductibility under the tax rules in effect from time to time, then such decision is to be made before such date.

Section 2. DEFINITIONS. Whenever used herein, the following terms shall have the following meanings:

a. "Annual Award" means, for a Participant for a Fiscal Year, the product of the Participant's Minimum Annual Compensation for such Fiscal Year multiplied by the aggregate of:

- i. the Participant's Annual EPS Factor for such Fiscal Year, plus
- ii. the Participant's Annual RONA Factor for such Fiscal Year.

b. "Annual EPS Factor" means, for a Participant for a Fiscal Year (i) five percent, if actual EPS Growth for such Fiscal Year equals or exceeds the Participant's Threshold Annual EPS Growth Objective for such Fiscal Year, plus (ii) ten percent multiplied by a fraction (not less than zero and not greater than one), the numerator of which is the actual EPS Growth for such Fiscal Year less the Participant's Threshold Annual EPS Growth Objective for such Fiscal Year and the denominator of which is the Participant's Maximum Annual EPS Growth Objective for such Fiscal Year less the Participant's Threshold Annual EPS Growth Objective for such Fiscal Year; provided, however,

- i. that the Annual EPS Factor shall be subject to adjustment as provided in Section 6(b);
- ii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 4(b); and
- iii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 4(c).

c. "Annual RONA Factor" means, for a Participant for a Fiscal Year (i) five percent if actual RONA for such Fiscal Year equals or exceeds the Participant's Threshold Annual RONA Objective for such Fiscal Year, plus (ii) ten percent multiplied by a fraction (not less than zero and not greater than one), the numerator of which is the actual RONA for such Fiscal Year less the Participant's Threshold Annual RONA Objective for such Fiscal Year and the denominator of which is the Participant's Maximum Annual RONA Objective for such Fiscal Year less the Participant's Threshold Annual RONA Objective for such Fiscal Year; provided, however,

- i. that the Annual RONA Factor shall be subject to

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adjustment as provided in Section 6(b);

ii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 4(b); and

iii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 4(c).

d. "Average Annual Compensation" means, for a Long-Term Performance Period, the Participant's average annual salary rate during such period, determined on a monthly basis, or such lesser amount as the Participant and the Company shall agree to, in writing.

e. "Board" means the Board of Directors of the Company.

f. "Committee" means a committee designated by the Board, which shall consist of not less than two members of the Board who shall be appointed by and serve at the pleasure of the Board and who shall be "outside" directors within the meaning of Section 162(m) of the Code.

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g. "Company" means Payless ShoeSource, Inc., a Missouri corporation, provided, that immediately after the effective time of the Merger such term shall mean Payless ShoeSource, Inc. (formerly Payless ShoeSource Holdings, Inc.), a Delaware corporation.

h. "Disability" means the inability of a Participant to perform the normal duties of the Participant's regular occupation.

i. "EPS Growth" means (i) for a Fiscal Year, the annual growth rate in EPS measured from the immediately preceding Fiscal Year; and (ii) for a Long-Term Performance Period, the compound annual growth rate in EPS measured from the Fiscal Year immediately preceding the Long-Term Performance Period to the last Fiscal Year in the Long-Term Performance Period. For purposes of this definition, "EPS" for a Fiscal Year means the Company's EPS for such Fiscal Year as reported in the Company's annual report to its shareholders for the year of determination (or, in the event that such item is not included in such annual report, such comparable figure as may be determined by the Committee) adjusted by the Company's independent certified public accountants to exclude such non-recurring or extraordinary items as the Committee shall determine are not representative of the on-going operations of the Company.

j. "Fiscal Year" means the fiscal year of the Company.

k. "Long-Term Award" means, for a Participant for a Long-Term Performance Period, the product of the Participant's Average Annual Compensation for such period multiplied by the aggregate of:

i. the Participant's Long-Term EPS Factor for such period, plus

ii. the Participant's Long-Term RONA Factor for such period

as such product is adjusted in accordance with Section 5(b) of the Plan.

l. "Long -Term EPS Factor" means, for a Participant for a Long-Term Performance Period, (i) five percent if actual EPS Growth for such period equals or exceeds the Participant's Threshold Long-Term EPS Growth Objective for such period, plus (ii) ten percent multiplied by a fraction (not less than zero and not greater than one) the numerator of which is the actual EPS Growth for such period less the Participant's Threshold Long-Term EPS Growth

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Objective for such period and the denominator of which is the Participant's Maximum Long-Term EPS Growth Objective for such period less the Participant's Threshold Long-Term EPS Growth Objective for such period; provided, however,

i. that the Long-Term EPS Factor shall be subject to adjustment as provided in Section 6(b); and

ii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 5(c).

m. "Long-Term Performance Period" means three consecutive Fiscal Years; provided, however, that the first Long-Term Performance Period under the Plan shall be Fiscal Year 1996 and the second Long-Term Performance Period under the Plan shall be Fiscal Years 1996 and 1997.

n. "Long-Term RONA Factor" means, for a Participant for a Long-Term Performance Period (i) five percent if actual RONA for such period equals or exceeds the Participant's Threshold Long-Term RONA Objective for such period plus (ii) ten percent multiplied by a fraction (not less than zero and not greater than one), the numerator of which is the actual RONA for such period less the Participant's Threshold Long-Term RONA Objective for such period and the denominator of which is the Participant's Maximum Long-Term RONA Objective for such period less the Participant's Threshold Long-Term RONA Objective for such period; provided, however,

i. that the Long-Term RONA Factor shall be subject to adjustment as provided in Section 6(b); and

ii. that the percentages referred to in this definition may be adjusted by the Committee as provided in Section 5(c).

o. "Market Value" means the average closing price of the Stock on the New York Stock Exchange, Inc. during the month of February of the year specified; provided, however, that "Market Value" for Fiscal Year 1996 means the arithmetic average of the high and low trading prices of the Stock on the New York Stock Exchange for each of the first 30 trading days on which trading in the Stock on that exchange occurs.

p. "Minimum Annual Compensation" means, for a Fiscal Year, the Participant's rate of minimum annual salary on the first day of the fiscal month of November in the Fiscal Year.

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q. "Participant" means an individual who has been designated to participate in the Plan in accordance with Section 3 of the Plan.

r. "Plan" mean the Payless ShoeSource, Inc. Executive Incentive Compensation Plan for Payless Executives.

s. "Relative Performance Rank" means, for a Fiscal Year or for a Long-Term Performance Period, the relative rank of the Company (as among the Company and a group of competitors designated by the Committee) based on the EPS Growth and RONA, respectively, of all such corporations for such corporations' comparable fiscal periods, as determined by the Committee. Relative Performance Rank shall be determined based on data provided by the Company's independent certified public accountants from publicly available information about all such corporations, and adjusted by such independent certified public accountants for comparability (adjustments for LIFO, major non-recurring transactions, etc.) subject to the direction and approval of the Committee. The Committee may change the number of competitors or corporations included in the group when, as a result of extraordinary or unforeseen events, it is no longer appropriate for a particular corporation to be included in the competitor group (such as when one of the group ceases operations, merges with another corporation, files for bankruptcy protection or significantly changes the nature of its business).

t. "Retirement" means, as to a Participant, retirement as that word is defined in the Company's Profit Sharing Plan.

u. "RONA" means (i) for a Fiscal Year, the Company's return on beginning net assets for such Fiscal Year as reported in the Company's annual report to its shareowners for the year of determination (or, in the event that such item is not included in such annual report, such comparable figure as may be determined by the Committee) adjusted by the Company's independent certified public accountants to exclude such non-recurring or extraordinary items as the Committee shall determine are not representative of the ongoing operations of the Company; and (ii) for a Long-Term Performance Period, the sum of the RONA for each Fiscal Year in the Long-Term Performance Period divided by three.

v. "Stock" means the common stock of the Company.

w. "Subsidiary" means a subsidiary corporation of the Company within the meaning of Section 425(f) of Code.

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x. The terms "Maximum Annual EPS Growth Objective," "Maximum Long-Term EPS Growth Objective," "Target Annual EPS Growth Objective," "Target Long-Term EPS Growth Objective," "Threshold Annual EPS Growth Objective," "Threshold Long-Term EPS Growth Objective," "Maximum Annual RONA Objective," "Maximum Long-Term RONA Objective," "Target Annual RONA Objective," "Target Long-Term RONA Objective," "Threshold Annual RONA Objective" and "Threshold Long-Term RONA Objective" shall mean the respective objectives determined by the Committee for each Participant pursuant to Section 7 of the Plan.

y. "Merger" means the merger of Payless Merger Corp., a Missouri corporation and wholly-owned subsidiary of Payless ShoeSource, Inc. (formerly Payless ShoeSource Holdings, Inc.), a Delaware corporation, with the Company, pursuant to an Agreement and Plan of Merger among the Company, Payless Merger Corp. and Payless ShoeSource, Inc. (formerly Payless ShoeSource Holdings, Inc.).

Section 3. ELIGIBILITY. Management employees of the Company and its Subsidiaries shall be eligible to participate in the Plan. The Committee may, in its sole discretion, designate any such individual as a Participant for a particular Fiscal Year and/or for a particular Long-Term Performance Period before the end of such Fiscal Year and Long-Term Performance Period, respectively. Designation of an individual as a Participant for any period shall not require designation of such individual as a Participant in any other period, and designation of one individual as a Participant shall not require designation of any other individual as a Participant in such period or in any other period.

Section 4. ANNUAL AWARD.

a. Subject to the other provisions of the Plan, a Participant for a Fiscal Year who is designated as such for an entire Fiscal Year shall be entitled to an Annual Award for such Fiscal Year. Subject to the other provisions of the Plan, a Participant for a Fiscal Year who is designated as such for less than an entire Fiscal Year shall be entitled to a reduced Annual Award for such Fiscal Year equal to the Annual Award for such Fiscal Year multiplied by a fraction, the numerator of which shall be the number of complete fiscal months between (i) the first day of the fiscal month in which occurs the date as of which the Participant was so designated and (ii) the end of such Fiscal Year and the denominator of which shall be twelve.

b. The Committee may change the percentages referred to in the definitions of "Annual EPS Factor" and "Annual RONA Factor" for any Fiscal Year, provided that the maximum Annual Award which may be paid under such different percentage may not be greater than 45% of the Participant's Minimum Annual Compensation for such Fiscal Year.

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c. The percentages referred to in the definitions of "Annual EPS Factor" and "Annual RONA Factor" may be adjusted by the Committee, in its sole discretion, to provide that such percentages

i. with respect to the chairman of the Board and chief executive officer of the Company may be up to two times the percentages stated in such definitions (subject to a maximum of 56.25% for each factor), and

ii. with respect to the president of the Company may be up to one and two-thirds times the percentages stated in such definitions (subject to a maximum of 31.25% for each factor).

d. Notwithstanding any other provision of the Plan, the maximum dollar amount of any Annual Award for any Participant for any Fiscal Year shall not exceed \$1,850,000.

Section 5. LONG-TERM AWARD.

a. Subject to the other provisions of the Plan, a Participant for a Long-Term Performance Period who is designated as such for an entire Long-Term Performance Period shall be entitled to a Long-Term Award for

such period. Subject to the other provisions of the Plan, a Participant for a Long-Term Performance Period who is designated as such for less than an entire Long-Term Performance Period shall be entitled to a reduced Long-Term Award for such period equal to the Long-Term Award for such period multiplied by a fraction, the numerator of which shall be the number of complete fiscal months between (i) the first day of the fiscal month in which occurs the date as of which the Participant was so designated and (ii) the end of such Long-Term Performance Period and the denominator of which shall be thirty-six.

b. The Long-Term Award otherwise payable pursuant to Section 5(a) of the Plan for a Long-Term Performance Period shall be adjusted by multiplying such Long-Term Award by a percentage equal to a fraction, the numerator of which shall be the Market Value of the Stock in February of the calendar year in which such Long-Term Performance Period ends and the denominator of which shall be the Market Value of the Stock in February of the calendar year in which such Long-Term Performance Period begins; provided, however, that such percentage shall in no event be greater than one hundred fifty percent nor less than seventy-five percent.

c. The percentages referred to in the definitions of "Long-Term EPS Factor" and "Long-Term RONA Factor" may be adjusted by the Committee, in its sole discretion, to provide that such percentages

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i. with respect to the chairman of the Board and chief executive officer of the Company may be up to two times the percentages stated in such definitions (subject to a maximum of 37.5% for each factor), and

ii. with respect to the president of the Company may be up to one and two-thirds times the percentages stated in such definitions (subject to a maximum of 31.25% for each factor).

d. Notwithstanding any other provision of the Plan, the maximum dollar amount of any Long-Term Award for any Participant for any Long-Term Performance Period shall not exceed \$1,500,000.

Section 6. ADJUSTMENTS.

a. Discretionary Adjustment of Awards. In the event that the Committee determines, in its absolute discretion, that an Annual Award or a Long-Term Award payable to a Participant in accordance with the other terms of the Plan should be adjusted, upwards or downwards, based on all the facts and circumstances known to the Committee at the time, then, the Committee may, in its sole and absolute discretion, increase or decrease any such Annual Award or Long-Term Award to such amount as it determines; provided, however, that the Committee may not adjust upwards any Annual Award or Long-Term Award of any Participant who is a "covered employee" (as defined in Section 162 (m) of the Code and the regulations thereunder) with respect to the particular performance period for which the Annual Award or Long-Term Award is being granted.

b. Adjustment for Relative Rank. A Participant's Annual EPS Factor, Annual RONA Factor, Long-Term EPS Factor and Long-Term RONA Factor shall be adjusted in the following manner based upon the number of competitors in the group of competitors used to determine the Company's Relative Performance Rank and the Company's Relative Performance Rank therein:

Number of Competitor Companies (not including the Company)

	16	15	14	13	12	11	10	9	8	7	6	5	4
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Factor will be no less than "Target" if the Company's rank is:	1st-4th	1st-4th	1st-4th	1st-4th	1st-3rd	1st-3rd	1st-3rd	1st-3rd	1st-2nd	1st-2nd	1st-2nd	1st-2nd	1st
Factor will be no less than "Threshold" if the Company's rank is:	5th-8th	5th-8th	5th-7th	5th-7th	4th-6th	4th-6th	4th-5th	4th-5th	3rd-4th	3rd-4th	3rd	3rd	2nd
Factor will be no higher than "Threshold" if the Company's rank is:	14th-17th	13th-16th	12th-15th	11th-14th	11th-13th	10th-12th	9th-11th	8th-10th	8th-9th	7th-8th	6th-7th	5th-6th	5th

</TABLE>

Section 7. ANNUAL AND LONG-TERM TARGETS. Threshold, target and maximum annual and long-term objectives with respect to EPS Growth and with respect to RONA shall be determined by the Committee as soon as practicable prior to the commencement of each Fiscal Year and each Long-Term Performance Period for each Participant or within the period permitted by applicable law. The Committee shall cause the respective objectives for each Participant to be provided to such Participant as soon thereafter as practicable. Such objectives shall remain in effect for the entire Fiscal Year or Long-Term Performance Period, as appropriate.

Section 8. PAYMENT OF AWARDS.

- a. Annual Awards for a Fiscal Year shall be payable in cash within three months after the close of such Fiscal Year or as soon thereafter as practicable.
- b. Long-Term Awards for a Long-Term Performance Period shall be payable in cash within three months after the close of such Long-Term Performance Period or as soon thereafter as practicable.
- c. A Participant may elect to defer all or a portion of an award by making such election under the Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan with respect to such award. Such election must be made not later than December 31 of the calendar year preceding the commencement of the Fiscal Year or Long-Term Performance Period, as appropriate.
- d. The Company shall have the right to deduct any sums that federal, state or local tax laws require to be withheld with respect to any payment of awards.
- e. Before any award is paid to a Participant who is a "covered employee" (as defined in Section 162(m) of the Code and the regulations thereunder), the Committee shall certify in writing that the material terms of the Plan have been satisfied.

Section 9. TERMINATION OF EMPLOYMENT.

- a. Death or Disability. In the event of either the death or Disability of the Participant while employed (a "Section 9(a) Event"), the Participant shall be entitled to the following:

- i. An Annual Award with respect to the Fiscal Year in which the Section 9(a) Event occurs equal to the Annual Award otherwise payable (if any) for that Fiscal Year, prorated to the end of the fiscal month in which such Section 9(a) Event occurs; and

- ii. A Long-Term Award with respect to each Long-Term Performance Period which includes the Fiscal Year of the Section 9(a) Event; provided, however, that for purposes of this Section 9(a) (ii) the Long-Term Award for any Long-Term Performance Period (1) shall be determined at the end of the Fiscal Year in which the Section 9(a) Event occurs, (2) shall be determined (and averages used in that determination shall be calculated) based only on the Fiscal Year and any preceding Fiscal Years otherwise included in the Long-Term Performance Period and (3) shall be prorated to the end of the fiscal month in which the Section 9(a) Event occurs.

- b. Retirement.

- i. In the event of the Retirement of the Participant with the written consent of the Company, such event shall be deemed to be a Section 9(a) Event, and the Participant shall be entitled to an Annual Award and to a Long-Term Award as provided in Section 9(a).

- ii. In the event of the Retirement of the Participant without the consent of the Company (a "Section 9(b) (ii) Event"), the Participant shall be entitled to the following:

(1) An Annual Award with respect to the Fiscal Year in which the Section 9(b)(ii) Event occurs equal to the Annual Award otherwise payable (if any) for the Fiscal Year, prorated to the end of the fiscal month in which the Section 9(b)(ii) Event occurs; and

(2) No Long-Term Award following the Section 9(b)(ii) Event. The Participant shall forfeit any right or entitlement to any award with respect to any Long-Term Performance Period which has not been completed on the date of the Section 9(b)(ii) Event. Any Long-Term Award for a period which ended prior to the Section 9(b)(ii) Event shall remain unaffected.

c. Termination of Employment.

i. In the event of the termination of employment of the Participant not covered by Sections 9(a) or 9(b) above which occurs at the end of the term of the Participant's then-current written employment agreement (if

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any) with the Company or Subsidiary, or in the event of such a termination of a Participant who has no current written employment agreement with the Company or Subsidiary, such event shall be deemed to be a Section 9(b)(ii) Event, and the Participant shall be entitled to an Annual Award (but not to a Long-Term Award) as provided in Section 9(b)(ii).

ii. In the event of the termination of employment of the Participant not covered by Sections 9(a) or 9(b) above before the end of the term of the Participant's then-current written employment agreement (if any) with the Company or Subsidiary, with the written consent of the Company (a "Section 9(c)(ii) Event"), the Participant shall be entitled to the following:

(1) An Annual Award with respect to the Fiscal Year in which the Section 9(c)(ii) Event occurs equal to the actual award otherwise payable for the Fiscal Year (if any); provided, however, that in the event that the term of the Participant's then-current employment agreement is due to expire during that Fiscal Year, then the Annual Award shall be prorated to the end of the fiscal month in which such term is due to expire; and

(2) A Long-Term Award with respect to each Long-Term Performance Period which includes the Fiscal Year of the 9(c)(ii) Event equal to the Long-Term Award otherwise payable with respect to each Long-Term Performance Period; provided, however, that in the event that the term of the Participant's then-current employment agreement (if any) with the Company is otherwise due to expire during any such period, then the Long-Term Award with respect to such period shall be prorated to the end of the calendar month in which such term is due to expire.

iii. In the event of the termination of employment of the Participant not otherwise covered by this Section 9 before the end of the term of the then-current written employment agreement (if any) with the Company or Subsidiary, without the written consent of the Company, the Participant shall not be entitled to any Annual Award or to any Long-Term Award with respect to any Fiscal Year or Long-Term Performance Period which has not been completed as of the date of such termination of employment. The Participant shall forfeit any right or interest in any award for any such Fiscal Year or Long-Term Performance Period. Annual Awards and Long-Term Awards with respect to Fiscal Years and Long-Term Performance Periods which ended prior to the date of such termination of employment shall remain unaffected.

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d. For purposes of this Section 9, the term "written consent of the Company" shall refer to an express written consent of the Company, duly executed by the Company, which, by its own terms, expressly refers to this Section 9 of the Plan.

Section 10. CHANGES IN RESPONSIBILITIES. In the event that (i) the duties of a Participant change and the Participant becomes eligible to participate in another bonus plan of the Company, or (ii) the duties of an employee who is a participant in another bonus plan of the Company change and the employee is newly designated by the Committee as a Participant in this Plan, then the maximum amount that such Participant would be entitled to receive under the Plan shall be

a. the Annual Award determined in accordance with the provisions of the Plan with respect to the entire Fiscal Year in which such event occurred; and

b. a Long-Term Award with respect to each Long-Term Performance Period which has commenced at the time of the event, determined in accordance with the provisions of the Plan,

subject, in all events, to the Committee's right to adjust such awards in accordance with and subject to the restrictions set forth in Section 6(a), in its absolute discretion, which may be exercised in such a way that the Committee deems fair and equitable based on the performance of Participant while participating in the other bonus plan of the Company.

Section 11. RIGHTS OF PARTICIPANTS AND BENEFICIARIES.

a. Nothing contained in the Plan shall confer upon any Participant any right to continue in the employ of the Company or constitute any contract or agreement of employment or interfere in any way with the right of the Company to terminate or change the conditions of employment.

b. The Company shall pay all amounts payable hereunder only to the Participant or his or her personal representatives. In the event of the death of a Participant, payments of all amounts otherwise due to the Participant under the Plan shall be made to the Participant's beneficiary at the time of death under the Company Paid Life Plan of Payless ShoeSource, Inc. or to such other beneficiary as the Participant shall have designated, in writing, for purposes of this Plan on a form provided by the Company.

c. Subject to the provisions of Section 11(d), rights to payments under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt to do so shall be void; nor shall any such amounts be in any manner liable for or subject to the

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debts, contracts, liabilities, engagements or torts of the Participant or his or her beneficiaries.

d. Nothing in this Section 11 shall prohibit the personal representatives of a Participant from designating that any amount that would otherwise be distributed to the Participant's estate should be distributed in accordance with the terms of the Participant's last will and testament or pursuant to the laws of descent and distribution.

Section 12. UNFUNDED CHARACTER OF THE PLAN. The right of a Participant to receive any Annual Award or Long-Term Award hereunder shall be an unsecured claim against the general assets of the Company. Nothing in the Plan shall require the Company to invest any amounts in Stock or in any other medium.

Section 13. CHANGES IN CAPITAL STRUCTURE. In the event that there is any change in the Stock through merger, consolidation, reorganization, recapitalization, spin-off or otherwise, or if there shall be any dividend on the Stock, payable in such Stock, or if there shall be a stock split or combination of shares, then the fraction provided for in Section 5(b) of the Plan shall be adjusted by the Committee as it deems desirable, in its absolute discretion, to prevent dilution or enlargement of the rights of Participants. The issuance of Stock for consideration and the issuance of Stock rights shall not be considered a change in the Company's capital structure.

Section 14. AMENDMENT OR TERMINATION. The Committee may, by resolution, amend or terminate the Plan at any time. Any amendment necessary to bring the

Plan into compliance with Section 162(m) of the Code and any regulations thereunder shall not require shareowner approval and the effectiveness of such amendment shall be as of the effective date of the provision in Section 162(m) of the Code or regulations thereunder giving rise to the amendment. However, (i) shareowner approval shall be sought for any changes to the Plan which would require shareowner approval under Section 162(m) of the Code and (ii) except as provided in the preceding sentence, the Committee may not, without the consent of the Participant, amend or terminate the Plan in such a manner as to affect adversely any Annual Award or Long-Term Award which would have been payable, based on the terms of the Plan immediately prior to any such amendment or termination, for any Fiscal Year or Long-Term Performance Period which has already commenced as of the effective date of the amendment or termination.

PAYLESS SHOESOURCE, INC.
PROFIT SHARING PLAN
FOR PUERTO RICO ASSOCIATES

Amended and Restated Effective March 20, 2000 or as otherwise specified.

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PAYLESS SHOESOURCE, INC.
PROFIT SHARING PLAN FOR PUERTO RICO ASSOCIATES

INTRODUCTION

Effective April 1, 1996, Payless ShoeSource, Inc. ("Payless") withdrew from and ceased to be a participating Employer in The May Department Stores Company Profit Sharing Plan (the "May Plan") and established the Payless ShoeSource, Inc. Profit Sharing Plan (the "Payless Plan"). The Payless Plan, as adopted, covered eligible Associates employed in Puerto Rico by Payless ShoeSource of Puerto Rico, Inc. ("Payless PR"). Effective January 1, 1997, a portion of the Payless Plan covering Associates employed by Payless PR was spun off and established a new plan, Payless ShoeSource, Inc. Profit Sharing Plan for Puerto Rico Associates (the "Plan"), which was adopted by Payless PR as an adopting Employer.

Now, effective March 20, 2000, or as otherwise specified, Payless is amending and restating the Plan primarily to include provisions for loans, the acceptance of rollover contributions from other qualified plans, a change to daily valuation, other miscellaneous changes and to comply with the tax laws of Puerto Rico. Such amendment and restatement applies only to Associates or former Associates who were employed by an Employer on or after the effective date(s) of the respective amended provisions, and the rights and benefits of persons thereunder are to be determined solely in accordance with the provisions of the Plan in effect on the date an Associate's employment was or is terminated. Notwithstanding the preceding sentence, the change in valuation date shall be effective for all Associates and former Associates, without regard to employment after the effective date.

The terms and provisions of this new Plan are as follows:

SECTION 1

DEFINITIONS

1.01 ACCOUNTS means the Company Accounts and Member Accounts established under Section 6.

1.02 ADMINISTRATIVE DELEGATE means one or more persons or institutions to which the Committee has delegated certain administrative functions pursuant to a written agreement.

1.03 AFTER-TAX CONTRIBUTIONS means Member Contributions which are not Before-Tax Contributions and which are made by the Member in accordance with Section 4.01(a).

1.04 ALLOCATION PAY AMOUNT means with respect to each eligible Member, (a) one (1) times the amount of Pay as defined in Section 1.33 up to the Social Security Wage Base ("SSWB") for the Plan Year, plus (b) two (2) times the amount of such Pay in excess of the SSWB for the Plan Year. Notwithstanding any provision of this Section 1.04 or of Section 3.03 to the contrary, in no event shall the percentage of Members' Pay to be allocated for any year below the SSWB be less than fifty percent (50%) of the percentage of Pay allocated with respect to Members' Pay in excess of the SSWB, nor may the latter percentage of Pay (above the SSWB) exceed the former percentage of Pay (below the SSWB) by more than 5.7% (or such other percentage as may be the maximum permitted differential under US Code Section 401(1) from time to time).

In determining each eligible Member's Allocation Pay Amount, only Pay received during the part of the Plan Year the Member is eligible for the Company Contribution feature of the Plan, pursuant to Section 2, shall be considered, and the SSWB to be applied for such Member shall be proportionally prorated if such eligibility is for less than a full Plan Year.

Notwithstanding the foregoing, with respect to any Plan Year for which applying the definition of Allocation Pay Amount set forth above would cause the allocation made pursuant to Section 3.03 to violate the permitted disparity limitations of US Treas. Reg. Section 1.401(l)-2, Allocation Pay Amount shall be adjusted to permit Section 3.03 to operate in compliance with the limitations of US Treas. Reg. Section 1.401(l)-2.

1.05 ASSOCIATE means any person employed by Payless PR who receives Pay from Payless PR. The term Associate also may include, based upon the express written determination of the Company or the Committee, a person who receives Pay from sources within Puerto Rico and who is employed, at the request of the Company or the Employer, by a member of the Group (defined in Section 1.21) to the extent such employee otherwise qualifies for membership under Section 2, in which case such Group member shall be

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deemed to be an "Employer" hereunder, as to such person or persons only. The term "Associate" shall not include (i) any person covered under a collective bargaining agreement unless and until the Employer and the collective bargaining representatives so agree, (ii) any non-resident alien who received no earned income from the Employer from sources within Puerto Rico, and (iii) any "leased employee" within the meaning of US Code Section 414(n)(2). The term "Associate" may include, where appropriate, Associates of Payless or other related Employers who are transferred to the Employer or as otherwise may be necessary or appropriate in construing the Plan under applicable law. In the event that an individual who was not classified as an employee or a common-law employee is legally reclassified as an employee or a common-law employee of the Employer, such employee shall only be considered to be an employee at the time of such reclassification, or, if later, at the time that such individual is initially treated as an employee or common-law employee on the payroll records of the Company.

1.06 AUTHORIZED LEAVE OF ABSENCE means any leave of absence authorized by the Employer under rules established by the Employer.

1.07 BEFORE-TAX CONTRIBUTIONS means contributions which the Member elects (in accordance with Section 4.01(b)) to have the Employer make directly to the Plan on behalf of the Member, which election shall constitute an election under PR Code Section 1165(e)(2)(A). The "Member's Before-Tax Contributions" shall refer to Before-Tax Contributions made to the Plan by the Employer on behalf of the Member.

1.08 BENEFICIARY means the person or persons entitled under Section 9.02 to receive any payments payable under this Plan on account of a Member's death.

1.09 BOARD means the Board of Directors of the Company.

1.10 US CODE means the U.S. Internal Revenue Code of 1986, as amended from time to time.

1.11 COMMITTEE means the Profit Sharing Committee comprised of three or more members as determined and appointed from time to time by the Board. Unless determined otherwise by the Board, the Committee shall constitute the Profit Sharing Committee of the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan from time to time.

1.12 COMPANY OR PAYLESS means Payless ShoeSource, Inc., a Delaware corporation, and any other organization which may be a successor to it.

1.13 COMPANY ACCOUNTS means accounts reflecting the portion of each Member's interest in the Investment Funds which are attributable to Company Matching Contributions ("Company Matching Accounts") and to Company Profit Sharing Contributions ("Company Profit Sharing Accounts") and to any contributions made by an

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Employer under Prior Plans, as well as to any income and/or earnings attributable to such Company Contributions and Prior Plan contributions.

1.14 COMPANY MATCHING CONTRIBUTIONS means contributions made by the Company, based on a Member's Before-Tax and/or After-Tax Contributions, pursuant to Section 3.02.

1.15 COMPANY PROFIT SHARING CONTRIBUTIONS means discretionary contributions made by the Company, based on Net Profits, pursuant to Section 3.01.

1.16 EFFECTIVE DATE means March 20, 2000 or as otherwise specified herein.

1.17 EMPLOYER OR PAYLESS PR means Payless ShoeSource of Puerto Rico, Inc. and any other entity affiliated with the Company which elects, with the consent of the Company, to participate herein.

1.18 ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time, to the extent applicable to the Plan.

1.19 FIDUCIARY means the Employer, the Trustee, each of the members of the Committee described in Section 14, and any investment manager designated pursuant to Section 15.

1.20 FISCAL YEAR means the Company's Fiscal Year.

1.21 GROUP means the Company, the Employer, and any other company which is related to the Company or Employer as a member of a controlled group of corporations in accordance with ERISA Section 210(c), or as a trade or business under common control in accordance with ERISA Section 210(d). For the purposes of the Plan, for determining whether or not a person is an employee of the Group and the period of employment of such person, each such other company shall be included in the "Group" only for such period or periods during which such other company is a member with the Company or Employer of a controlled group or under common control. In determining Hours of Service, Years of Service and Vesting Service for all purposes hereunder, employment with any member of the Group shall be included. Members of an affiliated service group under US Code Section 414(m) will also be part of the Group.

1.22 HOUR OF SERVICE means any hour for which an Associate (including a leased employee) is directly or indirectly compensated, or entitled to compensation, by the Company, the Employer or any other member of the Group, whether or not such Group member has adopted the Plan, for any of the following:

(a) the performance of duties during the applicable computation period;

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(b) a period during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, Military Service, or Authorized Leave of Absence;

(c) a period for which back pay is awarded or agreed to, provided that no Hour of Service has been credited under subsection (a) or (b) with respect to the same period.

Hours of Service and applicable computation periods shall be determined in accordance with the requirements of 29 C.F.R. Section 2530.200b.

1.23 INVESTMENT FUND means any fund for investment of contributions as described in Section 5.01.

1.24 MAY PLAN means The May Department Stores Company Profit Sharing Plan.

1.25 MEMBER means any person included in the membership of this Plan as provided in Section 2.

1.26 MEMBER ACCOUNTS means the Member Before-Tax Accounts, the Member After-Tax Accounts and the Member Rollover Contribution Accounts. To the extent an Associate makes a Rollover Contribution pursuant to Section 11.02 and the Associate is otherwise eligible but has not yet completed the participation requirements of Section 2.01, such contribution shall also be a Member Account.

1.27 MEMBER AFTER-TAX ACCOUNTS means the Member Accounts with respect to a Member's After-Tax Contributions.

1.28 MEMBER BEFORE-TAX ACCOUNTS means the Member Accounts with respect to a Member's Before-Tax Contributions.

1.29 MEMBER CONTRIBUTIONS means the Member's Before-Tax Contributions and After-Tax Contributions.

1.30 MEMBER ROLLOVER CONTRIBUTION ACCOUNTS means the Member Accounts with respect to an Associate's or Member's Rollover Contributions.

1.31 MILITARY SERVICE means effective December 13, 1996, any period of obligatory military service with the Armed Forces of the United States of America, or voluntary service in lieu of such obligatory service, provided that the Associate returns to active employment with the Employer within the period during which the Employer would be required to re-employ the Associate under Federal law. Notwithstanding any provision

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of this Plan to the contrary, contributions, benefits and service credit with respect to qualified Military Service will be provided in accordance with the Uniform Services Employment and Reemployment Rights Act and US Code Section 414(u).

1.32 NET PROFITS means the consolidated net profits of the Company for any given Fiscal Year, determined by generally accepted accounting

principles except that (i) no deduction or provision shall be made for any federal, state or other taxes measured by net income nor for any contributions to the Trust or to any other pension or profit sharing plan, and (ii) there shall be excluded any proceeds from life insurance of which the Company or the Employer is beneficiary (whether paid in a single sum or otherwise) and any gains or losses on the sale of capital assets. Such term shall also mean any accumulated and undistributed Net Profits (as defined in the preceding sentence) earned in prior Fiscal Years to the extent that such accumulated and undistributed Net Profits constitute surplus of the Company and its subsidiaries available for contributions hereunder.

1.33 PAY means the aggregate of (i) all regular pay, commissions, overtime pay, cash incentives, and prizes and cash awards, plus (ii) amounts which the Associate elects to have the Employer contribute directly to the Plan on the Associate's behalf in accordance with Section 4.01(b). Pay shall include any amounts not otherwise includable in the Member's taxable income pursuant to US Code Section 125. Pay shall not include amounts for a pension, a retirement allowance, a retainer or a fee under contract, deferred compensation (including amounts deferred under the Deferred Compensation Plan of Payless ShoeSource, Inc.), severance pay, distributions from this Plan or items of extraordinary income including but not limited to amounts resulting from the exercise of stock options, spinoff cash, spinoff stock and restricted stock awards. Pay in excess of \$170,000 shall be disregarded, although such amount shall be adjusted at the same time and in such manner as permitted under US Code Section 415(d).

1.34 POOLED INVESTMENT ACCOUNT means an account established pursuant to an administrative services agreement between the Company and the Trustee.

1.35 PLAN means this Payless ShoeSource, Inc. Profit Sharing Plan for Puerto Rico Associates, as amended from time to time.

1.36 PLAN YEAR means a calendar year ending each December 31.

1.37 PR CODE means the Puerto Rico Internal Revenue Code of 1994, as amended from time to time.

1.38 PRIOR PLAN means The May Department Stores Company Profit Sharing Plan, the Volume Shoe Corporation Profit Sharing Plan, the Payless ShoeSource, Inc. Profit Sharing Plan and such other qualified plan as may be so designated by the Committee.

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1.39 QUALIFIED DOMESTIC RELATIONS ORDER means a "qualified domestic relations order" as that term is defined in ERISA Section 206(d) (3), provided that such order was entered on or after January 1, 1985.

1.40 RETIREMENT means a Member's termination of employment on or after age 55 and after completing at least five (5) Years of Service or attaining the fifth anniversary of participation, as of which date the Member's benefit shall be nonforfeitable.

1.41 ROLLOVER CONTRIBUTIONS means contributions which the Associate or Member, as applicable, elects to make in accordance with Section 11.02.

1.42 SOCIAL SECURITY WAGE BASE means, with respect to each Plan Year, the maximum amount of wages which are subject to tax in such year under the Federal Old Age, Survivors and Disability Insurance System.

1.43 TOTAL AND PERMANENT DISABILITY or DISABILITY means the total incapacity of a Member for the continued performance of regular active employment with an Employer, which disability is expected to be permanent, as determined by the Committee, provided that a Member shall not be considered totally and permanently disabled for purposes of this Plan unless he qualifies for disability benefits under Title 11 of the Federal Social Security Act.

1.44 TRANSFERRED ACCOUNTS means Member and Company Accounts transferred from a Prior Plan.

1.45 TRUST AGREEMENT means the agreement or agreements provided for in Section 14, as amended from time to time.

1.46 TRUST FUND means all the assets of the Investment Funds, including assets transferred from a Prior Plan, which are held in one or more trusts by the Trustee or Trustees for the purposes of this Plan.

1.47 TRUSTEE means the corporation(s), person or persons which may at any time be acting as Trustee or Trustees under the Trust Agreement.

1.48 UNIT means one of the units representing an interest in an Investment Fund as provided in Section 6.03.

1.49 UNIT VALUE means the value of each Unit in an Investment Fund as of the Valuation Date as determined pursuant to Section 6.04.

1.50 VALUATION DATE means any day that the New York Stock Exchange is open for business or any other date chosen by the Committee. Prior to March 31, 2000,

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Valuation Date means the last business day of each calendar month and any other date chosen to perform a valuation.

1.51 YEAR OF SERVICE for purposes of determining eligibility under Section 2 means a year of employment during which the Associate has been paid for not less than 1,000 Hours of Service for an Employer or any other member of the Group. An Associate shall be credited with a year of employment on each anniversary date of his commencement of employment with an Employer. Periods of temporary illness, temporary layoff, Military Service, and Authorized Leaves of Absence shall not be deemed as breaking continuity of employment and shall be counted in determining Years of Service. The term "Year of Service" shall also include an employment year during which, except to the extent otherwise provided in the US Treasury Regulations, a "leased employee" within the meaning of US Code Section 414(n) has been paid for not less than 1,000 Hours of Service for the Employer even though during such period the leased employee was not an Associate as defined in Section 1.05. The term "Year of Service" shall include any period required to be included by the Family and Medical Leave Act of 1993.

The extent to which service with another organization, part or all of whose business operations are acquired by the Company (or by an Employer), shall be credited as "Years of Service" hereunder or as "Vesting Service" under Section 1.52 shall be determined by the Company or by the Committee on a case-by-case basis.

1.52 VESTING SERVICE for purposes of determining a Member's vested interest under Section 6.07 is based on "elapsed time" and is to be determined in accordance with the following definitions:

(a) "EMPLOYMENT COMMENCEMENT DATE" means the date upon which an Associate first performs an Hour of Service.

(b) "HOUR OF SERVICE" means an hour for which an Associate is paid or entitled to payment for the performance of duties for the Employer or any other member of the Group.

(c) "PERIOD OF SERVICE" means a period beginning on the Associate's Employment Commencement Date (or Reemployment Commencement Date, as the case may be) and ending on his Severance from Service Date.

(d) "SEVERANCE FROM SERVICE DATE" means the earlier to occur

of:

(i) the last date upon which an Associate terminates employment with the Employer or any other member of the Group (either voluntarily or involuntarily), retires or dies; or

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(ii) the first anniversary of the date upon which the Associate was first absent from service with the Employer (with or without pay) for any other reason (i.e., vacation, sickness, disability, leave of absence or layoff).

Notwithstanding the foregoing, the Severance from Service Date of an Associate who is absent from service with the Employer beyond the first anniversary of the first day of such absence on account of maternity or paternity (as described in ERISA Sections 202(b)(5)(A) or 203(b)(3)(E)) shall be the second anniversary of the first day of such absence; and the period of time between such first and second anniversaries shall not be treated as a Period of Service or as a Period of Severance.

(e) "PERIOD OF SEVERANCE" means a period beginning on an Associate's Severance from Service Date and ending upon the Associate's Reemployment Commencement Date.

(f) "REEMPLOYMENT COMMENCEMENT DATE" means the first date, following a Severance from Service Date, upon which the Associate performs an Hour of Service for the Employer or any other member of the Group.

(g) "SERVICE SPANNING RULES" In determining whether or not an Associate has completed a twelve month Period of Service for purposes of vesting, the following Periods of Severance shall be treated as Periods of Service:

(i) If an Associate terminates employment with the Employer (either voluntarily or involuntarily) or retires, and then performs an Hour of Service within the twelve month period beginning on the Severance from Service Date, such Period of Severance shall be treated as a Period of Service; and

(ii) If an Associate terminates employment with the Employer (either voluntarily or involuntarily) or retires during an absence from service of twelve months or less for any reason other than a termination or retirement, and then performs an Hour of Service within a period of twelve months from the date the Employee was first absent from service, the Period of Severance shall be treated as a Period of Service.

SECTION 2

MEMBERSHIP

2.01 CONDITIONS OF ELIGIBILITY.

(a) Each Associate who on March 19, 2000, was a Member of or is eligible to be a Member of the Plan shall continue to be a Member of the Plan entitled to

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make Member Contributions pursuant to Section 4 and eligible to share in Company Contributions pursuant to Section 3.

(b) Each other Associate shall be eligible to become a Member of the Plan when the Associate has completed one Year of Service and

attained age 21, with membership to commence as of the first day of the month coincident with or following the date he has met these eligibility requirements. Such Associate shall be eligible:

(i) to make Member Contributions pursuant to Section 4;

(ii) to share in Company Matching Contributions pursuant to Section 3.02;

(iii) to share in Company Profit Sharing Contributions, if any, pursuant to Section 3.01.

(c) Each Member shall be deemed to have elected to make a three percent (3%) Before-Tax Contribution pursuant to Section 4.01(b), commencing with the paycheck issued with respect to the first payroll period beginning on or after the first day of the month coincident with or following the date he met the foregoing eligibility requirements. Notwithstanding this "deemed" election, an Associate or Member may elect pursuant to procedures established by the Committee to not make, or to suspend making, said three percent (3%) automatic Before-Tax Contribution, or pursuant to Section 4.01(a) or (b) to make an After-Tax or a Before-Tax Contribution of an amount other than three percent (3%).

(d) All Years of Service with an Employer including the Company and Years of Service with The May Department Stores Company ("May") while the Employer was part of the Group which included May are counted toward eligibility, provided that, if an Associate has a 1-year break in service before a Year of Service, service with an Employer or May before such break will not be taken into account. For the purposes of this Section 2.01, "break in service" means a 12 consecutive month employment year as used in Section 1.51 during which the Associate does not complete more than 500 Hours of Service with the Employer, and/or May while part of the Group.

(e) Only Associates employed by the Company's Puerto Rican subsidiaries are eligible for membership hereunder. Any other Associate who has Accounts in this Plan, such Accounts shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04.

2.02 RE-EMPLOYMENT. A former Member who has retired or has otherwise terminated employment and is rehired shall become a Member on the first day of the calendar month coinciding with or next following the date of his rehire.

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SECTION 3

COMPANY CONTRIBUTIONS

3.01 AMOUNT OF COMPANY PROFIT SHARING CONTRIBUTION. The Company or an Employer may contribute to the Trust, as of the end of each Plan Year, a percentage of the Company's Net Profits as a Company Profit Sharing Contribution. The amount of such contribution, if any, shall be determined by the Board of Directors in its discretion. Any such contribution shall be made as soon as practicable after the close of the Company's Fiscal Year. All such contributions advanced to the Plan by the Company shall be reimbursed to the Company by the Employer.

3.02 AMOUNT OF COMPANY MATCHING CONTRIBUTION. The Company, in its discretion, shall contribute to the Trust, as of the end of each Plan Year, such that the amount contributed to this Plan and to the Payless ShoeSource, Inc. Profit Sharing Plan shall be equal to 2 1/2% of Net Profits, until determined otherwise by the Board of Directors, in the form of a Company Matching Contribution. The total amount of such contribution shall be allocated in proportion to the amount that each Member's Contributions under Sections 4.01(a) and (b), up to a total of 5% of such Member's Pay for a Plan Year, bears to the total amount of all Member Contributions up to 5% of such Members' Pay for a Plan Year. Such Company Matching Contribution shall be determined and paid to

the Trustee as soon as practicable after the close of each Fiscal Year and shall be reimbursed to the Company by the Employer when paid.

3.03 ALLOCATION OF COMPANY CONTRIBUTIONS. The Company Contributions shall be allocated only to the Company Accounts of Members who are employed by the Employer on the last day of the Plan Year and on behalf of Members whose employment has terminated during the Plan Year by reason of Retirement, death or Disability. Company Profit Sharing Contributions shall be credited to eligible Members' Company Profit Sharing Contribution Accounts. Company Profit Sharing Contributions allocated prior to or as of July 31, 1997 shall be fully vested; Company Profit Sharing Contributions allocated thereafter shall be subject to the vesting provisions of Section 6.07. Company Matching Contributions shall be subject to the vesting provisions of Section 6.07 and to the withdrawal penalty provisions of Section 8.02(a). No Company Matching Contribution shall be made with respect to a Member Before-Tax Contribution in excess of the PR Code Section 1165(e)(7)(A) limit, as referred to in Section 4.01(h) and as revised from time to time.

3.04 PROFIT SHARING ALLOCATION FORMULA. The Company Profit Sharing Contribution, if any, shall be allocated to all Members eligible to share in the contribution according to the ratio that each Member's Allocation Pay Amount for the Plan Year bears to the total Allocation Pay Amount for all eligible Members for the Plan Year. For this purpose the term "eligible Members" includes Members in both the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan and this Plan.

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3.05 INVESTMENT OF THE COMPANY CONTRIBUTION. The amounts allocated to each Member pursuant to Section 3.03 shall be credited to his Company Accounts and invested in one or more of the Investment Funds described in Section 5.01 and in the percentages designated by the Member in the investment election filed pursuant to Section 5.02 effective at the time the amount is allocated.

3.06 RETURN OF COMPANY CONTRIBUTIONS.

(a) If, after the Company Contribution has been made and allocated, it should appear that, through oversight or a mistake of fact or law, a Member (or an Associate who should have been considered a Member) who should have been entitled to share in such contribution, receives no allocation or received an allocation which was less than he should have received, the Company may, at its election and in lieu of reallocating such contribution, make a special make-up contribution for the Company Account of such Member in an amount sufficient to provide for him the same addition to his Company Account as he should have received. Similarly, if a Member received an allocation which was more than he should have received (or a Member was inappropriately included in the Plan), the Company, at its election, may reallocate such contribution, offset other Company contributions against such allocation, or use such allocation to pay Plan expenses.

(b) To the extent permitted by ERISA, each contribution made to the Trust shall be made on the condition that it is currently deductible by the Employer under PR Code Section 1023(A) for the taxable year with respect to which the contribution is made. If a contribution subsequently is determined, whether in whole or in part, not to be currently deductible as provided in the preceding sentence, then, within one year of the date of disallowance of the deduction of such Company Contribution, an amount equal to the disallowed deduction shall be returned to the Company and/or Employer, as applicable.

(c) Earnings attributable to a contribution that is returned pursuant to Subsection (a) or (b) above shall not be withdrawn, but losses attributable thereto shall reduce the amount returned to the Company and/or Employer.

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SECTION 4

MEMBER CONTRIBUTIONS

4.01 PROCEDURE FOR MAKING CONTRIBUTIONS.

(a) AFTER-TAX CONTRIBUTIONS. Subject to any limitations set forth in the PR Code from time to time, each Member may designate, pursuant to procedures established by the Company, and contribute to the Plan an amount equal to not less than 1% nor more than 15% (in whole percentage points) of his Pay as he shall have designated pursuant to procedures established by the Company (which may establish lower permissible After-Tax Contributions for Highly Compensated Employees); provided, however, that a Member shall not contribute, or elect to have contributed on his behalf, amounts with respect to Pay received by him after the close of the calendar year during which his employment terminated and further provided that any Before-Tax Contributions made on behalf of the Member shall reduce by the percentage which he elects to have contributed pursuant to Section 4.01(b)(i), the percentage of Pay that the Member may contribute pursuant to this Section 4.01(a). Notwithstanding any provision in the Plan to the contrary, in no event may After-Tax Contributions exceed 10% of the Members accumulated Pay since he or she became a Member in the Plan without taking into consideration any Member's After-Tax Contribution subject to Company Matching Contributions.

(b) BEFORE-TAX CONTRIBUTIONS.

(i) Subject to the limitations set forth below, each Member may elect that his Employer shall contribute directly to the Trust Fund an amount equal to a whole percentage of his Pay, not less than 1% nor greater than such percentage as may be determined from time to time by the Company which amount shall be his Before-Tax Contribution. The maximum Before-Tax Contribution by a Member who is determined to be a Highly Compensated Employee under Section 4.02, for the Plan Year in question, may be further restricted or limited by the Company or the Committee from time to time.

(ii) Pursuant to Section 2.01(c), each eligible Member shall be deemed to have elected to make a three percent (3%) Before-Tax Contribution, unless the Member elects otherwise in accordance with procedures established by the Committee.

(c) Notwithstanding any election in accordance with Section 4.01 (b), if the Committee at any time determines that all or any portion of the Member's Before-Tax Contributions should be treated as After-Tax Contributions in order for the Before-Tax Contribution provisions of the Plan to qualify as a "qualified cash or deferred

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arrangement" for purposes of Section 1165(e) of the PR Code, or if the Actual Deferral Percentage standards set forth in the PR Code are not met at the end of the Plan Year; then the Committee, in its sole and absolute discretion, (i) may, in accordance with Section 4.02(b) below, limit the amount which shall be contributed by the Employer as Before-Tax Contributions after the date of such determination on behalf of all or any portion of the Members and (ii) shall distribute any excess Before-Tax Contributions made with respect to the Plan Year to the affected Members as soon as practicable after the end of the Plan Year.

(d) The Employer shall (i) deduct a Member's After-Tax Contributions from the Pay of the Member in such installments as the Employer may deem appropriate, (ii) contribute a Member's Before-Tax Contributions on behalf of the Member, and (iii) reduce the Pay that is paid to the Member

directly in cash by an amount equal to the Member's Before-Tax Contributions in such installments as the Employer shall deem appropriate. The amounts so deducted and so contributed shall be paid by the Employer to the Trustee not later than 15 days following the end of the month with respect to which such amounts are to be so deducted and contributed or within such shorter period of time as may be designated under the Code, ERISA or related regulations. The Employer may, from time to time, make estimated contribution payments to the Trustee during each month.

(e) Effective with the paycheck issued with respect to the first payroll period beginning in any calendar month, or as of such other effective time as may be determined by the Committee, a Member may elect to change the rate of his After-Tax Contributions to any other rate permitted by Subsection (a) of this Section 4.01 and may elect to change the amount to be contributed by the Employer directly to the Trust Fund as Before-Tax Contributions to an amount equal to an amount permitted by Subsection (b) of this Section 4.01 with respect to such contributions to be made after the effective date of the election, pursuant to procedures established by the Committee.

(f) Not later than 15 days prior to the beginning of a payroll period of a Member, or not later than such other date as may be determined by the Committee, such Member may elect, pursuant to procedures established by the Committee, (i) to suspend making After-Tax Contributions and (ii) that the Employer should suspend making Before-Tax Contributions on his behalf, all as of the beginning of such payroll period. Not later than 15 days prior to the beginning of a payroll period of a Member, or not later than such other date as may be determined by the Committee, such Member may elect (i) to resume making After-Tax Contributions and (ii) that the Employer shall resume making Before-Tax Contributions on his behalf, by indicating any amount of contributions permitted under Subsection (a) and designating an amount equal to any amount of Pay as Before-Tax Contributions that is permitted under Subsection (b) hereof.

(g) Contributions pursuant to this Section 4.01 shall be credited to Member Accounts.

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(h) Notwithstanding any election in accordance with paragraph (b) of this Section 4.01, the total amount of a Member's Before-Tax Contributions for any calendar year shall not exceed \$8,000 or 10% of the Member's annual Pay or such other amount as may be adjusted from time to time under applicable Puerto Rico law (the "Deferral Limit"). In addition, Before-Tax Contributions by a Member will be further limited by contributions to an individual retirement account as described in PR Code Section 1169. If a Member reaches the Deferral Limit, the Committee can direct that all or any portion of such Member's Contributions during such year shall be After-Tax Contributions regardless of such Member's elections pursuant to Sections 4.01(a) and 4.01(b).

(i) As of April 1, 2000, all then currently existing flat dollar Member Contributions shall be converted to Member Contributions based on 1% increments calculated by dividing such flat dollar amount by the Member's Pay for the prior year and rounding the product to the nearest whole percent; provided, that no flat dollar contribution shall be converted to a percent contribution of less than 1%.

(j) Notwithstanding this Section 4.01, effective March 20, 2000, during the black out period as determined by the Committee and the Trustee established to change to daily valuation or a change in recordkeepers, no contribution rate changes or suspensions may be made by a Member except as provided by the Committee.

4.02 LIMITATIONS ON BEFORE-TAX CONTRIBUTIONS.

(a) Notwithstanding the foregoing provisions of this Section 4, the Committee shall limit the amount of Before-Tax Contributions made on behalf of each "Highly Compensated Employee" (as hereinafter defined) to the

extent necessary to ensure that either of the following tests is satisfied:

(i) The "Actual Deferral Percentage" (as hereinafter defined) of the group of eligible Highly Compensated Employees for the Plan Year is not more than the Actual Deferral Percentage of all other eligible Associates ("non-Highly Compensated Employees") multiplied by 1.25; or

(ii) The excess of the Actual Deferral Percentage for the group of eligible Highly Compensated Employees over that of all other eligible Associates for the Plan Year is not more than two percentage points, and the Actual Deferral Percentage for the group of eligible Highly Compensated Employees for the Plan Year is not more than the Actual Deferral Percentage of all other eligible Associates multiplied by 2.0.

(iii) To the extent permitted by the Act, the Actual Deferral Percentage for non-Highly Compensated Employees used in satisfying the tests set

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forth in (i) and/or (ii) above may be, for any Plan Year, the Actual Deferral Percentage for non-Highly Compensated Employees for the immediately preceding Plan Year, as determined by the Company in the manner permitted by law.

For the purposes of this Section 4.02, Section 4.04 and Section 4.05, "eligible" means eligible to be a Member of this Plan pursuant to Section 2.01(b)(1).

For purposes of Sections 4.02, 4.04 and 4.05, the term "Highly Compensated Employee" shall mean any employee whose Pay is greater than the Pay of two-thirds of all eligible employees, taking into account only Pay which is considered for the purpose of Section 4.01. To the extent permitted by the PR Code and its regulations, the Committee may elect to include all other non-eligible employees for the purposes of determining compliance by the Plan with the actual deferral percentage test of PR Code Section 1165.

For purposes of this Section 4.02, the term "Actual Deferral Percentage" shall mean, for a specified group of Associates for a Plan Year, the average of the ratios (calculated separately for each person in such group) of

(i) The aggregate of the Before-Tax Contributions (and such other contributions which, in accordance with applicable rules and regulations promulgated under the PR Code, may be aggregated with such Before-Tax Contributions for purposes of demonstrating compliance with the requirements of the PR Code) which are actually payable to the Trust on behalf of each such Associate, to

(ii) Such Associate's Pay for such Plan Year.

In the event it is determined prior to any payroll period that the amount of Before-Tax Contributions elected to be made thereafter would cause the limitation prescribed in this Section 4.02 to be exceeded, the amount of Before-Tax Contributions allowed to be made on behalf of Highly Compensated Employees (and/or such other Members as the Committee may prescribe) shall be reduced to a rate determined by the Committee, and any elections of future Before-Tax Contributions which exceed the rate determined by the Committee shall be deemed to be After-Tax Contributions for the remainder of the Plan Year, notwithstanding the limitations on contribution rate changes in Section 4.01(e). Except as is hereinafter provided, the Members to whom such reduction is applicable and the amount of such reduction shall be determined pursuant to such uniform and nondiscriminatory rules as the Committee shall prescribe.

(b) Notwithstanding the provisions of the foregoing paragraph, with respect to any Plan Year in which Before-Tax Contributions on

behalf of Highly Compensated Employees exceed the applicable limit set forth in this Section 4.02, the Committee shall reduce the amount of the excess Before-Tax Contributions made on behalf of the Highly Compensated Employees (by reducing such contributions in order of

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Actual Deferral Percentages beginning with the highest), and shall distribute such excess Before-Tax Contributions (along with earnings attributable to such excess Before-Tax Contributions, as determined pursuant to such rules and regulations as shall be prescribed by the Puerto Rico Department of the Treasury) to the affected Highly Compensated Employees as soon as practicable after the end of such Plan Year, and in all events prior to the end of the next following Plan Year. Any excess Before-Tax Contributions to be returned to Highly Compensated Employees shall be calculated (i.e., reduced) and distributed by first reducing the Before-Tax Contributions of the Highly Compensated Employees with the largest dollar amount(s) of Before-Tax Contributions (rather than with the highest Percentage(s) to the extent required or permitted under the Act. In lieu of such distribution of excess Before-Tax Contributions, the Committee may, to the extent permitted by applicable rules and regulations (and (i) except with respect to situations in which Section 4.01 (h) applies, and (ii) prior to March 15 of the calendar year following the Plan Year in which such contributions are made or such later date as may be permitted under the PR Code), recharacterize as After-Tax Contributions for such Plan Year all or a portion of the Before-Tax Contributions for Members who are Highly Compensated Employees to the extent necessary to comply with the applicable limit set forth in this Section 4.02.

In lieu of either distributing or recharacterizing excess Before-Tax Contributions, the Company may, to the extent permitted by applicable rules and regulations, make a qualified nonelective contribution on behalf of non-Highly Compensated Employees in an amount sufficient to satisfy one of the non-discrimination tests set forth above, which Company contribution (if any) shall be reimbursed by the Employer. Allocation of any such qualified non-elective contribution would be to the Member Before-Tax Accounts of each non-Highly Compensated Employee in the same proportion that such Member's Before-Tax Contributions for the year bears to the total Member Before-Tax Contributions for the year for all non-Highly Compensated Employees of the Employer. However, the maximum annual addition credited to a Member's Account shall be limited by Section 4.06.

(c) Notwithstanding any provision of Sections 4.02(c) to the contrary, if Before-Tax Contributions on behalf of Highly Compensated Employees in excess of the applicable limit set forth in Section 4.02 either are distributed or are recharacterized, any Company Matching Allocation which would have been attributable to the amounts distributed or recharacterized shall be held unallocated in a suspense account and, as of the end of the Plan Year, forfeited and added to and allocated with Company Contributions in the next following Plan Year.

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Exhibit 10.19

4.03 DISTRIBUTIONS OF EXCESS DEFERRALS

(a) Notwithstanding any other provision of the Plan, Excess Before-Tax Deferrals (as hereinafter defined) and earnings allocable thereto as

determined pursuant to such rules and regulations as are prescribed by the Puerto Rico Department of the Treasury, may be distributed no later than April 15 (or such later date as may be permitted under the PR Code) to Members who claim such allocable Excess Before-Tax Amounts (which shall be the "Excess Before-Tax Deferrals" plus earnings, if any) for the preceding calendar year.

(b) For purposes of this Section 4.03, "Excess Before-Tax Deferral" means the amount of Pay which a Member has elected to have the Employer contribute to the Trust rather than receive it in cash, which is a Member Contribution under Section 4.01 for a calendar year that the Member allocates to this Plan pursuant to the claim procedure set forth in subsection 4.03(c) hereof.

(c) The Member's claim shall be in writing; shall be submitted to the Committee no later than March 1 (or such other date as the Committee may specify); shall specify the amount of the Member's Excess Before-Tax Deferral for the preceding calendar year; and shall be accompanied by the Member's written statement that if such amounts are not distributed, the Excess Before-Tax Deferrals, when added to amounts deferred under other plans or arrangements described in PR Code Section 1165(e) exceeds the limit imposed on the Member in accordance with the applicable provisions of the PR Code for the year in which the deferral occurred.

(d) Notwithstanding any provision of Sections 3 or 4 to the contrary, any Company Matching Allocation which would have been attributable to an Excess Before-Tax Deferral distributed to a Member under Section 4.02(a) shall not be retained or distributed (unless and to the extent permitted under the PR Code and so determined by the Company in a uniform, nondiscriminatory manner), but shall be held unallocated in a suspense account and, as of the end of the Plan Year, forfeited and added to and allocated with Company Contributions in the next following Plan Year.

4.04 LIMITATIONS ON AFTER-TAX CONTRIBUTIONS. Notwithstanding the foregoing provisions of this Section 4, the Company or the Committee, in their respective discretion, may limit the amount of After-Tax Contributions made by or on behalf of each eligible Member to the extent determined appropriate.

4.05 LIMITATIONS ON COMPANY MATCHING CONTRIBUTIONS. Notwithstanding the foregoing provisions of Sections 3.02 or this Section 4, the Company or the Committee, in their respective discretion, may limit the amount of Company Matching Contributions allocated on behalf of each eligible Member to the extent determined appropriate.

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4.06 AGGREGATE LIMITATIONS. To the extent required under the PR Code or as so determined by the Company or the Committee, in their respective discretion, Company Matching Contributions and Member After-Tax Contributions may be aggregated on a Member by Member basis and limited, as determined appropriate.

SECTION 5

INVESTMENT PROVISIONS

5.01 INVESTMENT FUNDS.

(a) There shall be established as part of the Trust Fund a reasonable range of investment options. The Committee may from time to time, in its discretion, change, delete or add Investment Funds available within the Trust Fund; provided that unless and until the Plan is amended accordingly, the Plan shall provide a Payless Common Stock Fund as an investment option.

(b) Income from and proceeds of sales of investments in

each Investment Fund shall be reinvested in the same Investment Fund. Any income or other taxes payable with respect to a Fund shall be charged to such Fund.

(c) A Trustee may, from time to time, make temporary investments in short term obligations of the United States Government, commercial paper, or other investments of a short term nature, pending investment in an Investment Fund.

5.02 INVESTMENT DIRECTION.

(a) A Member may elect that his Member Contributions for each Payroll period be invested in 1% increments totaling 100% in one or more of the Investment Funds. Such election must be made pursuant to procedures prescribed by the Committee. Such election shall be effective until and unless a Member makes a different election for any period, but only as provided for under Subsection 5.02(b) and Subsection 5.02(c). If the Member fails to file a timely initial investment election, he shall be deemed to have elected to have 100% of his Member Contributions and his Company Profit Sharing Contributions invested in the stable, fixed income investment as may be determined by the Committee and 100% of his Company Matching Contributions in the Payless Common Stock Fund. Until such time as the Committee determines otherwise and so notifies Members, a Member's share of any Company Contributions, when allocated as of Plan Year-end, shall be invested in the same Investment Funds in the same proportions as the Member has elected in connection with investment of his Member Contributions at the time the amount is allocated.

(b) A Member may change his election with respect to future Member and Company Contributions effective pursuant to procedures prescribed by the

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Committee, and may not change his election in any other manner except as provided in Subsection 5.02(c).

(c) Effective as of the date determined by the Committee and pursuant to procedures prescribed by the Committee, a Member may elect to have any or all of the value in any of the Investment Funds which are credited to his Member and/or Company Accounts transferred and invested in any one or more of the Investment Funds.

(d) Notwithstanding this Section 5.02, effective March 20, 2000, during the black out period as determined by the Committee and the Trustee established to change to daily valuation or a change in recordkeepers, no investment transfers or changes may be made by a Member unless provided in Section 6.06. Notwithstanding anything to the contrary, no loans, withdrawals or distributions shall be made during any such blackout period except as provided by the Committee.

SECTION 6

ACCOUNTS

6.01 MEMBER ACCOUNTS. The Committee shall maintain or cause to be maintained for each Member under each Investment Fund in which his Member Contributions are invested separate Member Accounts which shall reflect the portion of his interest in such Investment Fund which is attributable to his contributions. The Member's After-Tax Contributions shall be credited to a separate Member After-Tax Account. The Member's Before-Tax Contributions shall be credited to a separate Member Before-Tax Account. The Member's or Associate's Rollover Contribution shall be credited to a separate Member Rollover Contribution Account.

6.02 COMPANY ACCOUNTS. The Committee shall maintain or cause to be maintained for each Member under each Investment Fund in which his Company Contributions are invested separate Company Accounts which shall reflect the portion of his interest in such Investment Fund which is attributable to Company Contributions, as well as to contributions made by an Employer under Prior Plans and to any income or earnings attributable to such Company Contributions and Prior Plan contributions. The Member's Company Matching Contributions shall be credited to a separate Company Matching Contribution Account. The Member's Company Profit Sharing Contribution, if any, shall be credited to a separate Company Profit Sharing Contribution Account.

6.03 MAINTENANCE OF ACCOUNTS. For the purposes of maintaining Accounts pursuant to this Section 6, each Investment Fund, shall be divided into Units, and the Interest of each Member in such Investment Fund shall be evidenced by the number of Units in such Investment Fund credited to his Accounts.

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6.04 VALUATION OF ACCOUNTS. As of each Valuation Date the Committee shall determine the value of a Unit in each Account by dividing the current market value of all property in each such Account as of such Valuation Date (after deducting any expenses or other amounts including withdrawals property chargeable against such Account) by the number of Units then outstanding to the credit of all Members in each such Account.

6.05 MEMBER STATEMENTS. The Committee shall furnish or cause to be furnished to each Member a statement of his Company and Member Accounts, at least once each year, or more frequently if required by applicable law.

6.06 SHARES OF PAYLESS SHOESOURCE, INC. ("PAYLESS STOCK") IN THE PAYLESS COMMON STOCK FUND.

(a) Each Member (or beneficiary of a deceased Member) who has Accounts invested in the Payless Common Stock Fund shall, as a named fiduciary within the meaning of Section 403(a)(1) of ERISA, have the right to direct the Trustee with respect to the vote of the number of shares of Payless Stock attributable to Units credited to him in the Payless Common Stock Fund as of the latest practicable Valuation Date prior to or contemporaneous with the record date set by the Company for each meeting of shareowners of the Company. For such purpose the Trustee shall furnish to each such Member prior to each such meeting the proxy statement for such meeting, together with a form to be returned to the Trustee on which may be set forth the Member's instructions as to the manner of voting such shares of stock. Upon receipt of such instructions, the Trustee shall vote such shares in accordance therewith. If Member's instructions are not received by the Trustee in a timely manner, the Trustee shall vote such Member's shares in the same proportion as the shares of Common Stock for which instructions were actually received from Members. The Trustee shall not divulge the instructions of any Member.

(b) Each Member (or beneficiary of a deceased Member) who has Accounts invested in the Payless Common Stock Fund shall, as a named fiduciary within the meaning of Section 403(a)(1) of ERISA, have the right with respect to the number of shares of Payless Stock attributable to Units credited to him in the Payless Common Stock Fund as of the latest practicable Valuation Date, to direct the Trustee in writing as to the manner in which to respond to a tender or exchange offer with respect to Payless Stock, and the Trustee shall respond in accordance with the instructions so received. The Trustee shall utilize its best efforts to timely distribute or cause to be distributed to each Member such information as will be distributed to shareowners of the Company in connection with any such tender or exchange offer, together with a form requesting instructions on whether or not such shares will be tendered or exchanged. If the Trustee shall not receive timely direction from a Member as to the manner in which to respond to such a tender or exchange offer, the Trustee shall not tender or exchange any shares of Payless Stock with respect to which such Member has the right of direction. Tenders as a result of a self-tender offer by the Company shall continue notwithstanding any investment change

blackout. The Trustee shall not divulge the instructions of any member. The proceeds

from the tender or exchange of shares attributable to Units in Payless Common Stock Investment Fund accounts of Members shall be transferred to one of the Investment Funds described in Section 5.01 and pursuant to a procedure established by the Committee.

6.07 VESTING IN MEMBER AND COMPANY ACCOUNTS

(a) VESTING SCHEDULE. A Member shall have a fully vested interest at all times (i) in his Member Accounts and (ii) in his Company Profit Sharing Contribution Account balance determined as of July 31, 1997. A Member who has completed at least two full Years of Service as of August 1, 1997 also shall be fully vested at all times (i) in his Company Matching Contributions Account and (ii) in his Company Profit Sharing Contribution Account determined at any time after July 31, 1997. The Company Matching Contribution Account of a Member who is not or was not credited with at least two Years of Service as of August 1, 1997 and his Company Profit Sharing Contribution Account attributable to Company Profit Sharing Contributions, if any, based on such Member's eligibility for such contributions after August 1, 1997, shall vest according to the following schedule:

<TABLE>
<CAPTION>

Vesting Service -----	Vested Interest -----
<S> Fewer than 2 years	<C> 0%
2 years	25%
3 years	50%
4 years	75%
5 years or more	100%

</TABLE>

Notwithstanding the foregoing, a Member's interest in his Company Matching Contribution Account and his Company Profit Sharing Contribution Account shall become fully vested upon the Member's Retirement, death or Disability.

(b) CASH-OUT DISTRIBUTIONS TO PARTIALLY VESTED MEMBERS AND RESTORATION OF FORFEITURES. If, pursuant to Section 10.01, a partially-vested Member receives a cash-out distribution before he incurs a Forfeiture Break in Service (as defined in Subsection (e) below), the cash-out distribution will result in an immediate forfeiture of the nonvested portion(s) of the Member's Company Matching and Company Profit Sharing Contribution Account(s). See Subsection (e) below. A partially-vested Member is a Member whose Vested Interest, determined under Section 6.07(a), in either his Company Matching Contribution Account or his Company Profit Sharing Contribution Account, or both, is less than 100%. A cash-out distribution is a distribution of the entire vested portion of the Member's Account(s).

(i) A partially-vested Member who is reemployed by an Employer after receiving a cash-out distribution of the vested portion of his Account(s) shall have such forfeited amount restored, unless the

Member no longer has a right to restoration under this subparagraph (i). The amount restored by the Plan Administrator shall be the same dollar amount as the dollar amount of his Account(s) on the Valuation Date immediately preceding the date of the cash-out distribution, unadjusted for any gains or losses occurring subsequent to that Valuation Date but reduced by the amount of the prior cash-out distribution. Restoration of the Member's Account balance(s) includes restoration of all US Code Section 411(d)(6) protected benefits with respect to the restored Account(s) in accordance with applicable Treasury regulations. The Plan Administrator will not restore a reemployed Member's Account balance(s) under this subparagraph (i) if the Member has incurred a Forfeiture Break in Service (as defined in Subsection (d) below).

(ii) If restoration of the Member's Account(s) is permitted under subparagraph (i) above, the Plan Administrator will restore the Member's Account(s) as of the last day of the Plan Year during which such Member was reemployed by an Employer. To restore the Member's Account(s), the Plan Administrator, to the extent necessary, will allocate to the Member's Account(s):

(A) first, the amount, if any, of Member forfeitures otherwise available for allocation under Subsection (e) below;

(B) second, deductible Employer contributions for the Plan Year to the extent made under a discretionary formula; and

(C) third, as otherwise permitted by law.

The Plan Administrator will not take into account any allocation under this subsection (b) in applying the limitation on allocations under Section 13.

(iii) The deemed cash-out rule applies to a 0% vested Member. A 0% vested Member is a Member whose Account(s) derived from Employer contributions is (are) entirely forfeitable at the time of his termination of employment. Under the deemed cash-out rule, the Plan Administrator will treat the 0% vested Member as having received a cash-out distribution on the date of the Member's termination of employment or, if the Member's Account(s) is (are) entitled to an allocation of Employer contributions for the Plan Year in which he terminates employment, on the last day of that Plan Year.

(c) DETERMINATION OF VESTING SERVICE. For purposes of determining a Member's Vested Interest in his Company Contributions Account(s) under subsection (a) above, a Member shall be credited with that number of years of Vesting Service

determined by adding together all of the Associate's Periods of Service, whether or not consecutive. Notwithstanding the foregoing, Vesting Service shall not include any Period of Service before the Plan Year in which an Associate attains age eighteen (18). Only whole years of service shall be taken into account for purposes of applying the schedule set forth in subsection (a) above, and, for purposes of determining a Member's number of whole years of service, non-successive Periods of Service must be aggregated, with 365 days of service being deemed to constitute one year. For purposes of determining a Member's Period of Service, the Service Spanning rules described in Section 1.52(g) shall apply.

(d) FORFEITURE BREAK IN SERVICE. For purposes of this Section 6.07, a "Break in Service" is a Period of Severance of at least 365

consecutive days. A "Forfeiture Break in Service" occurs when a Member of former Member incurs 5 consecutive Breaks in Service.

(e) FORFEITURE OCCURS. A Member's forfeiture, if any, of his Account balance(s) derived from Company contributions occurs under the Plan on the earlier of:

(i) the last day of the last pay period ending within the Plan Year in which the Member first incurs a Forfeiture Break in Service; or

(ii) the date the Member receives a cash-out distribution.

The Plan Administrator shall determine the percentage of a Member's Account(s) forfeiture, if any, under this Subsection (e) solely by reference to the vesting schedule of Section 6.07(a). As of the last day of each Plan Year, the total amount of forfeitures which occurred during such Plan Year shall be calculated and such amount shall be applied (i) to restore under (b) above any amounts previously forfeited from rehired Members' Accounts and (ii) the balance, if any, shall be added to and allocated with the Company Matching Contribution for that Plan Year.

(f) FORMER MAY PLAN MEMBERS. The provisions of this subsection (g) apply to a Member who previously was employed by the Employer, when it was part of the Group which included The May Department Stores Company, and who at the termination of his employment had Company Accounts in the May Plan which were forfeited as a result of termination of employment. If such Member has not incurred five consecutive one-year Breaks in Service as defined in Section 6.07(d), the value of the Member's Company Account forfeited under the May Plan will be restored under this Plan (in the manner described in Subsection (b) above) and will be 100% vested.

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SECTION 7

EXPENSES

7.01 ADMINISTRATIVE EXPENSES. To the extent permitted by applicable law, the costs and expenses for administering this Plan, consisting of Trustee fees and expenses, Investment Manager fees and expenses, fees and expenses of outside experts, expenses of maintaining records under Section 6 of the Plan, and all other administrative expenses of the Plan, shall be paid out of the Trust Fund unless the Company or the Employer elects to pay them with its own funds. Costs incident to the purchase and sale of securities, such as brokerage fees, commissions and stock transfer fees, are not regarded as administrative expenses and shall be borne by the appropriate Investment Fund as determined by the Trustee or Committee.

SECTION 8

WITHDRAWALS DURING EMPLOYMENT

8.01 WITHDRAWALS PROHIBITED UNLESS SPECIFICALLY AUTHORIZED. No withdrawal from the Plan shall be permitted prior to a Member's termination of employment, except as provided in Section 8.02.

8.02 AUTHORIZED WITHDRAWALS.

(a) Prior to his termination of employment, a Member may elect to withdraw, in cash, any or all of the value in his Member After-Tax Accounts. However, in the event a Member elects to withdraw all or a portion of

his After-Tax Contributions made after August 1, 1997, such Member shall forfeit his right to fifty percent (50%) of the Company Matching Contribution, if any, otherwise allocable in connection with his Member Contributions for the Plan Year in which the withdrawal occurs.

(b) Prior to his termination of employment, a Member may elect to withdraw, in the event of a "hardship", an amount in cash equal to (i) the total amount of the Before-Tax Contributions made to the Trust on his behalf, or (ii) the value in his Member Before-Tax Account whichever is less provided, however, that no withdrawal will be permitted to the extent that loans from the Plan are available to the Member. In any event the amount withdrawn may not be greater than the amount determined by the Committee as being required to meet the immediate financial need created by the "hardship" and not reasonably available from other resources of the Member, whichever amount is less. The term "hardship" means a heavy financial hardship in light of immediate and heavy financial needs as determined by the Committee in accordance with the PR Code regulations. The amount of an immediate and heavy financial need may include any amounts necessary to pay any federal, state or local taxes or penalties

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reasonably anticipated to result from the distribution. The determination shall be made in a nondiscriminatory manner. Hardship shall include but not be limited to the following:

(i) Medical expenses described in PR Code Section 1023(aa)(2)(P), previously incurred by the Member, the Member's spouse, or any of the Member's dependents (as defined in PR Code Section 1025);

(ii) Purchase (excluding mortgage payments) of a principal residence for the Member;

(iii) Payment of tuition, related educational fees, and room and board expenses for the next 12 months of post-secondary education for the Member, his or her spouse, children, or dependents (as defined in PR Code Section 1025);

(iv) The need to prevent the eviction of the Member from his or her principal residence or foreclosure on the mortgage of the Member's principal residence.

The Committee may adopt written guidelines which identify additional circumstances constituting hardship and which provide procedures to be followed in the administration of hardship withdrawal requests, which guidelines are hereby incorporated herein.

In addition, such hardship must be one which in the judgment of the Committee, based on the Member's representations, cannot be relieved (1) through reimbursement or compensation by insurance or otherwise, (2) by reasonable liquidation of the Member's assets to the extent such liquidation would not itself cause an immediate and heavy financial need, (3) by cessation of Member Contributions under the Plan or (4) by other distributions from employee benefit plans maintained by the Company or any other employer or by borrowing from commercial sources on reasonable commercial terms. The Member shall be required to submit documentation, to be determined by the Committee, with his hardship withdrawal request to enable the Committee to make a judgment regarding the validity of such hardship withdrawal request. For any Member who has attained age 59 1/2, the "hardship" requirement shall be deemed waived.

(c) A Member who was a Participant in or eligible to be a Participant in the Volume Shoe Corporation Profit Sharing Plan (the "Volume Plan") as of December 31, 1988 and who had an account balance in the Volume Plan attributable to Employer Contributions made to the Volume Plan before July 31, 1976 and which account became a Company Account under The May Department Stores Company Profit Sharing Plan and which has been transferred to this Plan, shall

be entitled to withdraw the market value of such account balance determined (and frozen) as of December 31, 1988.

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(d) Associates with Member Rollover Contribution

Accounts may elect to withdraw their Member Rollover Contribution Accounts prior to termination of employment.

(e) A withdrawal election shall be made pursuant to

application procedures established by the Committee. For any withdrawal under this Section 8.02, if the amount which may be withdrawn exceeds \$100, the Member may not withdraw less than \$100, and if the amount which may be withdrawn is less than \$100, the Member shall be required to withdraw all of such amount. Contribution totals and Account values shall be determined as of the Valuation Date coinciding with or next following the filing of the withdrawal election. If the Member Accounts from which withdrawal is made are in more than one Investment Fund, the withdrawal shall be pro rata from each such Investment Fund except in the case the Member is subject to Section 16 of the Securities Exchange Act of 1934 or has been designated as a "Designated Insider," in which case such Member's withdrawal will be taken first from such Member's Investment Funds other than the Payless Common Stock Fund.

SECTION 9

BENEFITS UPON RETIREMENT, DEATH, DISABILITY, OR TERMINATION OF EMPLOYMENT

9.01 BENEFITS. Upon a Member's Retirement, Death, Disability, or other termination of employment, the value of his Member Accounts and of his vested Company Accounts shall be determined as of the Valuation Date prior to the date the distribution is calculated. A temporary Authorized Leave of Absence for Military Service or for other purposes approved by the Company and/or the Employer shall not, while any such Authorized Leave of Absence is validly in effect be regarded as a termination of employment.

9.02 BENEFICIARY. Any benefits payable on account of a Member's death shall be paid to such Member's spouse. If such Member has no spouse or if such Member's spouse shall have consented to the naming of another beneficiary, such benefits shall be paid to the person or persons (including, without limitation, estates, trust, or other entities) last named as beneficiary by such Member on an appropriate form filed with the Committee. A spouse's consent shall designate a beneficiary, acknowledge the effect of the consent and be in writing, witnessed by a Plan representative or notary public. A spouse's consent shall be irrevocable. If no beneficiary has been so named or the named beneficiary does not survive the Member, any payment to be made under this Plan on account of a Member's death shall be paid to such Member's spouse, or, if he has no spouse, to such Member's estate. Whenever permitted by ERISA or regulations thereunder, the Committee may waive the requirements that a spouse's consent be obtained. Such waiver may be on a case by case basis or by categories.

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SECTION 10

PAYMENT OF BENEFITS

10.01 TIME OF PAYMENT.

(a) All amounts distributable to a Member or Beneficiary pursuant to Section 9 shall, unless the Member makes an approved election pursuant to Section 10.01 (b) or 10.01 (c), be paid in a lump sum payment to be

made as soon as practicable after the request is received, provided however, that any additional amounts which may be allocated to a Member's Company Accounts resulting from a Company Contribution in respect of the calendar year in which employment terminates shall be paid as soon as practicable after such contribution.

Notwithstanding any provision of this Section 10 to the contrary, if the present value of the nonforfeitable accrued benefit of a Member, including Company and Member Contributions (but excluding accumulated deductible employee contribution, if any) exceeds (or for distributions prior to March 22, 1999, ever has exceeded) \$5,000, no partial or total distribution shall be made unless the Member has consented thereto in writing in the manner required by law.

(b) Any Member who was a Member of the May Plan as of June 30, 1990 may elect that all Transferred Accounts distributable to him pursuant to Section 9 shall be paid in annual installments over a period not to exceed ten years beginning with the Valuation Date as of which the lump sum payment would otherwise be made. In the event of the death of a Member prior to the expiration of such period, all amounts which have not been distributed to him shall be paid in a lump sum to his designated Beneficiary or his estate if there is no designated Beneficiary. Subject to the foregoing, each such installment shall be paid as of a Valuation Date and, until all the Accounts of the Member have been fully distributed, they shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04.

Notwithstanding the paragraph above, any Member who as of December 31, 1988 was or was entitled to be a Participant in the Volume Shoe Corporation Profit Sharing Plan may elect that all Transferred Accounts distributable to him pursuant to Section 9 be paid in the form of equal monthly installments over a period not to exceed 120 months. Such payments shall otherwise be made in accordance with the foregoing portion of this Subsection 10.01 (b).

(c) A Member who is entitled to receive a distribution in excess of \$5,000 may elect to defer such distribution to age 65. An election to defer distribution shall conform to such requirements as to form, content, manner, and timing as shall be determined by the Committee and which requirements shall be applied in a manner which does not discriminate in favor of Members who are highly compensated employees (within

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the meaning of Code Section 414(q)). All Accounts of a Member who elects to defer his distribution shall continue to be revalued as of each succeeding Valuation Date pursuant to Section 6.04. A deferred distribution shall be paid when such Member attains the age of 65 years or at such earlier or later time as shall be determined by the Committee as permitted by law. In the event of the death of a Member prior to distribution of the deferred amounts, all amounts shall be distributed in a lump sum to his designated Beneficiary or to his estate if there is no designated Beneficiary. The value for payment shall be determined as of the Valuation Date coincident with or next following such Member's 65th birthday or such other payment date determined by the Committee.

10.02 FORM OF PAYMENT. All distributions shall be made in the form of cash, except that distributions from the Payless Common Stock Fund shall be made in the form of full shares of Payless Common Stock, as applicable (with payment in cash for a fraction of a share) or in cash if elected by the Member or Beneficiary. The rights extended to a Member hereunder shall also apply to any Beneficiary or alternate payee of such Member.

10.03 INDIRECT PAYMENT OF BENEFITS. If any Member or Beneficiary has been adjudged to be legally, physically or mentally incapable or incompetent, payment may be made to the legal guardian or other legal representative of such Member or Beneficiary as determined by the Committee. Such payments shall constitute a full discharge with respect thereto.

10.04 INABILITY TO FIND MEMBER. If a Member or Beneficiary or other person to whom a benefit payment is due cannot be found during the three

years subsequent to the date a distribution was required to be made under this Plan, the Accounts shall be forfeited at the end of such three-year period. The value of such Accounts as of the date the distribution was required to be made shall be restored if such Member or Beneficiary or other person makes a claim.

10.05 COMMENCEMENT OF BENEFIT DISTRIBUTION TO MEMBER. In accordance with US Code Section 401 (a) (9) and Treasury Regulations promulgated thereunder, distributions to a Member must commence not later than the first day of April following the calendar year in which the Member attains age 70 1/2. Notwithstanding the foregoing, distribution to a Member who is not a "five percent owner" as defined in Section 20.10(f) (3) shall commence not later than April 1 following the calendar year in which the Member attains age 70 1/2 or, if later, the calendar year in which the Member retires.

10.06 COMMENCEMENT OF BENEFIT DISTRIBUTION TO BENEFICIARY. Distributions to the Beneficiary entitled under Section 10.02 to receive any payments payable under this Plan on account of a Member's death shall be made in a lump sum payment not later than December 31 of the calendar year following the calendar year in which the Member died.

10.07 COMMENCEMENT OF BENEFIT DISTRIBUTION TO ALTERNATE PAYEE. Distributions to an alternate payee entitled under Section 16.01 to receive any payments

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payable under this Plan pursuant to the terms of a Qualified Domestic Relations Order shall be made in accordance with the terms of such Qualified Domestic Relations Order and this Plan on or after the date on which the Member has attained his "earliest retirement age" (as defined under ERISA Section 206(d) (3)) under the Plan. Notwithstanding the foregoing, distribution to an alternate payee may be made prior to the Member's attainment of his earliest retirement age if, but only if: (1) the Qualified Domestic Relations Order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; (2) the distribution is a single sum distribution of the alternate payee's entire benefit entitlement under the Plan; and (3) in the event the present value of the alternate payee's benefits under the Plan exceeds \$5,000, the alternate payee consents to any distribution occurring prior to the Member's attainment of earliest retirement age.

Nothing in this Section 10.07 shall be construed to permit a Member to (1) receive a distribution at a time not otherwise permitted under the Plan, (2) permit the alternate payee to receive a form of payment not otherwise permitted under the Plan, or (3) cause his Plan accounts to be valued or otherwise determined in a manner not otherwise permitted under the Plan.

SECTION 11

PERMITTED ROLLOVER OF PLAN DISTRIBUTIONS

11.01 ROLLOVER AMOUNT TO OTHER PLANS. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and pursuant to procedures prescribed by the Committee, to have his entire Plan distribution paid directly to a qualified retirement plan described in the PR Code Section 1165(a) or to an individual retirement account as described in PR Code Section 1165(b) (2) specified by him.

11.02 ROLLOVER AMOUNT FROM OTHER PLANS. An Associate eligible to participate in the Plan, regardless of whether he has satisfied the participation requirements of Section 2.01, may transfer to the Plan an Eligible Rollover Distribution provided that such distribution is from an Eligible Retirement Plan. If such transfer is not a direct transfer, such a transfer may be made only if the following conditions are met:

(a) the transfer occurs on or before the 60th day following the Associate's receipt of the distribution from the Eligible Retirement Plan; and

(b) the amount transferred is equal to any portion of the distribution the Associate received from the Eligible Retirement Plan, not in excess of the fair market value of all property received in such a distribution reduced by employee contributions, as defined in US Code Section 402 (a) (5) (E).

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The Committee shall develop such procedures, and may require such information, from a Member desiring to make such a transfer, as it deems necessary or desirable to determine that the proposed transfer will meet the requirements of the Section. Upon approval by the Committee or its Administrative Delegate, the amount transferred shall be deposited in the Trust Fund and shall be credited to the Member's account. Such rollover amount shall be one hundred percent (100%) vested in the Member, shall share in the income allocations in accordance with Section 5, but shall not share in the Company Profit Sharing Contributions, the Company Matching Contributions or the forfeiture allocations. Upon termination of employment, the total amount of the rollover contribution shall be distributed in accordance with the terms of the Plan.

Upon such a transfer by an Associate who is otherwise eligible to participate in the Plan but who has not yet completed the participation requirements of Section 2.01, his rollover amount shall represent his sole interest in the Plan until he becomes a Member.

11.03 DEFINITIONS. The following definitions shall apply for the purposes of this Section 11:

(a) ELIGIBLE ROLLOVER DISTRIBUTION. An eligible rollover distribution is any distribution of all or any portion of the balance of the credit of the distributee as defined in Code Section 402(c), except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's beneficiary or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(b) ELIGIBLE RETIREMENT PLAN. An eligible retirement plan is an individual retirement account described in Code Section 408, an individual retirement annuity described in Code Section 401(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), which accepts or will make, as applicable, an Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to a Member's surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(c) DISTRIBUTEES. A distributee includes a Member or former Member. In addition, the Member or former Member's surviving spouse and the Member's or former Member's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse.

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(d) DIRECT TRANSFER. A direct rollover is a payment by the Plan

to the eligible retirement plan specified by the distributee as described in US Code Section 401(a)(31).

SECTION 12

LOANS

12.01 AVAILABILITY OF LOANS. Loans shall be permitted under this Plan as established by the policy of the Committee. Any such loan shall be subject to such conditions and limitations as the Committee deems necessary for administrative convenience and to preserve the tax-qualified status of the Plan.

12.02 AMOUNTS OF LOANS. No loan to any Member or Beneficiary may be made to the extent that such loan, when added to the outstanding balance of all other loans to the Member or Beneficiary, would exceed the lesser of (a) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made, over the outstanding balance of loans from the Plan on the date the loan is made, or (b) one-half the present value of the nonforfeitable accrued benefit of the Member. For the purpose of the above limitation, all loans from all plans of the Employer and other member of a group of employers described in US Code Sections 414(b), 414(c), 414(m), and 414(o) are aggregated. Furthermore, any loan shall by its terms require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly, over a period not extending beyond five years from the date of the loan. If such loan is used to acquire a dwelling unit which within a reasonable time (determined at the time the loan is made) will be used as the principal residence of the Member, the repayment period shall not extend beyond twenty nine and one-half years from the date of the loan. An assignment or pledge of any portion of the Member's interest in the Plan and a loan, pledge, or assignment with respect to any insurance contract purchased under the Plan, will be treated as a loan under this paragraph.

12.03 TERMS OF LOANS.

(a) Loans shall be made available to all Members and Beneficiaries on a reasonably equivalent basis.

(b) Loans shall not be made available to Highly Compensated Employees (as defined in US Code Section 414(q)) in an amount greater than the amount made available to other Employees.

(c) Loans must be adequately secured using not more than fifty percent (50%) of the Member's Vested Account balance, and bear a reasonable interest rate as determined from time to time by the Committee.

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(d) A Member loan for less than \$1,000 is not permitted; provided, however, that if such Member also receives a loan from the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan, such minimum amount limitation shall not apply.

(e) In the event of default, foreclosure on the note and attachment of security will not occur until a distributable event occurs in the Plan.

(f) No loans will be made to any Member who on any day during the Company's applicable fiscal year is a beneficial owner of more than five percent (5%) of the outstanding stock of the Company.

(g) All loans shall be made pursuant to a written Member loan program incorporated herein by reference.

(h) Loans are available from the following accounts, and will be withdrawn from the Member's accounts in the following hierarchy:

- (1) Member Accounts
- (2) Vested Company Accounts

(i) Loans will be taken and repaid from and to the Investment Funds on a pro rata basis, except in the case the Member is subject to Section 16 of the Securities Exchange Act of 1934 or has been designated as a "Designated Insider," in which case such Member's loan will be taken first from such Member's Investment Funds other than the Payless Common Stock Fund.

SECTION 13

LIMIT ON CONTRIBUTIONS TO THE PLAN

This Section 13 is intended to conform the Plan to the requirements of US Code Section 415 and limits the contributions that can be made by and for an individual under the Plan.

13.01 LIMIT ON CONTRIBUTIONS. Notwithstanding any provision of the Plan to the contrary:

(a) The amounts allocated to a Participant during the Limitation Year under the Plan and allocated to the Participant under any other defined contribution plan to which the Employer or any other member of the Group has contributed shall be proportionately reduced, to the extent necessary, so that the Annual Addition does not exceed the least of:

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(1) \$30,000; or

(2) 25% of the Participant's remuneration from the Employer or any member of the Group during the Limitation Year; or

(3) such other limits set forth in US Code Section 415.

The amount set forth in subparagraph (1) above shall automatically be adjusted to reflect adjustments made by applicable law. Remuneration for purposes of this Section means remuneration as defined in US Treasury Regulation Section 1.415-2(d) and shall also include the deferrals described in US Code Section 415(c)(3)(D).

(b) For purposes of this Section, Limitation Year means the 12 month period commencing on January 1 and ending on December 31.

(c) For purposes of this Section, Annual Additions means the sum for the Limitation Year of Employer contributions, Employee contributions (determined without regard to any rollover contributions as defined in US Code Sections 402(a)(5), 403(a)(4), 403(b)(8) and 408(d)(3) and without regard to Employee contributions to a simplified employee pension plan which are excludible from gross income under US Code Section 408(k)(6) and forfeitures.

13.02 ADJUSTMENT FOR EXCESSIVE ANNUAL ADDITIONS

(a) If, as a result of the allocation of forfeitures, a reasonable error in estimating a Member's Pay or other facts and circumstances to which US Treasury Regulation Section 1.415-6(b)(6) shall be applicable, the "annual additions" under this Plan would cause the maximum "annual additions" to be exceeded for any Member, the Committee shall (1) return any Member Contributions credited for the "limitation year" to the extent that the return would reduce the "excess amount" in the Member's Accounts, (2) hold any "excess amount" remaining after the return of any Member Contributions in a "Section 415 suspense account", (3) use the "Section 415 suspense account" in the next "limitation year" (and succeeding "limitation years" if necessary) to reduce either Company Contributions for that Member if that Member is covered by the Plan as of the end of the "limitation year" or if such Member is not covered by the Plan at the end of the "limitation year" to reduce Company Contributions for all Members in the Plan, before any Company Contributions or Member

Contributions which would constitute "annual additions" are made to the Plan for such "limitation year," (4) reduce Company Contributions for such "limitation year" by the amount of the "Section 415 suspense account" allocated and reallocated during such "limitation year." For purposes of (3) above, the Plan may not distribute "excess amounts" to Members or former Members.

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(b) For purposes of this Section, "EXCESS AMOUNT" for any Member for a "limitation year" shall mean the excess, if any, of (1) the "annual additions" which would be credited to his account under the terms of the Plan without regard to the limitations of US Code Section 415 over (2) the maximum "annual additions" determined pursuant to Section 13.01(a).

(c) For purposes of this Section, "SECTION 415 SUSPENSE ACCOUNT" shall mean an unallocated account equal to the sum of "excess amount" for all Members in the Plan during the "limitation year." The "Section 415 suspense account" shall not share in any earnings or losses of the Trust Fund.

SECTION 14

ADMINISTRATION OF THE PLAN

14.01 PLAN ADMINISTRATOR. The Company shall be the Plan Administrator of the Plan for purposes of ERISA and shall be a "named fiduciary" as determined in ERISA Section 402(a)(2).

14.02 DELEGATION OF AUTHORITY.

(a) Authority to administer the Plan has been delegated to the Committee and the Administrative Subcommittee, if any, in accordance with Sections 1.43 (Total and Permanent Disability), 4.01 (Member Contributions), 6.01 (Member Accounts), 6.02 (Company Accounts), 6.05 (Member Statements), 8.02 (Authorized Withdrawals), 13.02 (Adjustment for Excessive Annual Additions), 20.02 (Withdrawal of an Employer) and this Section 14.

(b) Authority with respect to the Investment Funds of the Plan has been delegated to the Trustee in accordance with Sections 5.01(c) (Investment Funds), 6.06 (shares of Payless ShoeSource, Inc. ("Payless Stock") in the Payless Common Stock Fund), 7.01 (Administrative Expenses) and 15 (Management of the Trust Fund).

(c) Authority to direct the investment of the Plan's funds has been delegated to the Investment Subcommittee, if any, in accordance with Section 15.03(b), (c) and (d) (Investments and Reinvestments).

(d) The Committee shall also have the authority and discretion to engage on Administrative Delegate who shall perform, without discretionary authority or control, administrative functions within the framework of policies, interpretations, rules practices and procedures made by the Committee or other Plan Fiduciary. Any action made or taken by the Administrative Delegate may be appealed by an affected Member to the Committee in accordance with the claims review procedure in Section 16.05. Any

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decisions which call for interpretations of the Plan provisions not previously made by the Committee shall be made only by the Committee. The Administrative Delegate shall not be considered a fiduciary with respect to the services it provides.

14.03 COMMITTEE AND SUBCOMMITTEES.

(a) The Committee may appoint two subcommittees (an "Administrative Subcommittee" and an "Investment Subcommittee"), each Subcommittee to consist of at least three persons, who need not be members of the Board. The Committee and each Subcommittee, if appointed, shall elect from its members a Chairman and a Secretary, and may appoint one or more Assistant Secretaries who may, but need not be, members of the Committee or such Subcommittee, and may employ such agents, such legal counsel and such clerical, medical, accounting, actuarial and other services as it may from time to time deem advisable to assist in the administration of the Plan. The Committee and each Subcommittee may, from time to time, appoint agents and delegate to such agents such duties as it considers appropriate and to the extent that such duties have been so delegated, the agent shall be exclusively responsible for the proper discharge of such duties.

(b) The Administrative Subcommittee shall have the general responsibility for the administration of the Plan and the carrying out of its provisions, and shall have general powers with respect to Plan administration, including, but not limited to, the powers listed in this Section 14.03. The Administrative Subcommittee shall have the power to interpret and construe the Plan, the power to establish rules for the administration of the Plan and the transaction of its business, the power to remedy and resolve inconsistencies and omissions, and the power to determine all questions which arise in the administration, interpretation, or application of the Plan, including but not limited to questions regarding the eligibility, status, Account value and any rights of any Member, Beneficiary, and any other person hereunder.

(c) The Investment Subcommittee shall have the powers provided for in Section 15.03(b).

(d) The Committee and each Subcommittee shall act by a majority of its members and the action of such majority expressed by a vote at a meeting, or in writing without a meeting, shall constitute the action of the Committee or such Subcommittee. All decisions, determinations, actions or interpretations with respect to the Plan by the Committee or either Subcommittee and the individual committee or subcommittee members shall be in the Committee's, Subcommittee's or individual member's sole discretion. The decision, determination, action or interpretation of the Committee or either Subcommittee and the respective individual members of the Committee or Subcommittee in respect to all matters within the scope of its authority shall be conclusive and binding on all persons. No member of the Committee or either Subcommittee shall have any liability to any person for any action or omission except each for his own individual willful

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misconduct. If a Subcommittee is not appointed, the Committee shall exercise such Subcommittee's authority and perform its duties as described herein.

(e) Nothing in this Section 14 or in any other provision of the Plan shall be deemed to relieve any person who is a fiduciary under the Plan for purposes of ERISA from any responsibility or liability for any responsibility, obligation or duty which Part 4 of Title I of ERISA shall impose upon such person with respect to this Plan.

14.04 ACCOUNTS AND REPORTS. The Committee shall maintain or cause to be maintained accounts reflecting the fiscal transactions of the Plan and shall keep in convenient form such data as may be necessary for the administration of the Plan. The Committee shall prepare annually a report showing in reasonable detail the assets and liabilities of the Plan and setting forth a brief account of the operation of the Plan for the preceding year.

14.05 NON-DISCRIMINATION. Neither the Committee nor either Subcommittee shall exercise its discretion in such a way as to result in discrimination in favor of officers, shareholders or highly compensated

employees (within the meaning of US Code Section 414(q)).

SECTION 15

MANAGEMENT OF THE TRUST FUND

15.01 USE OF THE TRUST FUND. All assets of the Plan shall be held as a Trust Fund in one or more trusts and shall be used to provide the benefits of this Plan. No part of the corpus or income shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries under this Plan and administrative expenses of this Plan.

15.02 TRUSTEES. The Trust Fund may, at the direction of the Company, be divided into one or more separate trusts, each of which may have a separate Trustee appointed from time to time by the Company and subject to removal by the Company. The Trustee or Trustees of each trust shall have complete authority and discretion with respect to the investment and reinvestment of the assets of each trust, subject, however, to (i) the provisions in the Trust Agreements between the Trustee or Trustees and the Company, and (ii) the provisions of this Plan. Any or all of such separate trusts shall be referred to collectively from time to time as the Trust Fund. Any division of the Trust Fund into one or more separate trusts shall be at the direction of the Company.

15.03 INVESTMENTS AND REINVESTMENTS. The investment and reinvestment of the assets of the Trust Fund shall be in accordance with the following:

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(a) The Company shall have the authority to instruct the Trustee or Trustees to accept and follow the instructions of any designated investment manager (within the meaning of ERISA Section 3(38)) with respect to the investment and reinvestment of the assets in any Investment Funds the Company may designate.

(b) The Investment Subcommittee shall have the powers, with respect to investment and reinvestment of the assets constituting the Investment Funds, to promulgate limitations, restrictions, rules or guidelines with respect to the investment policies and classes of investments in which the assets of the Funds may be invested or reinvested by the Trustee or Trustees, including any such investments made pursuant to the instructions of any investment manager. In the event an investment manager designated pursuant to Section 15.03(a) resigns or otherwise is unable to act, the Investment Subcommittee shall have such power and authority as otherwise would be exercisable by such Investment Manager.

(c) In the event that the assets of the Trust Fund shall be divided into one or more separate trusts pursuant to the authority provided for in Section 15.02, then the powers of the Investment Subcommittee as provided for in Section 15.03(b) may be exercised with respect to one or more of such trusts within the discretion of the Investment Subcommittee.

(d) The powers of the Investment Subcommittee as provided in Section 14.03(b), may be exercised at any time or from time to time by the Investment Subcommittee within the discretion of the Investment Subcommittee and shall be pursuant to a written agreement between the Investment Subcommittee and the Trustee or Trustees or, if an investment manager has been appointed, between the Investment Subcommittee and the investment manager.

(e) The Trust Agreement between the Company (and/or the Employer) and the Trustee or Trustees implementing the Plan shall contain provisions effectuating the provisions of this Section 15 of the Plan.

SECTION 16

CERTAIN RIGHTS AND OBLIGATIONS OF EMPLOYERS AND MEMBERS

(a) No liability shall attach to the Company or any Employer with respect to a benefit or claim hereunder and Members and their Beneficiaries, and all persons claiming under or through them, shall have recourse only to the Trust Fund for payment of any benefit hereunder.

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(b) The rights of the Members, their Beneficiaries and other persons are hereby expressly limited and shall be only in accordance with the provisions of the Plan. Nothing contained herein shall be deemed to give a Member any interest in any specific property of the Trust or any interest other than a right to receive payments pursuant to the provisions of the Plan.

16.02 EMPLOYER-ASSOCIATE RELATIONSHIP. Neither the establishment of this Plan nor its communication through a Summary Plan Description (or otherwise) shall be construed as conferring any legal or other rights upon any Associate or any other person to continue in employment or as interfering with or affecting in any manner the right of the Company or the Employer to discharge any Associate or otherwise act with relation to him. The Company and the Employer may take any action (including discharge) with respect to any Associate or other person and may treat him without regard to the effect which such action or treatment might have upon him as a Member of this Plan.

16.03 BINDING EFFECT. Each Member, by executing an enrollment form, beneficiary designation and otherwise agreeing to participate in the Plan agrees for himself, his beneficiary(ies), heirs, successors and assigns to be bound by all of the provisions of the Plan.

16.04 CORPORATE ACTION. With respect to any action permitted or required by the Plan, the Company and/or the Employer may act through its appropriate officers:

16.05 CLAIM AND APPEAL PROCEDURE. A Member or beneficiary may file with the Committee or its designee at any time a written claim in connection either with a benefit payable hereunder or otherwise. The Committee or its designee, normally within 90 days after receipt of a written claim, shall render a written decision on the claim, unless an additional 90 days is required by special circumstances which shall be explained to the claimant. If the claim is denied, either in whole or in part, the decision shall include the reason or reasons for the denial; a specific reference to the Plan provision or provisions which are the basis for the denial; a description of any additional material or information necessary for the claimant to perfect the claim; an explanation as to why the information or material is necessary; and an explanation of the Plan's entire claim procedure. The claimant may file with the Committee, within 60 days after receiving the written decision from the Committee, a written notice of request for review of the Committee's decision. The review shall be made by a committee of up to three individuals (which may include members of the Committee) appointed by the Company or by the Committee. Said committee shall render a written decision on the claim containing the specific reasons for their decision, including a reference to the Plan's provisions, normally within 60 days after receipt of the request for review, unless an additional 60 days is required by special circumstances which shall be explained to the claimant. If a Member or beneficiary does not file written notice of a claim with the Committee or its designee at the times set forth above, he shall have waived any right to a benefit other than as originally proposed by the Company or the Committee.

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SECTION 17

NON-ALIENATION OF BENEFITS

17.01 PROVISIONS WITH RESPECT TO ASSIGNMENT AND LEVY. No benefit payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, encumber, levy upon or charge the same shall be void; nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, except as specifically provided herein. Notwithstanding the foregoing, the creation, assignment, or recognition of a right to any benefit payable to an alternate payee with respect to a Qualified Domestic Relations Order shall not be treated as an assignment or alienation prohibited by this Section. Any other provision of the Plan to the contrary notwithstanding, if a Qualified Domestic Relations order requires the distribution of all or part of a Member's benefits under the Plan, the establishment or acknowledgment of the alternate payee's right to benefits under the Plan in accordance with the terms of such Qualified Domestic Relations Order shall in all events be deemed to be consistent with the terms of the Plan.

Notwithstanding the above a Member's benefit will be offset against any amount he or she is ordered or required to pay to the Plan pursuant to an order or requirement which arises under a judgment of conviction for a crime involving the Plan, under a civil judgment entered by a court in an action involving a fiduciary breach, or pursuant to a settlement agreement between the Participant and the Department of Labor or the Pension Benefit Guaranty Corporation. Any such offset shall be made pursuant to Section 206(d) of ERISA.

17.02 ALTERNATE APPLICATION. If a Member or Beneficiary under this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under this Plan, except as specifically provided herein, or if any benefit shall, in the discretion of the Committee, cease, and in that event the Committee may hold or apply the same or any part thereof to or for the benefit of such Member or Beneficiary, his spouse, children or other dependents, or any of them, or in such other manner and in such proportion as the Committee may deem proper.

SECTION 18

AMENDMENTS

18.01 COMPANY'S RIGHTS. The Company reserves the right at any time and from time to time in its sole discretion to alter, amend, or modify, in whole or in part, any or all of the provisions of this Plan, provided, however, no such alteration, amendment or modification shall be made which shall decrease the accrued benefit of any Member. Anything in this Plan to the contrary notwithstanding, the Company in its sole discretion

may make any modifications or amendments, additions or deletions in or to this Plan as to benefits or otherwise and retroactively if necessary, and regardless of the effect thereof on the rights of any particular Member or Beneficiary, which it deems appropriate and/or necessary in order to comply with or satisfy any conditions of any law or regulation relating to the qualification of this Plan and the trust or trusts created pursuant hereto and to keep this Plan and said trusts qualified under US Code Section 401(a) and the applicable PR Code section(s) and to have the trust or trusts declared exempt from taxation under US Code Section 501(a) and the applicable PR Code section(s).

18.02 PROCEDURE TO AMEND. This Plan may be amended by action of the Company's Board of Directors and evidenced by a written amendment signed by the Company's Secretary or by any other person so authorized by or pursuant to authority of the Board of Directors.

18.03 PROVISION AGAINST DIVERSION. No part of the assets of the Trust Fund shall, by reason of any modification or amendment or otherwise, be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries under this Plan and administrative expenses of

this Plan.

SECTION 19

TERMINATION

19.01 RIGHT TO TERMINATE. The Company reserves the right to terminate this Plan, in whole or in part, at any time and, if this Plan shall be terminated, the provisions of Section 19.03 shall apply and the Accounts of affected Members shall become (or remain) fully vested and nonforfeitable.

19.02 WITHDRAWAL OF AN EMPLOYER. If an Employer shall cease to be a participating Employer in this Plan, the Trust Fund and the Accounts of the Members of the withdrawing Employer and their Beneficiaries shall be revalued as if such withdrawal date were a Valuation Date. The Committee shall then direct the Trustee either to distribute the Accounts of the Members of the withdrawing Employer as of the date of such withdrawal on the same basis as if the Plan had been terminated pursuant to Section 19.03 or to deposit in a trust established by the withdrawing Employer pursuant to a plan substantially similar to this Plan assets equal in value to the assets of the Trust Fund allocable to the Accounts of the Members of the withdrawing Employer.

19.03 DISTRIBUTION IN EVENT OF TERMINATION OF TRUST. If this Plan is terminated at any time including a partial termination as defined in US Code Section 411(d)(3), or if contributions are completely discontinued and the Company determines that the trust shall be terminated, in whole or in part, the Trust Fund and all Accounts shall be revalued as if the termination date were a Valuation Date and the affected Members' Accounts shall be distributed in accordance with Section 10.

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19.04 ADMINISTRATION IN EVENT OF CONTINUANCE OF TRUST. If this Plan shall be terminated in whole or in part or contributions completely discontinued but the Company determines that the trust shall be continued pursuant to the terms of the Trust Agreement, the trust shall continue to be administered as though the Plan were otherwise in effect. Upon the subsequent termination of the trust, in whole or in part, the provisions of Section 19.03 shall apply.

19.05 MERGER, CONSOLIDATION OR TRANSFER. In the case of any merger or consolidation with, or transfer of Plan assets or liabilities to, any other plan each Member shall be entitled to receive a benefit immediately after the merger, consolidation or transfer (if the transferee plan then terminated) which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).

SECTION 20

CONSTRUCTION

20.01 APPLICABLE LAW. The provisions of this Plan except as otherwise governed by ERISA shall be construed, regulated, administered and enforced according to the laws of Puerto Rico and, whenever possible, to be in conformity with the applicable requirements of ERISA, of the US Code to the extent applicable and of the PR Code of 1994.

20.02 GENDER AND NUMBER. Wherever applicable, the masculine pronoun as used herein shall include the feminine pronoun and the singular pronoun shall include the plural.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by a duly authorized officer this 20th day of March, 2000.

PAYLESS SHOESOURCE OF
PUERTO RICO, INC.

By: /s/ Jeffrey A. Long

CONSULTING CONTRACT

This Consulting Contract made and entered into as of December 22, 2000 by and between Payless ShoeSource, Inc., a Delaware corporation ("Payless") and Jed L. Norden ("Consultant").

WHEREAS, Payless and Consultant desire that Consultant serve as a consultant to Payless for the fees and upon and subject to the terms and provisions hereinafter set forth;

In consideration of the mutual promises and agreements hereinafter set forth, it is hereby agreed by and between Payless and Consultant as follows:

1. (a) The term of the Consulting Contract shall be from February 10, 2001, to February 9, 2002. Consultant covenants and agrees that he will, when and as requested by Payless (subject to Section 1(c), below), from time to time during the term of this Consulting Contract, and at such place or places as Payless may reasonably request, render and furnish consulting services relating to the conduct and operation of Payless' affairs as shall be requested by the proper officers of Payless.

(b) In rendering the consulting services provided for herein, Consultant shall make available to Payless such personal expertise, know-how and assistance as Payless may reasonably request. The parties recognize and agree that Consultant's services are of a special and unique character. Consultant's obligations hereunder are obligations of the Consultant alone, and may not be assigned to or performed by others.

(c) Consultant and Payless desire to permit Consultant maximum flexibility in terms of the timing of his work, consistent with Payless' need for his consulting services. In addition, however, Consultant and Payless recognize that, in many instances, Payless must be able to count on receiving such services in a timely fashion. Therefore, Consultant and Payless shall both seek to be as reasonable as possible in exercising their respective rights in carrying out their respective duties hereunder, and shall communicate with each other as far in advance as reasonably practicable concerning the scheduling of consulting services.

(d) Consultant shall render consulting services during the term of this Consulting Contract for up to 40 days. For purposes of this Consulting Contract, Consultant shall be deemed to have furnished and rendered consulting services under this Consulting Contract for a "day" for each calendar day or portion thereof on which Consultant provides not less than three hours of consulting services under this Consulting Contract; provided, however, that in no event shall any single calendar day be counted as more than one "day" for purposes of calculating fees payable to Consultant under this Consulting Contract. In the event that Consultant provides less than three hours of services in any calendar day (a "short-hour day") under this Consulting Contract, then Consultant shall be deemed to have furnished and rendered consulting services under this Consulting Contract for a "day" for each group of short-hour days in which the aggregate of hours or consulting services rendered is not less than seven hours; provided, however, that in no event shall any one short-hour day be included in more than one such group of short-hour days.

2. (a) Payless agrees to pay Consultant \$400,000 in consulting fees (before taxes) for the performance of its obligations under this Consulting Contract, to be paid in equal quarterly installments on or about the first week

after the close of the fiscal quarter.

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(b) In the event that, during the term of this Consulting Contract, Consultant renders and furnishes consulting services in excess of the number of days described in Section 1(d) of this Consulting Contract, then Payless agrees to pay Consultant supplementary consulting fees, in addition to the consulting fees described in Section 2 (a) of this Consulting Contract, at a rate of \$2,000 per day for each day that Consultant so renders and furnishes such excess consulting services. In the event that Payless becomes obligated to pay supplementary consulting fees under this Section 2(b) Payless agrees to pay such supplementary consulting fees accrued on or about the first week after the close of the fiscal quarter.

(c) Payless shall reimburse Consultant for all reasonable ordinary and necessary business expenses incurred directly in the rendering of consulting services hereunder, including, but not by way of limitation, expenses for such matters as transportation, travel, entertainment, long distance telephone calls and other necessary and customary expenses on the same terms as were offered while Consultant was employed as Senior Vice President by Payless. Payment of such expenses during the term of this Consulting Contract shall be made promptly upon presentation of supporting documents comparable to those required to be submitted by employees of Payless. If business is conducted by Consultant on any trip for Payless and for a non-Payless client of consultant, then such trip costs will be allocated equally among all of the clients so served.

(d) It is agreed and understood that nothing in this Section 2 or elsewhere in this Consulting Contract shall be deemed or construed to create or continue an employer-employee relationship between Consultant and Payless, it being agreed that such employer-employee relationship between Consultant terminated on or about February 9, 2001.

3. (a) Consultant covenants and agrees that during the term of this Consulting Contract, and for a period of one (1) year from the earlier of February 9, 2002, or the actual termination of this Consulting Contract, he shall not:

(i) either alone or in concert with others, directly or indirectly, own, be a partner in, be a member of, operate, be employed by, or act as an advisor, consultant, agent, officer, director, or independent contractor for, or otherwise have an interest in, a Competing Business;

(ii) solicit for employment, hire or offer employment to, or disclose information to or otherwise aid or assist any other person or entity other than Payless in soliciting for employment, hiring or offering employment to, any employee of Payless, or

(iii) take any action which is intended to harm Payless or its reputation, which Payless reasonably concludes could lead to unwanted or unfavorable publicity to Payless; unless Consultant (a) shall first have written to the Chairman of Payless and shall have fully disclosed in advance of such activity both (1) the identity of such competing business and (2) the nature of the consulting or similar services to be rendered and (b) shall first have secured the prior written approval of the Chairman to Consultant's rendering such consulting or other similar services, which prior written approval shall not be unreasonably

withheld; but except to the extent limited as aforesaid, and as hereinafter provided, Consultant's activities shall not be otherwise restricted by its Consulting Contract.

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(b) The term "Competing Business" shall include, but not be limited to

(i) any retail business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells footwear at retail to consumers at price points competitive, or likely to be competitive with Payless and where footwear represents more than 10% of the total business of that retail business, located within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees or wholesale customers;

(ii) any franchising or wholesaling business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells footwear at wholesale to franchisees, retailers or other footwear distributors and where footwear represents more than 10% of the total business of that franchising or wholesaling business, located within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees or wholesale customers;

(iii) any footwear manufacturing business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells footwear to retailers or other footwear distributors located within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees or wholesale customers; (e.g. including, without limitation, Dexter, Stride Rite, Wolverine Worldwide, Timberland, Nike, Reebok, K-Swiss, Keds and Adidas);

(iv) specifically Wal-Mart, K-Mart, Target, Ames, Mervyn's, Foot Star, Inc., Edison, Aldo, Genesco, Venator, Famous Footwear, Shoe Carnival, Kohl's, Big Five, J.C. Penney, Sears and Montgomery Wards (the above notwithstanding);

(v) any business which provides buying office services to any store or group of stores or businesses referred to in Paragraph 3(b) (i), 3(b) (ii), 3(b) (iii) and 3(b) (iv).

(c) The background of the non-compete restriction is as follows:

(i) Payless is one of the leading retail companies in the United States, with self-service shoe stores throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam, Saipan and Canada; and

(ii) In connection with its business, Payless has expended a

great deal of time, money and effort to develop and maintain its confidential, proprietary and trade secret information; this information, if misused or disclosed, could be very harmful to Payless' business and its competitive position in the marketplace; and

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(iii) Consultant desires to contract with Payless, to be given access to confidential and proprietary information of Payless necessary for Consultant to perform the Consulting Contract, but which Payless would not make available to Consultant but for Consultant's signing and agreeing to abide by the terms of this Consulting Contract with Payless; and

(iv) Consultant recognizes and acknowledges that the Consulting Contract with Payless provides Consultant with access to Payless' confidential and proprietary trade secret information and other confidential business information; and

(v) long-term customer and supplier relationships often can be difficult to develop and require a significant investment of time, effort and expense; and

(vi) Consultant recognizes and acknowledges that if Consultant's contract with Payless were to cease, Payless needs certain protections in order to ensure that Consultant does not appropriate and use any confidential information entrusted to Consultant during the course of this Consulting Contract by Payless or take any other action which could result in a loss of Payless' goodwill that was generated on Payless' behalf and at its expense, and, more generally, to prevent Consultant from having an unfair competitive advantage over Payless.

4. Payless and Consultant shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of the obligations and duties of the other under this Consulting Contract, and enforcement of one or more of such rights and remedies shall in no way preclude Payless or Consultant from pursuing, at the same time or subsequently, any and all other rights and remedies available to each of them. In no event may either party (the "terminating party") terminate this Consulting Contract or Consultant's engagement hereunder on account of the breach of this Consulting Contract by the other party unless the terminating party gives notice to the other party of the grounds for claiming such breach and such grounds continue for ten days after the other party receives such notice. The giving of one such notice on one or more grounds shall not preclude the giving of a subsequent notice or notices. In any legal or other proceeding with respect to any such breach of this Consulting Contract, the only basis on which the terminating party may establish such stated breach will be the grounds stated in any such notice or subsequent notice or notices.

5. Whenever it is provided herein that notice, demand, request or other communication shall or may be given to or served upon either of the parties by the other, and whenever either of the parties shall desire to give or serve upon the other any notice, demand, request or other communication, each such notice, demand, request or other communication shall be in writing and shall not be effective for any purposes unless the same shall be given or served by mailing the same or having the same delivered by an independent courier, addressed as follows:

<TABLE>

<S>

(a) If to Payless:

Payless ShoeSource, Inc.
3231 SE 6th Street
Topeka, Kansas 66607

<C>

with a copy to:

Payless ShoeSource, Inc.
3231 SE 6th Street
Topeka, Kansas 66607

</TABLE>

-4-

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<TABLE>

<S>

Attention: Chairman

<C>

Attention: General Counsel

</TABLE>

or at such other address or addresses as Payless may from time to time designate by notice given to Consultant.

<TABLE>

<S>

(b) If to Consultant:

Jed L. Norden
3925 SW Clarion Park Drive
Topeka, Kansas 66610

<C>

with a copy to:

Mary Anne Sedey, Esq.
Mary Anne Sedey & Associates
3030 S. Grand Blvd., Ste. 200
St. Louis, MO 63118

</TABLE>

or at such other address or addresses as Payless Consultant may from time to time designate by notice given to Payless Consultant.

Every notice, demand, request or other communication under this Consulting Contract shall be given or served by (i) depositing the same in the United States mail, first-class, registered or certified, postage paid, return receipt requested, or (ii) depositing the same with an independent courier, expenses prepaid, return receipt requested, and the postal receipt or courier receipt showing delivery to Payless or to Consultant, as the case may be, of any such notice, demand, request or other communication addressed and delivered in accordance with this Section 5 shall be deemed conclusive evidence that (i) such notice, demand, request or other communication shall have been given or served as of the date so deposited in the United States mail or with such independent courier and (ii) such addressee shall have received the same; such notice, demand, request or other communication shall be effective as of the time of receipt by the addressee.

6. (a) Consultant will not, at any time, directly or indirectly, use or disclose any of Payless' Confidential Information except as authorized and within the scope of the Consulting Contract with Payless.

(b) At Payless' request and/or termination of this Consulting Contract with Payless, Consultant will return to Payless all documents, records, notebooks, computer diskettes and tapes and anything else containing Payless' Confidential Information, including all copies thereof, as well as any other Payless property, in Consultant's possession, custody or control. Consultant will also delete from Consultant's own computer or other electronic storage medium, any of Payless' proprietary or Confidential Information. Not later than

20 days after the Consulting Contract is terminated, Consultant will certify in writing to Payless that Consultant has complied with these obligations.

(c) During the terms of this Consulting Contract with Payless and thereafter, Consultant will (i) notify and provide Payless immediately with the details of any unauthorized possession, use or knowledge of any of Payless' Confidential Information, (ii) assist in preventing any reoccurrence

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of this possession, use or knowledge, and (iii) cooperate with Payless in any litigation or other action to protect or retrieve Payless' Confidential information.

(d) "Confidential Information" means any non-public information pertaining to Payless' business. Confidential Information includes information disclosed by Payless to Consultant, and information developed or learned by Consultant during the course of or as a result of the Consulting Contract with Payless, which Consultant also agrees is Payless' property. Consultant further agrees that any item of intellectual or artistic property generated or prepared by Consultant, for Consultant or with others, in connection with this Consulting Contract with Payless is Payless' sole property and shall remain so unless Payless otherwise specifically agrees in writing. Confidential Information includes, without limitation, information and documents concerning Payless' processes; suppliers (including Payless' terms, conditions and other business arrangements with suppliers); supplier and customer lists; advertising, marketing plans and strategies; profit margins; seasonal plans, goals, objectives and projections, compilations, analysis and projections regarding Payless' divisions, businesses, product segments, product lines, suppliers, sales and expenses; files; trade secrets and patent applications (prior to their being public); salary, staffing and employment information (including information about performance of other executives); and "know-how," techniques or any technical information not of a published nature relating, for example, to how Payless conducts its business.

(e) Consultant agrees that Consultant will not disclose to Payless or use, or induce Payless to use, any proprietary information, trade secret or confidential business information of any other person or entity, including any previous employer of Consultant. Consultant also represents that Consultant has returned all property, proprietary information, trade secret and confidential business information belonging to any prior employer.

7. Consultant acknowledges and agrees that Consultant understands the restrictions in Paragraph 3 above, that they are reasonable and that such restrictions are enforceable in view of the background for the non-compete restriction set forth in Section 3(c), and in view of, among other things,

(a) the market in which Payless operates its business;

(b) the confidential information to which Consultant has access;

(c) Consultant's training and background, which are such that neither Payless nor Consultant believe that the restraint will pose an undue hardship on the Consultant;

(d) the fact that a Competing Business could benefit greatly if it were to obtain Payless' confidential information;

(e) the fact that Payless would not have adequate protection if

Consultant was permitted to work for any Competing Business since Payless would be unable to verify whether its confidential information was being disclosed or misused;

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(f) The limited duration of, the limited scope of, and the limited activities prohibited by, the restrictions in Paragraph 3 above; and

(g) Payless' legitimate interests in protecting its confidential information, goodwill and relationships.

Furthermore, Payless and Consultant hereby expressly agree that should any court of competent jurisdiction determine that any provision of this Consulting Contract is, but for the provisions of this Section 7, illegal or void as against public policy, for any reason, then such provision shall automatically be amended to the extent (but only to the extent) necessary to make it sufficiently narrow in scope, time and geographic area that such court shall determine it not to be illegal or void as against public policy. If any such provision cannot be amended to the extent provided in the preceding sentence, then such provision shall be severed from this Consulting Contract. In either event, all other remaining terms and provisions shall remain in full force and effect.

8. Consultant agrees to disclose fully to Payless, and hereby assigns and transfers to Payless, and agrees to execute any additional documentation Payless may reasonably request to evidence the assignment and transfer, immediately upon the conception, development, making or acquisition thereof, the right, title, and interest in and to any and all inventions, discoveries, improvements, innovations, and/or designs (the "Work Product") conceived, discovered, developed, acquired or secured by Consultant, solely or jointly with others or otherwise, together with all associated U.S. and foreign intellectual property rights (i.e. patents, copyrights, trademarks or trade secrets) either:

(a) during the period of this Consulting Contract, if such Work Product is related directly to or indirectly, to the business of, or to the research or development work of Payless;

(b) with the use of the time, materials, or facilities of Payless; or

(c) within six (6) months after termination of this Consulting Contract if conceived as a result of and is attributable to work done during such employment and relates to Work Product within the scope of the business of Payless, together with rights to all intellectual property rights which may be granted thereon.

Upon discovery, development or acquisition of any such Work Product, Consultant shall notify Payless and shall execute and deliver to Payless, without further compensation, such documents prepared by Payless as may be reasonable or necessary to prepare or prosecute applications for rights in such Work Product and to assign and transfer to Payless Consultant's right, title and interest in and to such Work Product and intellectual property rights thereof. Consultant acknowledges that Consultant has carefully read and considered the provisions of this paragraph and, having done so, agrees that the restrictions set forth herein are fair and reasonable and are reasonably required for the protection of the interests of Payless, its officers, directors and other associates.

9. This Consulting Contract shall be governed by and construed in

accordance with the laws of the State of Kansas. The appropriate state or federal courts of the State of Kansas shall have

exclusive jurisdiction over the parties hereto and each party hereby submits to the personal jurisdiction of said courts of the State of Kansas otherwise having jurisdiction over the subject matter.

10. The entire understanding and agreement between the parties with respect to Consultant's consulting services hereunder has been incorporated into this Consulting Contract. This Consulting Contract may not be amended, except in writing, signed by both parties.

11. Consultant's obligations hereunder may not be assigned without the express written consent of Payless. This Consulting Contract shall be binding upon Consultant, its successors and assigns and upon Payless, its successors and assigns.

IN WITNESS THEREOF, Payless and Consultant have executed this Consulting Contract in two counterparts, each of which shall be deemed an original, on the dates indicated below, but effective as of the day and year first above written.

<TABLE>

<S>

Payless ShoeSource, Inc.

<C>

Consultant

By: /S/ Steven J. Douglass

By: /S/ Jed L. Norden

Steven J. Douglass
Chairman and Chief Executive Officer

Jed L. Norden

Date: 12/22/00

Date: 12/22/00

</TABLE>

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into on the 16th day of November, 2000, by and between PAYLESS SHOESOURCE, INC., a Delaware corporation, ("Payless") and Steven J. Douglass ("Executive").

In consideration of mutual promises and agreements set forth in this Employment Agreement, Payless and Executive agree as follows:

1. (a) Payless agrees to employ Executive, and Executive agrees to render personal services to Payless, for the period commencing on the date of this Employment Agreement through May 31, 2007 (the "Contract Term") Chairman of the Board and Chief Executive Officer of Payless ShoeSource, Inc.

(b) Payless agrees to pay Executive basic compensation for such services during the Contract Term at the annual rate of \$800,000.00, payable in equal bi-weekly installments, and in accordance with Paragraph 5, which annual rate will be subject to an annual review during Payless' regularly scheduled review time.

(c) If Executive is eligible to participate in one of Payless' bonus plans (the "Incentive Plan"), then Executive shall be entitled to such Awards, if any, which may be payable under the Incentive Plan, determined in accordance with and subject to all of the terms and provisions of the Incentive Plan.

(d) Payless shall reimburse Executive for all items of normal expense incurred by Executive as an employee of Payless in accordance with Payless' reimbursement policies in effect from time to time.

(e) The Executive Compensation Change Memorandum from time to time in effect, as initialed on behalf of Payless and by Executive, is hereby incorporated by reference herein and made a part hereof. In addition, Payless has adopted certain employee benefit plans and has established certain arrangements concerning executive perquisites which may, from time to time, confer rights and benefits on the Executive in accordance with their terms, and Payless may, in the future, adopt additional employee benefit plans and establish additional arrangements concerning executive perquisites, and may in the future amend, modify or terminate any of the aforesaid employee benefit plans and arrangements, all in accordance with their terms and in accordance with applicable law. Executive shall be entitled to whatever rights and benefits may be conferred on Executive, from time to time in accordance with the terms of such plans and arrangements, as they may be amended from time to time, independent of this Agreement. All references to payment dates or vesting dates in this Paragraph 1 or in such plans and arrangements, shall require that

Executive be employed by Payless on such date to receive such payment or be vested in such benefit.

(f) Executive will be eligible for future grants of restricted stock and stock options as

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may be made under the terms of the 1996 Stock Incentive Plan ("SIP") in accordance with the levels established by the Compensation Committee of the Board of Directors.

(g) Payless will:

(i) grant Executive 120,000 options on shares of common stock under the SIP on May 25, 2001, such options to vest as follows:

<TABLE>
<CAPTION>

NUMBER OF SHARES -----	VESTING DATE -----
<S>	<C>
15,000	May 25, 2002
15,000	May 25, 2003
20,000	May 25, 2004
20,000	May 25, 2005
25,000	May 25, 2006
25,000	May 25, 2007

</TABLE>

and

(ii) at such future date as is determined by the Compensation and Nominating Committee of the Board of Directors or the Board:

(1) seek shareowner approval of amendments to the SIP, or approval of another plan, so that an additional 280,000 options on shares of common stock could be granted to Executive and such grant would comply with the requirements of Section 162(m) of the Internal Revenue Code, and

(2) upon such approval, grant to Executive effective the date of such shareowner approval 280,000 options on shares

of common stock at the average of the high and low trading price on the date of such grant, which options shall vest in equal installments beginning on the first anniversary of such grant and continuing annually thereafter through the anniversary of such grant in 2007; and

(iii) amend the Payless ShoeSource, Inc. Supplemental Retirement Plan to provide for the Executive (1) immediate benefit eligibility (prior to age 55) upon a change of control or termination of employment by Payless without cause, and (2) in the event of Executive's disability prior to age 55, immediate eligibility for benefits to be integrated with, and funded pursuant to, Payless' disability plans; and

(iv) amend the Payless ShoeSource, Inc. Executive Post-Retirement Life Medical Insurance Program ("Retiree Medical Plan") to provide the Executive and his spouse

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with lifetime retiree medical insurance coverage at Payless' cost (1) upon the Executive's retirement after age 55, and (2) prior to the Executive reaching age 55, in the event of a change in control, termination by Payless without cause, or the Executive becoming disabled (as defined by the Retiree Medical Plan); and

(v) amend the Payless ShoeSource, Inc. Executive Incentive Compensation Plan for Payless Executives ("EICP") to increase the maximum (as defined in Section 4.c.i. of the EICP) for each of the "Annual EPS Factor" and "Annual RONA Factor" to 56.25%.

2. (a) At all times during the Contract Term, Executive will:

(i) faithfully and diligently perform Executive's duties in conformity with the directions of Payless and serve Payless to the best of Executive's ability; and

(ii) devote Executive's undivided time and attention to the business of Payless, subject to reasonable vacations in accordance with Payless' vacation policy as it applies from time to time, to such extent as may be reasonably necessary for the proper performance of the personal services to be rendered by Executive under this Agreement; and

(iii) maintain Executive's residence in the Topeka, Kansas metropolitan area or the environs thereof within reasonable access to the business activities of Payless therein for the Contract Term.

(b) At all times during the Contract Term, Executive will not:

(i) engage in any activity which conflicts or interferes with or adversely affects Executive's performance of Executive's duties hereunder, or

(ii) accept any other employment, whether as an Executive or as a consultant or in any other capacity, and whether or not compensated therefor, or

(iii) violate the terms of any of the policies described in Payless' Policy of Business Conduct distributed from time to time to Executive.

3. (a) At all times during the Contract Term and for a period of two years from actual termination of employment or, if there are more than one year remaining in the Contract Term at the time of termination of employment, for the remainder of the Contract Term, Executive will not:

(i) directly or indirectly, own, manage, operate, finance, join, control, or participate in the ownership, management, operation, financing or control of, or be employed by or connected in any manner with any Competing Business, or

(ii) solicit for employment, hire or offer employment to, or disclose information to or otherwise aid or assist any other person or entity other than Payless or any

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subsidiary of Payless in soliciting for employment, hiring or offering employment to, any employee of Payless or any subsidiary of Payless, or

(iii) take any action which is intended to harm Payless or its reputation, which Payless reasonably concludes could harm Payless or its reputation or which Payless reasonably concludes could lead to unwanted or unfavorable publicity to Payless.

Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business shall not constitute ownership or participation in ownership in violation of Paragraph 3(a).

(b) The term "Competing Business" shall include, but not be limited to,

(i) any retail business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells

footwear at retail to consumers at price points competitive, or likely to be competitive with Payless (e.g., including, without limitation, Wal-Mart, K-Mart, Target, Ames, Mervyn's Pic-N-Pay, Foot Star, Inc., Edison, Aldo, Genesco, Venator, Famous Footwear, Shoe Carnival, Jones Apparel Group, Kohl's, Liz Claiborne, Big Five, J.C. Penney and Sears) within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees or wholesale customers;

(ii) any franchising or wholesaling business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells footwear at wholesale to franchisees, retailers or other footwear distributors located within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees or wholesale customers:

(iii) any footwear manufacturing business with gross sales or revenue in the prior fiscal year of more than \$25 million (or which is a subsidiary, affiliate or joint venture partner of a business with gross sales or revenue in the prior fiscal year of more than \$25 million) which sells footwear to retailers or other footwear distributors located within 20 miles of any Payless store or the store of any wholesale customer of Payless in the United States, or anywhere in any foreign country in which Payless has retail stores, franchisees, or wholesale customers; (e.g., including, without limitation, Jones Apparel Group, Dexter, Stride Rite, Liz Claiborne, Wolverine Worldwide, Timberland, Nike, Reebok, K-Swiss, Keds and Adidas); or

(iv) any business which provides buying office services to any store or group of stores or businesses referred to in Paragraph 3.(b) (i), 3. (b) (ii) and 3. (b) (iii).

(c) Background of non-compete restriction:

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(i) Payless is one of the leading retail companies in North America, with self-service shoe stores throughout the United States and its territories and Canada; and

(ii) In connection with its business, Payless has expended a great deal of time, money and effort to develop and maintain its confidential, proprietary and trade secret information; this

information, if misused or disclosed, could be very harmful to Payless' business and its competitive position in the marketplace; and

(iii) Executive desires to be employed by Payless, to be eligible for opportunities for advancement within Payless, to be eligible for potential compensation increases and to be given access to confidential and proprietary information of Payless necessary for Executive to perform Executive's job, but which Payless would not make available to Executive but for Executive's signing and agreeing to abide by the terms of this Agreement as a condition of Executive's employment by Payless; and

(iv) Executive recognizes and acknowledges that Executive's position with Payless provides Executive with access to Payless' confidential and proprietary trade secret information and other confidential business information; and

(v) Payless compensates its associates to, among other things, develop and preserve goodwill and relationships on Payless' behalf and to develop and preserve business information for Payless' exclusive ownership and use; and

(vi) long-term customer and supplier relationships often can be difficult to develop and require a significant investment of time, effort and expense; and

(vii) Executive recognizes and acknowledges that if Executive's employment with Payless were to cease, Payless needs certain protections in order to ensure that Executive does not appropriate and use any confidential information entrusted to Executive during the course of Executive's employment by Payless or take any other action which could result in a loss of Payless' goodwill that was generated on Payless' behalf and at its expense, and, more generally, to prevent Executive from having an unfair competitive advantage over Payless.

(d) Reasonableness of non-compete restriction. Executive acknowledges and agrees that the restrictions in Paragraph 3(a) are reasonable and enforceable in view of the background for the non-compete restriction set forth in Paragraph 3(c) and in view of, among other things,

(i) the markets in which Payless and its subsidiaries operate their business; and

(ii) the confidential information to which Executive has access; and

(iii) Executive's training and background, which are such that neither Payless nor Executive believe that the restraint will pose an undue hardship on Executive; and

(iv) the fact that a Competing Business could benefit greatly if it were to obtain Payless' confidential information; and

(v) the fact that Payless would not have adequate protection if Executive were permitted to work for any Competing Business since Payless would be unable to verify whether its confidential information was being disclosed or misused; and

(vi) the limited duration of, the limited scope of, and the limited activities prohibited by, the restrictions in Paragraph 3(a); and

(vii) Payless' legitimate interests in protecting its confidential information, goodwill and relationships.

(e) If Executive violates Executive's obligations under Paragraph 3(a), then Payless shall be entitled to an injunction and other relief provided for in this Agreement to prevent such violation, and the time during which Executive violated the obligations shall not count toward satisfying the time during which the restriction shall apply. For example, if Executive were to join a competitor at the end of the Contract Term in violation of the restrictions in Paragraph 3(a) and work for such competitor for one month before a court enjoined such violation, then the two year time period of the restriction would begin when such injunction were issued; the one month during which Executive violated such restriction would not count toward the time that the restriction applies.

4. If Executive becomes Totally Disabled and remains continuously so Totally Disabled for a period of 180 days, then Payless' obligations under this Employment Agreement, at Payless' option, may be terminated by notice in writing to that effect given during the continuance of such Total Disability, such termination to take effect the later of (a) the last day of the month during which such notice is given or (b) the last day of such 180 day period. If Executive has made a previous election to participate in Payless' Long Term Disability Plan (subject to the terms and provisions of that plan), then the terms of that plan shall apply. "Total Disability" or "Totally Disabled" shall mean the inability of Executive to perform the normal duties of Executive's job under this Agreement.

5. (a) If Executive's employment terminates during the Contract Term by reason of Executive's death or Total Disability, by Executive's voluntary termination of employment or by Payless for Cause,

(i) Executive's basic compensation and employee benefits shall cease on the date of such termination, except as otherwise provided herein or in any applicable employee benefit plan or program; and

(ii) Executive (or Executive's legal representative(s)) shall

portion of any incentive compensation as shall be payable under the terms of the Incentive Plan.

(b) In addition, if Executive's employment is terminated by reason of death, then Executive's obligations under Paragraphs 1 and 2 shall cease on the effective date of such termination.

(c) In addition, if Executive's employment is terminated by reason of Total Disability, by Executive voluntarily or by Payless for Cause, then Executive's obligations under Paragraphs 1 and 2 shall cease on the effective date of such termination and Executive's obligations under Paragraphs 3 and 6 remain in full force and effect, and Payless shall be entitled to all legal and equitable rights and remedies under this Agreement, including all of its rights and remedies referred to in Paragraph 8 of this Agreement, and Payless shall be entitled to enjoin Executive from violating the provisions of Paragraphs 3 and 6 of this Agreement.

(d) If Executive's employment is terminated by Payless without Cause, then

(i) Executive's employment (and status as an employee) shall cease immediately; and

(ii) Executive shall be entitled, subject to the provisions of Paragraph 5(d)(vi), to continue to receive for the remainder of the Contract Term the higher of (x) Executive's basic compensation specifically stated in Paragraph 1(b) as of the date of this Agreement, and (y) Executive's basic compensation at the time Executive employment terminates; and

(iii) Executive shall be entitled to such portion of any incentive compensation as shall be payable under the terms of the Incentive Plan; and

(iv) Executive shall be entitled to post-termination benefits that are payable under Payless' employee benefit plans in accordance with their terms based on Executive's service through, and termination of employment on, the termination date, including any rights Executive may have to continued participation in Payless' medical plans under COBRA; and

(v) except as expressly provided in this Paragraph 5(d),

Executive's post-termination obligations under this Agreement, including, without limitation, the provisions of Paragraphs 3 and 6, shall continue to apply following such termination; and

(vi) Executive shall use Executive's best efforts to find other employment which does not violate the provisions of Paragraph 3 hereof. If Executive accepts such other employment, Executive shall promptly notify Payless of such employment and of the compensation received, to be received or receivable from Executive's subsequent employer attributable to the remainder of the Contract Term, and all basic

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compensation otherwise payable under Paragraph 5(d) for the remainder of the Contract Term shall be reduced to the extent of Executive's similar compensation received, to be received or receivable from such other employer or other business.

(e) "Cause" means

(i) an intentional act of fraud, embezzlement, theft or any other material violation of law in connection with Executive's duties or in the course of Executive's employment with Payless; or

(ii) intentional damage to assets of Payless; or

(iii) intentional disclosure of confidential information of Payless contrary to the policy of Payless; or

(iv) breach of Executive's obligations under this Agreement;
or

(iv) intentional engagement in any competitive activity which would constitute a breach of Executive's duty of loyalty or of Executive's obligations under this Agreement; or

(v) intentional breach of any policy of Payless; or

(vi) the willful and continued failure by Executive to substantially perform Executive's duties with Payless (other than any such failure resulting from Executive's incapacity due to physical or mental illness); or

(vii) the willful engaging by Executive in conduct which is demonstrably and materially injurious to Payless, monetarily or otherwise.

For purposes of this Paragraph 5(e), an act, or a failure to act, shall not be deemed "willful" or "intentional" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interest of Payless. Failure to meet performance standards or objectives, by itself, will not constitute "Cause".

(f) Executive agrees that, in addition to any other remedies, Payless shall be permitted, as part of the computation of any final amount or amounts due to Executive as wages, compensation, bonus, deferred compensation or otherwise, and before any such amount shall be due and owing, to reduce any amount which Payless may otherwise owe to Executive by any unpaid amount which Executive owes to Payless.

6. (a) Executive will not, at any time, directly or indirectly, use or disclose any of Payless' Confidential Information except as authorized and within the scope of Executive's employment with Payless.

(b) At Payless' request and/or termination of Executive's employment with Payless,

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Executive will return to Payless all documents, records, notebooks, computer diskettes and tapes and anything else containing Payless' Confidential Information, including all copies thereof, as well as any other Payless property, in Executive's possession, custody or control. Executive will also delete from Executive's own computer or other electronic storage medium any of Payless' proprietary or Confidential Information. Not later than 20 days after Executive's employment is terminated, Executive will certify in writing to Payless that Executive has complied with these obligations.

(c) During Executive's employment with Payless and thereafter, Executive will

(i) notify and provide Payless immediately with the details of any unauthorized possession, use or knowledge of any of Payless' Confidential Information,

(ii) assist in preventing any reoccurrence of this possession, use or knowledge, and

(iii) cooperate with Payless in any litigation or other action to protect or retrieve Payless' Confidential information.

(d) "Confidential Information" means any non-public information

pertaining to Payless' business. Confidential Information includes information disclosed by Payless to Executive, and information developed or learned by Executive during the course of or as a result of Executive's employment with Payless, which Executive also agrees is Payless' property. Executive further agrees that any item of intellectual or artistic property generated or prepared by Executive, for Executive or with others, in connection with Executive's employment by Payless is Payless' sole property and shall remain so unless Payless otherwise specifically agrees in writing. Confidential Information includes, without limitation, information and documents concerning Payless' processes; suppliers (including Payless' terms, conditions and other business arrangements with suppliers); supplier and customer lists; advertising, marketing plans and strategies; profit margins; seasonal plans, goals, objectives and projections, compilations, analyses and projections regarding Payless' divisions, businesses, product segments, product lines, suppliers, sales and expenses; files; trade secrets and patent applications (prior to their being public); salary, staffing and employment information (including information about performance of other executives); and "know-how," techniques or any technical information not of a published nature relating, for example, to how Payless conducts its business.

(e) Executive agrees that Executive will not disclose to Payless or use, or induce Payless to use, any proprietary information, trade secret or confidential business information of any other person or entity, including any previous employer of Executive. Executive also represents that Executive has returned property, proprietary information, trade secret and confidential business information belonging to any prior employer.

7. (a) If any court of competent jurisdiction determines that, but for the provisions of this Paragraph 7, any provision of this Agreement is illegal, void as against public policy or otherwise unenforceable because it is deemed to be overbroad, then such provision shall automatically be amended to the extent (but only to the extent) necessary to make it sufficiently narrow in scope,

time and geographic area that it is not illegal, void as against public policy or overbroad. All other remaining terms and provisions shall remain in full force and effect.

(b) If Executive raises any question regarding the enforceability of any aspect of this Agreement, including, without limitation, Paragraphs 3 or 6, Executive specifically agrees that Executive will abide fully by such provisions unless and until a court of competent jurisdiction has rendered a final judgment that such provisions are not fully enforceable. Following any such final judgment, Executive and Payless will abide fully by such judgment.

8. (a) Payless and Executive shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of the obligations and duties of the other under this Agreement, and enforcement of one or more of such rights and remedies shall in no way preclude Payless or Executive from pursuing any and all other rights and remedies available to each of them.

(b) Executive acknowledges and agrees that the individualized services and capabilities that Executive will render and provide to Payless during the Contract Term are of a personal, special, unique, unusual, extraordinary and intellectual character.

(c) Executive acknowledges and agrees that the restrictions in this Agreement on Executive are reasonable in order to protect Payless' expectations and rights under this Agreement and to provide Payless with the protections that Payless needs to, among other things, safeguard its confidential information. Payless shall be entitled to injunctive relief in addition to any other remedy it may have, and Executive expressly consents to injunctive and such other equitable relief as Payless in good faith believes it may need. Without limiting the generality of the foregoing, if Executive breaches or threatens to breach Executive's obligations under Paragraphs 3 or 6 hereof, Executive consents to entry of an order enjoining Executive from rendering personal services to or in connection with a Competing Business and from using or disclosing any confidential information.

(d) If Executive's employment is terminated by Executive voluntarily or by Payless for Cause, Executive shall be liable for all attorneys' fees and costs incurred by Payless in seeking to enforce its rights under this Agreement.

9. Payless Work-Product, The Executive agrees to disclose fully to Payless, and hereby assigns and transfers to Payless, and agrees to execute any additional documentation Payless may reasonably request to evidence the assignment and transfer, immediately upon the conception, development, making or acquisition thereof, the right, title, and interest in and to any and all inventions, discoveries, improvements, innovations, and/or designs (the "Work Product") conceived, discovered, developed, acquired or secured by the Executive, solely or jointly with others or otherwise, together with all associated U.S. and foreign intellectual property rights (i.e. patents, copyrights, trademarks or trade secrets) either:

(a) during the period of Executive's employment, if such Work Product is related directly or indirectly, to the business of, or to the research or development work of Payless;

(b) with the use of the time, materials, or facilities of Payless; or

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(c) within one year after termination of such employment if conceived as a result of and is attributable to work done during such employment and

relates to Work Product within the scope of the business of Payless, together with rights to all intellectual property rights which may be granted thereon.

Upon discovery, development or acquisitions or any such Work Product, Executive shall notify Payless and shall execute and deliver to Payless, without further compensation, such documents prepared by Payless as may be reasonable or necessary to prepare or prosecute applications for such Work Product and to assign and transfer to Payless Executive's right, title and interest in and to such Work Product and intellectual property rights thereof. Executive acknowledges that Executive has carefully read and considered the provisions of this paragraph and, having done so, agrees that the restrictions set forth herein are fair and reasonable and are reasonably required for the protection of the interests of Payless, its officers, directors, and other executives.

10. The entire understanding and agreement between the parties has been incorporated into this Agreement, and this Agreement supersedes all other agreements and understandings between the Executive and Payless and its parents and subsidiaries, with respect to the employment of Executive by Payless and its parents and subsidiaries. This Agreement shall inure to the benefit of, and shall be binding upon, Payless, its successors and assigns and upon Executive and Executive's heirs, successors and assigns; provided, however, that, since this is an agreement for the rendering of personal services, Executive cannot assign any of Executive's obligations under this Agreement to anyone else. This Agreement may be executed in counterparts, in which case each of the two counterparts shall be deemed to be an original and the final counterpart shall be deemed to have been executed in Topeka, Kansas.

11. Executive agrees that this Agreement may be assigned by Payless to a subsidiary of Payless; such assignment, however, shall not relieve Payless of any of its obligations hereunder except to the extent that such obligations are actually discharged by such subsidiary.

12. This Agreement has been executed by Payless at Payless' corporate headquarters and principal executive offices in Topeka, Kansas. Any questions or other matter arising under this Agreement, whether of validity, interpretation, performance or otherwise, shall be governed by and construed in accordance with the laws of the State of Kansas applicable to agreements made and to be performed in such state without regard to such state's conflicts of law provision. All actions and proceedings arising out of or relating directly or indirectly to this Agreement shall be filed and litigated exclusively in any state court or federal court located in the City of Topeka, Kansas or in Shawnee County, Kansas. The parties hereto expressly consent to the jurisdiction of any such court and to venue therein and consent to service of process if made upon Payless' registered agent or if made at Executive's last known address on the records of Payless.

BY SIGNING THIS AGREEMENT, EXECUTIVE HEREBY CERTIFIES THAT EXECUTIVE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE SIGNING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C)

HAS HAD SUFFICIENT OPPORTUNITY TO REVIEW THE AGREEMENT WITH ANY ADVISOR WHICH EXECUTIVE MAY DESIRE TO CONSULT, INCLUDING LEGAL COUNSEL; (D) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING IT TO ASK ANY QUESTIONS EXECUTIVE HAS ABOUT THIS AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (E) UNDERSTANDS EXECUTIVE'S RIGHTS AND OBLIGATIONS UNDER THIS AGREEMENT.

IN WITNESS WHEREOF, this Agreement has been executed by Executive, and then by Payless in Topeka, Kansas, effective as of the date first above written.

/s/ Steven J. Douglass

Steven J. Douglass

PAYLESS SHOESOURCE, INC.

By: /s/ Thomas A. Hays

Name: Thomas A. Hays

Title: Chairman

Compensation and Nominating Committee

PAYLESS SHOESOURCE, INC.

Deferred Compensation 401(k) Mirror Plan

EFFECTIVE OCTOBER 1, 2000

Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan

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PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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PAYLESS SHOESOURCE, INC.

DEFERRED COMPENSATION 401(K) MIRROR PLAN

Effective October 1, 2000

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees who contribute materially to the continued growth, development and future business success of Payless ShoeSource, Inc., a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
DEFINITIONS

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the Company Contribution Account balance, (iii) the Company Matching Account balance and (iv) the Stock Option Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 "Annual Deferral Amount" shall mean that portion of a Participant's Annual Salary and Bonus that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.
- 1.3 "Annual Installment Method" shall mean annual installments over the number of years selected by the Participant or Committee in accordance with this Plan, calculated in accordance with this Section 1.3. Each annual installment shall be paid during the month of January of each calendar year. The Account Balance of the Participant shall be calculated on the day in which the payment is made; provided, however, that for the Plan Year in which the Participant Retires, experiences a Termination of Employment, suffers a Disability or dies, the Account Balance of the Participant shall be calculated as of the date of such event. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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number of annual installments due the Participant. By way of example, if the Participant elects a 10-year Annual Installment Method, the first annual installment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the annual installment shall be 1/9 of the Account Balance, calculated as described in this definition.

- 1.4 "Annual Stock Option Amount" shall mean, with respect to a Participant for any one Plan Year, the amount of Qualifying Gains deferred on Eligible Stock Option exercise in accordance with Section 3.7 of this Plan, calculated using the closing price of Stock as of the end of the business day closest to the date of such Eligible Stock Option exercise
- 1.5 "Annual Salary" shall mean the annual cash compensation relating to services performed during any Plan Year, whether or not paid in such Plan Year or included on the Federal Income Tax Form W-2 for such Plan Year, excluding bonuses, commissions, royalties, overtime, fringe benefits, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.6 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.7 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.8 "Board" shall mean the board of directors of the Company.
- 1.9 "Bonus" shall mean any compensation, in addition to Annual Salary relating to services performed during any Plan Year, whether or not paid in such Plan Year or included on the Federal Income Tax Form W-2, payable to a Participant as an Employee under any Employer's bonus, commissions, royalties and cash incentive plans, excluding stock based incentive programs.
- 1.10 "Change in Control" shall mean the first to occur of any of the following events:
 - (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that, for purposes of this Section 1.10, none of the following shall constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of Subsection (c) of this Section 1.10, or (v) any acquisition by the Company which, by reducing the number of shares of Outstanding Company Common Stock or Outstanding Company Voting Securities, increases the proportionate number of Outstanding Company Common Stock or Outstanding Company Voting Securities beneficially owned by any Person to twenty percent (20%) or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, provided, however, that if such Person shall thereafter become the beneficial owner of any additional shares of Outstanding Company Common Stock or Outstanding Company Voting Securities and beneficially owns twenty percent (20%) or more of either Outstanding Company Common Stock or Outstanding Company Voting Securities, then such additional acquisition shall constitute a Change in Control; or

- (b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;
- (c) Consummation of a reorganization, merger or consolidation of the Company or any direct or indirect subsidiary of the Company or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

beneficially own, directly or indirectly, more than fifty percent (50%), respectively, of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and

Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination and any Person beneficially owning, immediately prior to such Business Combination), beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

- 1.11 "Claimant" shall have the meaning set forth in Section 14.1.
- 1.12 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.13 "Committee" shall mean the administrative committee appointed pursuant to the Plan as described in Article 12. The Committee shall consist of the members of the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan Committee as such term is defined in the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan.
- 1.14 "Company" shall mean Payless ShoeSource, Inc., a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.
- 1.15 "Company Contribution Account" shall mean (i) the sum of the Participant's Company Contribution Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Contribution

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PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

- 1.16 "Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.17 "Company Matching Account" shall mean (i) the sum of all of a Participant's Company Matching Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.
- 1.18 "Company Matching Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.6.
- 1.19 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the

Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.11 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited/debited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

- 1.20 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.21 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan,

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

- 1.22 "Disability Benefit" shall mean the benefit set forth in Article 8.
- 1.23 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.24 "Eligible Stock Option" shall mean one or more non-qualified stock option(s) selected by the Committee in its sole discretion and exercisable under a plan or arrangement of any Employer permitting a Participant under this Plan to defer gain with respect to such option.
- 1.25 "Employee" shall mean a person who is an employee of any Employer.
- 1.26 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired).
- 1.27 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.28 "401(k) Plan" shall be the Payless ShoeSource, Inc. 401(k) Profit

Sharing Plan adopted by the Company, and as amended from time to time.

- 1.29 "Participant" shall mean any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs an Election Form, (iv) whose signed Election Form is accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose participation has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.
- 1.30 "Plan" shall mean the new Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan, which shall be evidenced by this instrument, as it may be amended from time to time.
- 1.31 "Plan Year" shall mean the fiscal year of the Company.
- 1.32 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.
- 1.33 "Qualifying Gain" shall mean the value accrued upon exercise of an Eligible Stock Option (i) using a Stock-for-Stock payment method and (ii) having an aggregate fair market value

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PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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in excess of the total Stock purchase price necessary to exercise the option. In other words, the Qualifying Gain upon exercise of an Eligible Stock Option equals the total market value of the shares (or share equivalent units) acquired minus the total stock purchase price. For example, assume a Participant elects to defer the Qualifying Gain accrued upon exercise of an Eligible Stock Option to purchase 1000 shares of Stock at an exercise price of \$20 per share, when Stock has a current fair market value of \$25 per share. Using the Stock-for-Stock payment method, the Participant would deliver 800 shares of Stock (worth \$20,000) to exercise the Eligible Stock Option and receive, in return, 800 shares of Stock plus a Qualifying Gain (in this case, in the form of an unfunded and unsecured promise to pay money or property in the future) equal to \$5,000 (i.e., the current value of the remaining 200 shares of Stock).

- 1.34 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, voluntary severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the attainment of (a) age sixty-five (65) or (b) age fifty-five (55) with five (5) Years of Service.
- 1.35 "Retirement Benefit" shall mean the benefit set forth in Article 5.
- 1.36 "Short-Term Payout" shall mean an in-service distribution payout as set forth in Section 4.1.
- 1.37 "Stock" shall mean Payless ShoeSource, Inc. common stock, \$.001 par value, or any other equity securities of the Company designated by the Committee.
- 1.38 "Stock Option Account" shall mean the sum of (i) the Participant's Annual Stock Option Amounts, plus (ii) amounts credited/debited in accordance with all the applicable crediting/debiting provisions of this Plan that relate to the Participant's Stock Option Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Stock Option Account.

- 1.39 "Stock Option Amount" shall mean, for any Eligible Stock Option, the amount of Qualifying Gains deferred in accordance with Section 3.7 of this Plan, calculated using the closing price of Stock as of the end of the business day closest to the date of exercise of such Eligible Stock Option.
- 1.40 "Termination Benefit" shall mean the benefit set forth in Article 7.
- 1.41 "Termination of Employment" shall mean the severing of employment with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence.
- 1.42 "Trust" shall mean one or more trusts established, effective as of October 1, 2000 between the Company and the Trustee named therein, as amended from time to time.

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- 1.43 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.
- 1.44 "Variable Account" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the Company Contribution Account balance, and (iii) the Company Matching Account balance. The Variable Account, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.45 "Year of Service" shall have the same meaning as the term Vesting Service under the 401(k) Plan.

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ARTICLE 2
SELECTION, ENROLLMENT, ELIGIBILITY

- 2.1 SELECTION BY COMMITTEE. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees to participate in the Plan.
- 2.2 ENROLLMENT REQUIREMENTS. As a condition to participation, each selected Employee shall complete, execute and return to the Committee an Election Form within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole

discretion are necessary.

2.3 ELIGIBILITY; COMMENCEMENT OF PARTICIPATION. Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee shall commence participation in the Plan on the first day of the month following the month in which the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 TERMINATION OF PARTICIPATION AND/OR DEFERRALS. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

2.5 PRIOR PARTICIPATION. Each Employee who participated in the Payless ShoeSource, Inc. Deferred Compensation Plan (last amended March 19, 1998) immediately prior to October 1, 2000, shall automatically participate in the new Plan on and after October 1, 2000. Any deferral election in effect as of October 1, 2000 shall continue to remain in effect until changed by the Participant pursuant to the provisions of the Plan.

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 3

DEFERRAL COMMITMENTS/COMPANY MATCHING/CREDITING/TAXES

3.1 MINIMUM DEFERRALS.

(a) ANNUAL SALARY AND BONUS. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Annual Salary, and/or Bonus in the following combined minimum amount.

<TABLE>
<CAPTION>

DEFERRAL	MINIMUM AMOUNT
-----	-----
<S>	<C>
Annual Salary	\$ 0
Bonus	\$ 0
Annual Salary plus Bonus	\$500

</TABLE>

If an election is made for less than the stated minimum amount, or if no election is made, the amount deferred shall be zero.

(b) SHORT PLAN YEAR. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year the minimum Annual Salary deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete

months remaining in the Plan Year and the denominator of which is 12.

- (c) STOCK OPTION AMOUNT. For each Eligible Stock Option, a Participant may elect to defer, as his or her Stock Option Amount, the following minimum percentage of Qualifying Gain with respect to exercise of the Eligible Stock Option:

<TABLE>
<CAPTION>

DEFERRAL	MINIMUM PERCENTAGE
-----	-----
<S>	<C>
Qualifying Gain	10%

</TABLE>

provided, however, that such Stock Option Amount shall be no less than the lesser of \$10,000 or 100% of such Qualifying Gain.

3.2 MAXIMUM DEFERRAL.

- (a) ANNUAL SALARY AND BONUS. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Annual Salary and/or Bonus up to the following maximum percentages for each deferral elected:

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<TABLE>
<CAPTION>

DEFERRAL	MAXIMUM AMOUNT
-----	-----
<S>	<C>
Annual Salary	50%
Bonus	100% of Bonus reduced by any and all social security and Medicare taxes due on the Bonus

</TABLE>

- (b) Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year the maximum Annual Deferral Amount, with respect to Annual Salary, and Bonus shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits an Election Form to the Committee for acceptance.
- (c) For each Eligible Stock Option, a Participant may elect to defer, as his or her Stock Option Amount, Qualifying Gain up to the following maximum percentage with respect to exercise of the Eligible Stock Option:

<TABLE>
<CAPTION>

DEFERRAL	MAXIMUM PERCENTAGE
-----	-----
<S>	<C>
Qualifying Gain	100% of Qualifying Gain reduced by any and all social security and Medicare taxes due on the Qualifying Gain

</TABLE>

- (d) Stock Option Amounts may also be limited by other terms or conditions set forth in the stock option plan or agreement under which such options are granted.

3.3 ELECTION TO DEFER; EFFECT OF ELECTION FORM.

- (a) FIRST PLAN YEAR. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.
- (b) SUBSEQUENT PLAN YEARS. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form.

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If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

- (c) STOCK OPTION DEFERRAL. Subject to the shareholders of the Company approving the use of Company Stock under the Plan, for an election to defer gain upon an Eligible Stock Option exercise to be valid: (i) a separate Election Form must be completed and signed by the Participant with respect to the Eligible Stock Option; (ii) the Election Form must be timely delivered to the Committee and accepted by the Committee at least six (6) months prior to the date the Participant elects to exercise the Eligible Stock Option; (iii) the Eligible Stock Option must be exercised using an actual or phantom stock-for-stock payment method; and (iv) the Stock actually or constructively delivered by the Participant to exercise the Eligible Stock Option must have been owned by the Participant during the entire six (6) month period prior to its delivery.

3.4 WITHHOLDING OF ANNUAL DEFERRAL AMOUNTS. For each Plan Year, the Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Annual Salary. The Bonus portion of the Annual Deferral Amount shall be withheld at the time the Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 COMPANY CONTRIBUTION AMOUNT. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Company Contribution Amount for that Plan Year. If a Participant is not employed by an Employer as of the last day of a Plan Year other than by reason of his or her Retirement, Disability or

death (while employed), the Company Contribution Amount for that Plan Year shall be zero.

3.6 COMPANY MATCHING AMOUNT. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Matching Contribution Account under this Plan, which amount shall be for that Participant.

3.7 STOCK OPTION AMOUNT. Subject to any terms and conditions imposed by the Committee and at its sole discretion, Participants may elect to defer, under the Plan, Qualifying Gains attributable to an Eligible Stock Option exercise. Stock Option Amounts shall be credited/debited to the Participant on the books of the Employer at the time Stock would otherwise have been delivered to the Participant pursuant to the Eligible Stock Option exercise, but for the election to defer.

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3.8 INVESTMENT OF TRUST ASSETS. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement.

3.9 SOURCES OF STOCK. If Stock is credited under the Plan in the Trust pursuant to Section 3.7 in connection with an Eligible Stock Option exercise, the shares so credited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement.

3.10 VESTING.

A Participant shall at all times be 100% vested in his or her Deferral Account and Stock Option Account.

(a) A Participant shall be vested in his or her Company Contribution Account and Company Matching Account as follows: (i) with respect to all benefits under this Plan other than the Termination Benefit, a Participant's Company Contribution Account and Company Matching Account shall equal 100% of such Participant's Company Contribution Account and Company Matching Account; and (ii) with respect to the Termination Benefit, a Participant's Company Contribution Account and Company Matching Account shall vest on the basis of the Participant's Years of Service at the time the Participant experiences a Termination of Employment, in accordance with the following schedule:

<TABLE>
<CAPTION>

YEARS OF SERVICE AT DATE OF TERMINATION OF EMPLOYMENT	VESTED PERCENTAGE OF COMPANY CONTRIBUTION ACCOUNT AND COMPANY MATCHING ACCOUNT
-----	-----
<S>	<C>
Fewer than 2 years	0%
2 years	25%
3 years	50%
4 years	75%
5 years or more	100%

</TABLE>

(b) Notwithstanding anything to the contrary contained in this Section 3.10, a Participant's Company Contribution Account and Company Matching Account shall immediately become 100% vested (if it is not already vested in accordance with the above

vesting schedules) in the event of the following with respect to a Participant: Retirement; Disability; death; or a Change in Control.

- (c) Notwithstanding subsection (a), the vesting schedule for a Participant's Company Contribution Account and Company Matching Account shall not be accelerated to

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the extent that the Committee determines that such acceleration would cause the deduction limitations of Section 280G of the Code to become effective (except as may be provided in agreements that exist from time to time between any Employer and a Participant which provides for acceleration of vesting upon a Change in Control). In the event that all of a Participant's Company Contribution Account and/or Company Matching Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within 15 business days of such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

- 3.11 CREDITING/DEBITING OF ACCOUNT BALANCES. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) ELECTION OF MEASUREMENT FUNDS FOR VARIABLE ACCOUNT. A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.11(c) below) to be used to determine the additional amounts to be credited to his or her Variable Account when the Participant commences participation in the Plan and continuing thereafter for each subsequent business day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the business day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent business day in which the Participant participates in the Plan, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to reallocate among the available Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Variable Account, or to change the portion of his or her Variable Account allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as soon as administratively possible and shall continue thereafter for each subsequent business day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. A Participant shall be permitted to request that the Committee reallocate the amount available in the Measurement Fund(s) once during a calendar month.

- (b) PROPORTIONATE ALLOCATION. In making any election described in Section 3.11(a) above, the Participant shall specify on the Election Form, in increments of one

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- percentage points (1%), the percentage of his or her Variable Account to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Variable Account).
- (c) MEASUREMENT FUNDS. The Participant may elect one or more measurement funds (the "Measurement Funds") for the purpose of crediting additional amounts to his or her Variable Account. The Committee shall, in its sole discretion, select, discontinue, substitute or add a Measurement Fund at any time. Subject to the shareholders of the Company approving the use of Company Stock under the Plan, the Committee may offer a Payless ShoeSource, Inc. Stock Fund (the "Stock Fund") as a Measurement Fund.
- (d) CREDITING OR DEBITING METHOD. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant for the Variable Account and for the Stock Option Account, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the selected or required Measurement Fund(s), or both in the percentages applicable to such business day, as of the close of business on the business day, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred as of the business day were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such business day, as soon as administratively possible after the day on which such amounts are actually deferred from the Participant's Annual Salary through reductions in his or her payroll; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such business day, as soon as administratively possible. The Participant's Company Matching Amount, if any, shall be credited to his or her Company Matching Account for purposes of this Section 3.11(d) on the date selected by the Committee in its sole and absolute discretion. The Participant's Company Contribution Amount, if any, shall be credited to his or her Company Contribution Account for purposes of this Section 3.11(d) on the date selected by the Committee, in its sole and absolute discretion. The Participant's Annual Stock Option Amount(s) shall be credited to his or her Stock Option Account as soon as administratively possible after the date on which the Eligible Stock Option was exercised or otherwise disposed of.
- (e) SPECIAL RULE FOR STOCK OPTION ACCOUNT AND VARIABLE ACCOUNT INVESTED IN STOCK. Notwithstanding any provision of this Plan that may be construed to the contrary, (i) the Participant's Stock Option Account must be allocated to the ShoeSource Stock Fund at all times prior to distribution from this Plan, (ii) the portion of the Participant's Variable Account allocated to the Stock Fund must at

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all times prior to distribution be allocated to the Stock Fund, and (iii) the Participant's Stock Option Account and that portion of the Variable Account allocated to the Stock Fund must be distributed in the form of Stock.

(f) NO ACTUAL INVESTMENT. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

(g) AMOUNTS PREVIOUSLY DEFERRED. Each Participant with a balance under the Payless ShoeSource, Inc. Deferred Compensation Plan (last amended March 19, 1998) as of October 1, 2000 shall elect on the Election Form one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Variable Account commencing October 1, 2000 and continuing thereafter for each subsequent business day in which the Participant participates in the Plan unless changed in accordance with Section 3.11(a).

3.12 FICA AND OTHER TAXES.

(a) ANNUAL DEFERRAL AMOUNTS. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Deferral Account in order to comply with this Section 3.12.

(b) COMPANY MATCHING ACCOUNT AND COMPANY CONTRIBUTION ACCOUNT. When a Participant becomes vested in a portion of his or her Company Matching Account or Company Contribution Account, or both, the Participant's Employer(s) shall withhold from the Participant's Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such vested portions of his or her Company Matching Account and/or Company Contribution Account. If necessary, the Committee may

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reduce the vested portion of the Participant's Company Matching Account or Company Contribution Account, or both, as the case may be, in order to comply with this Section 3.12.

(c) ANNUAL STOCK OPTION AMOUNTS. For each Plan Year in which an Annual Stock Option Amount is being first withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Annual Salary, Bonus and/or Qualifying Gains that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Stock Option Amount. If necessary, the Committee may reduce the Stock Option Account in order to comply with this Section 3.12.

3.13 DISTRIBUTIONS. The Participant's Employer(s), or the Trustee of the Trust, shall withhold from any distributions made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the Trustee of the Trust, in connection with such distributions, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the Trustee of the Trust.

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ARTICLE 4

SHORT-TERM PAYOUT; UNFORESEEABLE FINANCIAL EMERGENCIES;
WITHDRAWAL ELECTION

4.1 SHORT-TERM PAYOUT. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect, at the sole discretion of the Committee, to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.11 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment, Retirement, Disability or death). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a 60 day period commencing immediately after the last day of any calendar year designated by the Participant that is at least three Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred.

4.2 OTHER BENEFITS TAKE PRECEDENCE OVER SHORT-TERM. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 WITHDRAWAL PAYOUT/SUSPENSIONS FOR UNFORESEEABLE FINANCIAL EMERGENCIES. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation. Any suspension of deferrals

ARTICLE 5
RETIREMENT BENEFIT

- 5.1 RETIREMENT BENEFIT. Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance.
- 5.2 PAYMENT OF RETIREMENT BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit pursuant to a lump sum or an Annual Installment Method paid over a period not to exceed 15 years as approved by the Committee. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least 2 years prior to the Participant's Retirement and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made no later than 60 days after his or her Retirement date. Payments made pursuant to the Annual Installment Method shall be made in accordance with Section 1.3. Any payment made shall be subject to the Deduction Limitation.
- 5.3 DEATH PRIOR TO COMPLETION OF RETIREMENT BENEFIT. If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary over the remaining period of time and in the same amounts as that benefit would have been paid to the Participant had the Participant survived.

ARTICLE 6
PRE-RETIREMENT SURVIVOR BENEFIT

- 6.1 PRE-RETIREMENT SURVIVOR BENEFIT. Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.
- 6.2 PAYMENT OF PRE-RETIREMENT SURVIVOR BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form the form of payment to be made to his or her Beneficiary. The Pre-Retirement Survivor Benefit shall be paid in a lump sum or an Annual Installment Method paid over a period not to exceed 15 years as approved by the Committee. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee. The Election Form most recently accepted by the Committee shall govern the payout of the Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor

Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made no later than 60 days after the date the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Payments made pursuant to the Annual Installment Method shall be made in accordance with Section 1.3. Any payment made shall be subject to the Deduction Limitation.

6.3 DEATH OF BENEFICIARY PRIOR TO COMPLETION OF PRE-RETIREMENT SURVIVOR BENEFIT. If a Beneficiary dies before the Pre-Retirement Survivor Benefit is paid in full, the unpaid Pre-Retirement Survivor Benefit shall be made to the Beneficiary's estate in a lump sum within 60 days after the death of the Beneficiary.

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 7
TERMINATION BENEFIT

7.1 TERMINATION BENEFIT. Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.

7.2 PAYMENT OF TERMINATION BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Termination Benefit pursuant to a lump sum or an Annual Installment Method paid over a period not to exceed 15 years as approved by the Committee. Notwithstanding the above, if the Participant's Account Balance at the time of his or her Termination of Employment is less than \$25,000, payment of his or her Termination Benefit shall be paid in a lump sum. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least 2 years prior to the Participant's Termination of Employment date and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Termination Benefit. If a Participant does not make any election with respect to the payment of the Termination Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made no later than 60 days after his or her Termination of Employment date. Payments made pursuant to the Annual Installment Method shall be made in accordance with Section 1.3. Any payment made shall be subject to the Deduction Limitation.

7.3 DEATH PRIOR TO COMPLETION OF TERMINATION BENEFIT. If a Participant dies after Termination of Employment but before to the Termination Benefit is paid in full, the Participant's unpaid Termination Benefit shall continue and shall be paid to the Participant's Beneficiary over the remaining period of time and in the same amounts as that benefit would have been paid to the Participant had the Participant survived.

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 8
DISABILITY WAIVER AND BENEFIT

8.1 DISABILITY WAIVER.

- (a) WAIVER OF DEFERRAL. A Participant who is determined by the Committee to be suffering from a Disability shall be (i) excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Annual Salary and/or Bonus for the Plan Year during which the Participant first suffers a Disability and (ii) excused from fulfilling any unexercised Stock Option Amount commitments. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.
- (b) RETURN TO WORK. If a Participant returns to employment with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount and Stock Option Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 CONTINUED ELIGIBILITY; DISABILITY BENEFIT. A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have Retired, or in the case of a Participant who is not eligible to Retire, to have experienced a Termination of Employment, after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her Account Balance at the time of the Committee's determination. The Participant shall be paid in accordance with Article 5 in the case of a deemed Retirement and in accordance with Article 7 in the case of a deemed Termination of Employment. Any payment made shall be subject to the Deduction Limitation.

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 9
BENEFICIARY DESIGNATION

- 9.1 BENEFICIARY. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 9.2 BENEFICIARY DESIGNATION AND CHANGE OF BENEFICIARY. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

- 9.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.
- 9.4 NO BENEFICIARY DESIGNATION. If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her estate.
- 9.5 DOUBT AS TO BENEFICIARY. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 9.6 DISCHARGE OF OBLIGATIONS. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's participation in the Plan shall terminate upon such full payment of benefits.

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Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan

ARTICLE 10

LEAVE OF ABSENCE

- 10.1 PAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.
- 10.2 UNPAID LEAVE OF ABSENCE. If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

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PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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ARTICLE 11

TERMINATION, AMENDMENT OR MODIFICATION

- 11.1 TERMINATION. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at

any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the affected Participants who are employed by that Employer shall terminate and their Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall have the right to pay such benefits in a lump sum. After a Change in Control, the Account Balances of all participants shall be fully vested and the Employer shall be required to pay such benefits in a lump sum within five (5) business days of such Change in Control unless otherwise prohibited by court order. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.2 AMENDMENT. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's vested Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 or Section 12.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.3 EFFECT OF PAYMENT. The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's participation in the Plan shall

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 12
ADMINISTRATION

12.1 COMMITTEE DUTIES. Except as otherwise provided in this Article 12, this Plan shall be administered by a Committee which shall consist of the members of the Payless ShoeSource, Inc. 401(k) Profit Sharing Plan Committee, or such other committee as the Board shall appoint. Members of the Committee may be Participants in this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

12.2 ADMINISTRATION UPON CHANGE IN CONTROL. For purposes of this Plan, the Committee shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the individual who, immediately prior to such event, was the Company's Chief Executive Officer if such individual is still employed by the Company immediately after the Change in Control or, if not so identified or not so employed, the Company's highest ranking officer, as determined prior to the Change in Control, who is still employed with the Company(the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations and responses to legal inquiries and challenges; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plan or Trust. Any responsibilities not expressly delegated to the Administrator upon and after a Change in Control shall remain with the Committee as identified prior to the Change in Control. Upon and after the occurrence of a Change in Control, the Company must: (i) pay out the account balances of all participants, in a lump sum within five (5) business days of such Change in Control unless otherwise prohibited by court order (ii) pay all reasonable administrative expenses and fees of the Administrator; (iii) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (iv) supply full and timely information to the Administrator on all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Retirement, Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

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Change in Control, the Administrator may be terminated (and a replacement appointed) by the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

- 12.3 AGENTS. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.
- 12.4 BINDING EFFECT OF DECISIONS. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 12.5 INDEMNITY OF COMMITTEE. All Employers shall indemnify and hold harmless the members of the Committee, and any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.
- 12.6 EMPLOYER INFORMATION. To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

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ARTICLE 13
OTHER BENEFITS AND AGREEMENTS

- 13.1 COORDINATION WITH OTHER BENEFITS. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

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ARTICLE 14
CLAIMS PROCEDURES

- 14.1 PRESENTATION OF CLAIM. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days

after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 NOTIFICATION OF DECISION. The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;
 - (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and
 - (iv) an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 REVIEW OF A DENIED CLAIM. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

- (a) may review pertinent documents;
- (b) may submit written comments or other documents; and/or

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- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

14.4 DECISION ON REVIEW. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and
- (c) such other matters as the Committee deems relevant.

14.5 LEGAL ACTION. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under

PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN

ARTICLE 15
TRUST

- 15.1 ESTABLISHMENT OF THE TRUST. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts, Company Contribution Amounts, Company Matching Amounts and Annual Stock Option Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.
- 15.2 INTERRELATIONSHIP OF THE PLAN AND THE TRUST. The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.
- 15.3 DISTRIBUTIONS FROM THE TRUST. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.
- 15.4 STOCK TRANSFERRED TO THE TRUST. Subject to the shareholders of the Company approving the use of Company Stock under the Plan, notwithstanding any other provision of this Plan or the Trust, if Trust assets are distributed to a Participant in a distribution which reduces the Participant's Stock Option Account balance under this Plan or such portion of the Participant's Variable Account invested in the Stock Fund, such distribution must be made in the form of Stock.

Payless ShoeSource, Inc. Deferred Compensation 401(k) Mirror Plan

ARTICLE 16
MISCELLANEOUS

- 16.1 STATUS OF PLAN. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.
- 16.2 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For

purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

- 16.3 EMPLOYER'S LIABILITY. An Employer's liability for the payment of benefits shall be defined only by the Plan. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan.
- 16.4 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.
- 16.5 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 16.6 FURNISHING INFORMATION. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan

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and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

- 16.7 TERMS. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 16.8 CAPTIONS. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 16.9 GOVERNING LAW. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Kansas without regard to its conflicts of laws principles.
- 16.10 NOTICE. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 16.11 SUCCESSORS. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.
- 16.12 VALIDITY. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.
- 16.13 INCOMPETENT. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit

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to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

- 16.14 COURT ORDER. The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.
- 16.15 DISTRIBUTION IN THE EVENT OF TAXATION. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the newly appointed Administrator upon and after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.
- 16.17 TRUST. If the Trust terminates and benefits are distributed from the

Trust to a Participant, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.18 LEGAL FEES TO ENFORCE RIGHTS AFTER CHANGE IN CONTROL. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any

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other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

SIGNATURES ON FOLLOWING PAGE

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PAYLESS SHOESOURCE, INC. DEFERRED COMPENSATION 401(k) MIRROR PLAN
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IN WITNESS WHEREOF, the Company has signed this Plan document effective as of October 1, 2000.

Payless ShoeSource, Inc., a Delaware corporation

By: /s/ Jeffrey A. Long

Title: Vice President Compensation & Benefits

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PAYLESS SHOESOURCE, INC.
COMPUTATION OF NET EARNINGS PER SHARE
FOR THE LAST THREE FISCAL YEARS

<TABLE>
<CAPTION>

(THOUSANDS, EXCEPT PER SHARE)	FEB. 03, 2001	JAN. 29, 2000	JAN. 30, 1999
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic Computation:			

Net earnings before extraordinary loss	\$124,151	\$136,479	\$134,959
Extraordinary loss	3,568	-	-
	-----	-----	-----
Net earnings	\$120,583	\$136,479	\$134,959
Weighted average common shares outstanding	23,686	31,221	35,412
	-----	-----	-----
Basic earnings per share before extraordinary loss	\$ 5.24	\$ 4.37	\$ 3.81
Extraordinary loss	.15	-	-
	-----	-----	-----
Basic earnings per share	\$ 5.09	\$ 4.37	\$ 3.81
	=====	=====	=====

Diluted Computation:

Net earnings before extraordinary loss	\$124,151	\$136,479	\$134,959
Extraordinary loss	3,568	-	-

Net earnings	\$120,583	\$136,479	\$134,959
Weighted average common shares outstanding	26,686	31,221	35,412
Net effect of dilutive stock options based on the treasury stock method	368	144	320
Outstanding shares for diluted earnings per share	24,054	31,365	35,732
Diluted earnings per share before extraordinary loss	\$ 5.16	\$ 4.35	\$ 3.78
Extraordinary loss	.15	-	-
Diluted earnings per share	\$ 5.01	\$ 4.35	\$ 3.78

</TABLE>

PAYLESS SHOESOURCE, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 FOR THE LAST THREE FISCAL YEARS

<TABLE>
 <CAPTION>

(THOUSANDS, EXCEPT PER SHARE)	FEB. 03, 2001	JAN. 30, 2000	JAN. 31, 1999
<S>	<C>	<C>	<C>
Earnings Available for Fixed Charges:			

Pretax earnings before minority interest and extraordinary loss	\$202,960	\$226,991	\$224,467
Fixed Charges (Interest expense plus interest component of rent)	105,054	81,501	72,234
	-----	-----	-----
	\$308,014	\$308,492	\$296,701
	=====	=====	=====
Fixed Charges:			

Gross interest expense	\$ 29,316	\$ 8,412	\$ 1,876
Interest factor attributable to rent expense	75,738	73,089	70,358
	-----	-----	-----
	105,054	81,501	72,234
	=====	=====	=====
Ratio of Earnings to Fixed Charges	\$ 2.9	\$ 3.8	\$ 4.1
	=====	=====	=====

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAYLESS SHOESOURCE, INC., A DELAWARE CORPORATION
 (THE "COMPANY"), ACHIEVED ITS FIFTH CONSECUTIVE YEAR
 OF RECORD SALES AND EARNINGS PER SHARE SINCE OPERATING AS AN
 INDEPENDENT PUBLIC COMPANY. THE FOUR-YEAR DILUTED
 EARNINGS PER SHARE COMPOUNDED GROWTH RATE IS 17.0 PERCENT.

Sales for the Company increased to \$2.95 billion in fiscal 2000, from \$2.73 billion in 1999, an increase of 8.0 percent. Fiscal year 2000 contains 53 weeks. On a 52-week basis, sales for fiscal 2000 totaled \$2.91 billion, a 6.5 percent increase over 1999. Same-store sales for 2000 increased 3.2 percent. Diluted earnings per share for 2000, excluding non-recurring and extraordinary charges, increased 23.4 percent to \$5.37 from \$4.35 last year. Operating profit for 2000, excluding non-recurring and extraordinary charges, increased 4.4 percent to \$236.0 million, compared with \$226.1 million in 1999. Net earnings totaled \$129.1 million excluding non-recurring and extraordinary charges, compared with \$136.5 million in 1999, a decrease of 5.4 percent. The 53rd week of 2000 did not have a material impact on operating profit or net earnings. Excluding non-recurring and extraordinary charges, return on sales was 4.4 percent in 2000, down from 5.0 percent in 1999; return on equity was 18.3 percent in 2000 compared with 19.4 percent in 1999; and return on net assets decreased to 18.0 percent in 2000 from 18.4 percent in 1999. Including non-recurring and extraordinary charges, diluted earnings per share were \$5.01, a 15.2 percent increase over last year, operating profit was \$228.0 million, net earnings were \$120.6 million, return on sales was 4.1 percent, return on equity was 17.1 percent, and return on net assets was 17.6 percent.

In September of 2000, the Company announced a joint venture agreement with PLP, S.A., a holding company formed by Central American and Caribbean local partners, to open and operate Payless ShoeSource family footwear stores in Central America and the Caribbean. These stores offer a selection of the same footwear and accessories available at other Payless ShoeSource locations. The Company opened four stores in Costa Rica in the fourth quarter of 2000. In the fall of 2000, the Company acquired a 10-store chain of value-priced specialty stores in the New York area. These stores operate primarily in mall locations and sell socks, hosiery and undergarments.

During 2000 the Company had a net increase of 141 Payless ShoeSource stores (419 openings and 278 closings), 49 Parade stores (73 openings and 24 closings) and the 10 value-priced specialty stores. Year-end 2000 store count was 4,633 Payless ShoeSource stores, 269 Parade stores and 10 value-priced specialty stores.

For 2001, the Company's expansion plans for Payless ShoeSource and Parade include opening approximately 240 stores and closing about 200 stores. The expansion plans for 2001 through 2005 would open approximately 940 stores while closing about 440 stores. During this five-year period, the Company plans to invest approximately \$185 million for new stores and approximately \$215 million to remodel existing stores. These are the major components of a projected \$725 million capital improvement plan.

In April 2000, the Company completed a self-tender through which it repurchased 7.5 million shares of its common stock at \$53 per share. This represented approximately 25.5 percent of the Company's shares outstanding immediately prior to the self-tender. For the year, the Company repurchased a total of 8.0 million shares, including the self-tender, for an aggregate purchase price of \$425.0 million.

The following discussion summarizes the significant factors affecting operating results for the fiscal years ended February 3, 2001 (2000), January 29, 2000 (1999), and January 30, 1999 (1998). The 2000 fiscal year contains 53 weeks and fiscal years 1999 and 1998 contained 52 weeks each. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements included in this annual report. References to years relate to fiscal years rather than calendar years unless otherwise designated.

REVIEW OF OPERATIONS

Diluted earnings per share, excluding non-recurring and extraordinary

charges, reached \$5.37 in 2000 compared with \$4.35 in 1999 and \$3.78 in 1998. Net earnings, excluding non-recurring and extraordinary charges, totaled \$129.1 million in 2000, compared with \$136.5 million in 1999 and \$135.0 million in 1998. Excluding non-recurring and extraordinary charges, the 2000 and 1999 diluted earnings per share growth rates were 23.4 percent and 15.1 percent, respectively. Return on sales, excluding non-recurring and extraordinary charges, was 4.4 percent in 2000, compared with 5.0 percent and 5.2 percent for 1999 and 1998, respectively. Including the effects of the non-recurring and extraordinary charges, 2000 diluted earnings per share were \$5.01, net earnings were \$120.6 million, the diluted earnings per share growth rate was 15.2 percent and return on sales was 4.1 percent.

Results for the past three years were as follows:

<TABLE>
<CAPTION>

(dollars in millions, except per share)	2000		1999		1998	
	\$	% of Sales	\$	% of Sales	\$	% of Sales
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net retail sales	\$2,948.4	100.0%	\$2,730.1	100.0%	\$2,615.5	100.0%
Cost of sales	2,011.5	68.2	1,868.3	68.4	1,798.9	68.8
Selling, general and administrative expenses	700.9	23.8	635.7	23.3	599.2	22.9
Non-recurring items	8.0	0.3	-	-	-	-
Operating profit	228.0	7.7	226.1	8.3	217.4	8.3
Interest expense (income), net	25.0	0.8	(0.9)	(0.0)	(7.1)	(0.3)
Earnings before income taxes, minority interest and extraordinary loss	203.0	6.9	227.0	8.3	224.5	8.6
Provision for income taxes(1)	79.0	38.9	90.5	39.9	89.5	39.9
Earnings before minority interest and extraordinary loss	124.0	4.2	136.5	5.0	135.0	5.2
Minority interest	0.2	0.0	-	-	-	-
Net earnings before extraordinary loss	124.2	4.2	136.5	5.0	135.0	5.2
Extraordinary loss related to early extinguishment of debt, net of income tax	3.6	0.1	-	-	-	-
Net earnings	120.6	4.1%	136.5	5.0%	135.0	5.2%
Diluted earnings per share:						
Net earnings before extraordinary loss	\$ 5.16		\$ 4.35		\$ 3.78	
Extraordinary loss	0.15		-		-	
Net earnings	\$ 5.01		\$ 4.35		\$ 3.78	
Basic earnings per share:						
Net earnings before extraordinary loss	\$ 5.24		\$ 4.37		\$ 3.81	
Extraordinary loss	0.15		-		-	
Net earnings	\$ 5.09		\$ 4.37		\$ 3.81	

</TABLE>

(1) Percent of sales columns represent effective income tax rates.

NET RETAIL SALES. Net retail sales represents the sales of stores operated during the period. Same-store sales represents sales of those stores open during both comparable periods. In 2000, net retail sales increased 8.0 percent from 1999, consisting of a 6.8 percent increase in unit volume and a 1.0 percent increase in average selling prices. The increase in average selling price is a result of an improved merchandise mix. On a 52 week basis, sales for fiscal 2000 totaled \$2.91 billion, a 6.5 percent increase over 1999. Same-store sales increased 3.2 percent in 2000. In 1999, net retail sales increased 4.4 percent from 1998, consisting of a 7.1 percent increase in unit volume and a 2.6 percent decrease in average selling prices. Same-store sales increased 0.9 percent in 1999. In 1998 net retail sales increased 1.9 percent from 1997, consisting of a 1.8 percent decrease in unit volume and a 3.7 percent increase in average selling prices. Same-store sales decreased 0.8 percent in 1998.

The net retail sales increase in 2000 over 1999 was driven by an increase in same-store sales, a growth in store count and the additional week of sales attributed to the 53rd week of 2000. The strong performance reflects the Company's effective merchandising and marketing strategies. Customers reacted favorably to the updated styling of women's dress shoes and improved offerings of women's and junior girls fashion shoes and boots. Positive sales results were also achieved in the men's business through the introduction of the Hunter's Bay(R) line of leather shoes and a new line of Stanley(R) Footgear work footwear.

The net retail sales increase in 1999 over 1998 was driven principally by growth in store count due primarily to the Company's continued expansion in the Canadian market. The moderate same-store sales increase in 1999 compared with 1998 reflected general softness in the footwear market, particularly in the first half of the year; weakness in certain geographic areas, especially the Southeast; and declines in sales of certain categories, such as women's plain

pumps and flats, athletic shoes, and boots. Within the dress shoe business, traditional pumps and flats continued to decline with the shift towards casual footwear.

COST OF SALES. Cost of sales includes cost of merchandise sold, and the Company's buying and occupancy costs. Cost of sales was \$2.01 billion in 2000 compared with \$1.87 billion in 1999. As a percent of net retail sales, cost of sales was 68.2 percent in 2000 compared with 68.4 percent in 1999. Higher gross margins in 2000 reflect continued improvements in the merchandising mix, control of freight costs, improvements in product costs and better leverage of occupancy costs through growth in same-store sales.

Cost of sales was \$1.87 billion in 1999 which was essentially flat compared with \$1.80 billion in 1998. As a percent of net retail sales, cost of sales was 68.4 percent in 1999 compared with 68.8 percent in 1998. Higher gross margins in 1999 reflect continued improvements in the merchandising mix, control of freight costs, and improvements in product costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$700.9 million in 2000 compared with \$635.7 million in 1999, a 10.3 percent increase. As a percent of net retail sales, selling, general and administrative expenses were 23.8 percent for 2000 compared with 23.3 percent in 1999. The increase was primarily due to an increase in store payroll and advertising expense.

Selling, general and administrative expenses were \$635.7 million in 1999 compared with \$599.2 million in 1998, a 6.1 percent increase. As a percent of net retail sales, selling, general and administrative expenses were 23.3 percent for 1999 compared with 22.9 percent in 1998. The increase was primarily due to an increase in store payroll.

Non-recurring Items. During the first quarter of 2000, the Company recorded an \$8.0 million charge for non-recurring items, principally for costs associated with the analysis and consideration of various strategic alternatives and costs associated with the self-tender.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

INTEREST EXPENSE (INCOME). Interest income and expense components were:

<TABLE>
<CAPTION>
(dollars in millions)

	2000	1999	1998
<S>	<C>	<C>	<C>
Interest expense	\$ 29.3	\$ 8.4	\$ 1.9
Interest income	(4.3)	(9.3)	(9.0)
Interest expense (income), net	\$ 25.0	\$ (0.9)	\$ (7.1)

</TABLE>

The increase in 2000 interest expense was due to the issuance of a \$400 million term loan in April 2000, as part of the Company's \$600 million Credit Facility secured in association with the self-tender, and the issuance of \$55.0 million of unsecured notes in June 1999, partially offset by the retirement of the Company's \$122 million of unsecured notes in April 2000 and by an \$80 million prepayment on the term loan in the second quarter of 2000. Interest expense also relates to capitalized lease obligations. Interest income is from the short-term investment of available cash balances.

The increase in 1999 interest expense was due to the issuance of \$55.0 million of unsecured notes in June 1999 and the issuance of \$67.0 million of unsecured notes in November 1998. Interest expense also relates to capitalized lease obligations. Interest income is from the short-term investment of available cash balances.

INCOME TAXES. The effective income tax rate decreased to 38.9 percent in 2000 from 39.9 percent in 1999 and 1998. The decrease in 2000 is a result of the Company's previously implemented holding structure.

IMPACT OF INFLATION. Inflation did not have a material impact on the Company's 2000 sales growth or earnings.

REVIEW OF FINANCIAL CONDITION

CASH FLOW. Cash flow from operations (net earnings plus depreciation and amortization) was \$219.9 million, 7.5 percent of net sales in 2000 compared with 8.6 percent in 1999 and 8.8 percent in 1998. The decline in cash flow from operations as a percentage of sales in 2000 is due to the increase in interest

expense from the financing associated with the Company's self-tender.

Sources and (uses) of cash flows are summarized below:

<TABLE> <CAPTION> (dollars in millions)			
	2000	1999	1998
<S>	<C>	<C>	<C>
Net earnings and depreciation/ amortization	\$ 219.9	\$ 233.9	\$ 228.8
Extraordinary loss related to early extinguishment of debt	3.6	--	--
Working capital (increases)	(5.7)	(28.8)	(5.4)
Other operating activities	(6.6)	8.8	(2.7)
Capital expenditures and other investing activities	(135.1)	(87.5)	(99.9)
Net purchases of common stock	(416.6)	(139.0)	(272.9)
Net long-term debt issuances	185.2	53.3	65.6
Other financing activities	1.5	--	--
Increase (decrease) in cash and cash equivalents	\$ (153.8)	\$ 40.7	\$ (86.5)

CAPITAL EXPENDITURES. In 2000, the Company's capital expenditures totaled \$144.9 million, including \$65.8 million for new stores, \$18.3 million to remodel existing stores, \$45.4 million for information technology hardware and systems development and \$15.4 million for other necessary improvements. The Company expects that 2001 capital expenditures will be approximately \$125 million. Capital expenditures for the period 2001 through 2005 are planned at \$725 million. The Company intends to use internal cash flow and available financing from its \$200 million revolving credit agreement to finance substantially all of these expenditures.

FINANCING ACTIVITIES. In April 2000, the Company completed a self-tender through which it repurchased 7.5 million shares of its common stock at \$53 per share. This represented approximately 25.5 percent of the Company's 29.6 million shares outstanding immediately prior to the self-tender. The aggregate purchase price was approximately \$400 million. For the year, the Company repurchased a total of 8.0 million shares including the self-tender, for an aggregate purchase price of \$425 million.

In conjunction with the self-tender, the Company repaid its \$122 million of unsecured notes and entered into a new \$600 million senior secured credit facility. The credit facility consists of a \$400 million term loan and a \$200 million revolving loan, both of which mature in 2005 subject to prepayment without penalty by the Company at any time. During the first quarter, the Company recorded a \$3.6 million, after-tax extraordinary loss for the excess of the amount paid over the carrying value of its unsecured notes.

During the second quarter of 2000, the Company made an \$80 million pre-payment on the long-term debt, paying off 20 percent of the term loan amount.

AVAILABLE CREDIT. The Company has a \$200 million revolving credit agreement. While no amounts had been drawn at February 3, 2001 or during the year 2000, the balance available to the Company was reduced by \$11.4 million for amounts outstanding under a letter of credit. As a result of the seasonality of cash flows, the Company anticipates that it will draw down on and repay amounts borrowed under the revolving credit agreement from time to time during 2001.

FINANCIAL CONDITION RATIOS. Return on equity and return on net assets are as follows:

<TABLE> <CAPTION>			
	2000	1999	1998
<S>	<C>	<C>	<C>
Return on equity(1)	18.3%	19.4%	16.1%
Return on net assets(2)	18.0%	18.4%	17.2%

(1) Return on equity is computed as net earnings before non-recurring and extraordinary charges divided by beginning shareowners' equity and measures the Company's ability to invest shareowners' funds profitably. The 2000 decrease results from the decline in net earnings due to increased interest expense to finance the self-tender partially offset by the 1999 share repurchases. The 1999 increase results from the net earnings growth and the 1998 share repurchases. Including non-recurring and extraordinary charges, return on equity for 2000 was 17.1 percent.

(2) Return on net assets is computed as pre-tax earnings before non-recurring and extraordinary charges, net interest expense and the interest component of operating leases, divided by beginning of year net assets, including present value of operating leases (PVOL), and represents performance independent of capital structure. The 2000 decrease results from an increase in beginning of year net assets including PVOL, partially offset by the increase in pre-tax earnings excluding non-recurring and extraordinary charges before net interest expense. Including non-recurring and extraordinary charges, return on net assets for 2000 was 17.6 percent.

The debt-to-capitalization ratio was 44.2 percent, 15.3 percent and 9.5 percent for 2000, 1999 and 1998, respectively. The 2000 debt-to-capitalization ratio increase results from the issuance of a \$400 million term loan in April 2000 and the repurchase of \$425 million of common stock, partially offset by the retirement of \$122 million of unsecured notes and an \$80 million prepayment on the term loan. The 1999 debt-to-capitalization ratio increase results from the issuance of \$55 million of unsecured debt in June 1999. For purposes of the debt-to-capitalization ratio, total debt is long-term debt including current maturities. Capitalization is defined as total debt and shareowners' equity. The debt-to-capitalization ratio, including the present value of future minimum rental payments under operating leases as debt and as capitalization, would be 74.1 percent, 58.1 percent and 56.8 percent in 2000, 1999 and 1998, respectively.

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The fixed charge coverage was 1.8x, 3.8x and 4.1x in 2000, 1999 and 1998, respectively. Fixed charges are defined as gross interest expense and the interest component of rent expense. Fixed charge coverage measures the Company's ability to meet debt obligations from earnings.

COMMON STOCK AND MARKET PRICES. The Company's common stock is listed on the New York Stock Exchange under the trading symbol PSS. The Company has not paid a dividend on its shares of common stock and is restricted from making dividend payments under its credit facility. The quarterly intraday price ranges of the common stock in 2000 and 1999 were:

<TABLE>
<CAPTION>

Quarter	2000 Market Price		1999 Market Price	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First	\$59.25	\$38.75	\$59 1/4	\$44 3/8
Second	56.56	48.69	59 13/16	48 7/16
Third	60.38	51.13	54 1/8	44 3/4
Fourth	71.90	56.75	47 3/4	40
Year	\$71.90	\$38.75	\$59 13/16	\$40

</TABLE>

As of February 3, 2001, there were approximately 16,698 registered holders of the Company's common stock compared to approximately 18,514 registered holders as of January 29, 2000.

INTEREST RATE RISK. Interest on the Company's Credit Facility is based on the London Interbank Offered Rate ("LIBOR") plus a variable margin as defined in the credit agreement. Therefore, the Company's future borrowing costs may fluctuate depending upon the volatility of LIBOR. The Company currently mitigates a portion of its interest rate risk through the use of interest rate swap agreements, whereby the Company has agreed to exchange, at specific intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional amount.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by the Company as of February 3, 2001 (dollars in millions):

<TABLE>
<CAPTION>

(dollars in millions)

	Maturity Date					Total
	2001	2002	2003	2004	2005	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Variable Rate Debt	\$15.6	\$ 64.4	\$ 91.1	\$117.8	\$31.1	\$320.0
Average Interest Rate	6.4%	6.8%	7.2%	7.5%	7.6%	7.2%

Variable to Fixed Swaps	\$80.0	\$120.0	\$120.0	\$320.0
Average Pay Rate	6.9%	6.9%	6.9%	6.9%
Average Receive Rate	5.4%	5.0%	5.6%	5.4%

</TABLE>

The notional amounts of interest rate swap agreements, as presented in the table above, are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The estimated fair value approximates the proceeds to settle the outstanding contracts. Interest rates on the variable debt and the receive rate on the interest rate swaps are estimated using the average implied LIBOR for the year of maturity based on the yield curve in effect at February 3, 2001.

As the long-term debt under the Credit Facility bears interest at current market rates, its carrying value approximates market value at February 3, 2001. The fair value of the interest rate swap agreements approximates \$(7.7) million at February 3, 2001. The estimated fair value of the interest rate swap agreements approximates the proceeds to settle the outstanding contracts. Dealer quotations are available for the Company's interest rate swap agreements.

CURRENCY RISK. In order to minimize its foreign exchange risk, the Company entered into two currency swaps during the third quarter of 2000. These swaps effectively convert \$30 million of the U.S. dollar-denominated term loan into Canadian dollar-denominated obligations. These swaps have been designated as a foreign currency hedge on the Company's net investment in Canadian dollar-denominated subsidiaries. One of the currency swaps for \$20 million expires in 2002. The swap for the remaining \$10 million expires in 2005. Gains and losses are recorded as a cumulative translation adjustment in stockholders' equity. As of February 3, 2001, the Company is obligated to pay on a notional amount of 44.6 million Canadian dollars at an interest rate of 6.28% and will receive interest on a notional amount of 30.0 million U.S. dollars at an interest rate of 6.89%. The fair value of these currency swaps is \$0.5 million as of February 3, 2001.

NEW ACCOUNTING STANDARD. Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," was issued by the Financial Accounting Standards Board in June 1998. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. The Company has adopted SFAS 133 (as amended by SFAS 138) effective February 4, 2001. There was not a material impact on the results of operations or financial position as a result of the adoption of SFAS 133.

FORWARD-LOOKING STATEMENTS

This report contains, and from time to time the Company may publish, forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, future store openings and international expansion, possible strategic alternatives and new business concepts and similar matters. Statements including the words "expects," "anticipates," "intends," "plans," "believes," "seeks," or variations of such words and similar expressions are forward-looking statements. The Company notes that a variety of factors could cause its actual results and experience to differ materially from the anticipated results or other expectations expressed in its forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: changes in consumer spending patterns; changes in consumer preferences and overall economic conditions; the impact of competition and pricing; changes in weather patterns; the financial condition of the suppliers and manufacturers from whom the Company sources its merchandise; changes in existing or potential duties, tariffs or quotas; changes in relationships between the United States and foreign countries, changes in relationships between Canada and foreign countries, economic and political instability in foreign countries or restrictive actions by the governments of foreign countries in which suppliers and manufacturers from whom the Company sources are located or in which the Company operates stores; changes in trade and tax laws; fluctuations in currency exchange rates; availability of suitable store locations on appropriate terms; the ability to hire, train and retain associates; and general economic, business and social conditions in the countries from which the Company sources products, supplies or has or intends to open stores. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Company does not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date hereof or thereof or to reflect the occurrence of unanticipated events.

CONSOLIDATED STATEMENT OF EARNINGS

<TABLE>
<CAPTION>

(dollars in millions, except per share)	2000	1999	1998
<S>	<C>	<C>	<C>
Net retail sales	\$2,948.4	\$2,730.1	\$2,615.5
Cost of sales	2,011.5	1,868.3	1,798.9
Selling, general and administrative expenses	700.9	635.7	599.2
Non-recurring items	8.0	-	-
Operating profit	228.0	226.1	217.4
Interest (income) expense, net	25.0	(0.9)	(7.1)
Earnings before income taxes, minority interest, and extraordinary loss	203.0	227.0	224.5
Provision for income taxes	79.0	90.5	89.5
Earnings before minority interest and extraordinary loss	124.0	136.5	135.0
Minority interest	0.2	-	-
Earnings before extraordinary loss	124.2	136.5	135.0
Extraordinary loss related to early extinguishment of debt, net of income tax	3.6	-	-
Net earnings	\$ 120.6	\$ 136.5	\$ 135.0
Diluted earnings per share:			
Net earnings before extraordinary loss	\$ 5.16	\$ 4.35	\$ 3.78
Extraordinary loss	\$ 0.15	-	-
Net earnings	\$ 5.01	\$ 4.35	\$ 3.78
Basic earnings per share:			
Net earnings before extraordinary loss	\$ 5.24	\$ 4.37	\$ 3.81
Extraordinary loss	\$ 0.15	-	-
Net earnings	\$ 5.09	\$ 4.37	\$ 3.81

</TABLE>

See Notes to Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

(dollars in millions, except per share)	February 3, 2001	January 29, 2000
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10.4	\$ 164.2
Merchandise inventories	355.6	349.7
Current deferred income taxes	14.9	12.1
Other current assets	53.8	40.9
Total current assets	434.7	566.9
Property and equipment:		
Land	7.4	7.5
Buildings and leasehold improvements	782.4	713.9
Furniture, fixtures and equipment	343.0	309.1
Property under capital leases	7.3	7.3
Total property and equipment	1,140.1	1,037.8
Accumulated depreciation and amortization	(621.4)	(554.9)
Property and equipment, net	518.7	482.9
Deferred income taxes	27.1	28.2
Other assets	22.3	4.4
Total assets	\$1,002.8	\$1,082.4

LIABILITIES AND SHAREOWNERS' EQUITY

Current liabilities:

Current maturities of long-term debt	\$ 16.4	\$ 0.7
Accounts payable	89.0	81.2
Accrued expenses	123.3	122.8
Total current liabilities	228.7	204.7
Long-term debt	309.2	126.1
Other liabilities	53.1	47.8
Minority interest	1.4	-
Shareowners' Equity:		
Preferred stock, \$.01 par value; 25,000,000 shares authorized; none issued		
Common stock, \$.01 par value; 240,000,000 shares authorized; 29,376,958 and 36,924,127 issued; 21,988,003 and 29,601,939 shares outstanding in 2000 and 1999, respectively	0.2	0.3
Additional paid-in capital	-	40.1
Unearned restricted stock	(6.6)	(0.8)
Retained earnings	416.5	663.2
Accumulated other comprehensive income	0.3	1.0
Total shareowners' equity	410.4	703.8
Total liabilities and shareowners' equity	\$1,002.8	\$1,082.4

</TABLE>

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY

<TABLE>

<CAPTION>

	(dollars in millions, shares in thousands)		Additional	Unearned	Retained	Accumulated	Total	Comprehensive
	Outstanding	Common Stock	Paid-in	Restricted	Earnings	Other	Shareowners'	Income
	Shares	Dollars	Capital	Stock		Comprehensive	Equity	
						Income		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 31, 1998	37,332	\$0.4	\$21.0	\$(7.6)	\$822.6	\$ -	\$836.4	
Net earnings	-	-	-	-	135.0	-	135.0	\$135.0
Issuances of common stock	227	-	14.0	-	-	-	14.0	
Purchases of common stock	(5,106)	(0.1)	-	-	(286.8)	-	(286.9)	
Amortization of unearned restricted stock	-	-	-	4.3	-	-	4.3	
Comprehensive income								135.0
Balance at January 30, 1999	32,453	0.3	35.0	(3.3)	670.8	-	702.8	
Net earnings	-	-	-	-	136.5	-	136.5	136.5
Translation adjustments	-	-	-	-	-	1.0	1.0	1.0
Issuances of common stock	85	-	5.1	-	-	-	5.1	
Purchases of common stock	(2,936)	-	-	-	(144.1)	-	(144.1)	
Amortization of unearned restricted stock	-	-	-	2.5	-	-	2.5	
Comprehensive income								137.5
Balance at January 29, 2000	29,602	0.3	40.1	(0.8)	663.2	1.0	703.8	
Net earnings	-	-	-	-	120.6	-	120.6	120.6
Translation adjustments	-	-	-	-	-	(0.7)	(0.7)	(0.7)
Issuances of common stock	407	-	17.5	(9.1)	-	-	8.4	
Purchases of common stock	(8,021)	(0.1)	(57.6)	-	(367.3)	-	(425.0)	
Amortization of unearned restricted stock	-	-	-	3.3	-	-	3.3	
Comprehensive income								\$ 119.9
Balance at February 3, 2001	21,988	\$0.2	-	\$(6.6)	\$416.5	\$0.3	\$410.4	

</TABLE>

Outstanding common stock excludes shares held in treasury. Treasury share activity for the last three years is summarized below:

<TABLE>
<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Balance, Beginning of Year	7,322	4,471	3,668
Issuances of common stock:			
Exercise of stock options	(212)	(102)	(214)
Deferred compensation plan	(5)	(1)	(1)
Restricted stock grants, net of forfeitures	(190)	18	(12)
	(407)	(85)	(227)
Purchases of common stock	8,021	2,936	5,106
Retirement of common stock	(7,547)	-	(4,076)
Balance End of Year	7,389	7,322	4,471

</TABLE>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

(dollars in millions)	2000	1999	1998
<S>	<C>	<C>	<C>
Operating activities:			
Net earnings	\$ 120.6	\$ 136.5	\$ 135.0
Adjustments for noncash items included in net earnings:			
Extraordinary loss related to early extinguishment of debt	3.6	-	-
Depreciation and amortization	99.3	97.4	93.8
Amortization of unearned restricted stock	3.3	2.5	4.3
Deferred income taxes	(1.7)	6.6	(3.2)
Changes in working capital:			
Merchandise inventories	(5.9)	(7.6)	(17.5)
Other current assets	(10.2)	(6.1)	(4.6)
Accounts payable	7.8	(14.2)	11.7
Accrued expenses	2.6	(0.9)	5.0
Other assets and liabilities, net	(8.2)	(0.3)	(3.8)
Total operating activities	211.2	213.9	220.7
Investing activities:			
Capital expenditures	(144.9)	(100.4)	(108.6)
Dispositions of property and equipment	9.8	12.9	8.7
Total investing activities	(135.1)	(87.5)	(99.9)
Financing activities:			
Issuance of long-term debt	401.5	55.0	67.0
Repayments of long-term debt	(207.4)	(1.7)	(1.4)
Payment of debt issuance costs	(8.9)	-	-
Purchases of common stock	(425.0)	(144.1)	(286.9)
Issuance of common stock	8.4	5.1	14.0
Other financing activities	1.5	-	-
Total financing activities	(229.9)	(85.7)	(207.3)
Increase (Decrease) in cash and cash equivalents	(153.8)	40.7	(86.5)
Cash and cash equivalents, beginning of year	164.2	123.5	210.0

Cash and cash equivalents, end of year	\$ 10.4	\$ 164.2	\$ 123.5
=====			
Cash paid during the year:			
Interest	\$ 29.6	\$ 8.4	\$ 1.9
Income taxes	69.6	77.5	79.6

</TABLE>

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION. Payless ShoeSource, Inc., a Delaware corporation, together with its subsidiaries (the "Company"), is the largest family footwear retailer in North America.

As of February 3, 2001, the Company operated 4,633 Payless ShoeSource family shoe stores in all 50 states, the District of Columbia, Puerto Rico, Guam, Saipan, the U.S. Virgin Islands, Canada and Costa Rica. The Company also operates Parade, a 269 store division offering fashionable women's footwear at moderate prices, and a specialty retailer in the New York City area operating 10 stores.

The Company sources and utilizes a network of agents with factories in 12 foreign countries and the United States to source its products, which are manufactured to meet the Company's specifications and standards. Factories in the People's Republic of China are a source of approximately 74 percent of the Company's merchandise.

Payless ShoeSource, Inc., a Missouri corporation, and its subsidiaries ("Payless Missouri") was a subsidiary of The May Department Stores Company ("May Company") until its spin-off in May 1996. Effective June 1, 1998, Payless Missouri and its subsidiaries were reorganized into a Delaware holding company structure. The consolidated financial statements include results for the entire fiscal year for all years presented and the accounts of the Company, all wholly owned subsidiaries and all subsidiaries in which the Company owns a controlling interest. Significant intercompany transactions have been eliminated in consolidation.

FISCAL YEAR. The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years 2000, 1999 and 1998 ended on February 3, 2001, January 29, 2000, and January 30, 1999, respectively. Fiscal year 2000 included 53 weeks. Fiscal years 1999 and 1998 included 52 weeks. References to years in these financial statements and notes relate to fiscal years rather than calendar years.

USE OF ESTIMATES. Management makes estimates and assumptions that affect the amounts reported within the consolidated statements of earnings, shareowners' equity and cash flows, the consolidated balance sheet and notes to consolidated financial statements. Actual results could differ from these estimates.

NET RETAIL SALES. Net retail sales ("sales") represent the sales, net of returns and excluding sales tax, of all stores operated during the period. Same-store sales represent sales of those stores open during both comparable periods.

COST OF SALES. Cost of sales includes the cost of merchandise sold and the Company's buying and occupancy costs.

PRE-OPENING EXPENSES. Costs associated with the opening of new stores are expensed as incurred.

ADVERTISING COSTS. Advertising costs and sales promotion costs are expensed at the time the advertising takes place. Selling, general and administrative expenses include advertising and sales promotion costs of \$100.1 million, \$87.2 million and \$84.8 million in 2000, 1999 and 1998, respectively.

INCOME TAXES. Income taxes are accounted for using a balance sheet approach known as the liability method. The liability method accounts for deferred income taxes by applying the statutory tax rates in effect at the date of the balance sheet to differences between the book basis and the tax basis of assets and liabilities.

STOCK-BASED COMPENSATION. The Company accounts for stock-based compensation by

applying APB Opinion No. 25, as allowed under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation."

CASH AND CASH EQUIVALENTS. Cash equivalents consist of liquid investments with an original maturity of three months or less. Cash equivalents are stated at cost, which approximates fair value.

MERCHANDISE INVENTORIES. Merchandise inventories are valued by the retail method and are stated at the lower of cost, determined using the first-in, first-out (FIFO) basis, or market.

PROPERTY AND EQUIPMENT. Property and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives. Investments in properties under capital leases and leasehold improvements are amortized over the shorter of their useful lives or their related lease terms. Property and equipment are reviewed regularly to determine whether the carrying amount of the assets is recoverable.

INSURANCE PROGRAMS. The Company retains its normal expected losses related primarily to workers' compensation, physical loss to property and business interruption resulting from such loss and comprehensive general, product, and vehicle liability. The Company purchases third party coverage for losses in excess of the normal expected levels. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred utilizing independent actuarial assumptions.

FOREIGN CURRENCY TRANSLATION. Local currencies are the functional currencies for all subsidiaries. Accordingly, assets and liabilities of foreign subsidiaries are translated at the rate of exchange at the balance sheet date. Adjustments from the translation process are included as a separate component of shareowners' equity. Income and expense items of these subsidiaries are translated at average rates of exchange.

FINANCIAL DERIVATIVES. The Company uses derivative financial instruments for purposes other than trading to reduce its exposure to fluctuations in interest rates and foreign currencies and to minimize the risk associated with investments in foreign operations. Unrealized gains and losses related to derivative financial instruments are not recognized. The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. Hedges of firm commitments are deferred and recognized in operating results or included in the balance sheet amounts when the transactions are settled.

SEGMENTS. In 1998 the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Segments have been identified based upon management responsibility. The Company's two segments, Payless ShoeSource stores and Parade stores, have been aggregated for reporting purposes based upon the similarity of their operations and economic characteristics.

NEW ACCOUNTING STANDARD. Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," was issued by the Financial Accounting Standards Board in June 1998. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. The Company has adopted SFAS 133 (as amended by SFAS 138) effective February 4, 2001. There was not a material impact on the results of operations or financial position as a result of the adoption of SFAS 133.

RECLASSIFICATION. Certain prior-year amounts have been reclassified to conform with the current-year presentation.

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QUARTERLY RESULTS (UNAUDITED)

Quarterly results are determined in accordance with annual accounting policies. They include certain items based upon estimates for the entire year. Summarized quarterly results for the last two years were as follows:

<TABLE>
<CAPTION>

(dollars in millions, except per share)

Quarter	First	Second	2000 Third	Fourth	Year
<S>	<C>	<C>	<C>	<C>	<C>
Net retail sales	\$ 708.5	\$ 816.9	\$ 723.0	\$ 700.1	\$ 2,948.4
Cost of sales	481.8	545.3	489.8	494.7	2,011.5

Net earnings before extraordinary loss	29.0	48.8	32.4	13.9	124.2
Net earnings	\$ 25.4	\$ 48.8	\$ 32.4	\$ 13.9	\$ 120.6

Diluted earnings per share:(1)					
Net earnings before extraordinary loss	\$ 1.02	\$ 2.16	\$ 1.44	\$ 0.62	\$ 5.16
Extraordinary loss	0.13	-	-	-	0.15
Net earnings(2)	\$ 0.89	\$ 2.16	\$ 1.44	\$ 0.62	\$ 5.01

Basic earnings per share:(1)					
Net earnings before extraordinary loss	\$ 1.03	\$ 2.19	\$ 1.46	\$ 0.63	\$ 5.24
Extraordinary loss	0.13	-	-	-	0.15
Net earnings(2)	\$ 0.90	\$ 2.19	\$ 1.46	\$ 0.63	\$ 5.09

(dollars in millions, except per share)

Quarter	1999				
	First	Second	Third	Fourth	Year
Net retail sales	\$ 689.2	\$ 767.6	\$ 669.4	\$ 604.0	\$ 2,730.1
Cost of sales	468.6	514.2	455.5	430.0	1,868.3
Net earnings	\$ 35.3	\$ 51.3	\$ 34.6	\$ 15.3	\$ 136.5

Diluted earnings per share(1)	\$ 1.09	\$ 1.61	\$ 1.11	\$ 0.51	\$ 4.35
Basic earnings per share(1)	\$ 1.09	\$ 1.62	\$ 1.12	\$ 0.51	\$ 4.37

</TABLE>

(1)Earnings per share were computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding.

(2)During the first quarter of 2000, the Company completed a self-tender through which it repurchased 7.5 million shares of its common stock. In conjunction with the share repurchase, the Company recorded an \$8.0 million non-recurring pre-tax charge consisting principally of the analysis and consideration of various strategic alternatives and costs associated with the self-tender. Excluding the non-recurring charge and extraordinary loss, diluted and basic earnings per share for the first quarter of 2000 were \$1.19 and the diluted and basic earnings per share for the fiscal year 2000 were \$5.37 and \$5.45, respectively.

PROFIT SHARING PLAN

The Company has a qualified profit sharing plan ("Payless Profit Sharing Plan") that covers associates who work 1,000 hours or more in a year and have attained age 21. On January 1, 1997, the Payless ShoeSource Profit Sharing Plan for Puerto Rico Associates ("Puerto Rico Profit Sharing Plan") was established by the Company. All associates of the Company, as of January 1, 1997, who were previously participating in the Payless Profit Sharing Plan and employed in Puerto Rico, had their account balances transferred to the Puerto Rico Profit Sharing Plan.

The Company's profit sharing plans are defined contribution plans that provide for Company contributions related to the Company's annual performance and are at the discretion of the Board of Directors. The Company expects to contribute 2.5 percent of its pretax earnings to the Company's profit sharing plans. Associates may voluntarily contribute to the Company's profit sharing plans on both a before-tax and after-tax basis. Total profit sharing contributions made by the Company were \$5.3 million, \$5.7 million, and \$5.8 million in 2000, 1999 and 1998, respectively.

INCOME TAXES

The provision (benefit) for income taxes consisted of the following:

<TABLE>
<CAPTION>

(dollars in millions)	2000	1999	1998
<S>	<C>	<C>	<C>
Federal	\$ 68.0	\$ 68.5	\$ 75.7
State and local	12.7	15.4	17.0

Taxes currently payable	80.7	83.9	92.7

Federal	(1.2)	5.0	(3.0)

State and local	(0.5)	1.6	(0.2)

Deferred taxes	(1.7)	6.6	(3.2)

Total provision	\$ 79.0	\$90.5	\$ 89.5
=====			

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The reconciliation between the statutory federal income tax rate and the effective income tax rate was as follows:

<TABLE>
<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes (net of federal tax benefit)	3.9	4.9	4.9
Effective income tax rate	38.9%	39.9%	39.9%

</TABLE>

Major components of deferred income tax assets were as follows:

<TABLE>
<CAPTION>

(dollars in millions)	Feb. 3, 2001	Jan. 29, 2000
<S>	<C>	<C>
Accrued expenses and reserves	\$29.4	\$29.5
Depreciation/amortization and basis differences	7.7	9.4
Other deferred income taxes, net	4.9	1.4
Net deferred income taxes	42.0	40.3
Less: Net current deferred income taxes	14.9	12.1
Noncurrent deferred income taxes	\$27.1	\$28.2

</TABLE>

EARNINGS PER SHARE

Basic earnings per share were \$5.09, \$4.37 and \$3.81 in 2000, 1999 and 1998, respectively. The per share amounts have been computed on the basis of the weighted average number of shares outstanding.

The calculation of diluted earnings per share for 2000 and 1999 excludes the impact of 295,408 and 312,103 stock options, respectively, because to include them would have been antidilutive. Diluted earnings per share have been computed as follows:

<TABLE>
<CAPTION>

(dollars in millions, except per share; shares in thousands)	2000	1999	1998
<S>	<C>	<C>	<C>
Net earnings	\$ 120.6	\$ 136.5	\$ 135.0
Weighted average shares outstanding - basic	23,686	31,221	35,412
Stock options	368	144	320
Weighted average shares outstanding - diluted	24,054	31,365	35,732
Diluted earnings per share:			
Net earnings before extraordinary loss	\$ 5.16	\$ 4.35	\$ 3.78
Extraordinary loss	0.15	-	-
Diluted earnings per share	\$ 5.01(1)	\$ 4.35	\$ 3.78

</TABLE>

(1) Excluding the non-recurring charge and extraordinary loss, diluted earnings per share for 2000 were \$5.37.

ACCRUED EXPENSES

Major components of accrued expenses included:

<TABLE>

<CAPTION>

(dollars in millions)	Feb. 3, 2001	Jan. 29, 2000
<S>	<C>	<C>
Sales, use and other taxes	\$26.4	\$21.2
Profit sharing, bonus, retention, and salaries	20.2	25.1
Construction costs	18.1	14.9
Store closings and real estate related	17.1	16.6

</TABLE>

LONG-TERM DEBT

In April 2000, the Company repaid its \$122 million of unsecured notes and entered into a new \$600 million senior secured credit facility ("Credit Facility"). The excess of the amount paid over the carrying value of the Company's unsecured notes was recorded as a \$3.6 million extraordinary loss related to early extinguishment of debt, net of \$2.3 million of income tax.

The Credit Facility consists of a \$400 million term loan and a \$200 million revolving loan, both of which mature in 2005, subject to prepayment without penalty by the Company at any time. During the second quarter of 2000, the Company made an \$80 million pre-payment on the term loan. The term loan and revolving loan bear interest at the LIBOR rate, plus a variable margin of 1.25% to 2.0%. The variable interest rate at February 3, 2001 was 7.2%. A quarterly commitment fee of between 0.25% and 0.50% per annum is payable on the unborrowed balance of the revolving loan. The margin on the term loan and the commitment fee varies based upon performance criteria specified in the credit agreement. While no amounts had been drawn on the \$200 million revolving loan as of February 3, 2001, the balance available to the Company was reduced by \$11.4 million outstanding under a letter of credit.

The Company's Credit Facility is secured by a first priority perfected security interest in all of the capital stock of the Company's domestic subsidiaries and 65 percent of the Company's controlled foreign corporation (as defined in the Credit Facility) subsidiaries, and limits additional share repurchases to \$50.0 million per year.

In order to mitigate the Company's exposure to fluctuations in interest rates, the Company has entered into a series of interest rate swap agreements whereby the Company will receive interest at the three month LIBOR rate on a \$320 million notional amount and pay a weighted average rate of 6.9%. The interest swaps expire from 2001 to 2003.

As the long-term debt under the Credit Facility bears interest at current market rates, its carrying value approximates market value at February 3, 2001. The fair value of the interest rate swap agreements approximates \$(7.7) million at February 3, 2001. The estimated fair value of the interest rate swap agreements approximates the proceeds to settle the outstanding contracts. Dealer quotations are available for the Company's interest rate swap agreements.

In order to minimize its foreign exchange risk, the Company entered into two currency swaps during the third quarter of 2000. These swaps effectively convert \$30 million of the U.S. dollar-denominated term loan into Canadian dollar-denominated obligations. One of the currency swaps for \$20 million expires in 2002. The swap for the remaining \$10 million expires in 2005. These swaps have been designated as a foreign currency hedge on the Company's net investment in Canadian dollar-denominated subsidiaries. Gains and losses are recorded as a cumulative translation adjustment in stockholders' equity. The fair value of these currency swaps is \$0.5 million at February 3, 2001. Including the effect of the interest rate swap agreements and the currency swap agreements, the Company's effective interest rate on the term loan was 8.7% during the year ended February 3, 2001.

The required principal payments on the Company's \$320 million term loan

balance as of February 3, 2001 are due as follows:

<TABLE>
<CAPTION>

(dollars in millions)

Year	Amount
2001	\$ 15.6
2002	64.4
2003	91.1
2004	117.8
2005	31.1
Total	\$320.0

Also included in long-term debt are capital lease obligations of \$4.2 million and \$4.8 million as of February 3, 2001 and January 29, 2000, respectively.

LEASE OBLIGATIONS

The Company leases substantially all of its stores. Rental expense for the Company's operating leases consisted of:

<TABLE>
<CAPTION>

(dollars in millions)	2000	1999	1998
Minimum rentals	\$261.1	\$251.7	\$235.5
Contingent rentals based on sales	6.6	3.4	3.3
Real property rentals	267.7	255.1	238.8
Equipment rentals	0.9	0.9	0.9
Total	\$268.6	\$256.0	\$239.7

</TABLE>

Certain lease agreements include escalating rents over the lease terms. Cumulative expense recognized on the straight-line basis in excess of cumulative payments is included in accrued expenses and other liabilities in the accompanying balance sheet.

Future minimum lease payments at February 3, 2001, were as follows:

<TABLE>
<CAPTION>

(dollars in millions)	Capital Leases	Operating Leases	Total
2001	\$1.3	\$ 242.1	\$ 243.4
2002	1.2	208.8	210.0
2003	0.8	169.2	170.0
2004	0.7	126.0	126.7
2005	0.5	91.0	91.5
After 2005	1.2	232.0	233.2
Minimum lease payments	\$5.7	\$1,069.1	\$1,074.8
Less imputed interest component	1.5		
Present value of net minimum lease payments of which \$0.8 million is included in current liabilities	\$4.2		

</TABLE>

At February 3, 2001, the present value of operating leases was \$851.1 million.

OTHER LIABILITIES

Major components of other liabilities included:

<TABLE>

<CAPTION>

(dollars in millions)	Feb. 3, 2001	Jan. 29, 2000
<S>	<C>	<C>
Rent expense	\$23.8	\$19.4
Insurance costs	14.3	18.3

</TABLE>

COMMON STOCK REPURCHASE PROGRAMS

In April 2000, the Company completed a self-tender through which it repurchased 7.5 million shares of its common stock at \$53 per share. In conjunction with the self-tender, the Company recorded an \$8.0 million non-recurring pre-tax charge consisting principally of the analysis and consideration of various strategic alternatives and costs associated with the self-tender. For the year, the Company repurchased a total of 8.0 million shares, including the self-tender, for an aggregate purchase price of \$425.0 million.

During 1999 and 1998, the company repurchased \$142 million (2.9 million shares) and \$150 million (2.2 million shares) of common stock, respectively, under its stock repurchase programs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STOCK OPTION AND STOCK-RELATED COMPENSATION PLANS

Under the Company's common stock option plans, options are granted at the average of the high and low trading price on the date of grant. Options to purchase may extend for up to ten years, may be exercised in installments only after stated intervals of time, and are conditional upon continued employment with the Company. The options may be exercised during certain periods following retirement, disability or death.

A summary of the status of the various stock option plans at the end of 2000, 1999, and 1998, and the changes within years are presented below:

<TABLE>

<CAPTION>

(shares in thousands)	Shares	2000		Shares	1999		Shares	1998	
		Range of Exercise Prices	Average Exercise Price		Range of Exercise Prices	Average Exercise Price		Range of Exercise Prices	Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	1,920	\$27-72	\$ 45	2,131	\$27-72	\$ 45	2,164	\$27-59	\$ 39
Granted	2,442	48-64	57	93	52-53	53	233	48-72	64
Exercised	213	40-72	61	102	27-59	37	214	27-59	42
Forfeited or expired	220	48-55	52	202	27-72	46	52	27-72	46
Outstanding at end of year	3,929	\$27-72	\$ 50	1,920	\$27-72	\$ 45	2,131	\$27-72	\$ 45
Exercisable at end of year	690	\$27-59	\$ 41	860	\$27-59	\$ 40	925	\$27-59	\$ 41
Fair value of options granted	\$30			\$32			\$40		

</TABLE>

The following table summarizes information about stock options outstanding at February 3, 2001:

<TABLE>

<CAPTION>

(shares in thousands)

Options Outstanding	Options Exercisable
Average	

Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Average Exercise Price	Number Exercisable	Average Exercise Life
<S>	<C>	<C>	<C>	<C>	<C>
\$27-33	239	5 years	\$28	239	5 years
38-46	1,075	6 years	45	440	6 years
48-55	2,319	9 years	-	-	-
57-72	296	8 years	59	11	7 years

</TABLE>

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Under the 1996 Stock Incentive Plan, the Company is authorized to grant a maximum of 400,000 shares of restricted stock to management associates. No monetary consideration is paid by associates who receive restricted stock. Restricted stock can be granted with or without performance restrictions. Restrictions, including performance restrictions, lapse over periods of up to four years, as determined at the date of grant. In 2000 and 1999, the Company granted 191,200 and 8,488 shares of restricted stock, respectively, under the 1996 Stock Incentive Plan.

The Company's plans are accounted for as provided by APB Opinion No. 25. For stock options, no compensation cost has been recognized because the option exercise price is fixed at the average market price on the date of grant. For restricted stock grants, compensation expense is based upon the grant date average market price; it is recorded over the lapsing period. For performance-based restricted stock, compensation expense is recorded over the performance period based on estimates of performance levels.

SFAS No. 123, "Accounting for Stock based Compensation," provides an alternative method of accounting for stock based compensation, which establishes a fair value method of accounting for employee stock options or similar equity instruments. The Company uses the Black-Scholes option pricing model to estimate the grant date fair value of its 1996 and later option grants. The fair value is recognized over the option vesting period. As the fair value represents only 1996 and later option grants, the pro forma impact shown below may not be representative of future years. Had compensation cost for these plans been determined in accordance with SFAS No. 123, the Company's net earnings and earnings per share would have been as follows:

<TABLE>
<CAPTION>

(dollars in millions, Except Per Share Data)	2000	1999	1998
<S>	<C>	<C>	<C>
NET EARNINGS:			
As reported	\$120.6	\$136.5	\$135.0
Pro forma	\$ 99.1	\$130.3	\$128.7
DILUTED EARNINGS PER SHARE:			
As reported	\$ 5.01	\$ 4.35	\$ 3.78
Pro forma	\$ 4.10	\$ 4.15	\$ 3.60
BASIC EARNINGS PER SHARE:			
As reported	\$ 5.09	\$ 4.37	\$ 3.81
Pro forma	\$ 4.18	\$ 4.17	\$ 3.63

</TABLE>

The following assumptions were used in the Black-Scholes calculations above:

<TABLE>
<CAPTION>

	2000	1999	1998
<S>	<C>	<C>	<C>
Risk-free interest rate	6.34%	5.71%	5.70%
Expected dividend yield	0%	0%	0%
Option life	10 yrs.	10 yrs.	10yrs.
Expected volatility	35%	36%	38%

</TABLE>

The Company has a shareowner rights plan under which one right is attached to each share of the Company's common stock. The rights become exercisable only under certain circumstances involving actual or potential acquisitions of the Company's common stock by a person or persons affiliated with such persons. Depending on the circumstances, if the rights become exercisable, the holder may be entitled to purchase units of the Company's preferred stock, shares of the Company's common stock or shares of the common stock of the acquiring person. The rights will remain in existence until April 30, 2006, unless they are terminated, extended, exercised or redeemed.

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SUMMARY OF SELECTED HISTORICAL FINANCIAL INFORMATION

The following table presents selected historical financial information of the Company. The information presented below reflects periods during which the Company did not operate as an independent public company, and, accordingly, certain assumptions were made in preparing this financial information. Therefore, this information may not necessarily reflect the consolidated results of operations or financial position that would have existed if the Company had been an independent public company during the periods shown or the future performance of the Company as an independent public company. The financial information below should be read in conjunction with the consolidated financial statements and the notes in this annual report.

(dollars in millions, except per share; shares in thousands)	Fiscal Year(1)					
	2000	1999	1998	1997	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF EARNINGS DATA:						
Net retail sales	\$ 2,948.4	\$ 2,730.1	\$ 2,615.5	\$ 2,566.9	\$ 2,333.7	\$ 2,330.3
Cost of sales	2,011.5	1,868.3	1,798.9	1,799.4	1,663.5	1,696.2
Selling, general and administrative expenses	700.9	635.7	598.4	557.4	484.7	472.4
Special and nonrecurring items(2)	8.0	-	0.8	4.7	12.6	71.8
Interest (income) expense, net	25.0	(0.9)	(7.1)	(8.9)	(6.2)	1.0
Total cost of sales and expenses	2,745.4	2,503.1	2,391.0	2,352.6	2,154.6	2,241.4
Earnings before income taxes, minority interest and extraordinary loss	203.0	227.0	224.5	214.3	179.1	88.9
Provision for income taxes	79.0	90.5	89.5	85.4	71.4	34.9
Earnings before minority interest and extraordinary loss	124.0	136.5	135.0	128.9	107.7	54.0
Minority interest	0.2	-	-	-	-	-
Earnings before minority interest and extraordinary loss	124.2	136.5	135.0	128.9	107.7	54.0
Extraordinary loss	3.6	-	-	-	-	-
Net earnings	\$ 120.6	\$ 136.5	\$ 135.0	\$ 128.9	\$ 107.7	\$ 54.0
Diluted earnings per share(3)	\$ 5.01	\$ 4.35	\$ 3.78	\$ 3.31	\$ 2.67	-
Average shares outstanding - diluted(3)	24,054	31,365	35,732	38,930	40,307	-
BALANCE SHEET DATA:						
Working capital	\$ 206.0	\$ 362.2	\$ 300.9	\$ 384.8	\$ 392.2	\$ 232.0
Property and equipment, net	518.7	482.9	492.8	486.7	502.5	560.0
Total assets	1,002.8	1,082.4	1,036.7	1,073.0	1,091.8	1,014.3
Total debt	325.6	126.8	73.5	7.9	9.5	11.5
Total equity	410.4	703.8	702.8	836.4	853.0	752.9(4)
OTHER FINANCIAL DATA:						
Capital expenditures	\$ 144.9	\$ 100.4	\$ 108.6	\$ 85.4	\$ 73.4	\$ 95.4
Present value of operating leases	851.1	849.5	851.4	832.5	817.9	885.5
Earnings before interest, income taxes, depreciation and amortization (EBITDA) (5)	330.8	326.0	315.5	300.5	272.1	185.2
Net retail sales growth	6.5%(6)	4.4%	1.9%	10.0%	1.4%(6)	8.7%(6)
Same-store sales growth	3.2%	0.9%	(0.8)%	5.6%	3.6%	(3.7)%
Return on equity	17.1%	19.4%	16.1%	15.1%	14.3%	6.8%
Return on net assets	17.6%	18.4%	17.2%	17.3%	15.5%	13.9%
Stores open (at year-end)	4,912	4,712	4,570	4,431	4,236	4,549

- (1) All years include 52 weeks, except 2000 and 1995, which include 53 weeks.
- (2) During the first quarter of 2000, the Company completed a self-tender through which it repurchased 25.5 percent of its outstanding common shares. Associated with the self-tender the company incurred costs for the consideration of various strategic alternatives and for costs to complete the self-tender. During the fourth quarter of 1995, the Company committed to close or relocate underperforming stores and restructure its central office. The Company also incurred executive retention costs associated with the spin-off that established the Company as an independent public company.
- (3) Calculations only shown since being an independent public company.
- (4) Prior to 1996, total equity was the equity investment by May Company.
- (5) EBITDA should not be considered in isolation or as a substitute for measures of performance or cash generation prepared in accordance with generally accepted accounting principles. Fiscal year 2000 EBITDA is calculated using earnings before extraordinary loss.
- (6) Growth percentage based on a 52-week comparison.

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REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity and objectivity of the financial information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts. Although the financial statements reflect all available information and management's judgment and estimates of current conditions and circumstances, and are prepared with the assistance of specialists within and outside the Company, actual results could differ from those estimates.

Management has established and maintains an internal control structure to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that the accounting records provide a reliable basis for the preparation of financial statements, and that such financial statements are not misstated due to material fraud or error. Internal controls include the careful selection of associates, the proper segregation of duties and the communication and application of formal policies and procedures that are consistent with high standards of accounting and administrative practices. An important element of this system is a comprehensive internal audit program.

Management continually reviews, modifies and improves its systems of accounting and controls in response to changes in business conditions and operations and in response to recommendations in the reports prepared by the independent public accountants and internal auditors.

Management believes that it is essential for the Company to conduct its business affairs in accordance with the highest ethical standards and in conformity with the law. This standard is described in the Company's policies on business conduct, which are publicized throughout the Company.

AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors, through the activities of its Audit and Finance Committee, participates in the reporting of financial information by the Company. The committee meets regularly with management, the internal auditors and the independent public accountants. The committee reviewed the scope, timing and fees for the annual audit and the results of the audit examinations completed by the internal auditors and independent public accountants, including the recommendations to improve certain internal controls and the follow-up reports prepared by management. The independent public accountants and internal auditors have free access to the committee and the Board of Directors.

The Audit and Finance Committee consists of three outside directors, all of whom have accounting or financial management expertise. The members of the Audit and Finance Committee are Howard R. Fricke, Michael E. Murphy and Robert L. Stark. The Audit and Finance Committee reports the results of its activities to the full Board of Directors.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareowners of Payless ShoeSource, Inc.:

We have audited the accompanying consolidated balance sheet of Payless ShoeSource, Inc. (a Delaware corporation) and subsidiaries as of February 3,

2001 and January 29, 2000 and the related consolidated statements of earnings, shareowners' equity and cash flows for each of the three fiscal years in the period ended February 3, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Payless ShoeSource, Inc. and subsidiaries as of February 3, 2001 and January 29, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
St. Louis, Missouri
February 23, 2001

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[PHOTO]

PAYLESS SHOESOURCE BOARD OF DIRECTORS

Front Row: Michael E. Murphy, Steven J. Douglass, Ken C. Hicks, Mylle B. Mangum
Back Row: Thomas A. Hays, Irwin Zazulia, Daniel Boggan Jr., Howard R. Fricke,
Robert L. Stark

BOARD OF DIRECTORS

STEVEN J. DOUGLASS
Chairman of the Board
and Chief Executive Officer

MYLLE B. MANGUM (2)
Chief Executive Officer,
MMS Incentives LLC

KEN C. HICKS
President

MICHAEL E. MURPHY (1)
Retired Vice Chairman
and Chief Administrative Officer,
Sara Lee Corporation

DANIEL BOGGAN JR. (2)
Senior Vice President,
National Collegiate Athletic
Association (NCAA)

ROBERT L. STARK (1)
Retired Executive Vice President
of Hallmark Cards, Inc. and Retired
Dean of the Edwards Campus,
University of Kansas

HOWARD R. FRICKE (1)
Chairman of the Board
The Security Benefit Group
of Companies

IRWIN ZAZULIA (2)
Retired President and Chief
Executive Officer of Hecht's,
a division of The May Department
Stores Company

THOMAS A. HAYS (2)
Retired Deputy Chairman,
The May Department Stores Company

SENIOR MANAGEMENT

STEVEN J. DOUGLASS
Chairman of the Board
and Chief Executive Officer

KEN C. HICKS
President

DUANE L. CANTRELL
Executive Vice President

BRYAN P. COLLINS
Senior Vice President

MICHAEL C. FLEMING
Division Senior Vice President

STEPHEN J. GISH
Division Senior Vice President

JOHN N. HAUGH
Senior Vice President

ROBERT H. HOWARD
Division Senior Vice President

GERALD F. KELLY, JR.
Senior Vice President

GARY J. KONETZNI
Division Senior Vice President

THOMAS H. MITCHELL
Division Senior Vice President

HARRIS MUSTAFA
Senior Vice President

JOANN OGEE
Senior Vice President

DARREL J. PAVELKA
Senior Vice President

ULLRICH E. PORZIG
Senior Vice President -
Chief Financial Officer and Treasurer

WILLIAM J. RAINEY
Senior Vice President -
General Counsel and Secretary

GARY M. STONE
Senior Vice President

LARRY M. STRECKER
Senior Vice President

JEFFREY W. WAGNER
Senior Vice President

KAROLYN W. WANGSTAD
Senior Vice President

(1) Audit and Finance Committee (2) Compensation and Nominating Committee

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CORPORATE HEADQUARTERS

Payless ShoeSource, Inc.
3231 S.E. Sixth Avenue
Topeka, KS 66607-2207
(785) 233-5171

COMMON STOCK

Shares of Payless ShoeSource, Inc. are listed and traded on the New York Stock Exchange. The trading symbol is PSS.

INFORMATION REQUESTS

Copies of the company's annual report to shareowners, the Form 10-K annual report to the Securities and Exchange Commission (SEC), the Form 10-Q quarterly reports to the SEC, monthly sales releases and quarterly earnings releases are available free of charge to shareowners by writing to Corporate Communications/Investor Relations at the corporate headquarters or by calling the Investor Relations phone line at (800) 626-3204.

PAYLESS SHOESOURCE ON THE INTERNET

Recent press releases issued by the company and other information are available on our World Wide Web home page. Visit us at <http://www.paylessinfo.com>.

SHAREOWNER INQUIRIES

Shareowner inquiries regarding stock transfer, lost certificates or address changes should be directed to the stock transfer agent and registrar, UMB Bank, as shown below.

PLEASE ADDRESS SHAREOWNER INQUIRIES TO:

Securities Transfer Division
UMB Bank
P.O. Box 410064
Kansas City, MO 64141
(816) 860-7786

The bank requests certificates be sent by registered mail.
The fax number for the bank is (816) 221-0438.
The e-mail address for the bank is: sec_xfer@umb.com.

Securities analysts, shareowners and investment professionals should direct inquiries regarding Payless ShoeSource, Inc. and its business to Timothy J. Reid, Director of Corporate Communications, at the corporate headquarters by calling (785) 295-6695.

[LOGO] Creative: Muller + Company, Kansas City, Missouri www.mullerco.com

SUBSIDIARIES OF REGISTRANT

The corporations listed below are subsidiaries of Registrant, and all are included in the consolidated financial statements of Registrant as subsidiaries (unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary):

<TABLE>

<CAPTION>

Name -----	Jurisdiction in which organized -----
<S>	<C>
Payless ShoeSource Finance, Inc.	Nevada
Payless ShoeSource, Inc.	Missouri
Payless ShoeSource Distribution, Inc.	Kansas
Payless ShoeSource Merchandising, Inc.	Kansas
Payless ShoeSource Worldwide, Inc.	Kansas
PSS Canada, Inc.	Kansas
Payless ShoeSource Canada, Inc.	Canada

</TABLE>

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (SEC File Nos. 333-25877, 333-28483, 333-30371 and 333-50671).

ARTHUR ANDERSEN LLP

St. Louis, Missouri,
April 19, 2001