

Tax Information for Payless Spin-off

On May 4, 1996, The May Department Stores Company distributed all of the common stock of Payless ShoeSource, Inc. to shareowners of May. You should consult the information statement sent to May shareowners about the distribution, which contains more detailed tax information about the distribution and taxes. The information in this notice represents our understanding of existing federal income tax law and regulations and does not constitute tax advice. **Please consult your own tax advisor.**

May received a tax opinion from outside counsel to the effect that, among other things, receipt of the Payless common stock will be tax-free for federal income tax purposes to the shareowners of May (except to the extent cash is received for any fractional share interest). The taxable gain or loss required to be recognized with respect to the cash received in lieu of any fractional share interest will be equal to the difference between the cash received and the shareowner's tax basis (determined as described below) in such fractional share interest. Also, the holding period for your Payless shares should be the same as the holding period for your May shares with respect to which the Payless shares were received.

You should allocate the tax basis in your May common stock before the distribution between your May common stock and the Payless common stock you received (including any fractional share interest) as follows (if you acquired May common stock at different times and costs, you will need to make separate basis calculations for each group of May shares you held on the record date):

May common shares	90.86%
Payless common shares (including fractional share interests)	9.14%

Example: Assume you own 105 May common shares with a tax basis (i.e., cost, including commissions) of \$20 for each share, for a total tax basis of \$2,100. You would have received 16 shares of Payless common stock plus a cash payment in lieu of fractional share interest of \$22.36 (your portion of the proceeds, \$27.95 per Payless share, net of selling expenses, from selling all fractional shares).

	<u>Original Basis In May Stock</u>	x	<u>Allocable Percentage</u>	=	<u>Allocated Basis (Total)</u>	÷	<u>Number of Shares</u>	=	<u>New Basis/Share</u>
May Common Shares	\$2,100	x	90.86%	=	\$1,908	÷	105.0	=	\$18.17
Payless Common Shares	\$2,100	x	9.14%	=	\$ 192	÷	16.8	=	\$11.43

In this example, the tax basis in the .8 fractional share interest would be \$9.14 (.8 x \$11.43). Accordingly, taxable income with respect to the fractional share interest would be \$13.22 (cash received [\$22.36] minus the tax basis [\$9.14]).