

CATO CORP
Form DEF 14A
April 08, 2014

**UNITED STATES
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SCHEDULE 14A

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**Proxy Statement Pursuant to Section 14(a) of the Securities
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Check the appropriate box:

- o** Preliminary Proxy Statement
- o** **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x** Definitive Proxy Statement
- o** Definitive Additional Materials
- o** Soliciting Material Pursuant to Rule §240.14a-12

The CATO Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x** No fee required.
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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

April 17, 2014

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders to be held at the Corporate Office of the Company, 8100 Denmark Road, Charlotte, North Carolina 28273 on Tuesday, May 20, 2014 at 11:00 A.M., Eastern Time.

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The Notice of the Annual Meeting of Shareholders and Proxy Statement are attached. The matters to be acted upon by our shareholders are set forth in the Notice of Annual Meeting of Shareholders and discussed in the Proxy Statement.

We would appreciate your signing, dating, and returning to the Company the enclosed proxy card in the enclosed postage paid envelope or voting online or telephonically at your earliest convenience.

We look forward to seeing you at our Annual Meeting.

Sincerely yours,

JOHN P. D. CATO
*Chairman, President and
Chief Executive Officer*

**8100 Denmark Road
P. O. Box 34216
Charlotte, NC 28234
(704) 554-8510**

The Cato Corporation

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 20, 2014

TO THE SHAREHOLDERS OF
THE CATO CORPORATION

Notice is hereby given that the Annual Meeting of Shareholders of The Cato Corporation (the Company) will be held on Tuesday, May 20, 2014 at 11:00 A.M., Eastern Time, at the Corporate Office of the Company, 8100 Denmark Road, Charlotte, North Carolina 28273, for the following purposes:

1. To elect Thomas B. Henson and Bryan F. Kennedy, III each for a term expiring in 2017 and until their successors are elected and qualified;
2. To approve, on an advisory basis, the Company's executive compensation; and
3. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending January 31, 2015.

The Board of Directors has fixed the close of business on March 24, 2014 as the record date for determination of shareholders entitled to notice of and to vote at the meeting or any adjournments thereof.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 20, 2014:

**This Proxy Statement, the accompanying proxy card and The Cato Corporation Annual Report on
Form 10-K for the 2013 fiscal year are available at:**

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www.catofashions.com/info/investor-relations

By Order of the Board of Directors

Christin J. Reische
Assistant Secretary

Dated: April 17, 2014

SHAREHOLDERS ARE URGED TO SIGN AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED POSTAGE PAID ENVELOPE OR VOTING ONLINE OR TELEPHONICALLY TO ENSURE A QUORUM AT THE MEETING. THIS IS IMPORTANT WHETHER YOU OWN FEW OR MANY SHARES. DELAY IN RETURNING YOUR PROXY MAY SUBJECT THE COMPANY TO ADDITIONAL EXPENSE.

The Cato Corporation

8100 Denmark Road
Charlotte, North Carolina 28273

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of The Cato Corporation (the Company) for use at the Annual Meeting of Shareholders of the Company (the meeting) to be held on May 20, 2014, and at any adjournment or adjournments thereof. This Proxy Statement and the accompanying proxy card are first being mailed to shareholders on or about April 17, 2014.

Only shareholders of record at the close of business on March 24, 2014 are entitled to notice of and to vote at the meeting. As of March 24, 2014, the Company had outstanding and entitled to vote 27,416,384 shares of Class A Common Stock (Class A Stock) held by approximately 5,966 holders of record and 1,743,525 shares of Class B Common Stock (Class B Stock) held by 2 holders of record. The Company's transfer agent estimates that there are approximately 6,211 beneficial owners in total. Holders of Class A Stock are entitled to one vote per share and holders of Class B Stock are entitled to ten votes per share. Holders of Class A Stock and holders of Class B Stock vote as a single class.

All proxies properly executed and received prior to the meeting will be voted at the meeting. If a shareholder specifies how the proxy is to be voted on any of the business to come before the meeting, the proxy will be voted in accordance with such specification. If no specification is made, the proxy will be voted **FOR** the election of nominees Thomas B. Henson and Bryan F. Kennedy, III, **FOR** the resolution approving the Company's executive compensation program, and **FOR** the ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending January 31, 2015. A proxy may be revoked at any time prior to its exercise by written notice to the Secretary of the Company at the Corporate Office of the Company, by executing and delivering a proxy with a later date, or by voting in person at the meeting.

If you plan to attend and vote at the meeting and your shares are held in the name of a broker or other nominee, please bring with you a proxy or letter from the broker or nominee to confirm your ownership of shares.

In accordance with applicable Delaware law and the Company's Bylaws, the holders of a majority of the combined voting power of Class A Stock and Class B Stock present in person or represented by proxy at the meeting will constitute a quorum. Abstentions are counted for purposes of determining the presence or absence of a quorum. With regard to the election of directors, votes may either be cast in favor of or withheld, and, assuming the presence of a quorum, directors will be elected by a plurality of the votes cast. Votes that are withheld will be excluded entirely from the vote and will have no effect on the outcome of the election. Broker non-votes are not counted for purposes of election of directors. With regard to the advisory non-binding vote on the Company's executive compensation, votes may be cast for the Company's proposed resolution, against such proposal or an abstention. The affirmative vote of a majority of the combined voting power of the Class A Stock and Class B Stock present in person or represented by proxy at the meeting and entitled to vote is required to approve the say on pay resolution. The ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm requires the

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affirmative vote of a majority of the combined voting power of the Class A Stock and Class B Stock present in person or represented by proxy at the meeting and entitled to vote. On any proposal other than the election of directors, abstentions and broker non-votes will have the same effect as a negative vote.

The Company will bear the cost of this solicitation including the expense of preparing, printing, and mailing these proxy materials to shareholders. The Company will reimburse brokers, dealers, banks, and other custodians, nominees, and fiduciaries for their reasonable expenses in forwarding proxy solicitation materials to beneficial owners of the Company's Class A Stock and Class B Stock and securing their voting instructions.

The independent election inspector(s) appointed for the Annual Meeting will determine whether or not a quorum is present and will tabulate votes cast by proxy or in person at the Annual Meeting.

These proxy materials are available in PDF and HTML format at www.catofashions.com/info/investor-relations and will remain posted until the conclusion of the meeting.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 24, 2014, certain information regarding the ownership of the outstanding shares of Class A Stock and Class B Stock by (i) each director and nominee, (ii) each person who is known by the Company to own more than 5% of such stock, (iii) each executive officer listed in the Summary Compensation Table, and (iv) all directors and executive officers as a group. Unless otherwise indicated in the footnotes below, each shareholder named has sole voting and investment power with respect to such shareholder's shares. Unless otherwise indicated, the address of each shareholder listed below is 8100 Denmark Road, Charlotte, North Carolina 28273.

Name of Beneficial Owner	Shares Beneficially Owned (1)				Percent of Total Voting Power
	Class A Stock		Class B Stock		
	Number	Percent of Class	Number	Percent of Class	
John P. D. Cato (2)	369,432	1.3	1,743,525	100.0	39.7
John R. Howe	60,327	*			*
Sally J. Almason	34,515	*			*
M. Tim Greer	37,474	*			*
Gordon D. Smith	26,075	*			*
Thomas B. Henson	5,717	*			*
Bryan F. Kennedy, III	4,925	*			*
Thomas E. Meckley	6,729	*			*
Bailey W. Patrick	6,729	*			*
D. Harding Stowe	8,247	*			*
Edward I. Weisiger, Jr.	11,425	*			*
All directors and executive officers as a group (11 persons)	571,595	2.1	1,743,525	100.0	40.1
Wellington Asset Management Co., LLP (3)	3,701,684	13.5			8.3
Royce & Associates, LLC (4)	3,417,669	12.5			7.6
BlackRock, Inc. (5)	2,364,279	8.6			5.3
The Vanguard Group, Inc. (6)	1,686,576	6.2			3.8
Franklin Resources, Inc. (7)	1,649,338	6.0			3.7

* Less than 1%

- (1) Includes the vested interest of executive officers in the Company's Employee Stock Ownership Plan and Employee Stock Purchase Plan. The aggregate vested amount credited to their accounts as of March 24, 2014 was 62,725 shares of Class A Stock.
- (2) The amount shown for Class A Stock and Class B Stock includes 19,034 shares and 3,000 shares, respectively, held by Mr. Cato's wife. Mr. Cato disclaims beneficial ownership of shares held directly or indirectly by his wife.
- (3) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about February 14, 2014. The address of this shareholder is 280 Congress Street, Boston, Massachusetts 02210. This shareholder shares voting and dispositive power with respect to 2,675,988 and 3,701,684 shares, respectively.
- (4) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about January 7, 2014. The address of this shareholder is 745 Fifth Avenue, New York, New York 10151.
- (5) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about January 28, 2014. The address of this shareholder is 40 East 52nd Street, New York, New York 10022.
- (6) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about February 12, 2014. The address of this shareholder is 100 Vanguard Blvd., Malvern, Pennsylvania 19355. This shareholder shares dispositive power with respect to 35,923 shares.
- (7) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about February 11, 2014. The address of this shareholder is One Franklin Parkway, San Mateo, CA 94403.

PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors, currently consisting of seven members, is divided into three classes with terms expiring alternately over a three-year period. The terms of two incumbent directors expire at the Annual Meeting. Thomas B. Henson and Bryan F. Kennedy, III's terms expire at this year's Annual Meeting and they have been recommended by the Corporate Governance and Nominating Committee and nominated by the Board for re-election and to serve until the 2017 Annual Meeting and until their successors are elected and qualified. The Corporate Governance and Nominating Committee reviews and recommends, and the Board nominates, director candidates in accordance with the Company's Bylaws and the policies described below under Corporate Governance Matters Director Nomination Criteria and Process.

It is the intention of the persons named in the proxy to vote for Thomas B. Henson and Bryan F. Kennedy, III to serve until the 2017 Annual Meeting and until their successors are elected and qualified, except to the extent authority to so vote is withheld with respect to one or more nominees. Should any nominee be unable to serve, which is not anticipated, the proxy will be voted for the election of a substitute nominee selected by the Board of Directors. The two nominees shall be elected by a plurality of the votes of Class A Stock and Class B Stock voting as a single class.

The directors recommend that shareholders vote **FOR** the election of Messrs. Henson and Kennedy as members of the Board of Directors.

As discussed in the Director Nomination Criteria and Process section below, the Board believes its directors possess a diverse and extensive background of knowledge and both professional and life experience that can support growth, evaluate risk and provide sufficient oversight to the Company. The members of the Board were selected based on their professional achievements, broad experience, wisdom, character, integrity, ability to make independent, analytical inquiries and intelligent decisions, sound and mature business judgment, ability to understand the business environment and ability to collaborate in an effective manner at the Board level. In addition, individual directors were selected based on many factors including, but not limited to, the following:

Experience at the director and executive level with publicly traded as well as private companies;

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Knowledge of and experience in the development and leasing of commercial real estate;

Financial expertise including experience in public accounting; and

Knowledge of the retail industry.

In particular, for each director identified below, the Board believes that the sum of the experience, qualifications, attributes and skills described below in such director's biographical information qualifies that director for service on the Board of Directors.

Nominees

Information with respect to each nominee, including biographical data for at least the last five years, is set forth below.

Thomas B. Henson, 59, has been a director of the Company since May 2011. Mr. Henson is a licensed attorney and is a founder and has served as CEO of Henson-Tomlin Interests, LLC, a diversified investment company focusing on real estate, electronic and print media and consumer products since 1999. Mr. Henson practiced law at the firm of Robinson, Bradshaw & Hinson in Charlotte, North Carolina from 1980 to 1999. Mr. Henson is a founder, President and CEO of American Spirit Media, LLC. Mr. Henson has served on the Board of Portrait Innovations since 2002, and Park Sterling Bank since 2006. The Board nominated Mr. Henson based on his experience in electronic and print media and legal experience with retail companies, among other skills and attributes.

Bryan F. Kennedy, III, 56, has been a director of the Company since August 2009. Mr. Kennedy has served as President of Park Sterling Bank since 2006 and was a member of its Board from 2006 until 2010. Mr. Kennedy has also served as the President of Park Sterling Corporation since January 2011. Mr. Kennedy carried the additional title of Chief Executive Officer of Park Sterling Bank from January 2006 until August 2010. Mr. Kennedy was the North Carolina Market President of Regions Bank, located in Charlotte, North Carolina, from January 2004 to

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January 2006. The Board nominated Mr. Kennedy based on his experience in banking and finance, among other skills and attributes.

Continuing Directors

Information with respect to the five continuing members of the Board of Directors, including biographical data for the last five years, is set forth below.

John P. D. Cato, 63, has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since January 2004, he has served as Chairman, President and Chief Executive Officer. From May 1999 to January 2004, he served as President, Vice Chairman of the Board and Chief Executive Officer. From June 1997 to May 1999, he served as President, Vice Chairman of the Board and Chief Operating Officer. From August 1996 to June 1997, he served as Vice Chairman of the Board and Chief Operating Officer. From 1989 to 1996, he managed the Company's off-price division, serving as Executive Vice President and as President and General Manager of the It's Fashion! Division from 1993 to August 1996. Mr. Cato previously served as a director of Harris Teeter Supermarkets, Inc., formerly Ruddick Corporation. The Board concluded that Mr. Cato is qualified to serve as a Board member based on his knowledge of all aspects of the Company's business and his substantial experience on and contributions to the Company's Board, among other skills and attributes.

Thomas E. Meckley, 69, has been a director of the Company since May 2009. Mr. Meckley has been a consultant to Agility Recovery Solutions, an onsite mobile business continuity solutions company since 2005. He was employed by the public accounting firm of Ernst & Young LLP from 1967 to 2005 and served as a Managing Partner of the Charlotte, North Carolina office from 1985 to 1995. Mr. Meckley currently serves on the Board of Trustees of Elizabethtown College, a liberal arts college in Pennsylvania. The Board concluded that Mr. Meckley is qualified to serve as a Board member based on his experience in public accounting, among other skills and attributes.

Bailey W. Patrick, 52, has been a director of the Company since May 2009. Since October 2010, Mr. Patrick has been the Managing Partner of Merrifield Patrick Vermillion, LLC, a privately held company specializing in real estate brokerage and development services. Mr. Patrick served as the Managing Partner of Merrifield Patrick from February to October 2010 and President of Bissell-Patrick, LLC from 1999 to 2010, both

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predecessor firms to Merrifield Patrick Vermillion, LLC, holding various other positions with Bissell-Patrick since 1984. He previously served on the Board of Directors of Harris Teeter Supermarkets Inc., formerly Ruddick Corporation. He also serves on the Board of Trustees of Queens University in Charlotte, North Carolina and is Chairman of the Board of Trustees of the YMCA of Greater Charlotte, and currently serves as Chairman of the Board of Trustees for Episcopal High School in Alexandria, Virginia. The Board concluded that Mr. Patrick is qualified to serve as a Board member based on his experience in commercial real estate leasing and development and experience gained in service on other boards, among other skills and attributes.

D. Harding Stowe, 58, has been a director of the Company since February 2005. Mr. Stowe was the President and Chief Executive Officer of R.L. Stowe Mills, Inc. from 1994 to 2009. Mr. Stowe also has been the Chairman and CEO of New South Pizza (Brixx Wood Fired Pizza) since 1997. Additionally, he serves as the Secretary and Treasurer of The Stowe Foundation, Inc., as the President of the Daniel J. Stowe Botanical Garden, and as the President of Seven Oaks Farm Foundation. The Board concluded that Mr. Stowe is qualified to serve as a Board member based on his experience in senior management and leadership positions with several companies and boards, among other skills and attributes.

Edward I Weisiger, Jr., 52, has been a director of the Company since May 2010. Mr. Weisiger has served as President of Carolina Tractor & Equipment Company since 1991 and Chairman since 2010 and served in various positions with the firm since 1988. Mr. Weisiger is a principal and founding partner of Beacon Partners, a commercial real estate development and asset management firm and a principal and founding partner of Cresset Capital Partners and WSB & Company, both private equity entities that invest in small and medium size manufacturers, distributors and asset intensive services businesses. Mr. Weisiger is a past member of the Executive Committee of the North Carolina Citizens for Business & Industry and a past member of the Board of Directors of the North Carolina Trucking Association and a past chair of the Charlotte Chamber of Commerce. The Board concluded that Mr. Weisiger is qualified to serve as a Board member based on his experience in senior management with various companies and commercial real estate development, among other skills and attributes.

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The five continuing members of the Board of Directors are divided into two classes with current terms expiring in 2015 and 2016. On the expiration of each director's term, his successor in office will be elected for a three-year term. The terms of Messrs. John P. D. Cato, Thomas E. Meckley and Bailey W. Patrick expire in 2015. The terms of Messrs. D. Harding Stowe and Edward I. Weisiger, Jr. expire in 2016.

MEETINGS AND COMMITTEES

During the fiscal year ended February 1, 2014, the Company's Board of Directors held four meetings. The Board typically schedules a meeting in conjunction with the Company's Annual Meeting of Shareholders and expects that all directors will attend the Annual Meeting absent a schedule conflict or other valid reason. All directors attended the Company's 2013 Annual Meeting.

The Board of Directors, pursuant to authority granted in the Company's Bylaws, has established a standing Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee. During the fiscal year ended February 1, 2014, the Audit Committee held seven meetings, the Compensation Committee held five meetings and the Corporate Governance and Nominating Committee held three meetings.

All directors attended 100% of various scheduled Board of Directors meetings and applicable Committee meetings during fiscal 2013.

Audit Committee

The Board of Directors established the Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities regarding the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the safeguarding of the Company's assets, the independence, qualifications, and performance of the independent auditors, the performance of the Company internal audit function, the Company's internal control over financial reporting and such other matters as the Committee deems appropriate or as delegated to the Committee by the Board of Directors from time to time. See "Board of Directors Risk Management Oversight" below for the Committee's role in that process. During the fiscal year ended February 1, 2014, the Audit Committee held seven meetings. The Board of Directors has determined that each member of the Audit Committee is an independent director in accordance with the independence requirements of the New York Stock Exchange (NYSE). In addition, the Board has determined that each member of the Audit Committee meets the heightened standards of independence for audit committee members under the Exchange Act and that each is financially literate in accordance with the requirements of the NYSE. No member of the Audit Committee simultaneously serves on the audit committee of more than two other public companies. Messrs. Thomas E. Meckley (Chair), Thomas B. Henson and Bryan F. Kennedy, III are the members of the Audit Committee. The Board of Directors has determined that Thomas E. Meckley qualifies as an audit committee financial expert within the meaning of SEC rules. The Audit Committee operates under a Board-approved charter, a copy of which is available on the Company's website at

www.catofashions.com/info/investor-relations. Additional information concerning the Audit Committee is set forth below under Selection of Independent Registered Public Accounting Firm.

Compensation Committee

The Compensation Committee assesses the Company's overall compensation programs and philosophies. The Committee reviews and approves, on an annual basis, the Company's goals and objectives for compensation of the Chief Executive Officer and evaluates the Chief Executive Officer's performance in light of those goals and objectives at least annually. Based on this evaluation, the Compensation Committee determines and reports to the Board the Chief Executive Officer's compensation, including salary, incentive bonus and performance-based equity compensation.

The Compensation Committee also reviews and approves, on an annual basis, the evaluation process and compensation structure of the Company's other executive officers and evaluates those other officers' performance at least annually. Based on this evaluation, the Compensation Committee determines and reports to the Board the other executive officers' compensation, including salary, incentive bonus and equity compensation. The

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Compensation Committee also reviews on an annual basis and recommends to the Board the form and amount of director compensation. In addition, the Compensation Committee grants restricted stock and other awards to associates of the Company and its subsidiaries pursuant to the Company's benefit and incentive compensation plans and reports such actions to the Board of Directors. See Board of Directors Risk Management Oversight below for the Committee's role in that process.

The Compensation Committee has the power to delegate its authority to subcommittees. The chairman of any such subcommittee must report regularly to the full Compensation Committee.

The Board of Directors has determined that each member of the Compensation Committee is an independent director in accordance with the independence requirements of Section 303A.02 of the NYSE listed company manual. Under such rules, the Board has reviewed the source of compensation of each committee member and whether each member is affiliated with the Company, any subsidiary of the Company or an affiliate of a subsidiary of the Company.

The Compensation Committee held five meetings during the fiscal year ended February 1, 2014. The Compensation Committee operates under a Board-approved charter, a copy of which is available on the Company's website at www.catofashions.com/info/investor-relations. Messrs. D. Harding Stowe (Chair), Bailey W. Patrick and Edward I. Weisiger, Jr. are the members of the Compensation Committee.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee reviews, evaluates and recommends nominees for the Board of Directors. In addition, the Corporate Governance and Nominating Committee monitors and evaluates the performance of the directors on a periodic basis, individually and collectively. The Committee also periodically reviews the Company's corporate governance principles and recommends changes to the Board of Directors. The Board of Directors has determined that each member of the Corporate Governance and Nominating Committee is an independent director in accordance with the independence requirements of the NYSE. The Corporate Governance and Nominating Committee held three meetings during the fiscal year ended February 1, 2014. The Corporate Governance and Nominating Committee operates under a Board-approved charter, a copy of which is available on the Company's website at www.catofashions.com/info/investor-relations. Messrs. Bryan F. Kennedy, III (Chair), Thomas B. Henson, Bailey W. Patrick, D. Harding Stowe and Edward I. Weisiger, Jr. are the members of the Corporate Governance and Nominating Committee.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Guidelines

In furtherance of its longstanding goal of providing effective governance of the Company's business and affairs for the benefit of shareholders, the Board of Directors has approved Corporate Governance Guidelines for the Company. The Guidelines are available on the Company's website at www.catofashions.com/info/investor-relations.

Director Independence

The Board of Directors made a determination as to the independence of each of its members. The Board of Directors determined that each of the following Board members is independent: Mr. Thomas B. Henson, Mr. Bryan F. Kennedy, III, Mr. Thomas E. Meckley, Mr. Bailey W. Patrick, Mr. D. Harding Stowe and Mr. Edward I. Weisiger, Jr. The Board determined that Mr. John P. D. Cato, an employee of the Company, is not independent. The Board made these determinations based upon the definition of an independent director set forth in the NYSE listing standards (the NYSE Independence Tests). A director will be independent only if the director has no material relationship with the Company. For purposes of such determination, the Board must affirmatively determine whether a material relationship exists between the director and the Company. This determination is in addition to the analysis under the NYSE Independence Tests and SEC Rule 10A-3 and must be based on the overall facts and circumstances specific to that director.

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In order to assist the Board in making determinations of independence, any relationship described below will be presumed material:

- (1) The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer of the Company.
- (2) The director has received, or an immediate family member has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- (3) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; the director is a current employee of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.
- (4) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- (5) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

Board Leadership Structure

Mr. John Cato has served in the combined role of Chairman of the Board of Directors and Chief Executive Officer (CEO) since 2004. The Board annually considers his effectiveness in both capacities. The Board believes that its current governance structure provides independent Board leadership while deriving benefit from having the CEO also serve as the Board chair. This structure provides an opportunity for the individual with primary responsibility for managing the Company's day-to-day operations in a historically volatile industry segment to chair meetings of the Board as it discusses key business and strategic issues. The Board also believes having the positions combined facilitates the implementation and execution of both the Company's short and long-term strategies with a single vision.

As Lead Independent Director, Mr. Bryan Kennedy, III assists the Board in providing independent oversight of the Company's operations, short and long-term strategic plans and the Chairman and CEO's performance and compensation among other duties. The Lead Independent Director, through his role as chair of the Corporate Governance and Nominating Committee, also manages the process of annual director self-assessment and evaluation of the Board as a whole.

Executive Sessions of Non-Management Directors

Non-management Board members meet without management at regularly scheduled executive sessions. In addition, to the extent that the group of non-management directors includes directors that are not independent, at least once a year there will be scheduled an executive session including only independent directors. The Lead Independent Director presides over meetings of the non-management or independent directors.

Board of Directors Risk Management Oversight

As the Company's principal governing body, the Board of Directors has the ultimate responsibility for overseeing the Company's risk management practices. As part of its oversight function, the Board reviews and monitors financial, strategic and operational risk through annual and periodic reviews with management.

Pursuant to its charter, the Audit Committee has primary responsibility for monitoring financial reporting risk. As part of its responsibilities, the Committee reviews with management and the independent auditors the Company's

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policies in regard to risk assessment and management and assesses the steps management has taken to minimize risks to the Company. The Committee regularly meets with the independent auditor and management, as appropriate, to review significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements. The Audit Committee also reviews the effectiveness and integrity of the Company's financial reporting processes and the Company's internal control structure (including both disclosure controls and procedures and internal control over financial reporting).

As part of its oversight responsibilities, the Board of Directors relies upon the Compensation Committee to monitor and assess the Company's compensation policies and practices as they relate to risk management and risk-taking incentives. On an annual basis, the Committee reviews the Company's compensation policies and practices to determine how it compensates and incentivizes its associates and whether these policies and practices create risks that are reasonably likely to have a material adverse effect on the Company.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. D. Harding Stowe, Bailey W. Patrick and Edward I. Weisiger, Jr. Since the beginning of the Company's last fiscal year, none of the members of the Compensation Committee is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company's Compensation Committee or the Board.

Code of Ethics and Code of Business Conduct and Ethics

The Company has adopted a written Code of Ethics (the "Code of Ethics") that applies to the Company's Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer), and Controller (principal accounting officer). The Company has adopted a Code of Business Conduct and Ethics (the "Code of Conduct") that applies to all directors, officers, and associates of the Company. The Code of Ethics and Code of Conduct are available on the Company's website at www.catofashions.com/info/investor-relations, under the "Corporate Governance" caption. Any amendments to the Code of Ethics or Code of Conduct with respect to directors or executive officers will be disclosed on the Company's website promptly following the date of such amendment. In addition, any waivers of the Code of Ethics, or waivers of the Code of Conduct with respect to directors or executive officers, will be made only by the Board or a designated committee thereof, and will be disclosed within four business days. Information on the Company's website, however, does not form a part of this Proxy Statement.

Insider Trading and Hedging Policies

The Company has established policies prohibiting directors, officers and associates from purchasing or selling Cato securities while in possession of material, nonpublic information. The Company also has established policies that acknowledge Company associates may become aware of material nonpublic information of other companies in the course of their association with Cato. All directors, officers and associates are prohibited from purchasing or selling securities of other companies while they are in possession of, or aware of, such information and from passing such information on to other persons or entities who purchase or sell the securities of such other companies.

In addition, no director, officer or associate of the Company may engage in any transaction in which they may profit from short-term speculative swings in the value of the Company's securities. This prohibition includes short sales (selling borrowed securities to profit if the market price of the Company's stock decreases), put or call options (publicly available rights to sell or buy securities within a certain period of time at a specified price) and hedging or any other type of derivative instrument designed to minimize the risk inherent in owning the Company's stock.

Communications with Directors

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All interested parties may communicate directly with any member or committee of the Board of Directors, or any group of directors, by writing to: Chair of the Corporate Governance and Nominating Committee, c/o Office of the Corporate Secretary, The Cato Corporation, 8100 Denmark Road, Charlotte, North Carolina 28273. Depending on the subject matter, the Chair of the Corporate Governance and Nominating Committee, with the

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assistance of the Company's Vice President, General Counsel will determine whether to forward it to the director or directors to whom it is addressed, attempt to handle the inquiry directly (for example, where it is a request for information about the Company or it is a stock-related matter), or not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

If the subject matter involves a matter relating to accounting, internal accounting controls or auditing matters, the Vice President, General Counsel will report the matter to the Chair of the Audit Committee and also advise the Chief Executive Officer and Chief Financial Officer. The Chair of the Audit Committee and the Chief Executive Officer will determine what action, if any, should be taken. The Office of the Corporate Secretary and Chair of the Audit Committee will investigate the matter, if necessary, and file a report with the Audit Committee. The Audit Committee, at its discretion, may discuss the matter with the Board of Directors.

The Vice President, General Counsel will maintain a log of all complaints, tracking their receipt, investigation, and resolution and will prepare a periodic summary thereof for the Board of Directors, and the Audit Committee, as appropriate.

Director Nomination Criteria and Process

Directors may be nominated by the Board of Directors in accordance with the Company's Bylaws or by shareholders in accordance with the procedures specified in Article II, Section 3 of the Company's Bylaws. The Company's Corporate Governance and Nominating Committee will consider all nominees, including any submitted by shareholders, for the Board of Directors. The assessment of a nominee's qualifications will include a review of Board of Director qualifications as described in the Company's Corporate Governance Guidelines.

As specified in Article II, Section 3 of the Company's Bylaws, notice of a shareholder nomination for a director nominee to be considered at an Annual Meeting must be in writing and received by the Secretary of the Company at the Company's principal executive offices, 8100 Denmark Road, Charlotte, North Carolina 28273-5975, no later than 90 days prior to the anniversary of the preceding year's Annual Meeting (in the case of the Company's 2014 Annual Meeting of shareholders, no later than February 19, 2015). The shareholder's notice must also set forth, with respect to any director nominee, his or her name, age, business and residential address, principal occupation, the class and number of shares of the Company owned by the nominee, the nominee's consent to being named in the proxy statement and serving if elected, and any other information required by the proxy rules of the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act. The notice must also include the name and address of the nominating shareholder as it appears on the Company's stock transfer records and the class and number of shares of the Company beneficially owned by the nominating shareholder.

The Corporate Governance and Nominating Committee will select qualified nominees and review its recommendations with the full Board of Directors. The Board of Directors will decide whether to invite the nominee to join the Board. The Board believes that greater diversity leads to better corporate governance and that potential nominees should possess a diverse and extensive background of knowledge and both professional and life experience that can support growth, evaluate risk and provide sufficient oversight to the Company. Nominees for director will be selected on the basis of the diversity they bring to the Board, outstanding achievement in their professional careers, broad experience, wisdom, character, integrity, ability to make independent, analytical inquiries and intelligent decisions, sound mature business judgment, understanding of the business environment, willingness to devote adequate time to Board duties and ability to collaborate effectively at the Board level. The Board further believes that each director should have a basic understanding of (i) the principal operational and financial objectives and plans and strategies of the Company, (ii) the results of operations and financial condition of the Company and of any significant subsidiaries or business segments, and (iii) the relative standing of the Company and its business segments in relation to its competitors.

The Board will have a majority of directors who meet the criteria for independence required by the NYSE. The Corporate Governance and Nominating Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics that the Board seeks in Board members as well as the composition of the Board as a whole. The Board will also evaluate on an annual basis whether members qualify as independent under applicable standards. During the course of a year, directors are expected to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

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**PROPOSAL 2 A NON-BINDING ADVISORY VOTE ON
EXECUTIVE COMPENSATION**

The Board is committed to corporate governance best practices and recognizes the significant interest of shareholders in executive compensation matters. As part of its commitment to a "pay for performance and retention" based compensation philosophy and in compliance with Section 14A of the Exchange Act, the Board is seeking the advisory approval of the compensation of our named executive officers. Although this vote is advisory and is not binding on the Board, the Compensation Committee of the Board will take into account the outcome of the vote when considering future executive compensation decisions.

As discussed in the Compensation Discussion and Analysis included in this proxy statement, the Board believes that the current executive compensation program directly links executive compensation to performance and aligns the interests of executive officers with those of shareholders. For example:

In 2013, 33% of the CEO's total compensation (as reported in the Summary Compensation Table) and 12% of the other executive officers total compensation was performance-based.