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CATO CORP
Form DEF 14A
May 03, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant /X/
Filed by a party other than the Registrant / /

Check the appropriate box:
/ / Preliminary Proxy Statement
/ / Confidential, for Use of the Commission Only (as permitted by
Rule 14a-6(e) (2))
/X/ Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Section 240.14a-12

The CATO Corporation

(Name of Registrant as Specified In Its Charter)

N/A

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

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/X/ No fee required.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

[LOGO] CATO
THE CATO CORPORATION

April 30, 2004

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 Thursday, May 27, 2004 at 11:00 A.M., Eastern Time.

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 envelope at your earliest convenience.

We look forward to seeing you at our Annual Meeting.

Sincerely yours,

JOHN P. DERHAM CATO
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

8100 DENMARK ROAD
P.O. BOX 34216
CHARLOTTE, NC 28234
(704) 554-8510

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THE CATO CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 27, 2004

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 Thursday, May 27, 2004 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 two Directors to serve until their successors are elected and qualified;
2. To consider and vote upon a proposal to approve The Cato Corporation 2004 Incentive Compensation Plan;
3. To consider and vote upon a proposal to amend the 1999 Incentive Compensation Plan;
4. To consider and vote upon a proposal to amend the 1987 Non-Qualified Stock Option Plan;
5. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent auditor for the fiscal year ending January 29, 2005; and
6. To transact such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on March 29, 2004 as the record date for determination of shareholders entitled to notice of and to vote at the meeting or any adjournments thereof.

By Order of the Board of Directors

MICHAEL O. MOORE
SECRETARY

Dated: April 30, 2004

SHAREHOLDERS ARE URGED TO SIGN AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE 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

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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 to be held on May 27, 2004, 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 30, 2004.

Only shareholders of record at the close of business on March 29, 2004 are entitled to notice of and to vote at the meeting. As of March 29, 2004, the Company had outstanding and entitled to vote 20,130,848 shares of Class A Common Stock ("Class A Stock") held by approximately 1,227 holders of record and 470,350 shares of Class B Common Stock ("Class B Stock") held by 4 holders of record. The Company's transfer agent estimates that there are approximately 5,028 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 vote with holders of Class B Stock as a single class.

All proxies which are 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 as Directors of the two persons named as nominees in this Proxy Statement, FOR the approval of The Cato Corporation 2004 Incentive Compensation Plan, FOR the proposal to amend the 1999 Incentive Compensation Plan, FOR the proposal to amend the 1987 Non-Qualified Stock Option Plan, and FOR the ratification of PricewaterhouseCoopers LLP as the Company's independent auditor. A proxy may be revoked, to the extent it has not been exercised, at any time prior to its exercise by written notice to the Secretary 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. The approval of The Cato Corporation 2004 Incentive Compensation Plan, the approval of the amendment to the 1999 Incentive Compensation Plan, the approval of the amendment to the 1987 Non-Qualified Stock Option Plan, and ratification of PricewaterhouseCoopers LLP as the Company's independent auditor requires 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. On any proposal other than the election of directors, an abstention will have the same effect as a negative vote but, because shares held by brokers will not be considered entitled to vote on matters which the brokers withhold authority, a broker non-vote will have no effect on the vote on any such proposal.

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The Company will bear the expense of preparing, printing, and mailing the proxy statement 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. Georgeson Shareholder Communications, Inc. has assisted the Company in conducting the search for beneficial owners at a cost of approximately \$975.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 29, 2004, 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.

	SHARES BENEFICIALLY OWNED (1) (2)			
	CLASS A STOCK		CLASS B STOCK	
	NUMBER	PERCENT	NUMBER	PERCENT
John P. Derham Cato (3)	157,524	*	1,139,350	9
Thomas E. Cato (4)	31,560	*	10,000	
Michael O. Moore (5)	48,941	*	--	
B. Allen Weinstein (6)	20,694	*	--	
C. David Birdwell (7)	9,768	*	--	
Robert W. Bradshaw, Jr.	500	*	--	
George S. Currin	11,287	*	--	
Grant L. Hamrick	3,000	*	--	
James H. Shaw	5,046	*	--	
A. F. (Pete) Sloan	7,200	*	--	
All directors and executive officers as a group (14 persons) (8)	362,977	1.8	1,149,350	9
Royce & Associates, LLC (9)	2,413,100	11.9	--	
FMR Corporation, et al (10)	2,133,044	10.5	--	
NFJ Investment Group (11)	1,514,300	7.5	--	
Barclays Global Investors, N.A., et al. (12)	1,311,006	6.5	--	

* 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 29, 2004 was 59,291 shares of Class A Stock.

(2) Share amounts shown as subject to stock options in the footnotes below cover shares under options that are presently exercisable or will become exercisable within 60 days after March 29, 2004.

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- (3) The amount shown for Class A Stock includes 3,000 shares held by Mr. John Cato's wife and 4,200 shares subject to stock options held by Mr. John Cato's wife. The amount shown for Class A Stock includes 47,500 shares subject to stock options held by Mr. John Cato. The amount for Class B Stock includes 680,000 shares subject to stock options held by Mr. John Cato and 2,000 shares subject to stock options held by Mr. John Cato's wife. Mr. John Cato disclaims beneficial ownership of shares held directly or indirectly by his wife.
- (4) The amount shown for Class A Stock includes 8,700 shares of stock held by Mr. Thomas Cato's wife. Mr. Thomas Cato disclaims beneficial ownership of these shares.
- (5) Includes 41,000 shares of Class A Stock subject to stock options.
- (6) Includes 8,900 shares of Class A Stock subject to stock options.

2

- (7) Includes 4,000 shares of Class A Stock subject to stock options.
- (8) The amounts shown for Class A Stock include 151,700 shares subject to stock options.
- (9) Based on an amended Schedule 13G received by the Company from this shareholder on or about January 29, 2004. The address of this shareholder is 1414 Avenue of the Americas, New York, New York 10019.
- (10) Based on an amended Schedule 13G filed by FMR Corporation and certain of its affiliates with the Securities and Exchange Commission on or about February 17, 2004. The address of this shareholder is 82 Devonshire Street, Boston, Massachusetts 02109. This shareholder reports sole voting power over 35,963 of such shares.
- (11) Based on Schedule 13G filed with the Securities and Exchange Commission on or about February 13, 2004 by NFJ Investment Group and certain of its affiliates. The address of this shareholder is 800 Newport Center Drive, Newport Beach, CA 92660.
- (12) Based on Schedule 13G filed with the Securities and Exchange Commission on or about February 17, 2004 by Barclays Global Investors, N.A. and certain of its affiliates. The address of this shareholder is 45 Fremont Street, San Francisco, California 94105.

ELECTION OF DIRECTORS

The Board of Directors, currently consisting of eight members, is divided into three classes with terms expiring alternately over a three-year period. The terms of three incumbent directors expire at the annual meeting. Mr. Thomas E. Cato, whose term expires at the annual meeting, has decided against standing for election. Two directors whose terms expire at this year's annual meeting, Mr. George S. Currin, and Mr. A. F. (Pete) Sloan, have been nominated by the Corporate Governance and Nominating Committee to succeed themselves and to serve until the 2007 annual meeting and until their successors are elected and qualified. The Corporate Governance and Nominating Committee nominates director candidates in accordance with the Company's Bylaws.

It is the intention of the persons named in the proxy to vote for such

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persons for election to the Board of Directors for the ensuing periods as described 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.

During fiscal 2003, Mr. Wayland H. Cato, Jr. and Mr. Edgar T. Cato, co-founders of the Company, retired and resigned from their positions on the Board of Directors. Ms. Clarice Cato Goodyear resigned from her position on the Board of Directors. The Board of Directors, subsequent to fiscal 2003 year end, reduced the size of the Board of Directors to 9 members from 12 members.

Two vacancies exist on the Board of Directors. The Corporate Governance and Nominating Committee of the Board of Directors is in the process of identifying candidates to fill the two vacancies. The Committee has not yet selected persons to propose to the Board of Directors to fill the vacancies. None of the resignations or the decision of Mr. Thomas E. Cato against standing for election resulted from a disagreement with the Board of Directors or the Company.

3

NOMINEES

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

GEORGE S. CURRIN, 67, has been a director of the Company since 1973. Since 1989, he has served as Chairman and Managing Director of Fourth Stockton Company LLC and Chairman of Currin-Patterson Properties LLC, both privately held real estate investment companies.

A. F. (PETE) SLOAN, 74, has been a director of the Company since 1994. Mr. Sloan is retired Chairman and Chief Executive Officer of Lance, Inc. where he was employed from 1955 until his retirement in 1990.

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. DERHAM CATO, 53, 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. John Cato is currently a director of Ruddick Corporation.

JAMES H. SHAW, 75, has been a director of the Company since 1989. Mr. Shaw was Chairman of Consolidated Ivey's, a regional department store chain, from 1988 until his retirement in 1989, Chairman and Chief Executive Officer of J. B. Ivey & Company from 1986 to 1988 and Chairman and Chief Executive Officer of Ivey's Carolinas from 1983 to 1986.

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MICHAEL O. MOORE, 53, has been employed by the Company as Executive Vice President, Chief Financial Officer and Secretary since July 1998 and has been a director of the Company since 2002. Mr. Moore served as Vice President, Chief Financial Officer for Party Experience from 1997 to 1998, Executive Vice President, Chief Financial Officer of David's Bridal from 1994 to 1997, and was employed by Bloomingdales from 1984 to 1994, serving as Senior Vice President, Chief Financial Officer from 1990 to 1994.

ROBERT W. BRADSHAW, JR., 70, has been a director of the Company since 1994. Since 1961, he has been engaged in the private practice of law with Robinson, Bradshaw & Hinson, P.A. and currently serves of counsel to the firm.

GRANT L. HAMRICK, 65, has been a director of the Company since 1994. Mr. Hamrick was Senior Vice President and Chief Financial Officer for American City Business Journals, Inc. from 1989 until his retirement in 1996. From 1961 to 1985, Mr. Hamrick was employed by the public accounting firm Price Waterhouse and served as Managing Partner of the Charlotte, North Carolina office.

The five continuing members of the Board of Directors are divided into two classes with current terms expiring in 2005 and 2006. On the expiration of each director's term, his successor in office will be elected for a three-year term. The terms of Messrs. Robert W. Bradshaw, Jr., Grant L. Hamrick, and Michael O. Moore expire in 2005. The terms of Messrs. John P. Derham Cato and James H. Shaw expire in 2006.

DIRECTORS' COMPENSATION

Directors, who are not employees of the Company, receive a fee for their services of \$24,000 per year payable at the rate of \$2,000 per month. Each non-employee director is paid \$1,000 for attending each

4

non-regularly scheduled Board of Directors meeting and each committee meeting scheduled other than in conjunction with a regularly scheduled Board of Directors meeting. Each committee chairman receives an additional \$3,000 per year payable at the rate of \$250 per month. Directors are reimbursed for reasonable expenses incurred in attending director meetings and committee meetings.

MEETINGS AND COMMITTEES

During the fiscal year ended January 31, 2004, the Company's Board of Directors held nine 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 2003 Annual Meeting.

The Board of Directors, pursuant to authority granted in the Company's Bylaws, has established an Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee.

AUDIT COMMITTEE:

The Company's Audit Committee discusses with management the quality and adequacy of the Company's system of internal controls, discusses with the independent auditor any significant matters regarding internal controls over financial reporting that have come to their attention during their audit, and confers with the Company's independent auditor concerning the scope and results of their audits and any recommendations they may have and considers such other

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matters relating to auditing and accounting as the Committee may deem appropriate. During the fiscal year ended January 31, 2004, the Audit Committee held five meetings. The Board of Directors has determined that each member of the Audit Committee is an independent director, in accordance with the new independence requirements of the New York Stock Exchange effective as of this Annual Meeting. 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 Securities Exchange Act of 1934. Messrs. Grant L. Hamrick, Chairman, Robert W. Bradshaw, Jr. and A. F. (Pete) Sloan are members of the Audit Committee. Additional information concerning the Audit Committee is set forth below under "Selection of Independent Auditor."

COMPENSATION COMMITTEE:

The Compensation Committee assesses the Company's overall compensation programs and philosophies. The Committee reviews and approves, on an annual basis, the Corporation'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, bonus, incentive, and equity compensation.

The Compensation Committee also reviews and approves, on an annual basis, the evaluation process and compensation structure of the Corporation'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, bonus, incentive, and equity compensation.

In addition, the Compensation Committee grants stock options and other awards to employees 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. The Board of Directors has determined that each member of the Compensation Committee is an independent director, in accordance with the new independence requirements of the New York Stock Exchange. The Compensation Committee held nine meetings during the fiscal year ended January 31, 2004. Messrs. A. F. (Pete) Sloan, Chairman, George S. Currin and James H. Shaw are members of the Compensation Committee.

5

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 new independence requirements of the New York Stock Exchange. The Corporate Governance and Nominating Committee was established on March 2, 2004. Messrs. George S. Currin, Chairman, Robert W. Bradshaw, Jr. and James H. Shaw are members of the Corporate Governance and Nominating Committee.

CORPORATE GOVERNANCE MATTERS

CORPORATE GOVERNANCE GUIDELINES AND COMMITTEE CHARTERS

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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 of the Company approved Corporate Governance Guidelines. The Guidelines are available on the Company's website at www.catocorp.com and print copies are available to any shareholder that requests a copy by writing to Corporate Governance and Nominating Committee, c/o General Counsel, 8100 Denmark Road, Charlotte, North Carolina 28273. In addition, committee charters for the Company's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are available on the Company's website.

DIRECTOR INDEPENDENCE

The Board of Directors has determined that a majority of its members are independent and meet the independence requirements of the New York Stock Exchange. Mr. John P. Derham Cato, Mr. Michael O. Moore, and Mr. Thomas E. Cato, employees of the Company, do not meet the independence requirements of the New York Stock Exchange. The Board's standards for determining director independence are available on the Company's website referenced above.

AUDIT COMMITTEE FINANCIAL EXPERTS

The Board of Directors has determined that at least one member of the Audit Committee, Mr. Grant L. Hamrick, is an audit committee financial expert. Mr. Hamrick is "independent" as that term is defined in accordance with the new independence requirements of the New York Stock Exchange.

EXECUTIVE SESSIONS OF NON-MANAGEMENT DIRECTORS

Non-management Board members will meet without management present 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 Chairman of the Corporate Governance and Nominating Committee will preside over meetings of the non-management or independent directors.

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 Chairman, President and Chief Executive Officer (principal executive officer), Executive Vice President, Chief Financial Officer and Secretary (principal financial officer), and Senior Vice President, Controller (principal accounting officer). The Company has adopted a Code of Business Conduct and Ethics (the "Code of Conduct") that applies to all employees, officers, and directors of the Company. The Code of Ethics and Code of Conduct are available on the Company's website at www.catocorp.com, under the "Corporate Governance" caption and print copies are available to any shareholder that requests a copy

by writing to Corporate Governance and Nominating Committee, c/o General Counsel, 8100 Denmark Road, Charlotte, North Carolina 28273. Any amendments to the Code of Ethics or Code of Conduct, or any waivers of the Code of Ethics, or any waiver of the Code of Conduct for directors or executive officers, will be disclosed on the Company's website promptly following the date of such amendment or waiver. Information on the Company's website, however, does not form a part of this Proxy Statement.

COMMUNICATIONS WITH DIRECTORS

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You may communicate directly with any member or committee of the Board of Directors by writing to: Chairman of the Corporate Governance and Nominating Committee, c/o General Counsel, The Cato Corporation, 8100 Denmark Road, Charlotte, North Carolina 28273. Depending on the subject matter, the Chairman of the Corporate Governance and Nominating Committee, with the assistance of the Company's General Counsel or Senior Vice President, Human Resources, 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 General Counsel will report the matter to the Chairman of the Audit Committee and also advise the Chief Executive Officer and Chief Financial Officer. The Chairman of the Audit Committee and the Chief Executive Officer will determine what action, if any, should be taken. The General Counsel and Chairman 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 General Counsel will maintain a log of all complaints, tracking their receipt, investigation and resolution and shall 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 for shareholder proposals described under the caption "Shareholder Proposals" in this Proxy Statement. 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.

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. Nominees for director will be selected on the basis of outstanding achievement in their personal careers, broad experience, wisdom, integrity, ability to make independent, analytical inquiries, understanding of the business environment, diversity, and willingness to devote adequate time to Board duties. The Board 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 New York Stock Exchange. 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. On an annual basis the Board will evaluate 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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SUMMARY COMPENSATION TABLE

The table below sets forth the compensation for the persons who were at January 31, 2004 the Chief Executive Officer and the four other most highly compensated executive officers.

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION (1)		LONG TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION (\$)
		SALARY (\$)	BONUS (\$)	RESTRICTED STOCK AWARDS (\$)	
John P. Derham Cato Chairman, President and Chief Executive Officer	2003	784,641	--	--	7,530
	2002	735,125	669,922	2,731,000 (4)	8,730
	2001	686,590	693,000	--	9,380
B. Allen Weinstein Executive Vice President Chief Merchandising Officer of the Cato Division	2003	429,594	--	--	7,530
	2002	409,771	187,578	--	8,730
	2001	389,364	198,000	--	9,380
Michael O. Moore Executive Vice President Chief Financial Officer and Secretary	2003	321,208	--	--	7,530
	2002	306,402	140,684	--	8,730
	2001	291,228	148,500	--	9,380
David Kempert Executive Vice President Chief Store Operations Officer of the Cato Division (5)	2003	287,500	--	--	7,530
	2002	280,077	102,900	--	8,730
	2001	269,954	137,600	--	9,380
C. David Birdwell Executive Vice President President and General Manager of the It's Fashion! Division	2003	271,469	--	--	7,530
	2002	259,786	135,694	--	8,730
	2001	247,675	153,000	--	9,380

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- (1) No named executive officer received perquisites or other personal benefits, securities or property which, in the aggregate, exceeded the lesser of \$50,000 or 10% of the total annual salary and bonus reported for the named executive officer.
 - (2) Does not include amounts deducted pursuant to Internal Revenue Code Section 125.
 - (3) Matching contributions by the Company to 401(k) Plan accounts.
 - (4) As of January 31, 2004, Mr. John Cato held a total of 100,000 restricted shares of Class B Stock at a value of \$2,095,000 based on the closing of trading price of the Class A Stock of \$20.95 on January 30, 2004, the last trading day before fiscal year end. Dividends are payable on the restricted shares.

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(5) Mr. Kempert resigned effective January 31, 2004.

EMPLOYMENT AND SEVERANCE AGREEMENTS

The Company has severance agreements with Mr. Allen Weinstein and Mr. Michael Moore currently providing for the continuation of each of their base salaries for 12 months upon the termination of their employment without cause. The Company has a severance agreement with Mr. David Birdwell currently providing for the continuation of his base salary for six months upon termination of his

8

employment without cause. (See "Compensation Committee Report on Executive Compensation" for a discussion of Mr. John Cato's employment relationship.)

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table presents certain information concerning the exercise of stock options during the fiscal year ended January 31, 2004 and the value of unexercised options held at January 31, 2004 by the named executives.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#) (1)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (\$)
			EXERCISABLE (E) / UNEXERCISABLE (U)	EXERCISABLE (E) / UNEXERCISABLE (U)
John P. Derham Cato	--	--	707,500 (E) (3) 40,000 (U) (4)	7,292,250 (E) 318,600 (U)
B. Allen Weinstein	35,900	470,893	15,100 (E) 4,000 (U)	130,917 (E) 34,680 (U)
Michael O. Moore	20,000	190,801	38,000 (E) 7,000 (U)	330,450 (E) 59,370 (U)
David Kempert	16,000	135,499	0 (E) 4,000 (U)	0 (E) 34,680 (U)
C. David Birdwell	33,000	428,289	4,000 (E) 4,000 (U)	34,680 (E) 34,680 (U)

(1) Except as otherwise indicated in the footnotes below, all options are for shares of Class A Stock.

(2) Value is based on difference between exercise price and market price of the underlying securities as of January 30, 2004, the last trading day before the fiscal year-end.

(3) Includes options to acquire 47,500 shares of Class A Stock and 660,000

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shares of Class B Stock.

- (4) Options to acquire shares of Class B Stock.

9

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information regarding the shares of the Company's Class A Stock and Class B Stock issuable under all of the Company's equity compensation plans as of January 31, 2004:

PLAN CATEGORY	(A) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (1)	(B) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(C) NUMBER OF REMAINING FUTURE IS EQUITY CO PLANS (EX SECURITIE COLUMN (A
Equity compensation plans approved by security holders	452,400 Class A Shares	\$11.54 (2)	669,
Equity compensation plans not approved by security holders -- None	702,000 Class B Shares --	--	--
TOTAL	1,154,400	\$11.54	669,

(1) This category includes the 1987 Non-Qualified Stock Option Plan and the 1999 Incentive Compensation Plan. This category does not include the 2004 Incentive Compensation Plan that is being submitted for shareholder approval at the Annual Meeting. If the 2004 Incentive Compensation Plan is approved by the shareholders, the securities available for issuance thereunder will be an aggregate of 900,000 shares of the Company's Class A Stock.

(2) This amount does not include the exercise price of options outstanding under the Employee Stock Purchase Plan because the exercise price is not determinable as of the date of this Proxy Statement. The exercise price to purchase a share of Class A Stock under such an option equals 85% of the lesser of the fair market value per share of Class A Stock at the beginning of the applicable offering period or the fair market value per share of Class A Stock at the end of the applicable offering period.

(3) This amount includes 248,169 shares of Class A Stock available for future issuance under the 2003 Employee Stock Purchase Plan and an aggregate of 420,918 shares of Class A Stock or Class B Stock available for future issuance under the 1987 Non-Qualified Stock Option Plan and the 1999 Incentive Compensation Plan.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The following report submitted by the Compensation Committee of the Board of Directors addresses the Company's executive compensation policies for fiscal 2003.

The Compensation Committee is composed of three members. The members are Messrs. A. F. (Pete) Sloan, Chairman, George S. Currin, and James H. Shaw. The Compensation Committee provides guidance for the Company's executive compensation programs to insure a direct relationship between executive compensation and corporate performance.

EXECUTIVE COMPENSATION PROGRAM

The Company's executive compensation program has been designed (i) to provide compensation equivalent to compensation offered by peer group companies in order to attract and retain the most qualified executives, (ii) to motivate executive officers by rewarding them for attaining pre-established Company financial goals and (iii) to align the interest of executive officers with the long-term interest of shareholders.

In designing the compensation packages for executive officers, the Compensation Committee compares the Company's executive officer compensation packages with peer group executive officer compensation packages, some of which are included in the Dow Jones Specialty Apparel Market Index used in the performance graph. Peer group companies, which are similar in size and operate in the specialty apparel retail market, are given particular consideration.

The executive compensation program is focused on attainment of profitability and enhancement of shareholder equity. Currently, the Company's executive compensation program consists of three principal types of compensation: annual base salary, incentive bonuses and long-term stock option awards. Executive officers are rewarded when the Company achieves financial goals, particularly related to net income, and when the executive officer achieves individual performance levels related to the executive officer's specific area of responsibility.

ANNUAL BASE SALARY - The annual base salary of each executive officer is based on the scope of his or her responsibility and accountability. Each year the Compensation Committee determines the base salary for each executive officer taking into consideration whether the Company achieved net income results and whether the executive officer achieved individual performance levels established for the prior fiscal year.

INCENTIVE BONUS - A significant component of an executive officer's total cash compensation consists of an incentive bonus. Each executive officer is eligible to earn a bonus based on achievement of the targeted net income performance criteria. A bonus accrual is made based on the achievement of the net income performance criteria. If net income performance criteria is not achieved, the accrual may be reduced or eliminated.

No weighting is applied to the criteria established for each executive officer. If an executive officer achieves all of his or her performance goals and if the Company's profit plan is achieved, the executive officer is eligible to receive an incentive bonus. In the event an executive officer achieves some, but not all, of the performance goals, he or she is eligible to receive a portion of the executive officer's potential maximum bonus.

LONG-TERM STOCK OPTION AWARDS - Stock options are awarded by the

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Compensation Committee under the Company's 1999 Incentive Compensation Plan to executive officers to provide incentive for the executive officer to focus on the Company's future financial performance and as a means to encourage an executive officer to remain with the Company. The stock option exercise price is 100% of the fair market value of the shares on the date of grant and, historically, the stock options have vested in 20% increments over five years. Stock option grants are made when executive officers join the Company and thereafter at the discretion of the Compensation Committee.

11

The Compensation Committee recognizes that, to varying degrees, the determination of an executive officer's compensation package involves subjective considerations.

CHIEF EXECUTIVE OFFICER

The Compensation Committee discusses and determines the compensation package for the Chief Executive Officer. Mr. John P. Derham Cato was appointed Chief Executive Officer on May 20, 1999. The employment arrangement provides for the compensation discussed herein. Mr. John Cato's compensation package consists of base salary, incentive bonus, long-term stock option awards and restricted stock grants. Mr. John Cato received no long-term stock option awards during fiscal 2003.

In determining Mr. John Cato's compensation package, the Compensation Committee compared Mr. John Cato's package with the compensation packages of other retailers, including the Chief Executive Officer compensation package of the companies listed in the Dow Jones Specialty Apparel Market Index and the Peer Group used in the Stock Performance Graph. The Compensation Committee took into consideration Mr. John Cato's years of service and experience with the Company and in the specialty retail apparel industry. The Compensation Committee believes that the compensation package offered Mr. John Cato is consistent with Chief Executive Officer packages of peer companies, considering Mr. John Cato's experience and longevity with the Company.

CHIEF EXECUTIVE OFFICER COMPENSATION PACKAGE

Base Salary - Mr. John Cato's salary was increased to \$800,000 from \$750,000 for fiscal 2003 in response to the Company's performance in fiscal 2002.

Incentive Bonus - Mr. John Cato is eligible to receive an annual bonus of up to 150% of his base salary depending on the achievement of performance goals established by the Compensation Committee. The main performance goal is based on achievement of targeted net income. Based on the Company's performance for fiscal 2003 as measured by the performance criteria established by the Compensation Committee, Mr. John Cato did not receive a bonus payment.

This report has been provided by the Compensation Committee:

A. F. (Pete) Sloan, Chairman
George S. Currin
James H. Shaw

CERTAIN TRANSACTIONS

During fiscal 2003, the Company had nineteen lease agreements with entities in which Mr. George S. Currin, a director of the Company, had an ownership interest. One lease agreement was signed in fiscal 1993, three were

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signed in fiscal 1994, one was signed in fiscal 1995, one was signed in fiscal 1997, one was signed in fiscal 1999, four were signed in fiscal 2000, seven were signed in fiscal 2002, and one was signed in fiscal 2003. The lease term of each agreement is for a period ranging from five years to ten years with renewal terms at the option of the Company. The Company believes that the terms and conditions of the lease agreements are comparable to those which could have been obtained from unaffiliated leasing companies. The Company paid to the entities in which Mr. Currin has an ownership interest the amount of \$872,607 for rent and related charges during fiscal 2003.

The firm of Robinson, Bradshaw & Hinson, P. A. was retained to perform certain legal services for the Company during the last fiscal year. Mr. Robert W. Bradshaw, Jr., a director of the Company, was a shareholder of Robinson, Bradshaw & Hinson, P. A. during fiscal 2003 and currently serves of counsel to the firm. It is anticipated that the firm will continue to provide legal services to the Company during the current fiscal year. Fees paid by the Company to Robinson, Bradshaw & Hinson, P.A. in fiscal 2003 were \$145,001.

12

STOCK PERFORMANCE GRAPH

The following graph compares the yearly change in the Company's cumulative total shareholder return on the Company's Common Stock (which includes Class A Stock and Class B Stock) for each of the Company's last five fiscal years with (i) the Dow Jones Total Market Index, (ii) the Dow Jones Retailers, Apparel Index and (iii) an index of four (4) peer companies. The peer group includes Charming Shoppes, Inc., Deb Shops, Inc., The Dress Barn, Inc., and United Retail Group, Inc. The Company has chosen to use this peer group index in its performance graph because management believes the peer group index is a better reflection of the Company's competitors in the market place.

 THE CATO CORPORATION
 STOCK PERFORMANCE GRAPH

[PERFORMANCE GRAPH]

THE CATO CORPORATION
 STOCK PERFORMANCE TABLE
 (BASE 100 - IN DOLLARS)

LAST TRADING DAY OF THE FISCAL YEAR	THE CATO CORPORATION	D. J. TOTAL MKT INDEX	D. J. RETAILERS APPL INDEX	PEER GROUP
-----	-----	-----	-----	-----
1/29/99	100	100	100	100
1/28/00	133	111	89	120
2/02/01	204	110	103	138
2/01/02	236	92	90	160
01/31/03	207	72	78	120
01/30/04	244	98	104	135

The graph assumes an initial investment of \$100 on January 29, 1999, the last trading day prior to the commencement of the Company's 1999 fiscal year, and that all dividends were reinvested.

APPROVAL OF
THE CATO CORPORATION 2004 INCENTIVE COMPENSATION PLAN

The Board of Directors proposes that shareholders approve The Cato Corporation 2004 Incentive Compensation Plan (the "2004 Plan"). The Company's 1999 Incentive Compensation Plan (the "1999 Plan") was previously approved by the Company's shareholders, but no further awards may be granted under the 1999 Plan after July 31, 2004. The Board of Directors believes that it is in the best interests of the Company and its shareholders to establish a new plan that will allow the Company to provide a variety of equity-based incentives to key employees of the Company and its subsidiaries (collectively, the "Cato Group"). Therefore, the Board of Directors adopted the 2004 Plan on April 8, 2004, subject to shareholder approval. The 2004 Plan will allow the Company to continue to attract and retain key employees as well as provide them with incentives to contribute to the Cato Group's growth and success and align their interests with those of the Company's shareholders.

As of January 31, 2004, a total of 406,600 shares of the Company's Class A Stock and Class B Stock remains available for future issuance under the 1999 Plan. The 2004 Plan allows for the issuance of 900,000 shares of Class A Stock. No Class B Stock will be available for issuance under the 2004 Plan. If the 2004 Plan is approved by shareholders, the Company will not grant any new awards under the 1999 Plan. The 406,600 shares available for grant under the 1999 Plan will be cancelled, and the 1999 Plan will be terminated. Approval of the 2004 Plan should not adversely affect rights under any outstanding awards previously granted under the 1999 Plan.

The following is a summary of the 2004 Plan submitted for shareholder approval. The summary describes the major features of the 2004 Plan, qualified by reference to the full text of the 2004 Plan, a copy of which has been submitted with this Proxy Statement to the Securities and Exchange Commission (the "SEC") and can be obtained on the SEC's website at www.sec.gov.

ADMINISTRATION

The 2004 Plan will be administered by the Compensation Committee of the Board of Directors. The Compensation Committee has the full authority to select the recipients of awards granted under the 2004 Plan, to determine the type and size of awards, and to determine and amend the terms, restrictions and conditions of awards. The Compensation Committee also has the full authority to construe and interpret the 2004 Plan and any related award agreement, to establish rules and regulations relating to the administration of the 2004 Plan, to delegate administrative responsibilities, and to make all other determinations that may be necessary or advisable for the administration of the 2004 Plan.

ELIGIBILITY

Awards may be granted under the 2004 Plan to key employees of the Cato Group who occupy responsible managerial or professional positions and who have the capability of making a substantial contribution to the success of the Cato Group as determined by the Compensation Committee. In selecting recipients of awards, the Compensation Committee can take into account any factors it deems relevant, including the duties of the individual and the Committee's assessment of the individual's present and potential contributions to the success of the Cato Group. To date, no one has been selected for participation in the 2004 Plan. The Compensation Committee will determine, in its discretion, the future recipients of awards and the type and size of awards. As of January 31, 2004, there were approximately 350 key employees who potentially could be considered

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eligible for the 2004 Plan.

TYPES OF AWARDS

Awards under the 2004 Plan may be granted in the form of incentive stock options that qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, incentive bonus awards and stock awards. The Compensation Committee also may designate certain awards as "performance compensation." Each type of award is discussed in more detail below.

14

SHARES SUBJECT TO THE 2004 PLAN AND AWARD LIMITS

The number of shares of the Company's Class A Stock reserved for issuance under the 2004 Plan is 900,000, subject to adjustment as described below. The closing price of a share of the Company's Class A Stock on the New York Stock Exchange ("NYSE") on April 21, 2004 was \$20.18.

If shares of Class A Stock subject to an award under the 2004 Plan are forfeited or the award is settled in cash or otherwise terminates for any reason without the issuance of such shares, those shares will be available for further awards under the 2004 Plan.

No individual may be granted options and/or stock appreciation rights under the 2004 Plan with respect to an aggregate of more than 200,000 shares of Class A Stock during any calendar year. With respect to all other types of awards, no individual may be granted awards with respect to an aggregate of more than 200,000 shares of Class A Stock during any calendar year.

In the event of a reorganization, recapitalization, stock split, stock dividend, merger, consolidation, or similar transaction or change in corporate capitalization affecting the Class A Stock, adjustments may be made to the limits on the number of shares of Class A Stock which may be issued under the 2004 Plan, the number and price of shares of Class A Stock subject to outstanding awards under the 2004 Plan and such other adjustments as the Compensation Committee determines to be appropriate.

STOCK OPTIONS

Stock options may be granted under the 2004 Plan in the form of either incentive stock options (also referred to as "ISOs") intended to qualify under Section 422 of the Code or nonstatutory stock options. Stock options give the recipient an opportunity to purchase shares of Class A Stock from the Company at a designated exercise price.

The exercise price of options granted under the 2004 Plan is determined at the discretion of the Compensation Committee, but the exercise price per share generally may not be less than the fair market value of a share of Class A Stock on the grant date of the option. In the case of incentive stock options granted to any holder on the date of grant of more than 10% (directly or by attribution through relatives or entities in which the holder has an ownership interest) of the total combined voting power of all classes of stock of the Company or a parent or subsidiary corporation (a "10% Shareholder"), the exercise price per share may not be less than 110% of the fair market value of a share of Class A Stock on the grant date. Under the 2004 Plan, fair market value generally is based on the average of the high and low sale prices of the Class A Stock on the NYSE on the grant date.

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The exercise price of an option may be paid in cash, or if permitted by the Compensation Committee, in shares of Class A Stock owned by the option holder or by other means the Company determines to be consistent with applicable law (including, for example, "cashless exercises").

The Compensation Committee will establish the time period within which options must be exercised, but this period cannot exceed ten years from the grant date of the option or, in the case of incentive stock options granted to a 10% Shareholder, five years from the grant date of the option. Options may expire before the end of the option period if the option holder's employment with the Company terminates. Stock options will be exercisable at such time or times and subject to such restrictions as determined by the Compensation Committee. To the extent that the fair market value of incentive stock options (determined based on the fair market value on the grant date) that become exercisable for the first time in a calendar year exceeds \$100,000, such options generally will be deemed nonstatutory stock options.

Except as otherwise provided by the Compensation Committee, the following rules apply if an option holder's employment with the Cato Group terminates. If an option holder's employment with the Cato Group terminates for any reason other than cause, death, disability or an eligible retirement, the option holder generally may exercise his or her stock options (to the extent then vested) within the 90-day period following such termination. If the option holder is terminated for cause, the option holder's stock options

15

will immediately expire and no longer can be exercised. If the option holder's employment terminates due to his or her death, disability or eligible retirement, options (to the extent then vested) generally may be exercised during the one-year period following termination. In no event can an option be exercised after the expiration of its term (i.e., the option period fixed by the Compensation Committee).

Options generally may not be transferred other than by will or the laws of descent and distribution and options generally may be exercised during the lifetime of the option holder only by the option holder. However, the Compensation Committee, in its discretion, may permit the transfer of nonstatutory stock options, without consideration, to certain family members or family-related trusts, foundations or other entities, subject to limitations determined by the Compensation Committee.

STOCK APPRECIATION RIGHTS

Stock appreciation rights (or "SARs") allow a recipient to receive upon exercise an amount equal to the excess of the then fair market value of the shares of Class A Stock with respect to which the SARs are being exercised over the initial value assigned to such SARs. This amount may be payable in cash, shares of Class A Stock or a combination thereof, as determined by the Compensation Committee. The initial value of SARs granted under the 2004 Plan is determined at the discretion of the Compensation Committee, but the initial value per share of Class A Stock covered by the SARs may not be less than the fair market value of a share of Class A Stock on the grant date of the SARs. For this purpose, fair market value generally is based on the average of the high and low sale prices of the Class A Stock on the NYSE on the grant date.

SARs may be granted in tandem with stock options or independently. The Compensation Committee will establish the time period within which SARs must be exercised, but this period cannot exceed ten years from the grant date of the SARs. SARs granted in tandem with stock options must have the same term as the options to which they relate. SARs may expire before the end of the exercise

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period if the recipient's employment with the Cato Group ends. SARs will be exercisable at such time or times and subject to such restrictions as determined by the Compensation Committee. However, SARs granted in tandem with stock options may be exercised only with respect to the shares of Class A Stock for which their related stock options are then exercisable. The exercise of either options or SARs that are granted in tandem will result in the termination of the other to the extent of the number of shares of Class A Stock with respect to which such options or SARs are exercised.

If an individual's employment with the Cato Group terminates, SARs then held by such individual will terminate on the same terms and conditions that apply to stock options as described above, unless otherwise provided by the Compensation Committee.

SARs generally may not be transferred other than by will or the laws of descent and distribution and SARs generally may be exercised during the lifetime of the recipient only by the recipient.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Restricted stock is an award of shares of Class A Stock that is subject to restrictions and such other terms and conditions as the Compensation Committee determines. Restricted stock units represent the right to receive shares of Class A Stock or the value of shares of Class A Stock in the future, but no shares are actually awarded to recipients on the date of grant. Once applicable restrictions lapse or have been satisfied, restricted stock units may be payable in cash, shares of Class A Stock or a combination thereof, as determined by the Compensation Committee.

The Compensation Committee will determine the type of restrictions applicable to the award, which can include restrictions based on the occurrence of a specific event, continued service for a period of time or other time-based restrictions, or the achievement of financial or other business objectives. The Compensation Committee also will determine the purchase price, if any, to be paid for the restricted stock or restricted stock units. Restricted stock units are not transferable and restricted stock generally may not be transferred until all restrictions applicable to the award have lapsed or been satisfied.

16

If the recipient of restricted stock or restricted stock units ceases to be employed with the Cato Group, all shares of restricted stock or restricted stock units, as the case may be, generally will be forfeited unless the Compensation Committee waives the applicable restrictions.

A recipient of restricted stock generally will have certain rights and privileges of a shareholder, including the right to vote such shares of restricted stock and to receive dividends, if any (although the Compensation Committee may require that any dividends be reinvested in additional shares of restricted stock). A recipient of restricted stock units will not have any voting or other shareholder rights, but if a dividend is declared on the Class A Stock, the Compensation Committee may, in its discretion, determine that recipients receive dividend equivalents with respect to restricted stock units and the form of any such equivalents.

STOCK AWARDS

The Compensation Committee may grant other types of stock awards that involve the issuance of shares of Class A Stock or that are valued by reference to shares of Class A Stock. The terms and conditions applicable to such stock awards will be determined by the Compensation Committee in its discretion.

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INCENTIVE BONUS AWARDS

The Compensation Committee may award a key employee the opportunity to receive a cash bonus based on the achievement of one or more performance goals (including the performance goals described below under "Performance Compensation"). The Compensation Committee will establish these performance goals and any other criteria that must be met, the period during which achievement of the performance goals and other criteria will be measured, the formula or basis by which the actual amount of the incentive bonus will be determined, the timing and form of payment, and any forfeiture events. Incentive bonuses will be paid in cash. The Compensation Committee may, in its discretion, reduce the amount of or eliminate an incentive bonus award. In no event may a participant receive an incentive bonus for any calendar year greater than \$2,000,000. Subject to such terms and conditions as the Compensation Committee imposes, the Compensation Committee may provide for or permit a participant to elect deferred payment of all or a portion of an incentive bonus.

In general, a participant must remain employed by the Cato Group through the last day of the performance period and at the time of the payment in order to receive an incentive bonus. However, unless otherwise provided by the Compensation Committee, if a participant's employment with the Cato Group terminates due to his or her death, disability or eligible retirement, the participant may receive a prorated amount of the incentive bonus that otherwise would have been payable for the performance period in which the participant's death, disability or retirement occurs.

PERFORMANCE COMPENSATION

In some cases, the Compensation Committee may intend that a grant of restricted stock or restricted stock units, a stock award or an incentive bonus award qualify as performance-based compensation under Section 162(m) of the Code. Section 162(m) of the Code generally limits the Company's annual federal income tax deduction for compensation paid to certain covered employees (generally, the Chief Executive Officer and the four other highest paid officers) to \$1 million with respect to each such officer. However, compensation that qualifies as "performance-based compensation" under Section 162(m) is not subject to this deduction limit. Compensation qualifies as performance-based only if it satisfies certain requirements, including that the material terms of the performance goals under which the awards will be paid are disclosed to and approved by the shareholders. Accordingly, the Board of Directors is seeking shareholder approval of the 2004 Plan in part to satisfy the requirements of Section 162(m) of the Code.

For performance compensation, the Compensation Committee will establish in writing the performance goals upon which the performance compensation is contingent, the period over which such goals will be measured and any other applicable conditions. These terms must be established within 90

17

days after the beginning of the applicable period (or, if earlier, by the date on which 25% of the period has been completed).

The performance goals established by the Compensation Committee must be objectively determinable and will be based on one or more of the following: stock price; earnings per share; net earnings; operating or other earnings; net profits after taxes; revenues; net cash flow; financial return ratios; shareholder return; return on equity; return on investment; return on net assets; debt rating; sales; expense reduction levels; growth in assets, sales, or market share; or strategic business objectives based on meeting specified

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revenue goals, market penetration goals, customer satisfaction goals, geographic business expansion goals, cost targets, or goals relating to acquisitions or divestitures. Performance goals may be based on the performance of the Company, based on the individual's division, business unit or employing subsidiary, based on the performance of one or more divisions, business units or subsidiaries, based on the performance of the Cato Group as a whole, or based on any combination of the foregoing. Performance goals may be either absolute in their terms or relative. Performance goals may provide for the inclusion or exclusion of items such as the effect of unusual charges or income items or other events, including acquisitions or dispositions of businesses or assets, restructurings, reductions in force, or changes in accounting principles or tax laws. The Compensation Committee also may establish subjective performance goals, provided that subjective performance goals generally may be used only to reduce, and not increase, an award. The Compensation Committee generally cannot waive the performance goal requirements except in its discretion in the case of the death or disability of the recipient or as otherwise provided under the 2004 Plan in the event of a change in control (as described below). Following the completion of a performance period, the Compensation Committee will review and certify in writing the extent to which the goals have been attained. The Compensation Committee may, in its discretion, reduce or eliminate an award of performance compensation.

As noted previously, no individual may be granted restricted stock, restricted stock units or stock awards with respect to an aggregate of more than 200,000 shares of Class A Stock during any calendar year and the maximum cash payment that an individual may receive pursuant to an incentive bonus award during a calendar year is \$2,000,000.

The Compensation Committee may, in its discretion, grant awards to covered officers that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

CHANGE IN CONTROL

In the event of a change in control (as defined in the 2004 Plan) of the Company, all outstanding stock options and SARs will become fully vested and exercisable. In addition, the Compensation Committee may (1) require holders of options or SARs to surrender such awards in exchange for a payment, in cash or Class A Stock as determined by the Compensation Committee, equal to the amount by which the "change in control price" for each share of Class A Stock subject to the outstanding awards exceeds the option price of such options or initial value of such SARs, as the case may be; (2) after giving award holders an opportunity to exercise their outstanding options and SARs, terminate any or all unexercised options and SARs; or (3) provide for the assumption or substitution of such outstanding awards by the surviving company in the change in control. The term "change in control price" is defined in the 2004 Plan and generally means, with certain exceptions, the higher of (i) the highest sales price per share of Class A Stock reported on the NYSE Composite Index during the 60-day period ending on the date of the change in control; or (ii) if the change in control is the result of a tender or exchange offer or certain specified corporate transactions, the highest price paid per share of Class A Stock in such transaction.

In the event of a change in control, all outstanding restricted stock, restricted stock units and other stock awards (other than those that have been designated as performance compensation) also will fully vest with all restrictions and conditions related thereto being deemed satisfied.

Incentive bonuses and performance compensation that have been earned but remain outstanding as of the date of a change in control shall be payable in full immediately upon a change in control. Upon a change in control, any other incentive bonus and performance compensation awards will be accelerated and

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immediately vested, paid or delivered, as the case may be, on a pro rata basis based upon assumed

18

achievement of all target performance goals and the length of time within the performance period that has elapsed prior to the change in control.

AMENDMENT, SUSPENSION OR TERMINATION

The Board of Directors may at any time amend, suspend or terminate the 2004 Plan in whole or in part for any purpose, provided that such action may be subject to shareholder approval if (1) it is necessary to comply with the Code, the Securities Exchange Act of 1934, as amended, securities exchange listing requirements or other legal or regulatory requirements, or (2) the action is intended to allow the exercise price of outstanding stock options to be reduced by repricing or replacing such options. Unless terminated earlier, the 2004 Plan will terminate ten years from its adoption by the Board of Directors. The Compensation Committee also may amend the terms of an outstanding award. However, no amendment, suspension or termination of the 2004 Plan (or amendment of an outstanding award) may adversely affect in any material way the rights of the holder of any outstanding award without his or her consent.

FEDERAL INCOME TAX CONSEQUENCES

The following is a brief summary of certain federal income tax consequences that apply with respect to awards that may be granted under the 2004 Plan. This summary is based on current laws and regulations that may change in the future. This summary is general in nature and is not intended to be complete. The summary does not describe a number of special tax rules, including any foreign, state or local tax consequences, wage withholding requirements or various other rules that could apply to a particular individual or to the Company under certain circumstances.

NONSTATUTORY STOCK OPTIONS

The grant of nonstatutory stock options has no federal income tax consequences to the Company or the option holder. Upon the exercise of a nonstatutory stock option, the option holder will recognize ordinary income equal to the excess of the fair market value of the acquired shares on the date of exercise over the exercise price paid for the shares. The Company generally will be allowed a federal income tax deduction equal to the same amount that the option holder recognizes as ordinary income. In the event of the disposition of the acquired shares of Class A Stock, any additional gain (or loss) generally will be taxed to the option holder as either short-term or long-term capital gain (or loss) depending on how long the shares were held.

INCENTIVE STOCK OPTIONS

The grant and exercise of incentive stock options have no federal income tax consequences to the Company. The grant and exercise of incentive stock options generally have no ordinary income tax consequences to the option holder. However, upon the exercise of an incentive stock option, the option holder has to treat the excess of the fair market value on the date of exercise over the exercise price as an item of tax adjustment for alternative minimum tax purposes, which may result in alternative minimum tax liability.

If the option holder retains the shares of Class A Stock acquired upon the exercise of an incentive stock option for at least two years following the grant date of the option and one year following exercise of the option, the subsequent disposition of such shares will ordinarily result in long-term

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capital gains or losses to the option holder equal to the difference between the amount realized on disposition of the shares and the exercise price. The Company will not be entitled to any deduction in such case. If the holding period requirements described above are not met, the option holder will recognize ordinary income upon disposition of the Class A Stock equal to the excess of the fair market value of the shares on the date of exercise (or, if less, the amount received on disposition of the shares) over the exercise price. The Company will be entitled to a corresponding tax deduction in the same amount. Any additional gain (or loss) realized by the option holder on the disposition of the Class A Stock will be taxed as short-term or long-term capital gain (or loss), as applicable.

19

STOCK APPRECIATION RIGHTS

The grant of SARs has no federal income tax consequences to the Company or the recipient. Upon the exercise of SARs, the recipient will recognize ordinary income equal to the amount of cash received and the fair market value of any shares of Class A Stock received. The Company generally will be allowed a federal income tax deduction equal to the same amount that the recipient recognizes as ordinary income.

RESTRICTED STOCK

There generally should not be any federal income tax consequences to the Company or the recipient upon the grant of restricted stock. The recipient normally will recognize ordinary income when shares of the restricted stock vest (which means that the shares are no longer subject to a substantial risk of forfeiture) or become transferable, whichever occurs first. However, a recipient instead may elect to recognize ordinary income at the time the restricted stock is granted by making an election under Section 83(b) of the Code within 30 days after the grant date. In either case, the recipient will recognize ordinary income equal to the fair market value of such shares of stock at the time the income is recognized (reduced by the amount, if any, the recipient paid for the stock) and the Company generally will be entitled to a corresponding tax deduction (subject to Section 162(m) limitations). If the recipient subsequently disposes of the shares of Class A Stock, any additional gain (or loss) should be eligible for short-term or long-term capital gain tax treatment, depending on how long the shares were held after the ordinary income was recognized. If a recipient makes an "83(b) election" and then forfeits the shares of Class A Stock, the recipient normally will not be entitled to any tax deduction or refund with respect to the tax already paid.

RESTRICTED STOCK UNITS

The grant of restricted stock units has no federal income tax consequences to the Company or the recipient. When the restricted stock units vest and become payable, the recipient will recognize ordinary income equal to the amount of cash received and the fair market value of any shares of Class A Stock received. The Company generally will be allowed a federal income tax deduction equal to the same amount that the recipient recognizes as ordinary income (subject to Section 162(m) limitations).

OTHER STOCK AWARDS

The federal income tax consequences of other stock awards will depend on the form of such awards.

INCENTIVE BONUS AWARDS

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An employee will not have taxable income upon the grant of a contingent right to an incentive bonus. The incentive bonus will be taxable income to the employee at the time it is paid and (subject to Section 162(m) limitations) the Company will be entitled to a corresponding tax deduction.

SECTION 162(M)

As discussed above, Section 162(m) of the Code generally limits the Company's annual federal income tax deduction for compensation paid to certain covered employees (generally, the Chief Executive Officer and the four other most highly compensated officers) to \$1 million with respect to each such officer. However, compensation that qualifies as "performance-based compensation" under Section 162(m) is not subject to this deduction limit. If the 2004 Plan is approved by the Company's shareholders, the Company intends that stock options, stock appreciation rights and performance compensation awarded to covered employees generally should qualify as "performance-based" compensation that will not be subject to the Section 162(m) deduction limit.

20

2004 PLAN BENEFITS

As of the date of this Proxy Statement, no awards have been granted under the 2004 Plan. Since the 2004 Plan is subject to shareholder approval and all future awards under the 2004 Plan will be made at the discretion of the Compensation Committee, awards that may be received by any particular person or group pursuant to the 2004 Plan are not presently determinable.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors recommends that shareholders vote "FOR" approval of the 2004 Plan.

AMENDMENT OF THE 1999 INCENTIVE COMPENSATION PLAN

The Board of Directors and its Compensation Committee have adopted and approved an amendment to the Company's 1999 Incentive Compensation Plan (the "1999 Plan"), subject to shareholder approval. The amendment to the 1999 Plan is intended to give the Compensation Committee the discretion to allow option holders to transfer non-qualified stock options to certain family members or family-related trusts, foundations or other entities, subject to limitations determined by the Compensation Committee.

The 1999 Plan was adopted by the Company to align the interests of participating key employees with the interest of the Company's shareholders, encourage equity ownership in the Company by participating key employees, and provide an incentive to participating key employees for continuous employment with the Company and its subsidiaries (the "Cato Group").

The following is a summary of the proposed amendment to the 1999 Plan and the major features of the 1999 Plan, but it is qualified by reference to the full text of the amended and restated 1999 Plan, a copy of which has been submitted with this Proxy Statement to the SEC and can be obtained on the SEC's website at www.sec.gov.

PROPOSED AMENDMENT

Prior to this amendment, the 1999 Plan generally provided that an option

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holder could not assign or transfer non-qualified stock options, except at death by operation of the option holder's will or the laws of descent and distribution. The 1999 Plan has been amended, subject to shareholder approval, to allow the Compensation Committee to authorize the transfer of non-qualified stock options under certain circumstances to an option holder's designated family members or family-related trusts, foundations or other entities. Comparable provisions are included in the 2004 Incentive Compensation Plan (the "2004 Plan"), which is being submitted for shareholder approval at the Annual Meeting. The amendment to the 1999 Plan would provide consistency with the 2004 Plan and flexibility for participants and the Compensation Committee.

In particular, the amendment would allow the Compensation Committee the discretion to permit an option holder to transfer options, in whole or in part, for no consideration to (a) the option holder's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, or any person sharing the option holder's household (other than a tenant or employee) ("Family Members"); (b) a trust in which the option holder's Family Members have more than 50% of the beneficial interest; (c) a foundation in which the option holder's Family Members (or the option holder) control the management of assets; or (d) any other entity in which the option holder's Family Members (or the option holder) own more than 50% of the voting interests. In all cases, the Compensation Committee would have to be given advance written notice of the terms of any proposed transfer. The consent of the Compensation Committee would be required for a transfer to be effective and the transfer would be subject to the rules and conditions imposed by the Compensation Committee. Any transferred options would continue to be subject to the same terms and conditions in the hands of the transferee as were

21

applicable immediately prior to the transfer (including the provisions of the 1999 Plan and any related option agreement regarding the expiration or termination of the options).

ADMINISTRATION

The 1999 Plan is administered by the Compensation Committee of the Board. The Compensation Committee has the full authority to select the recipients of awards granted under the 1999 Plan, to determine the type and size of awards, and to determine and amend the terms, restrictions and conditions of awards. The Compensation Committee also has the full authority to construe and interpret the 1999 Plan and any related award agreement, to establish rules and regulations relating to the administration of the 1999 Plan, to delegate administrative responsibilities, and to make all other determinations that may be necessary or advisable for the administration of the 1999 Plan.

ELIGIBILITY

Awards may be granted under the 1999 Plan to key employees of the Cato Group who occupy responsible managerial or professional positions and who have the capability of making a substantial contribution to the success of the Cato Group as determined by the Compensation Committee. In selecting participants and in determining the form and amount of awards, the Compensation Committee will consider any factors it deems relevant, including the key employee's functions, responsibilities and the value of the employee's past and future services to the Company's profitability and sound growth. As of January 31, 2004, there were approximately 350 key employees who potentially could be considered eligible for the 1999 Plan.

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TYPES OF AWARDS

The Compensation Committee may grant awards under the 1999 Plan in the form of non-qualified stock options, restricted stock and cash bonuses. Each type of award is discussed in more detail below.

SHARES SUBJECT TO THE 1999 PLAN

The 1999 Plan provides that an aggregate of 1,000,000 shares of Class A and Class B Stock (collectively, the "Common Stock") is authorized for issuance upon exercise of options and for awards of restricted stock, such number being subject to adjustment for stock splits, stock dividends, and certain other types of recapitalizations.

As of January 31, 2004, 593,400 shares of Common Stock have been issued or are subject to outstanding awards under the 1999 Plan, leaving a total of approximately 406,600 shares available for future issuance. No further awards may be granted under the 1999 Plan after July 31, 2004. The closing price of a share of the Company's Class A Stock on the NYSE on April 21, 2004 was \$20.18. If the 2004 Plan is approved by shareholders, the remaining shares available for grant under the 1999 Plan will be cancelled and the 1999 Plan will be terminated.

STOCK OPTIONS

Stock options generally may be awarded from time to time in the discretion of the Compensation Committee. Stock options give the recipient an opportunity to purchase shares of Common Stock from the Company at a designated exercise price. Option awards may consist only of options not intended to qualify as incentive stock options under Section 422 of the Code. No participant may be granted in any calendar year options to purchase more than 200,000 shares of Common Stock.

The exercise price of options granted under the 1999 Plan is determined at the discretion of the Compensation Committee, but the exercise price per share generally may not be less than the fair market value of a share of Common Stock on the grant date of the option. For this purpose, fair market value generally is based on the average of the high and low sale prices of the Class A Stock on the NYSE on the grant date.

22

The exercise price of an option may be paid in cash, or if permitted by the Compensation Committee, in shares of Common Stock, a combination of both, or such other consideration as the Committee may deem appropriate. In addition, the Committee may permit a participant to elect to pay the exercise price by authorizing a third party to sell Common Stock (or a sufficient portion of the shares) acquired upon exercise of the stock option and remit to the Company a sufficient portion of the sale proceeds to pay the entire option price and any tax withholding resulting from such exercise.

Stock options will be exercisable at such time or times and subject to such restrictions as determined by the Compensation Committee. The Compensation Committee will establish the time period within which options must be exercised, but options may not have a term greater than 10 years.

Except as otherwise provided by the Compensation Committee, the following rules apply if an option holder's employment with the Cato Group terminates. If an option holder's employment with the Cato Group terminates for any reason other than death, disability or an eligible retirement, the option holder generally may exercise his or her stock options (but only to the extent

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exercisable on the date of termination) within the 90-day period following such termination. If the option holder's employment terminates due to his or her death, disability or eligible retirement, options (to the extent exercisable on the date of termination) generally may be exercised during the one-year period following termination. In no event can an option be exercised after the expiration of its term (i.e., the option period fixed by the Compensation Committee).

Options generally may not be transferred other than by will or the laws of descent and distribution and options generally may be exercised during the lifetime of the option holder only by the option holder. However, pursuant to the proposed amendment to the 1999 Plan, the Compensation Committee will have the discretion to permit the transfer of stock options, without consideration, to certain family members or family-related trusts, foundations or other entities, subject to limitations determined by the Compensation Committee.

RESTRICTED STOCK

Restricted stock is an award of shares of Common Stock that is subject to restrictions and such other terms and contingencies as the Compensation Committee determines. Such contingencies may include continuous service. The Committee also may condition the award (and, in the case of executives whose awards are subject to the deduction limitations of Section 162(m) of the Code, will condition the award) on the achievement of one or more performance goals, including net profit after taxes, return on assets, return on shareholder's equity, return on capital, net earnings, operating earnings (any of which may be calculated with respect to the Company or any subsidiary or division), earnings per share and trading price of the Common Stock. If the vesting of a restricted stock award is based solely on the completion of service, rather than the achievement of performance goals, the required period of service for vesting purposes may not be less than three years (subject to acceleration, to the extent permitted by the Committee, in the event of the participant's death, disability, involuntary termination or change in control of the Company). No participant may be granted in any calendar year more than 200,000 shares of restricted stock.

Restricted stock generally may not be transferred until all restrictions applicable to the award have lapsed or been satisfied.

Except as otherwise provided by the Compensation Committee, the following rules apply with respect to restricted stock if a participant's employment with the Cato Group terminates. If employment with the Cato Group terminates due to the participant's death, disability or eligible retirement, a prorated portion of any remaining restricted stock awarded to the participant will become unrestricted (as determined under the 1999 Plan). If employment terminates for any reason other than the participant's death, disability or eligible retirement, restricted stock still subject to a restriction period will be forfeited.

CASH BONUSES

The Compensation Committee may award cash bonuses to participants based upon the achievement of one or more performance goals. The criteria upon which the performance goals may be based are net profit after taxes, return on assets, return on shareholder's equity, return on capital, net earnings, operating earnings (any of which may be calculated with respect to the Company or any subsidiary or division), earnings per share and trading price of the Common Stock.

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For each bonus period (typically, a one-year period), the Compensation Committee will select participants and will, within the first 25% of the bonus period, establish in writing the performance criteria and goals for the bonus period and the formula for determining the amount of the cash bonus payable to each participant based upon the extent to which the performance goals are attained. Following the completion of a bonus period, the Committee must, prior to the payment of any bonuses, review and certify in writing the extent to which the goals have been attained and the calculation of any awards.

The Compensation Committee may, within the first 25% of any bonus period, or at any later time thereafter (except to the extent that to do so would cause an award not to be deductible for purposes of Section 162(m) of the Code), exercise discretion to adjust or modify the calculation of a performance goal to prevent the dilution or enlargement of participant rights in the event of, or in anticipation of, any unusual or extraordinary corporate event, any unusual or nonrecurring events affecting the Company or its financial statements, in response to changes in laws, regulations, accounting principles or business conditions, changes in economic or business conditions, or other circumstances deemed relevant. The Committee may, in its sole discretion, reduce or eliminate any bonus award otherwise payable. In no event may any participant receive a cash bonus for any bonus period greater than \$1,250,000.

The Committee may provide for the deferred payment of all or a portion of a cash bonus, and may further condition the right to receive deferred amounts on the achievement of other performance goals, on continued employment, or other conditions.

In general, a participant must be employed by the Company on the last day of the bonus period and at the time of the bonus payment in order to receive the bonus for that period. However, if employment terminates due to the participant's death, disability or eligible retirement, any cash bonus otherwise payable for the period in which such termination occurs will be prorated (as determined under the 1999 Plan).

CHANGE IN CONTROL

Upon a dissolution or liquidation of the Company, or a merger or other consolidation that involves a "change in control" (as defined in the 1999 Plan) of the Company, then all restrictions on restricted stock will lapse and such stock will become unrestricted. In addition, each outstanding option will terminate, but each option holder will have the right immediately prior to such event to exercise his or her options in whole or in part without regard to any vesting schedule that otherwise would apply. The Compensation Committee also may elect to accelerate the vesting or cause restrictions to lapse with respect to other awards upon a change in control of the Company.

AMENDMENT, SUSPENSION AND TERMINATION OF PLAN

The Compensation Committee generally may amend, suspend or terminate the 1999 Plan at any time without notice. However, under the terms of the 1999 Plan, the Committee may not, without shareholder approval, adopt any amendment that would require shareholder approval pursuant to Section 16 of the Securities Exchange Act of 1934 or Section 162(m) of the Code. In addition, since the Company's Class A Stock is traded on the NYSE, shareholder approval also may be required in the case of material amendments. The Committee also may generally amend, to the extent it deems appropriate, any unexercised, unearned or unpaid award, except to the extent that such amendment would adversely affect a participant without his or her consent or would prevent deductibility of the award under Section 162(m) of the Code.

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FEDERAL INCOME TAX CONSEQUENCES

The following is a brief summary of certain federal income tax consequences that apply with respect to awards that may be granted under the 1999 Plan. This summary is based on current laws and regulations that may change in the future. This summary is general in nature and is not intended to be complete. The summary does not describe a number of special tax rules, including any foreign, state or local tax consequences, wage withholding requirements or various other rules that could apply to a particular individual or to the Company under certain circumstances.

NON-QUALIFIED STOCK OPTIONS

The grant of non-qualified stock options has no federal income tax consequences to the Company or the option holder. Upon the exercise of a non-qualified stock option, the option holder will recognize ordinary income equal to the excess of the fair market value of the acquired shares on the date of exercise over the exercise price paid for the shares. The Company generally will be allowed a federal income tax deduction equal to the same amount that the option holder recognizes as ordinary income. In the event of the disposition of the acquired shares of Common Stock, any additional gain (or loss) generally will be taxed to the option holder as either short-term or long-term capital gain (or loss) depending on how long the shares were held.

RESTRICTED STOCK

There generally should not be any federal income tax consequences to the Company or the recipient upon the grant of restricted stock. The recipient normally will recognize ordinary income when shares of the restricted stock vest (which means that the shares are no longer subject to a substantial risk of forfeiture) or become transferable, whichever occurs first. However, a recipient instead may elect to recognize ordinary income at the time the restricted stock is granted by making an election under Section 83(b) of the Code within 30 days after the grant date. In either case, the recipient will recognize ordinary income equal to the fair market value of such shares of stock at the time the income is recognized (reduced by the amount, if any, the recipient paid for the stock) and the Company generally will be entitled to a corresponding tax deduction (subject to Section 162(m) limitations). If the recipient subsequently disposes of the shares of Common Stock, any additional gain (or loss) should be eligible for short-term or long-term capital gain tax treatment, depending on how long the shares were held after the ordinary income was recognized. If a recipient makes an "83(b) election" and then forfeits the shares of Common Stock, the recipient normally will not be entitled to any tax deduction or refund with respect to the tax already paid.

CASH BONUSES

An employee will not have taxable income upon the grant of a contingent right to a cash bonus. The cash bonus will be taxable income to the employee at the time it is paid and (subject to Section 162(m) limitations) the Company will be entitled to a corresponding tax deduction.

SECTION 162(M)

As discussed above, Section 162(m) of the Code generally limits the Company's annual federal income tax deduction for compensation paid to certain covered employees (generally, the Chief Executive Officer and the four other most highly compensated officers) to \$1 million with respect to each such officer. However, compensation that qualifies as "performance-based compensation" under Section 162(m) is not subject to this deduction limit. The Company intends that awards under the 1999 Plan to covered employees generally

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comply with the requirements of the performance-based compensation exclusion under Section 162(m). However, the Company also must approach executive compensation in a manner which will attract, motivate and retain key personnel whose performance increases the value of the Company. Accordingly, the Compensation Committee may from time to time exercise its discretion to award compensation that may not be deductible under Section 162(m) of the Code when in its judgment such award would be in the interests of the Company.

25

1999 PLAN BENEFITS

The table below sets forth certain information concerning grants under the 1999 Plan during the last fiscal year.

PLAN BENEFITS		
1999 INCENTIVE COMPENSATION PLAN		
NAME AND POSITION	DOLLAR VALUE	NUMBER OF UNITS
John P. Derham Cato..... Chairman, President and Chief Executive Officer	--	--
B. Allen Weinstein Executive Vice President Chief Merchandising Officer of the Cato Division	--	--
Michael O. Moore..... Executive Vice President Chief Financial Officer and Secretary	--	--
David Kempert..... Executive Vice President Chief Store Operations Officer of the Cato Division	--	--
C. David Birdwell..... Executive Vice President President and General Manager of the It's Fashion! Division	--	--
All current executive officers as a group	--	--
All current non-executive officer directors as a group	--	--
All employees other than current executive officers as a group.....	\$64,225 (1)	19,500

(1) Value is based on the market price of underlying securities as of January 30, 2004, the last trading day before the fiscal year end.

RECOMMENDATION OF THE BOARD OF DIRECTORS

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The Board of Directors recommends that shareholders vote "FOR" approval of the amendment of the 1999 Plan.

26

AMENDMENT OF THE 1987 NON-QUALIFIED STOCK OPTION PLAN

The Board of Directors and its Compensation Committee have adopted and approved an amendment to the Company's 1987 Non-Qualified Stock Option Plan (the "1987 Plan"), subject to shareholder approval. The amendment to the 1987 Plan is intended to give the Compensation Committee the discretion to allow option holders to transfer non-qualified stock options to certain family members or family-related trusts, foundations or other entities, subject to limitations determined by the Compensation Committee.

The 1987 Plan was adopted by the Company to provide an incentive to participating key employees for continuous employment with the Company and to encourage stock ownership by such employees.

The following is a summary of the proposed amendment to the 1987 Plan and the major features of the 1987 Plan, but it is qualified by reference to the full text of the amended and restated 1987 Plan, a copy of which has been submitted with this Proxy Statement to the SEC and can be obtained on the SEC's website at www.sec.gov.

PROPOSED AMENDMENT

Prior to this amendment, the 1987 Plan generally provided that an option holder could not assign or transfer non-qualified stock options, except at death by operation of the option holder's will or the laws of descent and distribution. The 1987 Plan has been amended, subject to shareholder approval, to allow the Compensation Committee to authorize the transfer of non-qualified stock options under certain circumstances to an option holder's designated family members or family-related trusts, foundations or other entities. Comparable provisions are included in the 2004 Incentive Compensation Plan (the "2004 Plan"), which is being submitted for shareholder approval at the Annual Meeting. The amendment to the 1987 Plan would provide consistency with the 2004 Plan and flexibility for participants and the Compensation Committee.

In particular, the amendment would allow the Compensation Committee the discretion to permit an option holder to transfer options, in whole or in part, for no consideration to (a) the option holder's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, or any person sharing the option holder's household (other than a tenant or employee) ("Family Members"); (b) a trust in which the option holder's Family Members have more than 50% of the beneficial interest; (c) a foundation in which the option holder's Family Members (or the option holder) control the management of assets; or (d) any other entity in which the option holder's Family Members (or the option holder) own more than 50% of the voting interests. In all cases, the Compensation Committee would have to be given advance written notice of the terms of any proposed transfer. The consent of the Compensation Committee would be required for a transfer to be effective and the transfer would be subject to the rules and conditions imposed by the Compensation Committee. Any transferred options would continue to be subject to the same terms and conditions in the hands of the transferee as were applicable immediately prior to the transfer (including the provisions of the 1987 Plan and any related option agreement regarding the expiration or termination of the options).

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ADMINISTRATION

The 1987 Plan is administered by the Compensation Committee of the Board. The Compensation Committee has full discretionary authority in administering and interpreting the 1987 Plan.

ELIGIBILITY

Awards may be granted under the 1987 Plan to key employees, including officers, of the Company and its subsidiaries. The Compensation Committee may select key employees from time to time to receive

27

awards under the 1987 Plan. As of January 31, 2004, there were approximately 350 key employees who potentially could be considered eligible for the 1987 Plan.

TYPES OF AWARDS

The Compensation Committee may grant awards under the 1987 Plan in the form of non-qualified stock options and related stock appreciation rights (or "SARs"). Each type of award is discussed in more detail below.

SHARES SUBJECT TO THE 1987 PLAN

The 1987 Plan provides that an aggregate of 3,075,000 shares of Class A Stock and Class B Stock (collectively, the "Common Stock") is authorized for issuance upon exercise of options and for exercise of related SARs, such number being subject to adjustment for stock splits, stock dividends, and certain other types of recapitalizations. Shares represented by options and SARs that are forfeited or terminated without being exercised or surrendered for payment generally are again available for issuance under the 1987 Plan.

As of January 31, 2004, a total of 3,060,682 shares of Common Stock have been issued or are subject to outstanding options granted under the 1987 Plan, leaving 14,318 shares available for issuance pursuant to new option and SAR grants. To date, no SARs have been granted under the 1987 Plan. The closing price of a share of the Company's Class A Stock on the NYSE on April 21, 2004 was \$20.18.

STOCK OPTIONS

Stock options generally may be awarded from time to time in the discretion of the Compensation Committee. Stock options give the recipient an opportunity to purchase shares of Common Stock from the Company at a designated exercise price. Option awards may consist only of options not intended to qualify as incentive stock options under Section 422 of the Code. The exercise price of options granted under the 1987 Plan is determined at the discretion of the Compensation Committee, but the exercise price per share generally may not be less than the fair market value of a share of Common Stock on the grant date of the option. No participant may be granted in any calendar year options to purchase more than 100,000 shares of Common Stock.

Stock options will be exercisable at such time or times and subject to such restrictions as determined by the Compensation Committee. The Compensation Committee will establish the time period within which options must be exercised, but options may not have a term greater than 10 years. If an option holder's employment is terminated for cause, the option holder's stock options will immediately expire and no longer can be exercised.

Options generally may not be transferred other than by will or the laws

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of descent and distribution and options generally may be exercised during the lifetime of the option holder only by the option holder. However, pursuant to the proposed amendment to the 1987 Plan, the Compensation Committee will have the discretion to permit the transfer of stock options, without consideration, to certain family members or family-related trusts, foundations or other entities, subject to limitations determined by the Compensation Committee.

STOCK APPRECIATION RIGHTS

The Compensation Committee may, in its discretion, grant SARs in tandem with specific grants of options under the 1987 Plan. SARs may be granted only in conjunction with, and at the same time as, a related option, but may be granted with respect to all or only a specified portion of that option. The purpose of the tandem SARs is to facilitate the exercise of options by option holders in cases in which, in the judgment of the Compensation Committee, the exercise of the option would be significantly burdensome to the option holder. No individual may be granted stock appreciation rights under the 1987 Plan with respect to an aggregate of more than 100,000 shares of Common Stock during any calendar year.

28

SARs may be exercised only to the extent that the options to which they relate are exercisable. SARs entitle the holder, upon exercise in connection with the exercise of a tandem stock option, to an amount equal to the difference between the exercise price of the related option and the fair market value of the Common Stock on the date of exercise, multiplied by the number of shares with respect to which the SARs are exercised. This amount may be payable in cash, shares of Common Stock or a combination thereof, as determined by the Compensation Committee. The exercise of SARs results in the termination of the related options to the extent of the number of shares of Common Stock with respect to which such SARs are exercised. The number of shares with respect to which SARs are exercised will reduce the maximum number of shares available for issuance under the 1987 Plan by a corresponding amount.

SARs granted to the Company's executive officers and directors are not exercisable during the first six months after the date of grant except in the case of death or disability of the option holder. Additionally, executive officers and directors may exercise SARs only during the ten-day period beginning on the 3rd business day following the Company's release of quarterly or annual earnings and ending on the 12th day following such release, or such other period as provided under Rule 16b-3 under the Securities Exchange Act of 1934 or any successor rule.

SARs expire no later than the expiration date of the related stock option. If a recipient's employment is terminated for cause, the recipient's SARs will immediately expire and no longer can be exercised.

SARs generally may not be transferred other than by will or the laws of descent and distribution and SARs generally may be exercised during the lifetime of the recipient only by the recipient.

CHANGE IN CONTROL

The 1987 Plan provides for accelerated vesting of outstanding options in the event any third party commences a tender offer or exchange offer that would result in the acquisition by such party of more than 50% of the combined voting power of the Company. In addition, upon a dissolution or liquidation of the Company, or a merger or other consolidation in which the Company is not the surviving corporation, each outstanding option will terminate, but each option holder will have the right immediately prior to such event to exercise his or her options in whole or in part without regard to any vesting schedule that

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otherwise would apply.

AMENDMENT, SUSPENSION OR TERMINATION

The Board generally may, to the extent permitted by law, amend, suspend, or terminate the 1987 Plan or suspend the right to exercise outstanding options and SARs issued under the 1987 Plan at any time without notice. However, under the terms of the 1987 Plan, the Board may not, without shareholder approval, materially increase the number of shares subject to the 1987 Plan, change the designation of the class of employees eligible for the 1987 Plan, decrease or change the manner of determining the price of option grants or materially increase the benefits available to persons eligible to receive options under the Plan. In addition, since the Company's Class A Stock is traded on the NYSE, shareholder approval also may be required in the case of other material amendments. Subject to the terms and conditions of the 1987 Plan, the Committee may modify, extend or renew outstanding options, accept the surrender of outstanding options and authorize the granting of substitute options. However, no modification of an outstanding option may alter or impair the rights and obligations of the holder of such option without his or her consent.

FEDERAL INCOME TAX CONSEQUENCES

The following is a brief summary of certain federal income tax consequences that apply with respect to awards that may be granted under the 1987 Plan. This summary is based on current laws and regulations that may change in the future. This summary is general in nature and is not intended to be complete. The summary does not describe a number of special tax rules, including any foreign, state or local tax consequences, wage withholding requirements or various other rules that could apply to a particular individual or to the Company under certain circumstances.

29

NON-QUALIFIED STOCK OPTIONS

The grant of non-qualified stock options has no federal income tax consequences to the Company or the option holder. Upon the exercise of a non-qualified stock option, the option holder will recognize ordinary income equal to the excess of the fair market value of the acquired shares on the date of exercise over the exercise price paid for the shares. The Company generally will be allowed a federal income tax deduction equal to the same amount that the option holder recognizes as ordinary income. In the event of the disposition of the acquired shares of Common Stock, any additional gain (or loss) generally will be taxed to the option holder as either short-term or long-term capital gain (or loss) depending on how long the shares were held.

STOCK APPRECIATION RIGHTS

The grant of SARs has no federal income tax consequences to the Company or the recipient. Upon the exercise of SARs, the recipient will recognize ordinary income equal to the amount of cash received and the fair market value of any shares of Common Stock received. The Company generally will be allowed a federal income tax deduction equal to the same amount that the recipient recognizes as ordinary income.

SECTION 162(M)

As discussed above, Section 162(m) of the Code generally limits the Company's annual federal income tax deduction for compensation paid to certain covered employees (generally, the Chief Executive Officer and the four other most highly compensated officers) to \$1 million with respect to each such

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officer. However, compensation that qualifies as "performance-based compensation" under Section 162(m) is not subject to this deduction limit. The 1987 Plan was amended in 2000 to comply with the requirements of the performance-based compensation exclusion under Section 162(m), and since that time, the Company has intended that stock options and stock appreciation rights awarded to covered employees under the 1987 Plan generally qualify as "performance-based" compensation that will not be subject to the Section 162(m) deduction limit.

1987 PLAN BENEFITS

No option grants were made under the 1987 Plan during the last fiscal year. Since any future grants under the 1987 Plan will be made at the discretion of the Compensation Committee, grants that may be received by any particular person or group are not presently determinable.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors recommends that shareholders vote "FOR" approval of the amendment of the 1987 Plan.

CHANGE OF INDEPENDENT AUDITOR

Effective September 16, 2003, the Audit Committee approved the dismissal of its independent auditor, Deloitte & Touche LLP, and engaged PricewaterhouseCoopers LLP as its new independent auditor. PricewaterhouseCoopers LLP has audited the Company's financial statements for fiscal year ended January 31, 2004.

During the Company's fiscal years ended February 2, 2002 and February 1, 2003, and the subsequent interim periods through September 16, 2003, there were no disagreements between the Company and Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Deloitte & Touche LLP's satisfaction, would have caused Deloitte & Touche LLP to make reference to the subject matter of the disagreements in connection with its reports on the Company's financial statements for such periods. None of the reportable events described under Item 304 (a) (1) (v) of Regulation S-K occurred

30

during the Company's fiscal years ended February 2, 2002 and February 1, 2003, or during any subsequent interim period through September 16, 2003.

The audit reports issued by Deloitte & Touche LLP on the Company's consolidated financial statements as of and for the fiscal years ended February 2, 2002 and February 1, 2003 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. The Company provided Deloitte & Touche LLP with a copy of the foregoing disclosures, and a letter from Deloitte & Touche LLP confirming its agreement with these disclosures was filed as an exhibit to the Company's Form 8-K, filed with the Securities and Exchange Commission on September 23, 2003, amended October 6, 2003.

During the Company's fiscal years ended February 2, 2002 and February 1, 2003, and through subsequent interim periods through September 16, 2003, the Company did not consult with PricewaterhouseCoopers LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any of the other matters or events set forth in Item 304 (a) (2) (i) and (ii) of Regulation S-K.

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SELECTION OF INDEPENDENT AUDITOR

The Audit Committee has selected PricewaterhouseCoopers LLP as independent auditor to examine the Company's financial statements for fiscal year ended January 29, 2005. This selection is being presented to the shareholders for their ratification at the annual meeting. Deloitte & Touche LLP examined the Company's financial statements for the fiscal years ended February 1, 2003 and February 2, 2002. PricewaterhouseCoopers LLP audited the Company's financial statements for the fiscal year ended January 31, 2004. A representative of PricewaterhouseCoopers LLP and a representative of Deloitte & Touche LLP are expected to attend the meeting, respond to appropriate questions from shareholders present at the meeting and, if such representative desires, to make a statement. The affirmative vote of a majority of the votes present or represented at the annual meeting and entitled to vote by the holders of Class A Stock and Class B Stock, voting as a single class, is required to approve the proposal. The directors recommend that shareholders vote FOR the proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent auditor.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is composed of three independent directors and operates under a written charter adopted by the Audit Committee, the Corporate Governance and Nominating Committee, and the Board of Directors which is attached hereto as Appendix A and is available on the Company's website at www.catocorp.com. The Board of Directors has determined that all members of the Audit Committee possess the required level of financial literacy and in accordance with the independence requirements of the New York Stock Exchange are "independent".

Management is responsible for the Company's internal controls and the financial reporting process. PricewaterhouseCoopers LLP, the Company's independent auditor, is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee, among other things, is responsible for monitoring and overseeing these processes and is directly responsible for the appointment, compensation, retention and oversight of the Company's independent auditor.

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibility for safeguarding the Corporation's assets and for the integrity of the accounting and reporting practices of the Corporation and such other duties as directed by the Board. As set forth in the Audit Committee Charter, the Audit Committee is not responsible for conducting audits or preparing or determining whether the Company's financial statements are accurate or complete or conform with accounting principles generally accepted in the United States of America. The Company's independent

auditor is responsible for expressing an opinion on the conformity of audited financial statements to accounting principles generally accepted in the United States of America.

In the performance of its oversight function and in accordance with its responsibilities under its charter, the Audit Committee has reviewed and discussed the audited financial statements for the year ended January 31, 2004 with management and the independent auditor. The Audit Committee has discussed with the independent auditor the matters required to be discussed by Statement

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on Auditing Standards No. 61 titled "Communication with Audit Committees." In addition, the Audit Committee has received from the independent auditor the written disclosures and letter required by the Independence Standards Board, Standard No. 1 titled "Independence Discussions with Audit Committees" and discussed with the independent auditor their independence from the Company and its management. The Audit Committee also has considered whether the independent auditor's provision of non-audit services to the Company is compatible with the auditor's independence.

Based on the reviews and discussions mentioned above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended January 31, 2004 be included in the Company's Annual Report to shareholders and