

CATO CORP
Form DEF 14A
April 08, 2010

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**
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SCHEDULE 14A

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**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant **x**
Filed by a Party other than the Registrant **o**

Check the appropriate box:

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

The CATO Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x** No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

April 19, 2010

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, 2010 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.

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

We look forward to seeing you at our Annual Meeting.

Sincerely yours,

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

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

The Cato Corporation

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 27, 2010

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, 2010 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 D. Harding Stowe and Edward I. Weisiger, Jr., each for a term expiring in 2013 and until their successors are elected and qualified;
2. To ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending January 29, 2011; and
3. 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 30, 2010 as the record date for determination of shareholders entitled to notice of and to vote at the meeting or any adjournments thereof.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 27, 2010:

**This Proxy Statement, the accompanying proxy card and The Cato Corporation Annual Report on
Form 10-K for the 2009 fiscal year are available at:**

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www.catofashions.com/investors/proxy.cfm

By Order of the Board of Directors

Christin J. Reische
Assistant Secretary

Dated: April 19, 2010

SHAREHOLDERS ARE URGED TO SIGN AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED POSTAGE PAID 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

8100 Denmark Road
Charlotte, North Carolina 28273

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of The Cato Corporation (the Company) for use at the Annual Meeting of Shareholders of the Company (the meeting) to be held on May 27, 2010, 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 19, 2010.

Only shareholders of record at the close of business on March 30, 2010 are entitled to notice of and to vote at the meeting. As of March 30, 2010, the Company had outstanding and entitled to vote 27,844,638 shares of Class A Common Stock (Class A Stock) held by approximately 4,904 holders of record and 1,743,525 shares of Class B Common Stock (Class B Stock) held by 2 holders of record. The Company's transfer agent estimates that there are approximately 6,230 beneficial owners in total. Holders of Class A Stock are entitled to one vote per share and holders of Class B Stock are entitled to ten votes per share. Holders of Class A Stock and holders of Class B Stock vote as a single class.

All proxies properly executed and received prior to the meeting will be voted at the meeting. If a shareholder specifies how the proxy is to be voted on any of the business to come before the meeting, the proxy will be voted in accordance with such specification. If no specification is made, the proxy will be voted **FOR** the election of nominees D. Harding Stowe and Edward I. Weisiger, Jr., **FOR** the ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending January 29, 2011 and in the discretion of the proxy holders on any other business properly brought before the meeting. A proxy may be revoked at any time prior to its exercise by written notice to the Secretary of the Company at the Corporate Office of the Company, by executing and delivering a proxy with a later date, or by voting in person at the meeting.

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

In accordance with applicable Delaware law and the Company's Bylaws, the holders of a majority of the combined voting power of Class A Stock and Class B Stock present in person or represented by proxy at the meeting will constitute a quorum. Abstentions are counted for purposes of determining the presence or absence of a quorum. With regard to the election of directors, votes may either be cast in favor of or withheld, and, assuming the presence of a quorum, directors will be elected by a plurality of the votes cast. Votes that are withheld will be excluded entirely from the vote and will have no effect on the outcome of the election. The ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm 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 do not have discretionary 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 cost of this solicitation including the expense of preparing, printing, and mailing these proxy materials to shareholders. The Company will reimburse brokers, dealers, banks, and other custodians, nominees, and fiduciaries for their reasonable expenses in forwarding proxy solicitation materials to beneficial owners of the Company's Class A Stock and Class B Stock and securing their voting instructions.

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

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

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 30, 2010, certain information regarding the ownership of the outstanding shares of Class A Stock and Class B Stock by (i) each director and nominee, (ii) each person who is known by the Company to own more than 5% of such stock, (iii) each executive officer listed in the Summary Compensation Table, and (iv) all directors and executive officers as a group. Unless otherwise indicated in the footnotes below, each shareholder named has sole voting and investment power with respect to such shareholder's shares. Unless otherwise indicated, the address of each shareholder listed below is 8100 Denmark Road, Charlotte, North Carolina 28273.

Name of Beneficial Owner	Shares Beneficially Owned (1)(2)				Percent of Total Voting Power
	Class A Stock		Class B Stock		
	Number	Percent of Class	Number	Percent of Class	
John P. D. Cato (3)	212,469	*	1,743,525	100.0	39.0
John R. Howe	33,369	*			*
Howard A. Severson	37,026	*			*
Sally J. Almason (4)	31,888	*			*
Michael T. Greer	21,466	*			*
George S. Currin	20,252	*			*
Grant L. Hamrick	7,822	*			*
Bryan F. Kennedy					
Thomas E. Meckley	1,804	*			*
Bailey W. Patrick	1,804	*			*
A. F. (Pete) Sloan	14,122	*			*
D. Harding Stowe	3,322	*			*
All directors and executive officers as a group (12 persons) (5)	385,344	1.4	1,743,525	100.0	39.3
Royce & Associates, LLC (6)	3,894,382	14.0			8.6
Wellington Asset Management Co., LLP (7)	3,399,336	12.2			7.5
BlackRock, Inc. (8)	2,291,905	8.2			5.1
Bank of New York Mellon Corporation, et al. (9)	1,701,113	6.1			3.8
The Vanguard Group, Inc. (10)	1,523,346	5.5			3.4

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* 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 30, 2010 was 53,484 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 30, 2010.
- (3) The amount shown for Class A Stock and Class B Stock includes 11,762 shares and 3,000 shares, respectively, held by Mr. Cato's wife. Mr. Cato disclaims beneficial ownership of shares held directly or indirectly by his wife.
- (4) Includes 9,000 shares of Class A Stock subject to stock options.
- (5) The amount shown for Class A Stock includes 9,000 shares subject to stock options.
- (6) Based on an amended Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about January 22, 2010. The address of this shareholder is 745 Fifth Avenue, New York, New York 10151.
- (7) Based on an amended Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about February 12, 2010. The address of this shareholder is 75 State Street, Boston, Massachusetts 02109.
- (8) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about January 29, 2010. The address of this shareholder is 40 East 52nd Street, New York, New York 10022.
- (9) Based on a Schedule 13G filed by Bank of New York Mellon Corporation and certain of its affiliates with the Securities and Exchange Commission on or about February 4, 2010. The address of this shareholder is One Wall Street, 31st Floor, New York, New York 10286. Bank of New York Mellon Corporation and its direct and indirect subsidiaries collectively report sole voting power over 1,601,351 of such shares.
- (10) Based on a Schedule 13G filed by this shareholder with the Securities and Exchange Commission on or about February 8, 2010. The address of this shareholder is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

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PROPOSAL 1 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. D. Harding Stowe's term expires at this year's Annual Meeting, and he has been nominated by the Corporate Governance and Nominating Committee for re-election and to serve until the 2013 Annual Meeting and until his successor is elected and qualified. Mr. George S. Currin and Mr. A. F. (Pete) Sloan announced their retirement effective prior to the Annual Meeting and are not being nominated for re-election. Mr. Edward I. Weisiger, Jr. has been nominated by the Corporate Governance and Nominating Committee for election and to serve until the 2013 Annual Meeting and until his successor is elected and qualified. The Corporate Governance and Nominating Committee nominates director candidates in accordance with the Company's Bylaws and the policies described below under Corporate Governance Matters Director Nomination Criteria and Process.

It is the intention of the persons named in the proxy to vote for D. Harding Stowe and Edward I. Weisiger, Jr. to serve until the 2013 Annual Meeting and until their successor is elected and qualified, except to the extent authority to so vote is withheld with respect to one or more nominees. Should any nominee be unable to serve, which is not anticipated, the proxy will be voted for the election of a substitute nominee selected by the Board of Directors. The two nominees shall be elected by a plurality of the votes of Class A Stock and Class B Stock voting as a single class.

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

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

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

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

Financial expertise including experience in public accounting;

Knowledge of the retail industry.

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

Nominees

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

D. Harding Stowe, 54, has been a director of the Company since 2005. Mr. Stowe has been the President and Chief Executive Officer of R.L. Stowe Mills, Inc. since 1994. Mr. Stowe currently serves on the Board of Presbyterian Hospital, southern region, and the Board of Directors of Belmont Abbey College. Mr. Stowe also has been the Chairman and CEO of New South Pizza (Brixx Wood Fired Pizza) since 1997. The Board nominated Mr. Stowe based on his experience in senior management and leadership positions with several companies and boards.

Edward I Weisiger, Jr., 49, has served as President and Chief Executive Officer of Carolina Tractor & Equipment Company since 1991 and served in various positions with the firm since 1988. Mr. Weisiger is a principal and founding partner of Beacon Partners, a commercial real estate development and asset management firm and a principal and founding partner of Cresset Capital Partners, a private equity entity investing in small and medium size manufacturers, distributors and asset intensive services businesses in the Carolinas. Mr. Weisiger is a member

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of the Executive Committee of the North Carolina Citizens for Business & Industry and a member of the Board of Directors of the North Carolina Trucking Association, Foundation of the University of North Carolina at Charlotte and the Goodfellows Club. Mr. Weisiger also serves on the Board of Trustees of Woodberry Forest School, Board of Visitors of Daniel Stowe Botanical Gardens and is a Charter Member of the Central Piedmont Community College President's Council. The Board nominated Mr. Weisiger based on his experience in senior management with various companies and commercial real estate development.

Continuing Directors

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

John P. D. Cato, 59, has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since January 2004, he has served as Chairman, President and Chief Executive Officer. From May 1999 to January 2004, he served as President, Vice Chairman of the Board and Chief Executive Officer. From June 1997 to May 1999, he served as President, Vice Chairman of the Board and Chief Operating Officer. From August 1996 to June 1997, he served as Vice Chairman of the Board and Chief Operating Officer. From 1989 to 1996, he managed the Company's off-price division, serving as Executive Vice President and as President and General Manager of the It's Fashion! Division from 1993 to August 1996. Mr. Cato is currently a director of Ruddick Corporation. The Board nominated Mr. Cato based on his knowledge of all aspects of the Company's business and also considered his substantial experience on and contributions to the Company's Board.

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Grant L. Hamrick, 71, 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 Board nominated Mr. Hamrick based on his experience in public accounting and experience gained in his position as Chief Financial Officer at American Business Journals.

Bryan F. Kennedy, III, 52, has been a director of the Company since August 2009. Mr. Kennedy has served as the President and Chief Executive Officer of Park Sterling Bank since January 2006, and a member of the Board since 2006. Mr. Kennedy was the North Carolina Market President of Regions Bank, located in Charlotte, North Carolina, from January 2004 to January 2006. Mr. Kennedy currently serves as the Chairman of the Board of Hospice and Palliative Care-Charlotte Region. The Board nominated Mr. Kennedy based on his experience in banking and finance.

Thomas E. Meckley, 65, has been a director of the Company since May 2009. Mr. Meckley has been a consultant to Agility Recovery Solutions, an onsite mobile business continuity solutions company since 2005. He was employed by the public accounting firm of Ernst & Young LLP from 1967 to 2005 and served as a Managing Partner of the Charlotte, North Carolina office from 1985 to 1995. Mr. Meckley currently serves on the Board of Directors of The Ben Craig Center, a UNC Charlotte business partnership, and on the Board of Trustees of Elizabethtown College, a liberal arts college in Pennsylvania. The Board nominated Mr. Meckley based on his experience in public accounting.

Bailey W. Patrick, 48, has been a director of the Company since May 2009. Since February 2010, Mr. Patrick has also been a Managing Partner of Merrifield Patrick, LLC (formerly Bissell-Patrick, LLC), a privately held company specializing in real estate brokerage and development services. Mr. Patrick served as the President of Bissell-Patrick from 1999 to 2010, holding various other positions with the firm since 1984. He currently serves on the Board of Directors of Ruddick Corporation and Park Sterling Bank. He also serves on the Board of Trustees of Queens University in Charlotte, North Carolina and Episcopal High School in Alexandria, Virginia. The Board nominated Mr. Patrick based on his experience in commercial real estate leasing and development and experience gained in service on other boards.

The five continuing members of the Board of Directors are divided into two classes with current terms expiring in 2011 and 2012. On the expiration of each director's term, his successor in office will be elected for a three-year term. The terms of Messrs. Mr. Grant L. Hamrick and Bryan F. Kennedy, III expire in 2011. The terms of Messrs. John P. D. Cato, Bailey W. Patrick and Thomas E. Meckley expire in 2012.

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MEETINGS AND COMMITTEES

During the fiscal year ended January 30, 2010, the Company's Board of Directors held six 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 2009 Annual Meeting (Mr. Kennedy was appointed to the Board in August).

The Board of Directors, pursuant to authority granted in the Company's Bylaws, has established a standing Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee. During the fiscal year ended January 30, 2010, the Audit Committee held eight meetings, the Compensation Committee held five meetings, and the Corporate Governance and Nominating Committee held five meetings.

All directors attended 100%, of various scheduled Board of Directors meetings and applicable Committee meetings during fiscal 2009.

Audit Committee

The Board of Directors established the Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities regarding the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the safeguarding of the Company's assets, the independence, qualifications, and performance of the independent auditors, the performance of the Company internal audit function, and such other matters as the Committee deems appropriate or as delegated to the Committee by the Board of Directors from time to time. During the fiscal year ended January 30, 2010, the Audit Committee held eight meetings. The Board of Directors has determined that each member of the Audit Committee is an independent director, in accordance with the independence requirements of the New York Stock Exchange ("NYSE"). In addition, the Board has determined that each member of the Audit Committee meets the heightened standards of independence for audit committee members under the Securities Exchange Act of 1934. No member of the Audit Committee simultaneously serves on the audit committee of more than two other public companies. Messrs. Grant L. Hamrick, Chair, Bryan F. Kennedy, III, Thomas E. Meckley and A. F. (Pete) Sloan are the members of the Audit Committee. The Board of Directors has determined that both Grant L. Hamrick and Thomas E. Meckley qualify as an audit committee financial expert within the meaning of SEC rules. The Audit Committee operates under a Board-approved charter. Additional information concerning the Audit Committee is set forth below under "Selection of Independent Registered

Public Accounting Firm.

Compensation Committee

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

The Compensation Committee also reviews and approves, on an annual basis, the evaluation process and compensation structure of the Company's other executive officers and evaluates those other officers' performance at least annually. Based on this evaluation, the Compensation Committee determines and reports to the Board the other executive officers' compensation, including salary, bonus, incentive, and equity compensation. The Compensation Committee also reviews on an annual basis and recommends to the Board the form and amount of director compensation. In addition, the Compensation Committee grants restricted stock and other awards to associates of the Company and its subsidiaries pursuant to the Company's benefit and incentive compensation plans and reports such actions to the Board of Directors.

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

The Board of Directors has determined that each member of the Compensation Committee is an independent director, in accordance with the independence requirements of the NYSE. The Compensation Committee held five meetings during the fiscal year ended January 30, 2010. The Compensation Committee operates under a Board-approved charter. Messrs. D. Harding Stowe (Chair), George S. Currin, Bailey W. Patrick and A. F. (Pete) Sloan are the members of the Compensation Committee.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee reviews, evaluates and recommends nominees for the Board of Directors. In addition, the Corporate Governance and Nominating Committee monitors and evaluates the performance of the directors on a periodic basis, individually and collectively. The Committee also periodically reviews the Company's corporate governance principles and recommends changes to the Board of Directors. The Board of Directors has determined that each member of the Corporate Governance and Nominating Committee is an independent director, in accordance with the independence requirements of the NYSE. The Corporate Governance and Nominating Committee held five meetings during the fiscal year ended January 30, 2010. The Corporate Governance and Nominating Committee operates under a Board-approved charter. Messrs. George S. Currin (Chair), Bryan F. Kennedy, III, Thomas E. Meckley, Bailey W. Patrick and D. Harding Stowe are the members of the Corporate Governance and Nominating Committee.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Guidelines and Committee Charters

In furtherance of its longstanding goal of providing effective governance of the Company's business and affairs for the benefit of shareholders, the Board of Directors has approved Corporate Governance Guidelines for the Company. The Guidelines are available on the Company's website at www.catofashions.com/investors.cfm, as are the committee charters for the Company's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

Director Independence

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

circumstances specific to that director.

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

- (1) The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company.
- (2) The director has received, or an immediate family member has received, during any twelve month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

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- (3) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; the director is a current employee of such a firm; the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.
- (4) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- (5) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

The Board specifically considered Mr. George S. Currin's ownership interest in entities with which the Company had lease agreements in fiscal 2009 and determined these transactions were not material (*see* Related Person Transactions *below*).

Board Leadership Structure

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

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

Executive Sessions of Non-Management Directors

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

Board of Directors Risk Management Oversight

As part of its independent oversight function, the Board reviews and monitors financial, strategic and operational risk through annual and periodic reviews with Management. The Audit Committee has primary responsibility for monitoring financial reporting risk.

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Annually, the Board reviews the Company's business strategy including financial, operational and regulatory risks facing the Company and the Company's plans to mitigate these risks. Periodically, the Board reviews operational risk through discussions with operating function leaders from Merchandising, Store Development, Store Operations, Finance and Human Resources.

The Audit Committee monitors risks associated with the Company's overall financial reporting and among their responsibilities is a review of risk assessment and management and significant risks or exposures. In addition, the Committee has a responsibility to assess the steps Management has taken to minimize such risks. The Audit Committee also reviews the effectiveness and integrity of the Company's financial reporting processes and the

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Company's internal control structure (including both disclosure controls and procedures and internal control over financial reporting).

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. D. Harding Stowe, George S. Currin, Bailey W. Patrick and A.F. (Pete) Sloan. Since the beginning of the Company's last fiscal year, none of the members of the Compensation Committee is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company's Compensation Committee or the Board.

Code of Ethics and Code of Business Conduct and Ethics

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

Communications with Directors

All interested parties may communicate directly with any member or committee of the Board of Directors, or any group of directors, by writing to: Chair of the Corporate Governance and Nominating Committee, c/o Office of the Corporate Secretary, The Cato Corporation, 8100 Denmark Road, Charlotte, North Carolina 28273. Depending on the subject matter, the Chair of the Corporate Governance and Nominating Committee, with the assistance of the Company's Vice President, General Counsel will determine whether to forward it to the director or directors to whom it is addressed, attempt to handle the inquiry directly (for example, where it is a request for information about the Company or it is a stock-related matter), or not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

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

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

Director Nomination Criteria and Process

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

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As specified in Article II, Section 3 of the Company's Bylaws, notice of a shareholder nomination for a director nominee to be considered at an Annual Meeting must be in writing and received by the Secretary of the Company

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at the Company's principal executive offices, 8100 Denmark Road, Charlotte, North Carolina 28273-5975, no later than 90 days prior to the anniversary of the preceding year's Annual Meeting (in the case of the Company's 2011 Annual Meeting of shareholders, no later than February 26, 2011). The shareholder's notice must also set forth, with respect to any director nominee, his or her name, age, business and residential address, principal occupation, the class and number of shares of the Company owned by the nominee, the nominee's consent to being named in the proxy statement and serving if elected, and any other information required by the proxy rules of the Securities and Exchange Commission pursuant to Regulation 14A of the Exchange Act. The notice must also include the name and address of the nominating shareholder as it appears on the Company's stock transfer records and the class and number of shares of the Company beneficially owned by the nominating shareholder.

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

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

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 30, 2010:

Plan Category	(a)		(b)		(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	Class A Stock:	202,458	Class A Stock:	\$ 14.08 ⁽²⁾	949,819 ⁽³⁾

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