UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 2, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-3747

THE CATO CORPORATION AND SUBSIDIARIES

(Exact name of registrant as specified in its charter)

Delaware	56-0484485
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975

(Address of principal executive offices)
(Zip Code)

(704) 554-8510

(Registrant’s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 126-2 of the Act).

Yes [X] No [ ]

As of August 19, 2003, there were 19,864,378 shares of Class A common stock and 5,637,834 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

August 2, 2003

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	August 2, 2003 (Unaudited)	August 3, 2002 (Unaudited)	**August 2, 2003 (Unaudited)**	August 3, 2002 (Unaudited)
	(Dollars in thousands, except per share data)			
REVENUES				
Retail sales	**$188,218**	$186,900	**$385,522**	$383,517
Other income (principally finance, late, and layaway charges)	**3,775**	3,815	**7,681**	7,689
Total revenues	**191,993**	190,715	**393,203**	391,206
COSTS AND EXPENSES, NET				
Cost of goods sold	**132,616**	125,854	**259,614**	250,314
Selling, general and administrative	**44,565**	44,061	**88,010**	89,444
Depreciation	**4,562**	3,254	**9,013**	6,362
Interest and other income, net	**(1,887)**	(1,667)	**(3,014)**	(2,810)
Costs and expenses, net	**179,856**	171,502	**353,623**	343,310
INCOME BEFORE INCOME TAXES	**12,137**	19,213	**39,580**	47,896
Income tax expense	**4,406**	6,955	**14,368**	17,338
NET INCOME	**$ 7,731**	$ 12,258	**$ 25,212**	$ 30,558
BASIC EARNINGS PER SHARE	**$ .30**	$ .48	**$ .99**	$ 1.20
DILUTED EARNINGS PER SHARE	**$ .30**	$ .47	**$ .98**	$ 1.18
DIVIDENDS PER SHARE	**$ .16**	$ .15	**$ .31**	$ .285

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	August 2, 2003 (Unaudited)	August 3, 2002 (Unaudited)	February 1, 2003
		(Dollars in thousands)	
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 59,836**	$ 73,517	$ 32,065
Short-term investments	**66,255**	37,474	74,871
Accounts receivable - net	**53,092**	51,973	54,116
Merchandise inventories	**79,998**	86,372	93,457
Deferred income taxes	**1,530**	983	1,392
Prepaid expenses	**5,651**	4,875	4,990
Total Current Assets	**266,362**	255,194	260,891
Property and equipment - net	**113,131**	107,666	113,307
Other assets	**9,617**	9,128	9,212
Total	**$389,110**	$371,988	$383,410
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	**$ 52,304**	$ 62,660	$ 66,620
Accrued expenses	**27,698**	29,505	28,776
Income taxes	**8,012**	7,921	2,886
Total Current Liabilities	**88,014**	100,086	98,282
Deferred income taxes	**6,310**	5,177	6,310
Other noncurrent liabilities	**8,700**	8,343	8,654
Commitments and contingencies			
Shareholders' Equity:			
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**—**	—	—
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; issued 25,612,313 shares, 25,156,782 shares and 25,218,678 shares at August 2, 2003, August 3, 2002, and February 1, 2003, respectively	**854**	839	840
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; issued 5,796,078 shares, 6,085,149 shares and 6,085,149 shares at August 2, 2003, August 3, 2002 and February 1, 2003, respectively	**193**	202	203
Additional paid-in capital	**96,087**	92,355	94,947
Retained earnings	**253,226**	228,288	235,904
Accumulated other comprehensive gains (losses)	**10**	(901)	253
Unearned compensation – restricted stock awards	**(1,935)**	(2,863)	(2,375)
	348,435	317,920	329,772
Less Class A common stock in treasury, at cost (5,906,179 shares at August 2, 2003, 5,737,079 shares at August 3, 2002, and 5,741,179 shares at February 1, 2003, respectively)	**(62,349)**	(59,538)	(59,608)
Total Shareholders' Equity	**286,086**	258,382	270,164
Total	**$389,110**	$371,988	$383,410

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	August 2, 2003 (Unaudited)	August 3, 2002 (Unaudited)
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	**$ 25,212**	$ 30,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**9,013**	6,362
Amortization of investment premiums	**4**	48
Compensation expense related to restricted stock awards	**440**	261
Loss on disposal of property and equipment	**243**	283
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**1,024**	320
Merchandise inventories	**13,459**	(5,965)
Other assets	**(1,066)**	(271)
Accounts payable and other liabilities	**(15,485)**	8,956
Accrued income taxes	**5,126**	7,101
Net cash provided by operating activities	**37,970**	47,653
INVESTING ACTIVITIES		
Expenditures for property and equipment	**(9,080)**	(14,174)
Purchases of short-term investments	**(7,686)**	(234)
Sales of short-term investments	**16,055**	5,300
Net cash used in investing activities	**(711)**	(9,108)
FINANCING ACTIVITIES		
Dividends paid	**(7,874)**	(7,230)
Purchases of treasury stock	**(2,741)**	(1,116)
Proceeds from employee stock purchase plan	**245**	263
Proceeds from stock options exercised	**882**	1,283
Net cash used in financing activities	**(9,488)**	(6,800)
Net increase in cash and cash equivalents	**27,771**	31,745
Cash and cash equivalents at beginning of period	**32,065**	41,772
Cash and cash equivalents at end of period	**$ 59,836**	$ 73,517

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 1 - GENERAL:

The condensed consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the Company), and all amounts shown as of and for the periods ended August 2, 2003 and August 3, 2002 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of the interim period may not be indicative of the entire year.

The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Investments with original maturities beyond three months are classified as short-term investments. The fair values of short-term investments are based on quoted market prices.

The Company's short-term investments are classified as available-for-sale. As they are available for current operations, they are classified in condensed consolidated balance sheets as current assets. Available-for-sale securities are carried at fair value, with unrealized gains and temporary losses, net of income taxes, reported as a component of accumulated other comprehensive income. Other than temporary declines in fair value of investments are recorded as a reduction in the cost of the investments in the accompanying Consolidated Balance Sheets and a reduction of interest and other income, net in the accompanying Statements of Consolidated Income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in other income.

Total comprehensive income for the second quarter and six months ended August 2, 2003 was $7,374,000 and $24,969,000, respectively. Total comprehensive income for the second quarter and six months ended August 3, 2002 was $12,234,000 and $30,224,000, respectively. Total comprehensive income is composed of net income and net unrealized gains and losses on available-for-sale securities.

Merchandise inventories are stated at the lower of cost (first-in, first-out method) or market as determined by the retail inventory method.

For the six months ended August 2, 2003, the Company repurchased 165,000 shares of Class A Common Stock for $2,740,619, or an average market price of $16.61 per share, all which incurred in the first quarter of fiscal 2003. For the six months ended August 3, 2002, the Company repurchased and accepted a combined total of 110,581 mature shares of Class A Common Stock for $2,260,264, or an average market price of $20.44 per share. In the second quarter of fiscal 2002, the Company repurchased 61,900 shares of Class A Common Stock for $1,115,764, or an average

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 1 – GENERAL (CONTINUED):

market price of $18.03 per share. Additionally, in the first quarter of fiscal 2002, the Company accepted in an option transaction from an officer for payment of an option exercise, 48,681 mature shares of Class A Common Stock for $1,144,500, or an average market price of $23.51 per share, the average fair market value on the date of the exchange.

In May 2003, the Board of Directors increased the quarterly dividend by 7% from $.15 per share to $.16 per share.

On August 22, 2003, the Company repurchased 5,137,484 shares of Class B Common Stock from a limited partnership and trust affiliated with Wayland H. Cato, Jr., a Company founder and Chairman of the Board and a limited partnership affiliated with Edgar T. Cato, a Company founder and a member of the Board of Directors. Shares were purchased at $18.50 per share (a 21% discount off the then market value) for a total cost of $95,043,454 which was funded by the Company through a new $30 million five-year term loan facility and approximately $65 million of cash and liquidated short-term investments. Payments on the new term loan are due in monthly installments of $500,000 plus accrued interest. Interest is based on LIBOR. Both the repurchase of the shares from the co-founders and the new term loan facility will be recorded in the Company's third quarter.

On August 29, 2003, the Company entered into agreements with Mr. Wayland H. Cato, Jr., a Company founder and Chairman of the Board and Mr. Edgar T. Cato, a Company founder and a member of the Board of Directors. The agreements provide for the retirement of Mr. Wayland Cato and Mr. Edgar Cato from the Company and the Board of Directors effective January 31, 2004. Mr. Wayland Cato will be available to the Company for consulting services following his retirement. In the third quarter of fiscal 2003, the Company expects to take a charge of approximately $2.8 million representing the present value of certain payments and benefits to Mr. Wayland Cato and Mr. Edgar Cato under the terms of the agreements. The charge will be approximately $1.8 million on an after-tax basis, or $.08 per diluted share for the third quarter and year. The benefits include compensation for three years commencing on the retirement date, life insurance coverage for three years, continuation of medical insurance coverage, and assistance with the relocation of their offices and are in consideration of the consulting services, non-competition covenants and confidentiality covenants, among other obligations of the retirees.

The provisions for income taxes are based on the Company's estimated annual effective tax rate. As allowed by SFAS No. 109, "Accounting for Income Taxes", deferred income taxes are calculated annually.

Certain reclassifications have been made to the condensed consolidated financial statements for prior periods to conform to the current period presentation.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS:

On November 25, 2002 the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”, which elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The interpretation expands on the accounting guidance of SFAS No. 5, “Accounting for Contingencies”, SFAS No. 57, “Related Party Disclosures”, and SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”. The interpretation also incorporates, without change, the provisions of FASB Interpretation No. 34, “Disclosure of Indirect Guarantees of Indebtedness of Others”, which it supersedes. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor’s fiscal year-end. The disclosures are effective for financial statements of interim or annual periods ending after December 31, 2002. The Company adopted Interpretation No. 45 on February 2, 2003 and the impact of this Interpretation on the Company’s financial position or results of operations was not material and additional disclosure is not required.

On December 31, 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure”. SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation”, to provide for alternative methods of transition to SFAS No. 123’s fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, “Interim Financial Reporting”, to require disclosure in the summary of significant policies of the effects of an entity’s accounting policy with respect to stock-based employee compensation on reported net income and earnings per-share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25, “Accounting for Stock Issued to Employees”. SFAS No. 148’s amendment of the transition and the annual disclosure requirements of SFAS No. 123 are effective for fiscal years ending after December 15, 2002.

The Company applies APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for the stock options granted been determined consistent with SFAS No. 123, “Accounting for

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for the three months ended August 2, 2003 and August 3, 2002 and for the six months ended August 2, 2003 and August 3, 2002 would approximate the following proforma amounts (dollars in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	August 2, 2003	August 3, 2002	**August 2, 2003**	August 3, 2002
Net income – as reported	**$7,731**	$12,258	**$25,212**	$30,558
* Pro forma stock-based compensation cost	**(131)**	(179)	**(266)**	(391)
Net income – pro forma	**$7,600**	$12,079	**$24,946**	$30,167
Net income per share as reported:				
Basic earnings per share	**$ .30**	$ .48	**$ .99**	$ 1.20
Diluted earnings per share	**$ .30**	$ .47	**$ .98**	$ 1.18
Net income per share-pro forma				
Basic earnings per share	**$ .30**	$ .47	**$ .98**	$ 1.18
Diluted earnings per share	**$ .29**	$ .46	**$ .97**	$ 1.16

* determined using fair value method

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements". This interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest it acquired before February 1, 2003. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The implementation of this interpretation had no effect on the Company's financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position. We do not expect the provisions of SFAS 150 to have a material impact on our financial position or results of operations.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 3 - EARNINGS PER SHARE:

Earnings per share is calculated by dividing net income by the weighted-average number of Class A and Class B common shares outstanding during the respective periods. The weighted-average shares outstanding is used in the basic earnings per share calculation, while the weighted-average shares and common stock equivalents outstanding are used in the diluted earnings per share calculation.

	Three Months Ended		Six Months Ended	
	August 2, 2003	August 3, 2002	**August 2, 2003**	August 3, 2002
Weighted-average shares outstanding	**25,478,008**	25,516,138	**25,458,696**	25,397,580
Dilutive effect of stock options	**410,325**	503,984	**391,925**	550,970
Weighted-average shares and common stock equivalents (stock options) outstanding	**25,888,333**	26,020,122	**25,850,621**	25,948,550

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the six months ended August 2, 2003 and August 3, 2002 were $9,277,450 and $10,364,500, respectively.

NOTE 5 - FINANCING ARRANGEMENTS:

On August 22, 2003, the Company entered into a new $30 million five-year term loan facility, the proceeds of which were used to purchase Class B Common Stock from the Company’s founders. Payments are due in monthly installments of $500,000 plus accrued interest. Interest is based on LIBOR.

On August 22, 2003, the Company entered into a new revolving credit agreement which provides for borrowings of up to $35 million. The revolving credit agreement is committed until August 22, 2006, unless extended. This agreement replaces a prior revolving credit agreement which was due to expire on October 31, 2004. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the six months ended August 2, 2003 or the fiscal year ended February 1, 2003.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 2, 2003
AND AUGUST 3, 2002

NOTE 6 – REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The following schedule summarizes certain segment information (in thousands):

	Three Months Ended		Six Months Ended	
	August 2, 2003	August 3, 2002	**August 2, 2003**	August 3, 2002
Revenues:				
Retail	**$188,415**	$187,296	**$386,013**	$384,460
Credit	**3,578**	3,419	**7,190**	6,746
Total	**$191,993**	$190,715	**$393,203**	$391,206
Income before income taxes:				
Retail	**$ 11,066**	$ 17,808	**$ 37,541**	$ 45,243
Credit	**1,071**	1,405	**2,039**	2,653
Total	**$ 12,137**	$ 19,213	**$ 39,580**	$ 47,896

THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

The following table sets forth, for the periods indicated, certain items in the Company's unaudited Condensed Consolidated Statements of Income as a percentage of total retail sales:

	Three Months Ended		Six Months Ended	
	August 2, 2003	August 3, 2002	**August 2, 2003**	August 3, 2002
Total retail sales	**100.0%**	100.0%	**100.0%**	100.0%
Total revenues	**102.0**	102.0	**101.9**	102.0
Cost of goods sold	**70.5**	67.3	**67.4**	65.3
Selling, general and administrative	**23.7**	23.6	**22.8**	23.3
Depreciation	**2.4**	1.7	**2.3**	1.6
Interest and other, net	**(1.0)**	(0.9)	**(0.8)**	(0.7)
Income before income taxes	**6.4**	10.3	**10.2**	12.5
Net income	**4.1**	6.6	**6.5**	8.0

Comparison of Second Quarter and First Six Months of 2003 with 2002.

Total retail sales for the second quarter were $188.2 million compared to last year's second quarter sales of $186.9 million, a 1% increase. Same-store sales decreased 7% in the second quarter of fiscal 2003. For the six months ended August 2, 2003, total retail sales were $385.5 million compared to last year's first six months sales of $383.5 million, a 1% increase, and same-store sales decreased 7% for the comparable six month period. The soft retail sales for the first six months of 2003 resulted from continued difficult economic conditions. The Company operated 1,051 stores at August 2, 2003 compared to 972 stores at the end of last year's second quarter.

Other income for the second quarter of 2003 decreased 1% over the prior year's comparable period. The decrease in the second quarter resulted primarily from decreased layaway fees. Other income for the first six months of 2003 was virtually equivalent to the comparable six month period last year.

Cost of goods sold were 70.5% and 67.4% of total retail sales for the second quarter and first six months of 2003, respectively, compared to 67.3% and 65.3% for prior year's comparable three and six month periods, respectively. The increase in cost of goods sold as a percent of retail sales for the first six months of 2003 resulted primarily from lower than planned sales and additional markdowns taken to bring inventory levels in line with sales trends.

Selling, general and administrative (SG&A) expenses were $44.6 million, or 23.7% and $88.0 million, or 22.8% for the second quarter and first six months of this year, compared to $44.1

THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS – (CONTINUED):

million, or 23.6% and $89.4 million, or 23.3% of retail sales for prior year's comparable three and six month periods, respectively. SG&A expenses as a percentage of retail sales increased 10 basis points for the second quarter of 2003 as compared to the prior year and decreased 50 basis points for the first six months of 2003, as compared to the prior year. The overall decrease in SG&A expenses for the first six months of 2003 results primarily from reduced incentive based performance bonus programs.

Depreciation expense was $4.6 million, or 2.4% and $9.0 million or 2.3% of retail sales, for the second quarter and first six months of fiscal 2003, compared to $3.3 million, or 1.7% and $6.4 million, or 1.6% of retail sales, for prior year's comparable three and six month periods, respectively. The increase resulted primarily from the Company's store development and depreciation of the Company's enterprise-wide information system which was implemented in August 2002.

CRITICAL ACCOUNTING POLICIES:

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgement. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company's financial statements include the allowance for doubtful accounts receivable, reserves relating to workers' compensation, general and auto insurance liabilities and reserves for inventory markdowns.

The Company evaluates the collectibility of accounts receivable and records allowances for doubtful accounts based on estimates of actual write-offs and the relative age of accounts. The Company's self-insurance liabilities related to worker's compensation, general and auto insurance liabilities are based on estimated costs of claims filed and claims incurred but not reported and data provided by outside actuaries. Merchandise inventories are stated at the lower of cost (first-in, first-out method) or market as determined by the retail method. Management makes estimates regarding markdowns based on customer demand which can impact inventory valuations. Historically, actual results have not significantly deviated from those determined using the estimates described above.

STOCK OPTIONS:

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for

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THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STOCK OPTIONS (CONTINUED):

the stock options granted been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for the three months ended August 2, 2003 and August 3, 2002 and for the six months ended August 2, 2003 and August 3, 2002 would approximate the following proforma amounts (dollars in thousands, except per share data):

		Three Months Ended		Six Months Ended	
		August 2, 2003	August 3, 2002	**August 2, 2003**	August 3, 2002
	Net income – as reported	**$7,731**	$12,258	**$25,212**	$30,558
*	Pro forma stock-based compensation cost	**(131)**	(179)	**(266)**	(391)
	Net income – pro forma	**$7,600**	$12,079	**$24,946**	$30,167
	Net income per share as reported:				
	Basic earnings per share	**$ .30**	$ .48	**$ .99**	$ 1.20
	Diluted earnings per share	**$ .30**	$ .47	**$ .98**	$ 1.18
	Net income per share-pro forma				
	Basic earnings per share	**$ .30**	$ .47	**$ .98**	$ 1.18
	Diluted earnings per share	**$ .29**	$ .46	**$ .97**	$ 1.16

* determined using fair value method

LIQUIDITY AND CAPITAL RESOURCES:

At August 2, 2003, the Company had working capital of $178.3 million, compared to $155.1 million at August 3, 2002 and $162.6 million at February 1, 2003. Cash provided by operating activities was $38.0 million for the six months ended August 2, 2003, compared to $47.7 million for last year's comparable six month period. The decrease in net cash provided by operating activities resulted primarily from a decrease in net income, payments related to accounts payable and other liabilities made prior to the end of second quarter of 2003 versus after the end of second quarter 2002 partially offset by a decrease in inventories. At August 2, 2003, the Company had cash, cash equivalents, and short-term investments of $126.1 million, compared to $111.0 million at August 3, 2002 and $106.9 million at February 1, 2003.

Net cash used in investing activities totaled $.7 million for the first six months of 2003 compared to $9.1 million for the comparable period of 2002. Cash was used to fund capital expenditures for new, relocated and remodeled stores and for investments in technology. Additionally, the decrease in cash used was in part related to an increase in purchases of short-term investments offset by a

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED):

decrease in capital expenditures and an increase in the sale of short-term investments in fiscal 2003 as compared to fiscal 2002.

Expenditures for property and equipment totaled $9.1 million for the six months ended August 2, 2003, compared to $14.2 million of expenditures in last year's first six months. The Company expects total capital expenditures to be approximately $31 million for the current fiscal year. The Company intends to open approximately 90 new stores, close 10 stores and to relocate 25 stores during the current fiscal year. For the six months ended August 2, 2003, the Company had opened 29 new stores and relocated 12 stores.

Net cash used in financing activities totaled $9.5 million for the first six months of 2003 compared to $6.8 million for the comparable period of 2002. The increase was due primarily to an increase in its share buyback program, increase in dividends paid and a reduction in proceeds from stock options exercised in fiscal 2003 as compared to fiscal 2002.

In May 2003, the Board of Directors increased the quarterly dividend by 7% from $.15 per share to $.16 per share.

On August 22, 2003, the Company entered into a new $30 million five-year term loan facility, the proceeds of which were used to purchase Class B Common Stock from the Company's founders. Payments are due in monthly installments of $500,000 plus accrued interest. Interest is based on LIBOR.

On August 22, 2003, the Company entered into a new revolving credit agreement which provides for borrowings of up to $35 million. The revolving credit agreement is committed until August 22, 2006, unless extended. This agreement replaces a prior revolving credit agreement which was due to expire on October 31, 2004. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the six months ended August 2, 2003 or the fiscal year ended February 1, 2003.

The Company does not use derivative financial instruments. At August 2, 2003, August 3, 2002, and February 1, 2003, the Company's investment portfolio was primarily invested in governmental debt securities with maturities of up to 36 months. These securities are classified as available-for-sale, and are recorded on the balance sheet at fair value with unrealized gains and losses reported as accumulated other comprehensive gains or losses.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flow from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures and other operating requirements during fiscal 2003.

THE CATO CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS:

Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in the Form 10-Q and located elsewhere herein regarding the Company’s financial position and business strategy may constitute forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

THE CATO CORPORATION
CONTROL AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company is recorded, processed, summarized, and reported within the time periods specified in the appropriate rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of August 2, 2003. Each has concluded that these controls and procedures are effective.

CHANGES IN INTERNAL CONTROLS:

The Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of a date within 90 days prior to the filing date of this report, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During 2002 and the first quarter of 2003, the Company made payments for the benefit of entities in which Mr. Wayland H. Cato, Jr., Chairman of the Board, and Mr. Edgar T. Cato, Former Vice Chairman of the Board and Co-founder and Director, have a material interest. The Company subsequently determined these payments were unrelated to the business of the Company. Amounts, including interest, have been repaid. In the course of the evaluation by the Chief Executive Officer and the Chief Financial Officer described above, the Company implemented a change in it internal controls to prevent the payment of similar expenses in the future. As a result of this change, all future payment requests for or on behalf of related parties will require the prior review by and approval of the Chief Financial Officer.

There have been no other significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 22, 2003.

Election of Directors:

Mr. John P. Derham Cato	—	For 72,509,261 ;	Abstaining	3,854,345
Ms. Clarice Cato Goodyear	—	For 72,445,256 ;	Abstaining	3,918,350
Mr. James H. Shaw	—	For 75,597,838 ;	Abstaining	765,768

Adoption of The Cato Corporation 2003 Employee Stock Purchase Plan

For 74,160,620 ;	Abstaining 2,097,861 ;	Against 105,125

ITEM 5. OTHER INFORMATION

The Registrant announced on September 3, 2003 that it had entered into separate agreements, each dated as of August 29, 2003, with Mr. Wayland H. Cato, Jr., a founder of the Registrant and Chairman of the Board, and Mr. Edgar T. Cato, a founder of the Registrant and member of the Board of Directors. The agreements provide for the retirement of Mr. Wayland Cato and Mr. Edgar Cato from the Registrant and the Board of Directors effective January 31, 2004. Mr. Wayland Cato will be available to the Registrant for consulting services following his retirement.

The Registrant further announced that it expects to take a charge of approximately $2.8 million in its third quarter ending November 1, 2003, representing the present value of certain payments and benefits to Mr. Wayland Cato and Mr. Edgar Cato under the terms of the agreements. The charge will be approximately $1.8 million on an after-tax basis, or $.08 per diluted share for the third quarter ending November 1, 2003, and the fiscal year ending January 31, 2004.

PART II OTHER INFORMATION (CONTINUED):

THE CATO CORPORATION

Copies of the agreements are filed with this Quarterly Report on Form 10-Q as Exhibits 10.1 and 10.2, respectively. A copy of the press release announcing the agreements is filed as Exhibit 99.1.

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(A)

Exhibit No.	ITEM
4.1	Loan Agreement, dated as of August 22, 2003, between the Registrant and Branch Banking and Trust Company (Not filed herewith. The Registrant hereby agrees to furnish a copy of this agreement to the Securities and Exchange Commission upon request.)
10.1	Agreement, dated as of August 29, 2003, between the Registrant and Wayland H. Cato, Jr.
10.2	Agreement, dated as of August 29, 2003, between the Registrant and Edgar T. Cato
99.1	Press Release issued September 3, 2003

(B) Form 8-K was filed on July 23, 2003 disclosing the July 22, 2003 Press Release whereby the Company entered into an agreement to purchase the entire holdings of Class B Common Stock from the Company’s Co-Founders.

SIGNATURES PAGE AND CERTIFICATES

PART II OTHER INFORMATION (CONTINUED):

THE CATO CORPORATION

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	THE CATO CORPORATION
September 12, 2003	/s/ John P. Derham Cato
Date	John P. Derham Cato President, Vice Chairman of the Board and Chief Executive Officer
September 12, 2003	/s/ Michael O. Moore
Date	Michael O. Moore Executive Vice President Chief Financial Officer and Secretary
September 12, 2003	/s/ Robert M. Sandler
Date	Robert M. Sandler Senior Vice President Controller

Exhibit 10.1

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG **AGREEMENT**

THIS AGREEMENT (the “Agreement”), is made and entered into as of the 29th day of August, 2003 (the “Effective Date”) by and between The Cato Corporation, a Delaware corporation (the “Company”), and Wayland H. Cato, Jr. (“Wayland Cato”).

W I T N E S S E T H:

WHEREAS, Wayland Cato is an employee, director and non-executive Chairman of the Board of the Company; and

WHEREAS, the Company and Wayland Cato have negotiated and agreed on the terms of this Agreement providing for his resignation as an employee and director of the Company and for the ongoing obligation of the parties following the effective date of this Agreement and his retirement from the Company.

NOW, THEREFORE, the parties, intending legally to be bound, hereby agree to the mutual terms and conditions set forth below:

1. **Continued Services and Retirement.** Wayland Cato shall continue to serve as an employee, a director and as non-executive Chairman of the Board of the Company to January 31, 2004 (the “Retirement Date”) at which time his resignation as an employee, director and the non-executive chairman of the Board of Directors of the Company shall be effective and he shall retire and relinquish all positions and responsibilities with the Company and its subsidiaries and affiliates (the “Cato Group”) except as specifically set forth herein. Provided, that Wayland Cato shall be entitled, at his option, to resign as a director and/or as the non-executive Chairman of the Board prior to January 31, 2004 without affecting the obligations of the Company set forth herein.

2. **Continuing Obligations of Wayland Cato.** In consideration of the benefits to Wayland Cato set forth in paragraph 3 hereof, Wayland Cato shall comply with the following obligations to the Cato Group following the Retirement Date:

A. **Confidentiality of Company Information.** Wayland Cato acknowledges the confidential and proprietary nature of the Confidential Information of the Cato Group and agrees that he will not, without the prior, express written consent of the Chief Executive Officer of the Company, directly or indirectly:

(i) use or disclose any Confidential Information outside the Cato Group except as required by law,

(ii) publish any article with respect thereto,

(iii) except in the performance of services to the Cato Group, remove from the premises of the Company, or aid in such removal, any such Confidential Information or any property or material related thereto (except as authorized under subparagraph E. below), or

(iv) sell, exchange or give away or otherwise dispose of any such Confidential Information now or hereafter owned by the Company.

For purposes of this Agreement, “Confidential Information” means and includes any and all of the following (whether or not documented):

(i) vendor information, including but not limited to names of vendors, vendor transaction information, and billing, purchasing or credit history information about vendors;

(ii) financial information, including but not limited to, financial statements, balance sheets, profit and loss statements, earnings, commissions, benefits and salaries paid to employees, sales data and projections, sales and income forecasts, cost analyses, pricing information, business goals and projections, equipment and inventory data, profit margins, and similar information;

(iii) all sources and methods of supply, including but not limited to supplier lists, business arrangements, buying and inventory techniques, supply terms, supply and manufacturing contracts, purchasing discounts, distribution agreements, and similar information;

(iv) all plans and projections for business opportunities for new or developing business, including but not limited to, marketing concepts, business plans, merchandising and marketing techniques, store leases, store site selection and location plans and processes, real estate activities, real estate/expansion information, advertising strategies, product lines, store development, and sales plans;

(v) all information relating to costs, research and development activities, service performance, quality control measures or strategies, loss prevention measures, operating results, pricing strategies, employee lists and other confidential or proprietary information, software, designs, patents, ideas, machinery, plans, know-how and trade secrets;

(vi) all other confidential or trade secret information that is used, or is designed to be used in the business of the Cato Group or results from its research or development activities.

Confidential Information shall not include information that is generally known or available to the public or the industry other than as a result of disclosure by Wayland Cato.

B. **Non-solicitation of Cato Group Employees.** Wayland Cato agrees that he will not, during the period of time through January 31, 2007, (i) solicit for employment, offer employment to, engage as an employee, independent contractor or in any manner induce or seek to induce any person who is a managerial or administrative employee of the Cato Group to become employed by or engaged as an independent contractor with someone other than the Cato Group, (ii) solicit or encourage any such employee to terminate his or her employment with the Cato Group, or (iii) otherwise interfere with any such employee's relationship with the Cato Group. Provided, that the foregoing prohibition shall not apply to the employees currently assigned to the non-executive Chairman's office (namely, Theresa Gebhardt, Sylvia Remeta and Debra Jones) all of whom are anticipated to remain employees of the Company only through December 31, 2003.

C. **Non-Competition.** Wayland Cato agrees that for the period of time through January 31, 2007 (the "Restricted Period") he will not, directly or indirectly, in the Restricted Area (as defined below), Compete (as defined below) with the Cato Group.

For purposes of this Agreement, the "Restricted Area" means the area within a twenty-five (25) mile radius of any retail store under development, operation or ownership by any member of the Cato Group during the Restricted Period.

For purposes of this Agreement, "Compete" means to engage in any business activity whatsoever related in any manner or fashion to the operation of retail stores that sell or offer to sell value-priced women's apparel or accessories. Without limiting the generality of the foregoing, Wayland Cato will not, directly or indirectly (whether for compensation or otherwise), alone or as an agent, principal, partner, officer, employee, trustee, director, shareholder or in any other capacity, own, manage, operate, join, control or participate in the ownership, management, operation or control of, or furnish any capital to, or be connected in any manner with, or provide any services as a consultant for, any business which Competes with the Cato Group in the Restricted Area; provided, however, that notwithstanding the foregoing, nothing contained in this letter shall be deemed (i) to preclude Wayland Cato from owning not more than 5% of the publicly traded securities of any entity which Competes with the Cato Group or (ii) to preclude Wayland Cato from owning or having an ownership interest in shopping centers or buildings which may lease property to businesses that Compete with the Cato Group.

D. **Consulting Services.** During the period following the Retirement Date through January 31, 2007, Wayland Cato will be available on reasonable notice and at reasonable times, either in person or by telephone, to furnish to the Cato Group such advisory or consulting services regarding senior management issues as the Company may reasonably call upon Wayland Cato to furnish, provided that Wayland Cato will not be required to devote more than eighty (80) hours of service during any 12 month period to the Cato Group. The Company will reimburse Wayland Cato for any reasonable expenses he incurs in connection with rendering consulting services requested by the Company.

E. **Office Relocation.** No later than the Retirement Date, Wayland Cato will relocate his office from the Company premises. Wayland Cato shall be entitled to remove all or any part of the property listed on Schedule 1 from the Company premises without reimbursement or payment to the Company.

3. **Obligations of the Company.** In consideration of the obligations of Wayland Cato to the Cato Group set forth in paragraph 2 of the Agreement, the Company shall comply with the following obligations to Wayland Cato:

A. **Salary and Benefits.** The Company will continue Wayland Cato's current salary and benefits through January 31, 2004. In the event of Wayland Cato's death prior to January 31, 2004, the Company will continue to pay his salary to his estate to January 31, 2004.

B. **Continuing Payments.** The Company will pay Wayland Cato the sum of $500,000 per year during the three-year period commencing February 1, 2004 in equal monthly installments. In the event of Wayland Cato's death subsequent to the Effective Date, the Company will pay Wayland Cato's estate a lump sum amount equal to the then aggregate present value (determined using a discount rate equal to the applicable federal short-term rate in effect under Section 1274(d) of the Internal Revenue Code for the month of his death) of the payments payable pursuant to this subparagraph which remain unpaid to January 31, 2007. Such payment to be made as soon as administratively feasible after his death.

C. **Group Term Life Insurance.** For the three year period commencing on the Retirement Date, the Company will continue to provide group term life insurance to Wayland Cato comparable to that provided to him on January 31, 2004.

D. **Split Dollar Life Insurance.** The Split-Dollar Life Insurance Agreement dated September 17, 1998 and the Supplemental Compensation Agreement dated September 17, 1998 shall each continue in effect in accordance with their respective terms.

E. **Healthcare.** Following the Retirement Date and for the remainder of Wayland Cato's life, the Company will provide Wayland Cato and his wife, Marion Cato, with the same or comparable group healthcare coverage on the same economic terms and conditions as it provides such coverage to its senior executives. In the event Wayland Cato predeceases Marion Cato, the Company will provide such coverage to her for her life (if she is married to Wayland Cato at the time of his death).

F. **Transition Expenses.** As soon as is administratively feasible after the Effective Date, the Company will pay Wayland Cato the sum of $100,000 to assist with the cost of the relocation of his office.

The Company shall have no obligations to Wayland Cato following the Effective Date except as is specifically set forth in the Agreement; provided Wayland Cato shall continue to be entitled to any benefits due to him under the benefit plans listed on Schedule 2 attached hereto.

4. **Tax.** Wayland Cato acknowledges that income may be imputed to him in connection with the receipt of the benefits provided under the Agreement and that Wayland Cato will be responsible for the payment of all federal or state tax liabilities, penalties, interest, tax payments or tax judgments that could arise as a result of these benefits; provided, that this shall not affect the obligations of the Company under the Supplemental Compensation Agreement referred to in subparagraph 3.D. above. The Company may withhold from any amounts or benefits payable or provided under this Agreement such federal, state and local taxes as are required to be withheld pursuant to any applicable law or regulation.

5. **Acknowledgements.** Wayland Cato acknowledges that he has carefully read this Agreement, that he knows and understands the contents of this Agreement, that he has consulted with a lawyer regarding this Agreement, and that he executes this Agreement of his own free will. Wayland Cato and the Company agree that the mutual consideration to the parties hereto is fair and reasonable.

6. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina.

7. **Notices.** Any notice or other communications to be given hereunder shall be deemed to have been given or delivered when delivered by hand to the individuals named below or when deposited in the United States mail, registered or certified, with proper postage and registration or certification fees prepaid, addressed to the parties as follows (or to such other address as one party shall give the other in the manner provided herein):

The Cato Corporation
8100 Denmark Road
P. O. Box 34216
Charlotte, NC 28234
Attention: Chief Executive Officer

Mr. Wayland H. Cato, Jr.
782 Soldier Creek Road
Sheridan, WY 82801

8. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes any and all prior and contemporaneous agreements, representations, promises, inducements and understandings of the parties. This written Agreement cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. Moreover, this written Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company and Wayland Cato.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

____

Wayland H. Cato, Jr.

THE CATO CORPORATION

By: ______________________________

Its: ______________________________

Exhibit 10.1

Schedule 1

Office furniture and filing cabinets currently located in the Chairman’s office complex

1999 Ford Taurus

Oil portrait of Wayland H. Cato, Sr. which is currently in storage

Portraits of individual directors and directors as a group currently located in the Board Room at such time as the Company decides not to display such portraits

Schedule 2

1. The Cato Corporation 401(k) Profit Sharing Plan

2. The Cato Corporation Life and AD&D Plan – Option to convert within 31 days following retirement

Exhibit 10.2

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG **AGREEMENT**

THIS AGREEMENT (the "Agreement"), is made and entered into as of the 29th day of August, 2003 (the "Effective Date") by and between The Cato Corporation, a Delaware corporation (the "Company"), and Edgar T. Cato ("Edgar Cato").

W I T N E S S E T H:

WHEREAS, Edgar Cato is an employee and director of the Company; and

WHEREAS, the Company and Edgar Cato have negotiated and agreed on the terms of this Agreement providing for his resignation as an employee and director of the Company and for the ongoing obligation of the parties following the effective date of this Agreement and his retirement from the Company.

NOW, THEREFORE, the parties, intending legally to be bound, hereby agree to the mutual terms and conditions set forth below:

1. **Continued Services and Retirement.** Edgar Cato shall continue to serve as an employee and as a director of the Company to January 31, 2004 (the "Retirement Date") at which time his resignation as an employee and director shall be effective and he shall retire and relinquish all positions and responsibilities with the Company and its subsidiaries and affiliates (the "Cato Group") except as specifically set forth herein. Provided, that Edgar Cato shall be entitled, at his option, to resign as a director prior to January 31, 2004 without affecting the obligations of the Company set forth herein.

2. **Continuing Obligations of Edgar Cato.** In consideration of the benefits to Edgar Cato set forth in paragraph 3 hereof, Edgar Cato shall comply with the following obligations to the Cato Group following the Retirement Date:

A. **Confidentiality of Company Information.** Edgar Cato acknowledges the confidential and proprietary nature of the Confidential Information of the Cato Group and agrees that he will not, without the prior, express written consent of the Chief Executive Officer of the Company, directly or indirectly:

(i) use or disclose any Confidential Information outside the Cato Group except as required by law,

(ii) publish any article with respect thereto,

(iii) except in the performance of services to the Cato Group, remove from the premises of the Company, or aid in such removal, any such Confidential

Information or any property or material related thereto (except as authorized under subparagraph D below), or

(iv) sell, exchange or give away or otherwise dispose of any such Confidential Information now or hereafter owned by the Company.

For purposes of this Agreement, “Confidential Information” means and includes any and all of the following (whether or not documented):

(i) vendor information, including but not limited to names of vendors, vendor transaction information, and billing, purchasing or credit history information about vendors;

(ii) financial information, including but not limited to, financial statements, balance sheets, profit and loss statements, earnings, commissions, benefits and salaries paid to employees, sales data and projections, sales and income forecasts, cost analyses, pricing information, business goals and projections, equipment and inventory data, profit margins, and similar information;

(iii) all sources and methods of supply, including but not limited to supplier lists, business arrangements, buying and inventory techniques, supply terms, supply and manufacturing contracts, purchasing discounts, distribution agreements, and similar information;

(iv) all plans and projections for business opportunities for new or developing business, including but not limited to, marketing concepts, business plans, merchandising and marketing techniques, store leases, store site selection and location plans and processes, real estate activities, real estate/expansion information, advertising strategies, product lines, store development, and sales plans;

(v) all information relating to costs, research and development activities, service performance, quality control measures or strategies, loss prevention measures, operating results, pricing strategies, employee lists and other confidential or proprietary information, software, designs, patents, ideas, machinery, plans, know-how and trade secrets;

(vi) all other confidential or trade secret information that is used, or is designed to be used in the business of the Cato Group or results from its research or development activities.

Confidential Information shall not include information that is generally known or available to the public or the industry other than as a result of disclosure by Edgar Cato.

B. **Non-solicitation of Cato Group Employees.** Edgar Cato agrees that he will not, during the period of time through January 31, 2007, (i) solicit for employment, offer employment to, engage as an employee, independent contractor or in any manner induce or seek to induce any person who is a managerial or administrative employee of the Cato Group to become employed by or engaged as an independent contractor with someone other than the Cato Group, (ii) solicit or encourage any such employee to terminate his or her employment with the Cato Group, or (iii) otherwise interfere with any such employee's relationship with the Cato Group. Provided, that the foregoing prohibition shall not apply to the employees currently assigned to the non-executive Chairman's office (namely, Theresa Gebhardt, Sylvia Remeta and Debra Jones) all of whom are anticipated to remain employees of the Company only through December 31, 2003.

C. **Non-Competition.** Edgar Cato agrees that for the period of time through January 31, 2007 (the "Restricted Period") he will not, directly or indirectly, in the Restricted Area (as defined below), Compete (as defined below) with the Cato Group.

For purposes of this Agreement, the "Restricted Area" means the area within a twenty-five (25) mile radius of any retail store under development, operation or ownership by any member of the Cato Group during the Restricted Period.

For purposes of this Agreement, "Compete" means to engage in any business activity whatsoever related in any manner or fashion to the operation of retail stores that sell or offer to sell value-priced women's apparel or accessories. Without limiting the generality of the foregoing, Edgar Cato will not, directly or indirectly (whether for compensation or otherwise), alone or as an agent, principal, partner, officer, employee, trustee, director, shareholder or in any other capacity, own, manage, operate, join, control or participate in the ownership, management, operation or control of, or furnish any capital to, or be connected in any manner with, or provide any services as a consultant for, any business which Competes with the Cato Group in the Restricted Area; provided, however, that notwithstanding the foregoing, nothing contained in this letter shall be deemed to (i) preclude Edgar Cato from owning not more than 5% of the publicly traded securities of any entity which Competes with the Cato Group or (ii) to preclude Edgar Cato from owning or having an ownership interest in shopping centers or buildings which may lease property to businesses that compete with the Cato Group.

D. **Office Relocation.** No later than the Retirement Date, Edgar Cato will relocate his office from the Company premises. Edgar Cato shall be entitled to remove all or any part of the property listed on Schedule 1 from the Company premises without reimbursement or payment to the Company.

3. **Obligations of the Company.** In consideration of the obligations of Edgar Cato to the Cato Group set forth in paragraph 2 of the Agreement, the Company shall comply with the following obligations to Edgar Cato:

A. **Salary and Benefits.** The Company will continue Edgar Cato's current salary and benefits through January 31, 2004. In the event of Edgar Cato's death prior to January 31, 2004, the Company will continue to pay his salary to his estate to January 31, 2004.

B. **Continuing Payments.** The Company will pay Edgar Cato the sum of $50,000 per year during the three-year period commencing February 1, 2004 in equal monthly installments. In the event of Edgar Cato's death subsequent to the Effective Date, the Company will pay Edgar Cato's estate a lump sum amount equal to the then aggregate present value (determined using a discount rate equal to the applicable federal short-term rate in effect under Section 1274(d) of the Internal Revenue Code for the month of his death) of the payments payable pursuant to this subparagraph which remain unpaid to January 31, 2007. Such payment to be made as soon as administratively feasible after his death.

C. **Group Term Life Insurance.** For the three year period commencing on the Retirement Date, the Company will continue to provide group term life insurance to Edgar Cato comparable to that provided to him on January 31, 2004.

D. **Healthcare.** Following the Retirement Date and for the remainder of Edgar Cato's life, the Company will provide Edgar Cato and his wife, Judith B. Cato, with the same or comparable group healthcare coverage on the same economic terms and conditions as it provides such coverage to its senior executives. In the event Edgar Cato predeceases Judith B. Cato, the Company will provide such coverage to her for her life (if she is married to Edgar Cato at the time of his death).

E. **Life Insurance Option.** By giving notice to the Company prior to the Retirement Date, Edgar Cato shall have the option to purchase the following life insurance policies at their respective cash value:

Prudential Policy #75247139
Principal Financial Group Policy #3270890

The Company shall have no obligations to Edgar Cato following the Effective Date except as is specifically set forth in the Agreement; provided Edgar Cato shall continue to be entitled to any benefits due to him under the benefit plans listed on Schedule 2 attached hereto.

4. **Tax.** Edgar Cato acknowledges that income may be imputed to him in connection with the receipt of the benefits provided under the Agreement and that Edgar Cato will be responsible for the payment of all federal or state tax liabilities, penalties, interest, tax payments or tax judgments that could arise as a result of these benefits. The Company may withhold from any amounts or benefits payable or provided under this Agreement such federal, state and local taxes as are required to be withheld pursuant to any applicable law or regulation.

5. **Acknowledgements.** Edgar Cato acknowledges that he has carefully read this Agreement, that he knows and understands the contents of this Agreement, that he has consulted with a lawyer regarding this Agreement, and that he executes this Agreement of his own free will. Edgar Cato and the Company agree that the mutual consideration to the parties hereto is fair and reasonable.

6. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina.

7. **Notices.** Any notice or other communications to be given hereunder shall be deemed to have been given or delivered when delivered by hand to the individuals named below or when deposited in the United States mail, registered or certified, with proper postage and registration or certification fees prepaid, addressed to the parties as follows (or to such other address as one party shall give the other in the manner provided herein):

The Cato Corporation
8100 Denmark Road
P. O. Box 34216
Charlotte, NC 28234
Attention: Chief Executive Officer

Mr. Edgar T. Cato
3985 Douglas Road
Miami, FL 33133-6508

8. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes any and all prior and contemporaneous agreements, representations, promises, inducements and understandings of the parties. This written Agreement cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. Moreover, this written Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company and Edgar Cato.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

____
Edgar T. Cato

THE CATO CORPORATION

By: ______________________________
Its: ______________________________

Exhibit 10.2

Schedule 1

Office furniture currently located in Edgar Cato’s office

Exhibit 10.2

Schedule 2

1. The Cato Corporation 401(k) Profit Sharing Plan

CERTIFICATION

I, John P. Derham Cato, President, Vice Chairman of the Board and Chief Executive Officer of The Cato Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Cato Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's second fiscal quarter in the case of a quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ John P. Derham Cato

John P. Derham Cato
President, Vice Chairman of the Board
and Chief Executive Officer

CERTIFICATION

I, Michael O. Moore, Executive Vice President, Chief Financial Officer and Secretary of The Cato Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Cato Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's second fiscal quarter in the case of a quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2003

/s/ Michael O. Moore

Michael O. Moore
Executive Vice President
Chief Financial Officer and Secretary

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Cato Corporation (the “Company”) on Form 10-Q for the quarter ended August 2, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John P. Derham Cato, President, Vice Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. sec. 1350 as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John P. Derham Cato

John P. Derham Cato
President, Vice Chairman of the Board
and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Cato Corporation (the “Company”) on Form 10-Q for the quarter ended August 2, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael O. Moore, Executive Vice President, Chief Financial Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. sec. 1350 as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael O. Moore

Michael O. Moore
Executive Vice President
Chief Financial Officer and Secretary

Exhibit 99.1

The CATO Corporation

NEWS RELEASE

FOR IMMEDIATE RELEASE

CEO Approval

For Further Information Contact:
Michael O. Moore
Executive Vice President
Chief Financial Officer
704-551-7201

CATO ANNOUNCES RETIREMENT AGREEMENTS WITH COMPANY FOUNDERS

Charlotte, N.C. (September 3, 2003) – The Cato Corporation (NYSE: CTR) announced today that the Company has entered into agreements with Mr. Wayland H. Cato, Jr., a Company founder and Chairman of the Board and Mr. Edgar T. Cato, a Company founder and a member of the Board of Directors. The agreements provide for the retirement of Mr. Wayland Cato and Mr. Edgar Cato from the Company and the Board of Directors effective January 31, 2004. Mr. Wayland Cato will be available to the Company for consulting services following his retirement.

In the third quarter, the Company expects to take a charge of approximately $2.8 million representing the present value of certain payments and benefits to Mr. Wayland Cato and Mr. Edgar Cato under the terms of the agreements. The charge will be approximately $1.8 million on an after-tax basis, or $.08 per diluted share for the third quarter and year. The benefits include compensation for three years commencing on the retirement date, life insurance coverage for three years, continuation of medical insurance coverage, and assistance with the relocation of their offices and are in consideration of the consulting services, non-competition covenants and confidentiality covenants, among other obligations of the retirees.

The retirement agreements were negotiated by the Compensation Committee of the Board of Directors and approved by the independent directors on the Company's Board.

Exhibit 99.1

The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating two divisions, "Cato" and "It's Fashion!". The Company primarily offers exclusive merchandise with fashion and quality comparable to mall specialty stores at low prices, every day. As of August 30, 2003, The Cato Corporation operated 1,063 stores in 26 states. Additional information on The Cato Corporation is available at www.catocorp.com.

Statements in this press release not historical in nature, including specifically the Company's expectations regarding the amount of the charge it expects to take in the third quarter as a result of the retirement agreements described above, are considered "forward-looking" within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations that are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: judgments regarding the ultimate valuation of, and accounting treatment accorded to, the benefits to be provided pursuant to the retirement agreements described above, general economic conditions; competitive factors and pricing pressures; the Company's ability to predict fashion trends; consumer apparel buying patterns; adverse weather conditions and inventory risks due to shifts in market demand. The Company does not undertake to publicly update or revise the forward-looking statements even if experience or future changes make it clear that the projected results expressed or implied therein will not be realized. The Company is not responsible for any changes made to this press release by wire or Internet services.

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