

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended January 28, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

REGISTRANT: THE CATO CORPORATION
COMMISSION FILE NUMBER 0-3747

State of Incorporation: Delaware I.R.S. Employer Identification
Number: 56-0484485

Address of Principal Executive Offices: 8100 Denmark Road
Charlotte, North Carolina 28273-5975
Registrant's Telephone Number:
704/554-8510

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: CLASS A COMMON STOCK

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 No

Indicate by check mark, if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 31, 1995, there were 23,132,327 shares of Class A Common Stock and 5,264,317 shares of Convertible Class B Common Stock outstanding. The aggregate market value of the Registrant's Class A Common Stock held by Non-affiliates of the Registrant as of March 31, 1994 was approximately \$113,390,397 based on the last reported sale price per share on the NASDAQ National Market System on that date.

Documents incorporated by reference:

Portions of the proxy statement dated April 24, 1995, relating to the 1995 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

Part III - Items 10, 11, 12 and 13

THE CATO CORPORATION
FORM 10-K
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Part IV:

PART I

Item 1. Business:

General

The Company, founded in 1946, operated 538 women's apparel specialty stores at January 28, 1995 under the names "Cato," "Cato Fashions" and "Cato Plus" in 22 states, principally in non-metropolitan markets in the South and Southeast. The Company's merchandising strategy is to provide a wide variety of value-priced merchandise in misses, junior and large sizes for the fashion conscious low- to middle-income female customer, aged 18 to 45 and in fiscal 1994 the Company began offering clothing and accessories for girls ages 4 - 14 in selected locations. With the objective of offering head-to-toe dressing for its customers, the Company's stores feature a broad assortment of apparel and accessories, including casual and dressy sportswear, dresses, careerwear, coats, hosiery, shoes, costume jewelry, handbags and millinery. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's specifications. Most stores range in size from 4,800 to 8,000 square feet and are located primarily in strip shopping centers anchored by major discount stores. The Company emphasizes personalized customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales represented 32% of retail sales in fiscal 1994. In addition to its Cato Stores, the Company operated 108 off-price family apparel and accessories stores at January 28, 1995 under the name "It's Fashion!" These stores are managed separately from the Cato stores with respect to merchandising and store operations but use the same administration, distribution and financial systems as the Cato stores.

Business

The Company's objective is to be the leading women's apparel specialty retailer for fashion conscious low- to middle-income females in its markets. Management believes the Company's success is dependent upon its ability to differentiate its stores from department stores, mass merchandise discount stores and competing women's specialty stores. The key elements of the Company's business strategy are:

Merchandise Assortment. The Company's stores offer a wide assortment of apparel and accessory items in regular and large sizes and emphasize color, product coordination and selection.

Value Pricing. The Company offers quality merchandise that is generally priced below comparable merchandise offered by department stores and higher-end specialty apparel chains but is generally more fashionable than merchandise offered by discount stores.

Item 1. Business: (continued)

Strip Shopping Center Locations. The Company locates its stores principally in strip centers convenient to our customers anchored by major discount stores, such as Wal-Mart and Kmart, that attract large numbers of potential customers.

Customer Service. Store managers and sales associates are trained to provide prompt and courteous service and to assist customers in merchandise selection and wardrobe coordination.

Credit and Layaway Programs. The Company offers its own credit and a layaway plan to make the purchase of its merchandise more convenient.

Expansion. The Company plans to open new stores and relocate or expand existing stores in small to medium-sized towns and in selected larger cities and metropolitan areas, principally in the South and Southeast.

Merchandising

Merchandising

The Company offers a broad selection of apparel and accessories to suit the various lifestyles of the fashion conscious low-to middle-income female, aged 18 to 45. In addition, the Company features a value pricing strategy with lower initial markups, product quality and consistent merchandise flow providing color and product coordination.

The Company's merchandise lines include dressy and casual sportswear, dresses, careerwear, coats, shoes, lingerie, hosiery, costume jewelry, handbags and millinery. In fiscal 1994, clothing and accessories for girls ages 4 -14 was added to selected Cato stores. The Company plans to expand these lines to additional stores in fiscal 1995. Most of the Company's merchandise is sold under its private labels.

In fiscal 1994, approximately 29% of Cato stores' retail sales represented merchandise for large size customers. This merchandise is marketed in its stores under two formats: as a distinct display area in "Cato" and "Cato Fashions" stores and as a separate department in the combined "Cato Fashions" and "Cato Plus" stores.

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Item 1. Business: (continued)

As a part of its merchandising strategy, members of the Company's merchandising staff frequently visit selected stores, monitor the merchandise offerings of other retailers, regularly communicate with store operations personnel and frequently confer with key vendors. The Company tests most new fashion-sensitive items in selected stores to aid it in determining their appeal before making a substantial purchasing commitment. The Company also takes aggressive markdowns on slow-selling merchandise and does not carry over merchandise to the next season.

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 1,500 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 1994, purchases from the Company's largest vendor accounted for approximately 8% of the Company's total purchases. No other vendor accounted for more than 4% of total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases and the loss of any single vendor or group of vendors would not have a material adverse affect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's specifications. The Company purchases most of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments in order to enable the Company to react to merchandise trends in a more timely fashion. Although a significant portion of the Company's merchandise is manufactured overseas, principally in the Far East, any economic, political or social unrest in that region is not expected to have a material adverse affect on the Company's ability to obtain adequate supplies of merchandise.

An important component of the Company's strategy is the allocation of merchandise to individual stores based on an analysis of historical and current sales trends by merchandise category, customer profiles and climatic conditions. A computerized merchandise control system provides current information on the sales activity of each merchandise style in the Company's stores. Point-of-sale terminals in the stores collect and transmit sales and inventory information to the Company's central computer, permitting timely response to sales trends on a store-by-store basis.

All merchandise is shipped directly to the Company's distribution center in Charlotte, North Carolina where it is inspected and allocated by the merchandise distribution staff for shipment to individual stores. The flow of merchandise from receipt at the distribution center to shipment is controlled by an on-line computer system. Shipments are made by common carrier, and each store receives at least one shipment per week.

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Item 1. Business: (continued)

Advertising

The Company uses direct mail, local newspapers, radio and in-store promotional advertising as its primary advertising media. Weekly newspaper advertisements typically promote specific items or merchandise at promotional prices. The Company uses radio advertising in selected broadcast areas that include high concentrations of its stores. The Company's total advertising expenditures were approximately 2.0% of retail sales in fiscal 1994.

Store Operations

The Company's store operations management team consists of

an executive vice president, seven regional vice presidents and 61 district managers. Regional vice presidents receive a salary plus a bonus based on achieving targeted goals for sales, payroll expense, shrinkage control and store profitability. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the stores and seasonal personnel needs. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers and assistant managers are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

The Company has training programs at each level of store operations. New store managers are trained in training stores managed by experienced personnel who have achieved superior results in meeting the Company's goals for store sales, payroll expense and shrinkage control. The type and extent of district manager training varies depending on whether the manager is promoted from within or recruited from outside the Company. All district managers receive at a minimum a one-week orientation program at the Company's home office.

Store Locations

Most of the Company's stores are located in the South and Southeast in small to medium-sized towns, with populations of 10,000 to 50,000 and retail trade areas of 25,000 to 100,000. Approximately 150 stores, operating under the name "Cato" or "Cato Fashions," average approximately 4,000 square feet. Substantially all of the remaining stores are combination "Cato Fashions" and "Cato Plus" stores, ranging in size from 4,800 to 8,000 square feet. These combination stores have two distinct signs and selling areas but use a common sales staff and service desk.

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Item 1. Business: (continued)

All of the Company's stores are leased. Approximately 89% are located in strip shopping centers, 3% in downtown locations and 8% in enclosed shopping malls. Where lease terms are acceptable and a potential location meets the Company's demographic and other site-selection criteria, the Company locates stores in strip shopping centers anchored by major discount stores, such as Wal-Mart and Kmart stores. The Company's strip center locations provide ample parking and shopping convenience for its customers.

The Company's store development activities consist of opening new stores, expanding certain existing stores and relocating other existing stores to more desirable locations in the same market area. The following table sets forth information with respect to the Company's development activities for its Cato stores since fiscal 1990.

Cato Store Development (Excluding It's Fashion Stores)				
Number of Stores				
Fiscal Year	Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
1990	494	10	32	472
1991	472	6	47	431
1992	431	33	26	438
1993	438	65	13	490
1994	490	57	9	538

The Company intends to open approximately 63 new stores and to relocate or expand approximately 40 existing stores in fiscal 1995. In fiscal 1996, the Company expects to open approximately 63 new stores and to relocate or expand approximately 40 existing stores. The Company anticipates that 33 of the 63 new stores to be opened in fiscal 1995 and 33 of the 63 new stores to be opened in fiscal 1996 will be off-price "Its Fashion!" stores.

The Company periodically reviews its store base to determine whether any particular store should be closed based on its sales trends and profitability. The Company intends to continue this review process and to close underperforming stores or relocate them to more desirable locations in their existing markets.

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Item 1. Business: (continued)

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for approximately 22% of retail sales in fiscal 1994. The Company's

net bad debt expense in fiscal 1994 was 2.8% of credit sales.

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record and meet a minimum income test. Customers are required to make minimum monthly payments based on their account balances. If the balance is not paid in full each month, the Company charges a finance charge based on the allowable rates in the customer's state of residence.

Layaway Plan

Under the Company's layaway plan, merchandise is set aside for customers who agree to make periodic payments. The Company adds a nonrefundable administrative fee to each layaway sale. If no payment is made for nine weeks, the customer is considered to have defaulted, and the merchandise is returned to the selling floor and again offered for sale, often at a reduced price. All payments made by customers who subsequently default on their layaway purchase are returned to the customer upon request, less the administrative fee and a restocking fee. Layaway sales represented approximately 10% of retail sales in fiscal 1994.

It's Fashion Stores

The Company operated 108 off-price stores at January 28, 1995 in 11 states in the South and Southeast under the name "It's Fashion!" These stores are smaller than the Cato stores, averaging approximately 3,000 square feet, and offer limited selections of first-quality family apparel and accessories at prices ranging from 20% to 80% off regular retail prices. The Company's credit and layaway plans are not available in these stores. Most of the merchandise for these stores is purchased at close-out prices from manufacturers with excessive inventories due to overruns or order cancellations. The It's Fashion stores are managed separately from the Cato stores with respect to merchandising and store operations but use the same administrative, distribution and financial systems as the Cato stores. Sales from It's Fashion stores represented 11% of the Company's retail sales during fiscal 1994. As part of its planned expansion program, the Company currently intends to open approximately 33 new It's Fashion stores in fiscal 1995 and 33 in fiscal 1996.

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Management Information Systems

The Company's systems provide daily financial and merchandising information that is used by management to enhance the timeliness and effectiveness of purchasing and pricing decisions. Management uses a daily report comparing actual sales with planned sales and a weekly best seller/worst seller report to monitor and control purchasing decisions. Weekly reports are also produced which reflect sales, weeks of supply of inventory and other critical data by product categories, by store and by various levels of responsibility reporting. Purchases are made based on projected sales but can be modified to accommodate unexpected increases or decreases in demand for a particular item.

Sales information is projected by merchandise category and, in some cases, is further projected and actual performance measured by stockkeeping unit. Merchandise allocation models are used to distribute merchandise to individual stores based upon historical sales trends, climatic differences, customer demographic differences and targeted inventory turnover rates.

Competition

The women's retail apparel industry is highly competitive. The Company believes that the principal competitive factors in its industry include merchandise assortment and presentation, fashion, price, store location and customer service. The Company competes with retail chains that operate similar women's apparel specialty stores. In addition, the Company competes with local apparel specialty stores and, to some degree, with major department stores, general merchandise chains and discount store chains. To the extent that the Company opens stores in larger cities and metropolitan areas, competition is expected to be more intense in those markets. Many of the Company's competitors have substantially greater financial, marketing and other resources than the Company.

Regulation

A variety of laws affect the revolving credit program offered by the Company. The Federal Consumer Credit Protection Act (Truth-in Lending) and Regulation Z promulgated thereunder require written disclosure of information relating to such financing, including the amount of the annual percentage rate and the finance charge. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit discrimination against any credit applicant based on certain specified grounds. The Federal Trade Commission has adopted or proposed various trade regulation rules dealing with unfair credit and collection practices and the preservation

of consumers' claims and defenses. The Company is also subject to the provisions of the Fair Debt Collection Practices Act, which regulates the manner in which the Company collects payments on revolving credit accounts. In addition, various state laws regulate collection practices, require certain disclosures to credit customers and limit the finance charges, late fees and other charges which may be imposed by the Company.

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Employees

As of January 28, 1995, the Company employed approximately 6,600 full-time and part-time employees. The Company also employs additional part-time employees during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers that its employee relations are good.

Item 2. Properties:

The Company's distribution center and general offices are located in a Company-owned building of approximately 492,000 square feet located on a 15-acre tract in Charlotte, North Carolina. The Company's automated merchandise handling and distribution activities occupy approximately 418,000 square feet of this building and its general offices and corporate training center are located in the remaining 74,000 square feet.

Substantially all of the Company's retail stores are leased from unaffiliated parties. Most of the leases have an initial term of five years, with two to three five-year renewal options. Substantially all of the leases provide for fixed rentals plus a percentage of sales in excess of a specified volume.

Item 3. Legal Proceedings:

There are no material pending legal proceedings to which the registrant or its subsidiaries is a party, or to which any of their property is subject.

Item 4. Results of Votes of Security Holders:

None

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market & Dividend Information

The Company's Class A Common Stock trades in the over-the-counter market under the NASDAQ National Market System symbol CACOA. Below is the market range and dividend information for the four quarters of 1994 and 1993. All per share amounts have been adjusted to reflect a three-for-two stock split effected June 28, 1993.

1994	Price		Dividend
	High	Low	
First quarter	\$21 1/2	\$9 1/2	\$.025
Second quarter	14 3/4	9 1/2	.04
Third quarter	12 1/4	8 1/2	.04
Fourth quarter	9 3/4	5 1/2	.04

1993	Price		Dividend
	High	Low	
First quarter	\$21 1/3	\$15 7/8	\$.013
Second quarter	23 1/2	15 3/4	.025
Third quarter	24 1/2	14 3/4	.025
Fourth quarter	24 3/4	14	.025

As of March 31, 1995 the approximate number of holders of the Company's Class A Common stock was 8,000 and there were 16 record holders of the Company's Class B Common Stock.

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Item 6. Selected Financial Data:

THE CATO CORPORATION
SELECTED FINANCIAL DATA

FISCAL YEAR ENDED
January 28, January 29, January 30, February 1, February 2,
1995 1994 1993 1992 1991
(In thousands, except per share and selected operating data)

Statement of Operations Data:

Retail sales	\$ 463,737	\$ 407,878	\$ 331,262	\$265,115	\$ 230,308
Other income	12,449	12,021	9,494	8,707	7,940
Total revenues	476,186	419,899	340,756	273,822	238,248
Cost of goods sold, including occupancy, distribution and buying	324,309	275,090	220,663	180,552	160,079
Gross margin percent, including occupancy, distribution and buying	30.1 %	32.6 %	33.4 %	31.9 %	30.5 %
Selling, general and administrative	116,144	100,760	85,667	70,523	74,382
Depreciation	6,844	5,465	4,148	4,342	4,914
Restructuring expense	-	-	-	-	10,504
Interest	377	250	1,213	3,299	3,365
Income (loss) before income taxes	28,512	38,334	29,065	15,106	(14,996)
Income tax expense (benefit)	10,407	13,532	10,597	5,589	(5,006)
Net income (loss)	\$ 18,105	\$ 24,802	\$ 18,468	\$9,517	\$ (9,990)
Earnings (loss) per share (1)	\$ 0.62	\$ 0.84	\$ 0.71	\$0.43	\$ (0.45)
Cash dividends paid per share	\$ 0.145	\$ 0.088	\$ 0.04	\$ -	\$ 0.013

Selected Operating Data:

Stores open at end of period	646	575	505	487	528
Average sales per store	\$ 749,000	\$ 744,000	\$ 663,000	\$527,000	\$ 415,000
Average sales per square foot of selling space	\$ 172	\$ 187	\$ 173	\$ 142	\$ 116
Comparable store sales increase (decrease)	1.0 %	8.1 %	18.6 %	19.9 %	(4.5)%

Balance Sheet Data:

Working capital	\$ 94,581	\$ 91,569	\$ 53,862	\$33,186	\$ 25,386
Total assets	201,322	178,603	122,225	94,930	83,408
Long-term debt	-	-	-	24,891	29,446
Total stockholders' equity	\$ 141,508	\$ 127,533	\$ 78,216	\$30,479	\$ 19,969

(1)All per share amounts have been adjusted to reflect a three-for-two stock split effected June 28, 1993.

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Item 7. Managements' Discussion and Analysis of Financial Condition and Results of Operations:

RESULTS OF OPERATIONS

The table below sets forth financial data of the Company expressed as a percentage of retail sales for the periods indicated:

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
Retail sales	100.0%	100.0%	100.0%
Other income	2.7	2.9	2.9
Total revenues	102.7	102.9	102.9
Cost of goods sold, including occupancy, distribution, and buying	69.9	67.4	66.6
Selling, general and administrative	25.0	24.7	25.9
Depreciation	1.6	1.3	1.3
Selling, general, administrative, and depreciation	26.6	26.0	27.2
Income before income taxes	6.1	9.4	9.0
Net Income	3.9%	6.1%	5.6%

Fiscal 1994 Compared to Fiscal 1993

Retail sales increased by 14% to \$463.7 million in fiscal 1994 from \$407.9 million in fiscal 1993. Same-store sales increased 1% over fiscal 1993. Total revenues, comprised of retail sales and other income (principally finance charges on customer accounts receivable, layaway fees and interest income), increased 13% to \$476.2 million in fiscal 1994 from \$419.9 million in fiscal 1993. The Company operated 646 stores at January 28, 1995, compared to 575 stores in operation at January 29, 1994.

The increase in retail sales in the current year resulted primarily from the Company's store development activities. In fiscal 1994, the Company increased selling square footage by approximately 20% by opening 80 new stores, relocating 30 stores, and expanding 20 stores while closing 9 existing stores.

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Other income in fiscal 1994 increased 4% over fiscal 1993. The increase resulted primarily from higher finance charge income and by increased earnings on cash equivalents and short-term

investments.

Cost of goods sold, including occupancy, distribution, and buying was \$324.3 million, or 69.9% of retail sales, in fiscal 1994 compared to \$275.1 million, or 67.4% of retail sales, in fiscal 1993. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher levels of promotional markdowns taken in fiscal 1994. Inventory levels throughout the year were consistently higher than were needed for the sales levels achieved, resulting in markdowns above plan and a decrease in merchandise margins. Total gross margin dollars (retail sales less cost of goods sold) increased by 5% to \$139.4 million in fiscal 1994 from \$132.8 million in fiscal 1993.

Selling, general and administrative expenses (SG&A) were \$116.1 million in fiscal 1994, compared to \$100.8 million in fiscal 1993, an increase of 15%. As a percent of retail sales, SG&A was 25.0% compared to 24.7% of retail sales in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses brought about by the Company's store development program.

Depreciation expense was \$6.8 million in fiscal 1994, compared to \$5.5 million in fiscal 1993. The 25% increase in the current year resulted primarily from additions to property and equipment from the Company's store development activities.

Fiscal 1993 Compared to Fiscal 1992

Retail sales increased by 23% to \$407.9 million in fiscal 1993 from \$331.3 million in fiscal 1992. Same-store sales increased 8% over fiscal 1992. Total revenues, comprised of retail sales and other income, increased 23% to \$419.9 million in fiscal 1993 from \$340.8 million in fiscal 1992. The Company operated 575 stores at January 29, 1994 compared to 505 stores operated at January 30, 1993.

The improvement in same-store sales in fiscal 1993 following increases of 19% and 20% in the prior two years reflected the continued success of the Company's merchandising, marketing strategies and the Company's commitment to superior customer service. The Company's strategy has been to aggressively increase sales and market share through intensified marketing efforts, increasing and broadening merchandise assortments and by improving merchandise allocation and distribution. Additionally, the Company's strategy has been to increase sales by expanding selling square footage through store development activities. In fiscal 1993, the Company increased selling square footage by approximately 21% by opening 86 new stores, relocating or expanding an additional 46 stores while closing 16 existing stores.

Other income in fiscal 1993 increased by 27% over fiscal 1992. The increase resulted primarily from higher finance charge income and by increased earnings on cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution, and buying was \$275.1 million, or 67.4% of retail sales, in fiscal 1993, compared to \$220.7 million, or 66.6% of retail sales, in

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fiscal 1992. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher levels of promotional markdowns in fiscal 1993's fourth quarter. Total gross margin dollars increased by 20% to \$132.8 million in fiscal 1993 from \$110.6 million in fiscal 1992.

SG&A expenses were \$100.8 million in fiscal 1993, compared to \$85.7 million in fiscal 1992, an increase of 18%. As a percent of retail sales, SG&A improved to 24.7% in fiscal 1993 from 25.9% in fiscal 1992. The improvement in fiscal 1993 reflected the Company's ability to leverage operating expenses by maintaining a conservative cost structure. The overall increase in SG&A was attributable to increases in selling-related expenses, increased marketing costs, and the costs related to fiscal 1993 store closings. Additionally, expenses relating to the Company's store development plans contributed to increased overhead expenses.

Depreciation expense was \$5.5 million in fiscal 1993, compared to \$4.1 million in fiscal 1992. The 32% increase in fiscal 1993 resulted primarily from additions to property and equipment from the Company's store development activities. The Company incurred no interest related to long-term debt in fiscal 1993, whereas in fiscal 1992 the Company recorded interest of \$1.2 million on \$24.9 million of Subordinated Debentures prior to their retirement in June 1992.

Liquidity and Capital Resources

At January 28, 1995, the Company had working capital of \$94.6 million, compared to \$91.6 million at January 29, 1994. Cash provided by operating activities was \$33.4 million in fiscal 1994, compared to \$6.5 million in fiscal 1993. The increase in cash provided by operating activities in fiscal 1994 resulted primarily from a decrease in the build-up of inventory levels,

which was partially offset by the decrease in net income. At January 28, 1995, the Company had \$46.2 million in cash, cash equivalents and short-term investments compared to \$42.6 million at January 29, 1994.

At January 28, 1995, the Company had an unsecured revolving credit and term loan agreement which provides for borrowing of up to \$35 million and an additional letter of credit facility of \$15 million. This agreement, which was amended in December 1994, is committed until May 31, 1998 with the letter of credit facility renewable on an annual basis. The Company has the option at any time during the agreement to convert up to \$20 million of borrowings into a four-year term loan at the lender's prime rate, repayable in equal quarterly installments. The Company had no borrowings under the agreement at January 28, 1995 or January 29, 1994. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios and a limitation on capital expenditures based on a formula derived from operating results. Based on the prescribed formula, the Company is limited to approximately \$40.9 million of capital expenditures in the next fiscal year. In fiscal 1994, the Company entered into an agreement to lease \$10 million of store fixtures, point-of-sale devices and warehouse equipment. The operating lease is for a term of seven years but may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor. Additionally, the Company has the option of leasing up to \$15 million more of qualifying assets from the lessor in fiscal 1995.

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Expenditures for property and equipment totaled \$25.5 million, \$17.2 million and \$7.6 million in fiscal 1994, 1993, and 1992, respectively. The expenditures for fiscal 1994 included, in addition to store development expenditures, the costs relating to the expansion of the Company's distribution facility which was completed and in operation at the end of fiscal 1994. The Company intends to open approximately 63 new stores in each of the next two fiscal years, and to relocate and expand approximately 40 stores in both fiscal 1995 and 1996. The Company is currently planning approximately \$21.0 million and \$19.5 million of capital expenditures in fiscal 1995 and fiscal 1996, respectively.

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 and term loan agreement, will be adequate to fund the Company's proposed capital expenditures for its store expansion program and other operating requirements.

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Item 8. Financial Statements and Supplementary Data:

The response to this Item is submitted in a separate section of this report.

Item 9. Disagreements on Accounting and Financial Disclosures:

None

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PART III

Item 10. Directors and Executive Officers:

The directors and executive officers of the Company and their ages as of March 31, 1995 are as follows:

Name	Age	Position
Wayland H. Cato, Jr. * ++	72	Chairman of the Board of Directors and Chief Executive Officer
Edgar T. Cato	70	Vice Chairman of the Board of Directors
Linda McFarland Jenkins	47	President and Chief Operating Officer and Director
John P. Derham Cato	44	Executive Vice President, President and General Manager - It's Fashion! Division and Director
Alan E. Wiley	48	Executive Vice President, Secretary, Chief Financial and Administrative Officer and Director
Howard A. Severson	47	Executive Vice President,

Assistant Secretary,
Chief Real Estate and
Store Development Officer
and Director

David Kempert	45	Executive Vice President - Chief Store Operations Officer
Clarice Cato Goodyear * + +	48	Executive Vice President and Assistant Secretary and Director
Patrick J. McIntyre	50	Senior Vice President - Chief Information Officer
Thomas E. Cato	40	Vice President - Divisional Merchandise Manager, Accessories and Shoes and Director
Robert W. Bradshaw, Jr. * +	61	Director
George S. Currin * +	58	Director
Paul Fulton*+	61	Director
Grant L. Hamrick * +	56	Director
Robert L. Kirby * +	64	Director
James H. Shaw * +	66	Director
A.F.(Pete) Sloan* +	66	Director

* Members of Compensation Committee
+ Members of Audit and Stock Option Committees
++ Member of Audit Committee

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Wayland H. Cato, Jr. is Chairman of the Board of Directors and has been a director of the Company since 1946. Since 1960, he has served as the Company's Chief Executive Officer.

Edgar T. Cato is the Vice Chairman of the Board of Directors and has been a director of the Company since 1946. Mr. Edgar T. Cato is the brother of Mr. Wayland H. Cato, Jr.

Linda McFarland Jenkins joined the Company in June 1990. She currently serves as President and Chief Operating Officer and has been a director since 1991. Prior to joining the Company, she was Senior Vice President - General Merchandise Manager of J.B. Ivey & Company, a Charlotte, North Carolina based regional department store chain, where she was employed for 11 years.

John P. Derham Cato has been employed as an officer of the Company since 1981 and has served as a director since 1986. He currently serves as Executive Vice President, President and General Manager - It's Fashion! Division. Mr. John Cato is a son of Mr. Wayland H. Cato, Jr.

Alan E. Wiley joined the Company in July 1992. He currently serves as Executive Vice President, Secretary, Chief Financial and Administrative Officer and has been a director since 1994. From 1981 through 1990 he held senior administrative and financial positions with British American Tobacco, U.S. in various companies of their specialty retail division. From 1990 until joining the Company, he was President and majority stockholder of Gibbs-Louis, Inc., an Orlando, Florida based women's specialty store chain. In May 1992, Gibbs-Louis, Inc. filed a petition pursuant to the U.S. Bankruptcy Code and was liquidated in June 1992.

Howard A. Severson has been an officer of the Company since 1985. He currently serves as Executive Vice President, Assistant Secretary, Chief Real Estate and Store Development Officer and has been a director since March 1995. Prior to joining the Company, Mr. Severson served for five years as the Director of Real Estate for Minnesota Fabric Company, a Charlotte based retail fabric store chain.

David Kempert joined the Company as Executive Vice President - Chief Store Operations Officer in August 1989. From 1982 until 1989, he was employed by The Gap Stores, an apparel specialty chain, where his most recent position was Zone Vice President of the Northeast Region.

Clarice Cato Goodyear has been employed by the Company since 1975 and has served as a director and officer of the Company since 1979. She currently serves as Executive Vice President and Assistant Secretary. Ms. Goodyear is a daughter of Mr. Wayland H. Cato, Jr.

Patrick J. McIntyre has been an officer of the Company since 1988. He currently serves as Senior Vice President - Chief Information Officer. He was previously employed for seven years as Vice President of Management Information Services at The

Thomas E. Cato has been employed by the Company since 1977, has served as an officer since 1986 and has been a director since 1993. He currently serves as Vice President, Divisional Merchandise Manager - Accessories and Shoes. Mr. Thomas Cato is a son of Mr. Wayland H. Cato, Jr.

Robert W. Bradshaw, Jr. has been a director of the Company since 1994. Since 1961, he has been engaged in the private practice of law with Robinson, Bradshaw & Hinson, P.A. and as a shareholder, officer and director of the firm. The law firm serves as General Counsel to the Company.

George S. Currin has been a director of the Company since 1973. From 1978 to 1989, Mr. Currin was the President and Chief Executive Officer and a director of Southeastern Savings Bank, Inc. Since 1989, he has served as Chairman and Managing Director of Fourth Stockton Company and Chairman of Currin - Patterson Properties LLC.

Paul Fulton has been a director of the Company since 1994. From July 1988 to December 1993, Mr. Fulton served as President of Sara Lee Corporation. Since January 1994, Mr. Fulton has served as Dean of the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. Mr. Fulton is currently a director of Sonoco Products, NationsBank Corporation, Bassett Furniture Industries, Inc., and Winston Hotels, Inc.

Grant L. Hamrick has been a director of the Company since 1994. 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. Since 1989, Mr. Hamrick has served as Senior Vice President and Chief Financial Officer for American City Business Journals, Inc.

Robert L. Kirby has been a director of the Company since 1992. Mr. Kirby served as Executive Vice President of NationsBank of North Carolina from 1983 to 1988 and as President and as director of NationsBank of Florida from 1988 until his retirement in 1990.

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

A.F. (Pete) Sloan has been a director of the Company since 1994. Mr. Sloan was Chairman of the Board of Lance, Inc. where he was employed from 1955 until his retirement in 1990. Mr. Sloan is currently a director of Lance, Inc., Bassett Furniture Industries, Inc., PCA International, Inc., and Richfood, Inc.

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Item 11. Executive Compensation:

Incorporated by reference to Registrant's proxy statement for 1995 annual stockholders' meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management:

Incorporated by reference to Registrant's proxy statement for 1995 annual stockholders' meeting.

Item 13. Certain Relationships and Related Transactions:

Incorporated by reference to Registrant's proxy statement for 1995 annual stockholders' meeting.

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PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1.& 2. LIST OF FINANCIAL STATEMENTS AND SCHEDULE

The response to this portion of Item 14 is submitted as a separate section of this report.

(a) 3. LIST OF EXHIBITS

See Exhibit Index at page 44 of this annual report.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended January 28, 1995.

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LIST OF FINANCIAL STATEMENTS

CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULE

YEAR ENDED JANUARY 28, 1995

THE CATO CORPORATION

CHARLOTTE, NORTH CAROLINA

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ITEM 14(A) 1. AND 2. LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

THE CATO CORPORATION

The following consolidated financial statements of The Cato Corporation are included in Item 8:

Report of Independent Auditors	Page 24
Consolidated Statements of Income	Page 25
Consolidated Balance Sheets	Page 26
Consolidated Statements of Cash Flows	Page 27
Consolidated Statements of Stockholders' Equity	Page 28
Notes to Consolidated Financial Statements	Pages 29 - 42

The following consolidated financial statement schedule of the Cato Corporation is included in Item 14 (d):

SCHEDULE II - Valuation and qualifying accounts	Page 43
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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND STOCKHOLDERS
THE CATO CORPORATION

We have audited the accompanying consolidated balance sheets of The Cato Corporation as of January 28, 1995 and January 29, 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 28, 1995. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Cato Corporation at January 28, 1995 and January 29, 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Charlotte, North Carolina
March 10, 1995

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
Revenues:	(In thousands, except per share data)		
Retail sales	\$ 463,737	\$ 407,878	\$ 331,262
Other income (principally finance and layaway charges)	12,449	12,021	9,494
Total revenues	476,186	419,899	340,756
Costs and Expenses:			
Cost of goods sold, including occupancy, distribution and buying	324,309	275,090	220,663
Selling, general and administrative	116,144	100,760	85,667
Depreciation	6,844	5,465	4,148
Interest	377	250	1,213
Total operating expenses	447,674	381,565	311,691
Income Before Income Taxes	28,512	38,334	29,065
Income tax expense	10,407	13,532	10,597
Net Income	\$ 18,105	\$ 24,802	\$ 18,468
Earnings Per Share	\$ 0.62	\$ 0.84	\$ 0.71
Dividends Per Share	\$ 0.145	\$ 0.088	\$ 0.04

See notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 28, 1995	January 29, 1994
	(In thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 23,963	\$ 22,001
Short-term investments	22,263	20,613
Accounts receivable, net of allowance for doubtful accounts of \$3,401,000 at January 28, 1995 and \$3,162,000 at January 29, 1994	37,926	36,814
Merchandise inventories	54,674	55,814
Deferred income taxes	2,053	1,607
Prepaid expenses	2,602	1,935
Total Current Assets	143,481	138,784
Property and Equipment	53,146	35,497
Other Assets	4,695	4,322
Total Assets	\$ 201,322	\$ 178,603
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 36,159	\$ 34,547
Accrued expenses	11,832	12,668
Income taxes	909	-
Total Current Liabilities	48,900	47,215
Deferred Income Taxes	4,192	3,482
Other Noncurrent Liabilities	6,722	373
Stockholders' Equity:		
Class A Common Stock, \$.033 par value per share, 50,000,000 shares authorized; 23,132,327 shares issued and outstanding at January 28, 1995 and 23,078,208 shares issued and outstanding at January 29, 1994	770	769
Convertible Class B Common Stock, \$.033 par value per share, 15,000,000 shares authorized; 5,264,317 shares issued and outstanding at January 28, 1995 and January 29, 1994	176	176
Preferred Stock, \$100 par value per share, 100,000 shares authorized, none issued	-	-
Additional paid-in capital	62,278	61,753
Retained earnings	78,284	64,835
Total Stockholders' Equity	141,508	127,533
Total Liabilities and Stockholders' Equity	\$ 201,322	\$ 178,603

See notes to consolidated financial statements.

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THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
	(In thousands)		
Operating Activities			
Net income	\$ 18,105	\$24,802	\$18,468
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,844	5,465	4,148
Amortization of investment premiums	235	720	-
Deferred income taxes	575	1,161	(140)
Loss on disposal of property and equipment	352	-	123
Changes in assets and liabilities:			
(Increase) in accounts receivable	(1,112)	(9,077)	(4,468)
(Increase) decrease in merchandise inventories	1,140	(22,072)	(6,399)
(Increase) decrease in other assets	(1,040)	(1,294)	719
Increase (decrease) in accrued income taxes	909	(1,198)	(3,060)
Increase in accounts payable and other liabilities	7,386	7,995	7,080
Net cash provided by operating activities	33,394	6,502	16,471
Investing Activities			
Expenditures for property and equipment	(25,484)	(17,214)	(7,646)
Proceeds from sale of property and equipment	378	-	-
Purchases of short-term investments	(11,882)	(34,081)	(3,829)
Sales of short-term investments	9,145	16,577	-
Net cash used in investing activities	(27,843)	(34,718)	(11,475)
Financing Activities			
Dividends paid	(4,115)	(2,499)	(1,063)
Proceeds from employee stock purchase plan	435	-	-
Proceeds from stock options exercised	91	1,459	348
Proceeds from sale of common stock	-	24,262	29,984
Income tax benefit from stock options exercised	-	1,293	-
Repayments of life insurance policy loans	-	(203)	-
Retirement of subordinated debentures	-	-	(24,981)
Net cash provided by (used in) financing activities	(3,589)	24,312	4,288
Net Increase (Decrease) in Cash and Cash Equivalents	1,962	(3,904)	9,284
Cash and Cash Equivalents at Beginning of Year	22,001	25,905	16,621
Cash and Cash Equivalents at End of Year	\$ 23,963	\$22,001	\$ 25,905

See notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
	(In thousands)				
Balance - February 1, 1992	\$ 501	\$ 188	\$ 11,504	\$ 25,127	\$ 6,841
Net income				18,468	
Dividends paid (\$.04 per share)				(1,063)	
Sale of Class A Common Stock - 2,875,000	95		29,889		
Treasury shares sold through stock option plans - 55,200 shares			322		(26)
Shares converted from Class B Common Stock to Class A Common Stock - 246,021 shares	12	(12)			
Balance - January 30, 1993	608	176	41,715	42,532	6,815
Net income				24,802	
Dividends paid (\$.088 per share)				(2,499)	
Sale of Class A Common Stock - 1,012,500 shares	34		24,228		
Class A Common Stock sold through stock option plans - 178,550 shares	6		1,193		
Treasury shares sold through stock option plans - 23,300 shares			249		(11)

Retirement of treasury stock - 5,778,970 shares	(192)		(6,612)		(6,804)
Three-for-two stock split - 9,395,385 shares of Class A Common Stock			(313)		
Income tax benefit from stock options exercised			1,293		
Shares converted from Class B Common Stock to Class A Common Stock - 18,000 shares					
Balance - January 29, 1994	769	176	61,753	64,835	-
Net income				18,105	
Dividends paid (\$.145 per share)				(4,115)	
Class A Common Stock sold through employee stock purchase plan - 41,769 shares	1		434		
Class A Common Stock sold through stock option plans - 12,350 shares	-		91		
Unrealized losses on available for sale securities, net of an income tax benefit of \$311,000				(541)	
Balance - January 28, 1995	\$ 770	\$ 176	\$ 62,278	\$ 78,284	\$ -

See notes to consolidated financial statements.

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THE CATO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Description of Business and Fiscal Year - The Company has principally one segment of business - operation of women's apparel specialty stores. The Company's fiscal year ends on the Saturday nearest January 31.

Cash Equivalents and Short-Term Investments - 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 value of short-term investments are based on quoted market prices.

The Company adopted Statement of Financial Accounting Standards (SFAS 115) Accounting for Certain Investments in Debt and Equity Securities in fiscal 1994. In accordance with the guidelines set forth in SFAS 115, the Company has determined that short-term investments held at January 28, 1995 should be classified as available-for-sale. Available for sale securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported as an adjustment to retained earnings. In accordance with SFAS 115, prior years' financial statements have not been restated to reflect the change in accounting method. There was no cumulative effect as a result of adopting SFAS 115 in fiscal 1994. At January 29, 1994, short-term investments were carried at amortized cost which approximated market value. The amortized 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.

Accounts Receivable - Accounts receivable include customer trade accounts, customer layaway receivables and miscellaneous trade receivables. Customer receivables related to layaway sales are reflected net of a reserve for unrealized profit. Net layaway receivables amounted to approximately \$2,019,000 and \$2,004,000 at January 28, 1995 and January 29, 1994, respectively.

Supplemental Cash Flow Information - Interest paid during the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993 was \$202,000, \$271,000, and \$1,534,000 respectively. Income tax payments, net of refunds received, for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993 were \$8,495,000, \$12,828,000 and \$13,967,000, respectively.

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

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Property and Equipment - Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred; renewals and betterments are capitalized. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the related assets.

Retail Sales - Revenues from retail sales (including layaway transactions) are recognized at the time of the sale, net of returns, and exclude sales taxes.

Advertising - Advertising costs are expensed in the period in which they are incurred. Advertising expense was \$9,046,000, \$7,350,000 and \$4,988,000 for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993, respectively.

Earnings Per Share - Earnings per share have been computed based on the weighted average number of Class A and Class B common shares and common stock equivalents outstanding during the respective periods. Common stock equivalents represent the dilutive effect of the assumed exercise of outstanding stock options. The number of shares used in the earnings per share computations were 29,113,091, 29,655,394, and 26,012,639 for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993, respectively. All per share amounts have been adjusted to reflect a three-for-two stock split effected June 28, 1993.

Income Taxes - The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are provided based on the liability method of accounting, whereby deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

Store Opening Costs - Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred.

Closed Store Lease Obligations - At the time stores are closed, provision is made for the rentals required to be paid over the remaining lease terms. Rentals due the Company under non-cancelable subleases are offset against the related obligations in the year the sublease is signed. There is no offset for assumed sublease revenues.

Reclassifications - Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with classifications used as of January 28, 1995.

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2. Short-Term Investments:

Short-term investments at January 28, 1995, include the following:
(In thousands)

Security Type	Cost	Unrealized Loss	Estimated Fair Value
Obligations of states and political subdivisions	\$ 16,567	\$ (120)	\$ 16,447
Corporate debt securities	2,000	(160)	1,840
Subtotal	18,567	(280)	18,287
Equity securities	4,548	(572)	3,976
Total	\$ 23,115	\$ (852)	\$ 22,263

The amortized cost and estimated fair value of debt and marketable equity securities at January 28, 1995, by contractual maturity, are shown below: (In thousands)

Security Type	Cost	Estimated Fair Value
Due in one year or less	\$ 16,290	\$ 16,027
Due in one year through three years	2,277	2,260
Subtotal	18,567	18,287
Equity securities	4,548	3,976
Total	\$ 23,115	\$ 22,263

The unrealized loss of \$541,000, net of an income tax benefit of \$311,000, is included in stockholders' equity as an adjustment to retained earnings.

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3. Accounts Receivable:

Accounts receivable consist of the following:

January 28, 1995	January 29, 1994
	(In thousands)

Customer accounts- principally deferred payment accounts	\$ 38,291	\$ 37,250
Miscellaneous trade receivables	3,036	2,726
Total	41,327	39,976
Less allowance for doubtful accounts	3,401	3,162
Accounts receivable - net	\$ 37,926	\$ 36,814

Finance charge and late charge revenue on customer deferred payment accounts were \$6,324,000, \$5,539,000, and \$4,490,000 for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993, respectively, and the provision for doubtful accounts was \$2,888,000, \$1,352,000, and \$1,489,000 for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses.

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4. Property and Equipment:

Property and equipment consist of the following:

	January 28, 1995	January 29, 1994
	(In thousands)	
Land and improvements	\$ 763	\$ 646
Buildings	6,751	4,654
Leasehold improvements	12,811	7,051
Fixtures and equipment	49,897	43,087
Construction in progress	14,352	5,095
Total	84,574	60,533
Less accumulated depreciation	31,428	25,036
Property and equipment - net	\$ 53,146	\$ 35,497

Depreciation expense was \$6,844,000, \$5,465,000, and \$4,148,000 for the fiscal years ended January 28, 1995, January 29, 1994, and January 30, 1993.

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5. Accrued Expenses:

Accrued expenses consist of the following:

	January 28, 1995	January 29, 1994
Accrued bonus and retirement savings plan contributions	\$ 1,787	\$ 4,488
Accrued payroll and related items	4,472	3,088
Closed stores	486	290
Property taxes	1,018	816
Contingent rent	735	934
Advertising	267	453
Accrued credit expenses	306	167
Accrued data processing expenses	280	181
Restructuring reserve	-	576
Other	2,481	1,675
Total accrued expenses	\$ 11,832	\$ 12,668

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6. Financing Arrangements:

On January 28, 1995, the Company had an unsecured revolving credit and term loan agreement which provides for borrowings of up to \$35 million and an additional letter of credit facility of \$15 million. The agreement, which was amended in December 1994, is committed until May 31, 1998 with the letter of credit facility renewable annually. The Company has the option at any time during the agreement period to convert up to \$20 million of borrowings into a four-year term loan at the lender's prime rate, repayable in equal quarterly installments. The agreement contains various financial covenants including the maintenance of specific financial ratios. There were no borrowings outstanding under this agreement at January 28, 1995 or January 29, 1994.

The Company had approximately \$8,607,000 and \$7,178,000 at January 28, 1995 and January 29, 1994, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. Upon satisfaction of the terms of the letters of credit, the Company is obligated to pay the issuing bank the dollar amount of the commitment.

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7. Stockholders' Equity:

The holders of Class A Common Stock are entitled to one vote per share, whereas the holders of Class B Common Stock are

entitled to ten votes per share. Each share of Class B Common Stock may be converted at any time into one share of Class A Common stock. Subject to the rights of the holders of any shares of Preferred Stock that may be outstanding at the time, in the event of liquidation, dissolution or winding up of the Company, holders of Class A Common stock are entitled to receive a preferential distribution of \$1.00 per share of the net assets of the Company. Cash dividends on the Class B Common Stock cannot be paid unless cash dividends of at least an equal amount are paid on the Class A Common Stock.

The Company's charter provides that shares of Class B Common stock may be transferred only to certain "Permitted Transferees" consisting generally of the lineal descendants of holders of Class B stock, trusts for their benefit, corporations and partnerships controlled by them and the Company's employee benefit plans. Any transfer of Class B Common Stock in violation of these restrictions, including a transfer to the Company, results in the automatic conversion of the transferred shares of Class B Common Stock held by the transferee into an equal number of shares of Class A Common Stock.

In February 1993, the Company issued 1,012,500 shares of Class A Common Stock in a public offering at an offering price of \$25.50 per share. The net proceeds of \$24,262,000 were added to working capital and are being used to fund the Company's store development plans and for general corporate purposes.

In May 1993, the Company amended its Certificate of Incorporation to increase the number of authorized shares of Class A Common Stock to 50,000,000 shares from 25,000,000 shares and to permit distributions of Class A Common Stock or Class B Common Stock to holders of Class B Common Stock in the event of any dividend or other distribution payable in stock of the Company. Additionally, in May 1993, the Company retired all of the shares of Class A Common Stock that were held in treasury at their aggregate cost of \$6,804,000.

In June 1993, the Company effected a three-for-two stock split in the form of a stock dividend. The split resulted in the issuance of 9,395,385 shares of Class A Common Stock to Class A and B shareholders. All references in the financial statements to average numbers of shares outstanding and related prices, per share amounts and stock option plan data have been restated to reflect the split.

In October 1993, the Company registered 250,000 shares of Class A Common Stock available for issuance under an Employee Stock Purchase Plan (the plan). Under the terms of the Plan, substantially all employees may purchase Class A Common Stock through payroll deductions of up to 10% of their salary. The Class A Common Stock is purchased at the lower of 85% of market value on the first or last business day of a six-month payment period. Additionally, each April 15, employees are given the opportunity to make a lump sum purchase of up to \$10,000 worth of Class A Common Stock at 85% of market value. During the year ended January 28, 1995, 41,769 shares of Class A Common Stock were purchased by participants through the plan.

In 1987, the Company adopted an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan for key employees of the Company. In 1991, the Board of Directors of the Company amended the 1987 option plans increasing the number of shares reserved under the plans from 2,100,000 shares to 3,150,000 shares. In 1994, the Board of Directors increased the number of shares issuable under the plans to 3,900,000 shares of which 825,000 shares are issuable under the Incentive Stock Option Plan and 3,075,000 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of the shares under option must be at least 100 percent of the fair market value of the Common Stock at the date of the grant and must be exercisable not later than 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

Option plan activity for the three fiscal years ended January 28, 1995 is set forth below:

	Number of Shares	Price Per Share
Outstanding options, February 1, 1992	2,534,100	\$1.33 - \$9.50
Granted	146,250	8.00 - 13.17
Exercised	(82,800)	.33 - 7.50
Cancelled	(96,000)	2.75 - 7.63
Outstanding options, January 30, 1993	2,501,550	1.33 - 13.17
Granted	226,750	7.50 - 23.06
Exercised	(224,750)	1.50 - 13.17
Cancelled	(50,700)	1.50 - 19.17
Outstanding options, January 29, 1994	2,452,850	1.33 - 23.06
Granted	584,500	6.75 - 17.13

Exercised	(12,350)	3.25 - 8.00
Cancelled	(32,700)	3.25 - 20.67
Outstanding options, January 28, 1995	2,992,300	1.33 -\$23.00
Exercisable at January 28, 1995	1,787,200	\$1.33 -\$23.00

Outstanding options at January 28, 1995 covered 927,918 shares of Class B Common Stock and 2,064,382 shares of Class A Common Stock. Outstanding options at January 29, 1994 covered 927,918 shares of Class B Common Stock and 1,524,932 shares of Class A Common Stock. Options available to be granted under the option plans were 387,700 shares at January 28, 1995, and 189,500 shares at January 29, 1994.

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8. Employee Benefit Plans:

The Company has a defined contribution retirement savings plan (401(k)) which covers all employees who meet minimum age and service requirements. The 401 (k) plan allows participants to contribute up to 16% of their annual compensation. The Company is obligated to make a minimum contribution and further Company contributions, at the Board of Directors discretion, are based on a formula of percentages of pre-tax profits. The Company's contributions for the years ended January 28, 1995, January 29, 1994, and January 30, 1993 were approximately \$1,278,000, \$2,272,000 and \$2,237,000, respectively. The Company has an Employee Stock Ownership Plan (ESOP), which covers substantially all employees who meet minimum age and service requirements. The Board of Directors determines contributions to the ESOP. No contributions were made to the ESOP for the years ended January 28, 1995, January 29, 1994 and January 30, 1993, respectively.

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9. Leases:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are for periods of five years with renewal options, and most provide for additional contingent rentals based on a percentage of store sales in excess of stipulated amounts. Equipment leases are generally for three - to seven - year periods. In fiscal 1994, the Company entered into an agreement with a lessor to lease \$10 million of store fixtures, POS devices and warehouse equipment. The lease, which is being accounted for as an operating lease, is for a term of seven years but may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor. At the end of the initial lease year, if the lease was cancelled, the purchase price for the equipment would be approximately \$9,173,000.

The minimum commitments relating to future payments under non-cancelable operating leases are (in thousands):

Fiscal	
Year	
1995	\$ 28,414
1996	24,068
1997	19,902
1998	12,999
1999	8,068
2000 and thereafter	13,530

Total minimum lease payments \$106,981

The following schedule shows the composition of total rental expense for all leases:

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
	(In thousands)		
Minimum rentals	\$ 24,817	\$ 20,180	\$ 17,025
Contingent rentals	658	872	672
Total rent	\$ 25,475	\$ 21,052	\$ 17,697

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10. Income Taxes

The provisions for income taxes consist of the following:

	Fiscal Year		
	Ended		
	January	January 29,	January

	28, 1995	1994 (In thousands)	30, 1993
Current income taxes:			
Federal	\$9,681	\$10,488	\$10,007
State	151	590	730
Total	9,832	11,078	10,737
Deferred income taxes:			
Federal	518	1,061	(104)
State	57	100	(36)
Total	575	1,161	(140)
Allocation of tax benefit to capital for stock options exercised	- \$10,407	1,293 \$13,532	- \$10,597

The components of the provision for deferred income taxes (benefit) are as follows:

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
	(In thousands)		
Depreciation	\$901	\$ 74	\$ (807)
Provision for doubtful accounts	(86)	206	85
Restructuring expenses	18	418	405
Inventory valuation	(50)	(41)	(41)
Self-insurance reserve	(12)	113	(113)
Change in tax rate	-	13	-
Other	(196)	378	331
Total	\$575	\$1,161	\$(140)

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Significant components of the Company's deferred tax assets and liabilities as of January 28, 1995 and January 29, 1994, are as follows:

	Fiscal Year Ended	
	January 28, 1995	January 29, 1994
	(In thousands)	
Deferred tax assets:		
Bad debt reserve	\$ 1,329	\$ 1,233
Inventory valuation	435	393
Unrealized losses on short- term investments	311	-
Reserves	992	327
Total deferred tax assets	3,067	1,953
Deferred tax liabilities:		
Tax over book depreciation	4,607	3,355
Other, net	599	473
Total deferred tax liabilities	5,206	3,828
Net deferred tax liabilities	\$ 2,139	\$ 1,875

The reconciliation of the Company's effective income tax rate with the statutory rate is as follows:

	Fiscal Year Ended		
	January 28, 1995	January 29, 1994	January 30, 1993
	(In thousands)		
Federal income tax rate	35.0%	35.0%	34.0%
State income taxes	0.5	1.3	1.5
Other	1.0	(1.0)	1.0
Effective income tax rate	36.5%	35.3%	36.5%

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11. Quarterly Financial Data (Unaudited):

Summarized quarterly financial results are as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1994:				
Retail Sales	\$ 110,105	\$ 110,196	\$ 109,111	\$ 134,325
Total revenues	113,131	113,263	112,212	137,580
Cost of goods sold, including occupancy, distribution, and buying	70,781	77,020	77,505	99,003
Net income	\$ 8,210	\$ 4,325	\$ 2,799	\$ 2,771
Earnings per share	\$.28	\$.15	\$.10	\$.10

Fiscal 1993:				
Retail Sales	\$ 93,942	\$ 95,502	\$ 94,598	\$ 123,836
Total revenues	96,705	98,358	97,524	127,312
Cost of goods sold, including occupancy, distribution and buying	57,872	63,835	64,567	88,816
Net income	\$ 9,395	\$ 5,841	\$ 4,436	\$ 5,130
Earnings per share	\$.32	\$.20	\$.15	\$.17

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts(a) (In thousands)	Reserve for Rental Commitment(b) (In thousands)	Restructuring Reserve
Balance at February 1, 1992	\$ 4,000	\$ 395	\$ 3,919
Additions charged to costs and expenses	1,489	-	-
Additions charged to other accounts	681(d)	-	-
Deductions	(2,420)(c)	(228)	(2,336)
Balance at January 30, 1993	3,750	167	1,583
Additions charged to costs and expenses	1,352	268	-
Additions (Deductions) charged to other accounts	605(d)	269(e)	(269)
Deductions	(2,545)(c)	(414)	(681)
Balance at January 29, 1994	3,162	290	633
Additions charged to costs and expenses	2,888	825	-
Additions (Deductions) charged to other accounts	843(d)	-	-
Deductions	(3,492)(c)	(700)	(563)
Balance at January 28, 1995	\$ 3,401	\$ 415	\$ 70

(a) Deducted from trade accounts receivable

(b) Provision for the difference between costs and revenues from noncancelable subleases over the lease terms of closed stores.

(c) Uncollectible accounts written off.

(d) Recoveries of amounts previously written off.

(e) Transferred from restructuring reserve.

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EXHIBIT INDEX

Designation of Exhibit	Page
10.5.0 Loan agreement, dated December 16, 1994 between The Cato Corporation and NationsBank of North Carolina and Wachovia Bank of North Carolina, N.A.,	

incorporated by reference to Form 10-K of the Registrant for the fiscal year ended January 30, 1993

10.6 Lease agreement dated January 27, 1995 between The Cato Corporation and NationsBank of North Carolina N.A.

22 Subsidiary of the Registrant 45

23 Consent of Independent Auditors 46

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EXHIBIT 22

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State of Incorporation	Name under which Subsidiary does Business
C.H.W. Corporation	Delaware	C.H.W. Corporation

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EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-41314) pertaining to The Cato Corporation Employee Incentive Stock Option Plan, in the Registration Statement (Form S-8 No. 33-41315) pertaining to The Cato Corporation Non-qualified Stock Option Plan, and in the Registration Statement (Form S-8 No. 33-69844) pertaining to The Cato Corporation Employee Stock Purchase Plan, of our report dated March 10, 1995, with respect to the consolidated financial statements and schedule of The Cato Corporation included in the Annual Report (Form 10-K) for the year ended January 28, 1995.

ERNST & YOUNG LLP

Charlotte, North Carolina
April 21, 1995

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Cato has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Cato Corporation

By /s/ Wayland H. Cato, Jr.

By /s/ Robert M. Sandler

Wayland H. Cato, Jr.
Chairman of the Board of
Directors and
Chief Executive Officer

Robert M. Sandler
Senior Vice President
Controller

By /s/ Alan E. Wiley

Alan E. Wiley
Executive Vice President, Secretary
Chief Financial and Administrative
Officer

Date: April 27, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ Wayland H. Cato, Jr.

/s/ Rober W. Bradshaw, Jr.

Wayland H. Cato, Jr.
(Director)

Robert W. Bradshaw, Jr.
(Director)

/s/ Edgar T. Cato

/s/ George S. Currin

Edgar T. Cato
(Director)

George S. Currin
(Director)

/s/ Linda McFarland Jenkins

/s/ Paul Fulton

Linda McFarland Jenkins
(Director)

Paul Fulton
(Director)

/s/ John P. Derham Cato

John P. Derham Cato
(Director)

/s/ Alan E. Wiley

Alan E. Wiley
(Director)

/s/ Howard A. Severson

Howard A. Severson
(Director)

Clarice Cato Goodyear
(Director)

/s/ Thomas E. Cato

Thomas E. Cato
(Director)

/s/ Grant L. Hamrick

Grant L. Hamrick
(Director)

/s/ Robert L. Kirby

Robert L. Kirby
(Director)

/s/ James H. Shaw

James H. Shaw
(Director)

/s/ A.F. (Pete) Sloan

A.F. (Pete) Sloan
(Director)

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
BALANCE SHEET AND INCOME STATEMENT AND IS QUALIFIED IN ITS ENTIRETY
BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	JAN-28-1995	
	JAN-28-1995	
		23,963
		22,263
		41,327
		3,401
		54,674
	143,481	
		84,574
		31,428
		201,322
	48,900	
		0
		946
	0	
		0
		140,562
201,322		
		463,737
	476,186	
		324,309
		324,309
		0
		2,888
		377
		28,512
		10,407
	18,105	
		0
		0
		0
		18,105
		.62
		0

LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT, dated as of the 16th day of December, 1994 (the "Loan Agreement" or "Agreement"), is by and between

THE CATO CORPORATION, a Delaware corporation with its principal offices in Charlotte, North Carolina ("Cato"); CHW CORPORATION, a Delaware corporation ("CHW"); and

NATIONSBANK OF NORTH CAROLINA, N.A. ("NationsBank") and WACHOVIA BANK OF NORTH CAROLINA, N.A. ("Wachovia"), each a national banking association with offices in Charlotte, North Carolina (collectively, the "Lenders"); and NATIONSBANK OF NORTH CAROLINA, N.A., as agent, acting in the manner and to the extent described in Article XII hereof (in such capacity, the "Agent").

Recitals

A. Cato and CHW are co-borrowers of the Loans to be made hereunder. As such, each is sometimes referred to individually as a "Borrower" and together they are sometimes collectively referred to as the "Borrowers."

B. The Borrowers and the Lenders are parties to a Loan Agreement dated March 9, 1993, pursuant to which (i) the Lenders established a \$35,000,000 revolving credit facility and the Borrowers may convert up to \$20,000,000 of the principal amount of outstanding loans advanced thereunder into one or more term loans, and (ii) the Lenders will from time to time issue for the account of the Borrowers irrevocable letters of credit.

C. The Borrowers and the Lenders desire to amend and restate the terms of their Agreement to incorporate an additional \$15,000,000 facility to support the issuance of letters of credit, to amend certain negative covenants, and to change the relative size of the Lenders' Commitments.

D. The Borrowers will use the proceeds of the Loans (i) to provide working capital; (ii) to support the issuance of

letters of credit and (iii) for such other corporate purposes as the Borrowers shall determine, other than uses restricted hereunder, all as more fully set forth herein.

E. The Lenders are willing to make the Loans and issue the Letters of Credit described herein based on the terms and conditions set forth in this Loan Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrowers, the Lenders and the Agent hereby agree as follows:

ARTICLE I Definitions
1.1 Defined Terms. For purposes of this Loan Agreement, the following terms shall have the meanings set forth below:

"Additional LC Facility" means the facility made available by the Lenders to the Borrowers pursuant to Article IIA hereof.

"Additional LC Facility Termination Date" means the date that the Additional LC Facility will terminate pursuant to Section 2.2A (as such date may be extended from time to time by written agreement of all the Lenders).

"Adjusted Cash Flow" shall mean, for a specified period, the sum of (i) the net income of Cato and its Subsidiaries on a consolidated basis for such period, before deduction of income taxes, depreciation expense, interest expense (including, without limitation, interest expense attributable to Capital Leases) and amortization of intangible assets plus (ii) the Gross Rental Expense for such period, all as determined in accordance with Generally Accepted Accounting Principles.

"Affiliate" shall mean, as to any Person, each of the

Persons that directly or indirectly, through one or more intermediaries, owns or controls, or is controlled by or under common control with, such Person. For the purpose of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies, whether through the ownership of voting securities, by contract or otherwise.

"Agent" shall mean the Agent as provided in Article XII hereof, and its successors and assigns.

"Agreement" or "this Agreement" or "Loan Agreement" shall mean this Loan Agreement and shall include all amendments, modifications and supplements hereto, and all annexes, schedules and exhibits hereto, and shall refer to this Agreement as the same may be in effect at the time such reference becomes operative.

"Applicable Rate" shall mean, for any day, the lesser of (i) the then current Prime Rate or (ii) the Floating Adjusted Certificate of Deposit Rate for such day. The Applicable Rate shall be determined from time to time by each Lender with respect to its pro rata portion of the Loans (based on such Lender's Commitment as compared to the Total Commitment) and each such calculation with respect to such portion of the Loans shall be conclusive and binding upon the Borrowers in the absence of manifest error.

"Assessment Rate" shall mean, for any day, the then maximum net assessment rate (expressed as a decimal fraction) for determining the annual assessment payable by the Lender to the Federal Deposit Insurance Corporation (or any successor) for

insuring Dollar deposits made at the offices of the Lender in the United States.

"Assignee" shall mean any Person to whom any Lender assigns any of its rights and obligations under this Loan Agreement, and its successors and assigns.

"Assignment and Acceptance" shall mean an Assignment and Acceptance Agreement between any Lender and an Assignee, pursuant to which such Lender assigns to such Assignee, and the Assignee accepts, all or a portion of such Lender's rights and obligations under this Loan Agreement.

"Bankruptcy Code" shall mean 11 U.S.C. 101 et. seq., as amended, and any successor statute or statute having substantially the same function.

"Borrower" or "Borrowers" shall mean each of Cato and each of its Subsidiaries which is now or hereafter becomes a party to this Loan Agreement, and their respective successors and assigns.

"Business Day" shall mean any day excluding Saturday, Sunday and any day which shall be in the City of Charlotte, North Carolina a legal holiday or a day on which national banking institutions are authorized by law or other governmental actions to close.

"CD Rate" shall mean, for any day, the average daily market interest rate (per annum) in the secondary market on negotiable certificates of deposit with a term of three months, as compiled and published by the Federal Reserve System of the United States of America, or any successor agency (such rate being currently available in a weekly publication designated "H.15(519) -

Selected Interest Rates").

"CD Reserve Requirement" shall mean, on any date, that percentage (expressed as a decimal fraction) that is in effect on such date, applied for determining the maximum applicable reserve requirements under Regulation D. Each determination by the Lender of the CD Reserve Requirement of such Lender shall be conclusive and binding on the Borrowers in the absence of manifest error.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C.A. 9601 et. seq., as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

"Capital Asset" shall mean any asset of a Person that would, in accordance with Generally Accepted Accounting Principles, be required to be classified and accounted for as a capital asset.

"Capital Expenditure Limitation" shall mean, for any fiscal year of Cato, the sum of (i) the net income of Cato and its Subsidiaries on a consolidated basis, before deduction of depreciation expense and amortization of intangible assets, for the immediately preceding fiscal year, as determined in accordance with Generally Accepted Accounting Principles plus (ii) the amount of contributions made by any of the Borrowers or a Subsidiary of the Borrower to the 401(k) Cato Associate Profit Sharing/Retirement Savings Plan in such immediately preceding fiscal year to the extent such contributions are reflected as reductions in the net income of Cato and its Subsidiaries on a consolidated basis for such period plus (iii) employee bonus payments made by a Borrower or a Subsidiary of a Borrower in such

immediately preceding fiscal year in shares of the common stock of Cato to the extent such payments are reflected as reductions in net income of Cato and its Subsidiaries on a consolidated basis for such period.

"Capital Expenditures" shall mean, for any fiscal year of Cato, the aggregate cost (less the amount of trade-in allowance included in such cost) of all capital assets acquired by any of the Borrowers or any Subsidiary of a Borrower during such fiscal year, less the proceeds of any capital dispositions made in the ordinary course of business, plus all Capital Lease Obligations incurred by Cato, during such fiscal year, each calculated in accordance with Generally Accepted Accounting Principles.

"Capital Lease" shall mean any lease of any property that would, in accordance with Generally Accepted Accounting Principles, be required to be classified and accounted for as a capital lease on a balance sheet of the lessee.

"Capital Lease Obligations" shall mean, with respect to any Capital Lease, the amount of the obligation of the lessee thereunder that would, in accordance with Generally Accepted Accounting Principles, appear as a liability on a balance sheet of such lessee in respect of such Capital Lease.

"Capitalized Rents" shall mean, at any time, the product of (i) the Gross Rental Expense for the four most recent fiscal quarters multiplied by (ii) eight (8).

"Cash" shall mean legal currency of the United States of America.

"Change in Control" shall mean any event resulting in any Person (i) owning, directly or indirectly, more than fifty percent (50%) of the combined voting power of the outstanding shares of voting stock of Cato or (ii) having the power to elect a majority of the board of directors of Cato; provided, however, that no change in control shall be deemed to have occurred so long as Wayland H. Cato, Jr., Edgar T. Cato, and any of their children and trusts for their benefit, own or have the right to vote or to direct the voting of shares of the outstanding voting stock of Cato equal to over 50% of the total combined voting power of the outstanding voting stock of Cato.

"Closing" shall mean the consummation of the lending transaction contemplated hereby to occur at the time and place specified in Section 5.1 hereof.

"Closing Date" shall mean the date referred to in Section 5.1 hereof.

"Commitment" shall mean, at any time, for any Lender, the amount set forth opposite such Lender's name on Annex I hereto under the heading "Commitment."

"Conversion Date" shall mean, with respect to any Term Loan, the date of conversion of certain of the Revolving Loans into such Term Loan pursuant to Section 2.4 which date shall be set forth in the Conversion Notice and shall be not later than three (3) Business Days after the delivery of the Conversion Notice by the Borrowers to the Agent and in no event shall be later than May 31, 1998.

"Conversion Notice" shall mean the notice in the form attached hereto as Exhibit C setting forth the Borrowers'

election to convert a certain portion of the Revolving Loans into Term Loans pursuant to Section 2.4 and specifying the Conversion Date.

"Current Assets" shall mean, at any date, the aggregate of the current assets of Cato and its Subsidiaries on a consolidated basis, determined in accordance with Generally Accepted Accounting Principles.

"Current Liabilities" shall mean, at any date, the aggregate of the current liabilities of Cato and its Subsidiaries on a consolidated basis, all determined in accordance with Generally Accepted Accounting Principles, except that outstanding borrowings of the Borrowers under the Revolving Line of Credit shall not be considered Current Liabilities.

"Default" shall mean any of the events specified in Article IX, regardless of whether there shall have occurred any passage of time or giving of notice or both that would be necessary to constitute such default an Event of Default.

"Default Rate" shall mean, with respect to any Loan, an interest rate equal to the Prime Rate plus four (4) percentage points.

"Designated Officer" shall mean the President or Chief Financial Officer of a Borrower or any other officer of a Borrower authorized by resolution of the Board of Directors of such Borrower to engage in the activity specified herein with respect to such officer.

"Disbursement Date" shall mean the date on which the LC Bank shall have notified the Borrowers of the presentation for

payment of a draft under any Letter of Credit.

"Documentary Letter of Credit" shall mean a Letter of Credit that by its terms requires, as a condition to any draw thereunder, the presentation of documents of title to goods purchased upon payment pursuant to such draw.

"Dollars" or "\$" shall mean dollars of the United States of America.

"Employee Plan" shall mean any "employee benefit plan" within the meaning of Section 3(3) of ERISA maintained by any Borrower or one of its Subsidiaries.

"Environmental Laws" shall mean any and all federal, state, local and foreign laws or regulations, codes, plans, orders, decrees, judgments, injunctions, notices or demand letters issued, promulgated, approved or entered under any of the foregoing, relating to pollution or protection of the environment, including without limitation, laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment (including without limitation ambient air, surface water, ground water, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes, and specifically including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601 et seq., as amended from time to time, and the Resource Conservation and Recovery Act 42 U.S.C. 6901 et seq., as

amended from time to time.

"EPA" shall mean the United States Environmental Protection Agency.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

"Event of Default" shall have the meaning specified in Article IX hereof.

"Financials" or "Financial Statements" shall mean the consolidated balance sheet and statements of income and cash flow, delivered to the Lenders by the Borrowers prior to the Closing Date in connection with this Loan Agreement or to be delivered to the Lenders by the Borrowers pursuant to Section 7.3 hereof.

"Fixed Charge Coverage Ratio" shall mean, as of the end of any fiscal quarter of Cato, the ratio of (i) the Adjusted Cash Flow for the four-fiscal-quarter period then ended to (ii) the Fixed Charges for such period.

"Fixed Charges" shall mean, for the relevant period, the sum of (a) the interest expense (including, without limitation, interest expense attributable to Capital Leases) of Cato and its Subsidiaries on a consolidated basis, (b) regularly scheduled payments of principal of Funded Debt of Cato and its Subsidiaries on a consolidated basis and (c) the Gross Rental Expense for such period, all as determined in accordance with Generally Accepted Accounting Principles.

"Floating Adjusted Certificate of Deposit Rate" shall mean,

on any given day, with respect to the Loans made by a Lender, the sum of:

(a) the quotient of (i) the CD Rate for the next preceding Business Day divided by (ii) the difference between one (1.00) minus the CD Reserve Requirement; plus

(b) the Assessment Rate of such Lender; plus

(c) 0.75 percentage points;

provided, however, that for any Saturday or Sunday, the CD Rate used in the foregoing calculation shall be the CD Rate for the immediately preceding Thursday (or if such Thursday is not a Business Day, then the Business Day next preceding such Thursday) and for any other day that is not a Business Day, the CD Rate used in the foregoing calculation shall be the CD Rate for the next preceding Business Day. The Floating Adjusted Certificate of Deposit Rate shall be calculated from time to time by each Lender with respect to its pro rata portion of the Loans (based on such Lender's Commitment as compared to the Total Commitment) and each such calculation with respect to such portion of the Loans shall be conclusive and binding upon the Borrowers in the absence of manifest error.

"Funded Debt" shall mean at any time the aggregate amount of Indebtedness for money borrowed of Cato and its Subsidiaries, on a consolidated basis, including the amount of any guaranties but excluding the face amount of any Documentary Letter of Credit issued for the account of any Borrower.

"Generally Accepted Accounting Principles" shall mean, with respect to any Borrower, generally accepted accounting

principles, as recognized by the American Institute of Certified Public Accountants, consistently applied and maintained on a consistent basis for such Borrower throughout the period indicated and consistent with the prior financial practice of such Borrower as reflected on the respective Financial Statements.

"Gross Rental Expense" shall mean for any period the rental expense under non-cancellable operating leases for such period of Cato and its Subsidiaries on a consolidated basis determined in accordance with Generally Accepted Accounting Principles.

"Indebtedness" shall mean all liabilities, obligations and indebtedness any of the Borrowers of any and every kind and nature, including, without limitation, the Obligations and all obligations to trade creditors, whether heretofore, now or hereafter owing, arising, due or payable from any of the Borrowers to any Person and howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise and whether matured or unmatured. Without in any way limiting the generality of the foregoing, Indebtedness specifically includes the following:

(a) all obligations or liabilities of any Person that are secured by any lien, claim, encumbrance or security interest upon property owned by any of the Borrowers, even though such Borrower has not assumed or become liable for the payment thereof;

(b) all obligations or liabilities created or arising under any lease (including but not limited to Capital Leases) of real or personal property, or conditional sale

or other title retention agreement with respect to property used or acquired by a Borrower, even though the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such property;

(c) all unfunded employee benefit plan obligations and liabilities; and

(d) deferred taxes.

"Intangible Assets" shall mean all intangible assets of Cato and its Subsidiaries, on a consolidated basis, including, without limitation, covenants not to compete, and any other asset that would be treated as an intangible under Generally Accepted Accounting Principles.

"Intercompany Loans" shall mean any loans or advances or other extensions of credit by either of the Borrowers solely to or for the benefit of the other Borrower.

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"LC Agreement" means the application for and all other agreements and other documentation relating to a Letter of Credit including the Continuing Letter of Credit Agreement in the form attached hereto as Exhibit B.

"LC Bank" shall mean NationsBank or such other of the Lenders as may be designated by the Required Lenders as the issuing bank for the Letters of Credit to be issued pursuant to Article III hereof.

"Lenders" shall mean, collectively, NationsBank of North Carolina, N.A. and Wachovia Bank of North Carolina, N.A., national banking associations with offices in Charlotte, North Carolina, and their successors or assigns.

"Letters of Credit" shall mean the Outstanding Letters of Credit and all letters of credit issued upon the application by a Borrower pursuant to Article III hereof.

"Loan" or "Loans" shall mean and collectively refer to the advances made hereunder which shall be evidenced by the Notes.

"Loan Documents" shall mean and collectively refer to this Agreement, the Notes, the LC Agreements, all Supplemental Documentation and any and all amendments, modifications, replacements, substitutes and supplements to such documents, together with any other documents executed by or on behalf of any of the Borrowers that designate themselves Loan Documents under this Agreement.

"Margin Stock" shall have the meaning provided in Regulation U.

"Material Adverse Effect" shall mean a material adverse effect on the financial condition or results of operations of the Borrowers and their Subsidiaries taken as a whole or upon the Borrowers' ability to perform their obligations under any of the Loan Documents.

"Multiemployer Plan" shall mean any "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA to which any Borrower is required to make contributions.

"Net Income" shall mean the consolidated net income of Cato and its Subsidiaries determined in accordance with Generally Accepted Accounting Principles.

"Net Worth" shall mean at any time the combined stockholders' equity of Cato and its Subsidiaries on a consolidated basis at such time determined in accordance with Generally Accepted Accounting Principles.

"Notes" shall mean the promissory notes of the Borrowers executed and delivered to the Lenders pursuant to Article II hereof, evidencing the obligation of the Borrowers to repay funds advanced pursuant to the Commitment of each Lender individually, and the Total Commitment in the aggregate, together with any amendments, modifications, substitutes and supplements thereto, any substitutes therefor, and any replacements, renewals or extension thereof, in whole or part.

"Notice of Borrowing" shall have the meaning given to such term in Section 2.1(b).

"Obligations" shall mean and include the Loans and all other loans, advances, indebtedness, liabilities, obligations, covenants and duties (including post-petition interest on the foregoing, to the extent lawful) owing, arising, due or payable jointly or severally, from any Borrower to the Agent or any Lender of any kind or nature, present or future, howsoever evidenced, created, incurred, acquired or owing, whether arising under this Agreement, the Notes, the LC Agreements or otherwise with respect to the Letters of Credit, or the other Loan Documents, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due

or to become due, now existing or hereafter arising and however acquired, but excluding obligations under Letters of Credit described in the final sentence of Section 3.1. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and any other sums chargeable to any Borrower by the Agent or any Lender under this Agreement or any of the other Loan Documents.

"OSHA" shall mean the Occupational Safety and Health Act, as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

"Outstanding Letters of Credit" shall mean any and all letters of credit issued by NationsBank for the account of any Borrower that are outstanding as of the date hereof, including any extensions or renewals thereof.

"Participant" shall mean any Person, now or at any time hereafter, participating with any Lender in the Loans to the Borrowers pursuant to this Agreement, and its successors and assigns.

"Pension Plan" shall mean any "employee pension benefit plan" within the meaning of Section 3(2) of ERISA which is maintained by any of the Borrowers, except that Pension Plan shall not include any Multiemployer Plan.

"Person" shall mean a corporation, an association, a joint venture, a partnership, an organization, a business, an individual, a trust or a government or political subdivision thereof or any government agency.

"Permitted Liens" shall mean any of the following liens securing any Indebtedness of a Borrower on its property, real or

personal, whether now owned or hereafter acquired:

(a) Liens of carriers, warehousemen, mechanics and materialmen imposed by mandatory provisions of law arising in the ordinary course of business for sums not yet due and payable or such liens securing an aggregate Indebtedness of not more than \$100,000 that are being contested in good faith;

(b) Liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance or other forms of governmental insurance or benefits or to secure obligations on surety or appeal bonds;

(c) Liens for current taxes (including income withholding taxes), assessments or other governmental charges that are not delinquent or remain payable without any penalty or that are being contested in good faith and with due diligence by appropriate proceedings, if the affected Borrower has established adequate reserves with respect thereto in accordance with Generally Accepted Accounting Principles or, with respect to liens arising in connection with income tax withholding, such Borrower has established adequate reserves with respect thereto;

(d) Statutory liens of banks and other financial institutions arising during the collection of instruments in the ordinary course of business;

(e) pledges or deposits in the ordinary course of a Borrower's business to secure the performance of leases or contracts entered into in the ordinary course of business;

(f) Liens upon any assets subject to a Capital Lease and securing payment of the obligations arising under such Capital Lease and any liens upon any equipment subject to an equipment operating lease and securing payment of the obligations arising under such lease;

(g) zoning restrictions, easements, licenses, landlord's liens or restrictions on the use of property which do not materially impair the use of such property in the operation of the business of a Borrower;

(h) Purchase Money Liens securing aggregate Indebtedness of the Borrowers and their Subsidiaries of no more than \$1,000,000; and

(i) Liens not described in subclauses (a) through (i) above that relate to liabilities not in excess of \$100,000 in the aggregate.

"Preferred Stock" shall mean Stock of any of the Borrowers that gives the holder thereof a preference over the holders of such Borrower's common stock with respect to the payment of dividends or liquidation proceeds, or otherwise designated by such Borrower as "preferred stock."

"Prime Rate" shall mean the per annum interest rate publicly announced from time to time by NationsBank from its principal office in Charlotte, North Carolina to be its prime rate, which may not necessarily be its best lending rate, and adjusted to conform to changes as of the opening of business on the date of any such change in such prime rate. In the event

NationsBank shall abolish or abandon the practice of announcing its prime rate or should the same be unascertainable, the Required Lenders shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Loan Agreement and the other Loan Documents.

"Prohibited Transaction" shall have the meaning given such term under ERISA.

"Purchase Money Liens" shall mean any lien or security interest granted in Capital Assets at the time of, or within ten (10) days after, the acquisition thereof by any Borrower or any Subsidiary of a Borrower to secure Indebtedness for all or a portion of the purchase price thereof, provided (i) any such lien or security interest shall not encumber any other property of such Borrower or such Subsidiary and (ii) any such lien shall not exceed the purchase price of the Capital Assets so acquired.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C.A. 6901 et seq., as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

"Realty" shall mean all realty and interests in realty owned or leased by any Borrower or any Subsidiary of a Borrower, now or in the future.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 204, or any successor or other regulation relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation G" shall mean Regulation G promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 207, or any successor or other regulation hereafter promulgated by said Board to replace the prior Regulation G and having substantially the same function.

"Regulation T" shall mean Regulation T promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 220, or any successor or other regulation hereafter promulgated by said Board to replace the prior Regulation T and having substantially the same function.

"Regulation U" shall mean Regulation U promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 221, or any successor or other regulation hereafter promulgated by said Board to replace the prior Regulation U and having substantially the same function.

"Regulation X" shall mean Regulation X promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 224, or any successor or other regulation hereafter promulgated by said Board to replace the prior Regulation X and having substantially the same function.

"Reportable Event" shall have the meaning given such term in ERISA.

"Required Lenders" shall mean at any time the Lenders providing Commitments in the aggregate of at least 75% of the Total Commitment.

"Revolving Credit Commitment" shall mean, at any time for any Lender, the difference between such Lender's Commitment minus

such Lender's pro rata portion (based on such Lender's Commitment as compared to the Total Commitment) of the aggregate principal amount (as of the Conversion Date) of the Revolving Loans converted to Term Loans pursuant to Section 2.4 hereof, if any.

"Revolving Line of Credit" shall mean the revolving line of credit made available by the Lenders to the Borrowers pursuant to Article II hereof.

"Revolving Loan Obligations" shall mean all Obligations of the Borrower under this Loan Agreement and the other Loan Documents other than the obligation to repay the Term Loans and to make interest payments thereon and the obligations of the Borrowers that, as set forth in this Loan Agreement, are to survive the repayment of the Loans.

"Revolving Loan Termination Date" shall mean the earliest of (i) prepayment by Borrowers of all Obligations, including without limitation all outstanding principal of the Revolving Loans and interest thereon, and termination of all Letters of Credit, together with a notice from each Borrower terminating this Agreement; (ii) May 31, 1998 (unless such date extended by written agreement of all of the Lenders pursuant to Section 2.2 hereof); (iii) the date of termination of this Agreement by the Lenders after the occurrence of an Event of Default; (iv) such date as is mutually agreed upon by the parties; and (v) the date after which all Obligations have been paid in full and no Lender is obligated to make advances or Loans hereunder or under any Letter of Credit.

"Revolving Loan" shall mean the Loans made by the Lenders to the Borrowers under the Revolving Line of Credit.

"Stock" shall mean all shares, options, interests or other equivalents (howsoever designated) of or in a corporation, whether voting or nonvoting, including, without limitation, common stock, warrants, preferred stock, convertible debentures and all agreements, instruments and documents convertible, in whole or in part, into any one or more or all of the foregoing.

"Subordinated Debentures" shall mean any Indebtedness of any Borrower which expressly contains in the instruments evidencing such Indebtedness, or in the indenture or other similar instrument pursuant to which such Indebtedness is issued, subordination provisions, satisfactory to the Required Lenders, and substantially to the effect that the holder agrees that the Indebtedness evidenced by such instrument, and any renewals or extensions thereof, shall at all times and in all respects be subordinate and junior in right of payment to the Obligations hereunder.

"Subsidiary" shall mean any corporation, fifty percent (50%) or more of the outstanding stock of which is at the time, directly or indirectly, owned by any Borrower or one or more of its Subsidiaries.

"Supplemental Documentation" shall mean all agreements, instruments, documents or other written matter necessary or requested by the Agent or the Lenders to consummate the transactions contemplated by this Agreement and the other Loan Documents.

"Tangible Net Worth" shall at any time mean Net Worth less all Intangible Assets.

"Term Loan" means a Loan made by the Lenders pursuant to the Borrowers' election to convert a portion of the Revolving Loans, pursuant to Section 2.4, into a term loan to be repaid as specified in Section 2.5.

"Total Commitment" shall mean, at any time, the sum of the Commitments of each of the Lenders at such time.

"Total Revolving Credit Commitment" shall mean the difference between the Total Commitment and the aggregate principal amount (as of the Conversion Date) of the Revolving Loans converted to Term Loans pursuant to Section 2.4 hereof, if any.

"Uniform Commercial Code" shall mean the Uniform Commercial Code of the State of North Carolina, as amended from time to time, unless in any particular instance the Uniform Commercial Code of another state is applicable, in which case it shall mean the Uniform Commercial Code of such state.

1.2 Accounting Terms. Any accounting terms used in this Agreement that are not specifically defined shall have the meanings customarily given them in accordance with Generally Accepted Accounting Principles; provided, however, that, in the event that changes in Generally Accepted Accounting Principles shall be mandated by the Financial Accounting Standard Board, or any similar accounting body of comparable standing, or any change in accounting practices shall be recommended by Cato's independent certified public accountants, and to the extent that such changes would modify or could modify such accounting terms or the interpretation or computation hereof, such changes shall be followed in defining such accounting terms only from and after the date the Borrowers and the Required Lenders shall have

amended this Loan Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Loan Agreement.

1.3 Singular/Plural. Unless the context otherwise requires, words in the singular include the plural and words in the plural include the singular.

1.4 Other Terms. All terms contained in this Agreement shall, when the context so indicates, have the meanings provided for by the Uniform Commercial Code of the State of North Carolina to the extent the same are used or defined therein.

ARTICLE II Loan Facility

2.1 Revolving Line of Credit.

(a) The Lenders hereby agree to establish, subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties made hereunder, a Revolving Line of Credit in favor of the Borrowers in the aggregate principal amount of up to Thirty-five Million Dollars (\$35,000,000) and agree to make and remake one or more advances to the Borrowers, upon the terms and conditions set forth in this Article II, from time to time on any Business Day during the period from the date hereof through the Revolving Loan Termination Date. The Borrowers may borrow, repay and reborrow any amount of the Revolving Line of Credit, provided that the sum of (i) the aggregate principal amount outstanding at any one time under the Revolving Line of Credit plus (ii) the face amount of all Letters of Credit (excluding Letters of Credit issued pursuant to the Additional LC Facility) then outstanding may not exceed the Total Revolving Credit Commitment; provided further, that the amount advanced by an individual Lender pursuant to this Article shall not exceed such Lender's Revolving Credit Commitment at any time.

Notwithstanding the foregoing, no Lender shall have any obligation to lend funds at any time when an Event of Default exists or when there exists any event or condition that, with the lapse of time, giving of notice or making of such advance, would constitute an Event of Default or when one or more of the conditions set forth in Article V has not been satisfied.

(b) Whenever the Borrowers desire to borrow Revolving Loans under the Revolving Line of Credit, a Designated Officer or other officer authorized by a Designated Officer shall give each Lender prior to 2:00 p.m. (Charlotte, North Carolina time) on or prior to the day of borrowing written notice (or telephonic notice promptly confirmed in writing) of each Revolving Loan to be made hereunder. Each such notice (each a "Notice of Borrowing") shall be irrevocable and shall specify (i) the aggregate principal amount of the Revolving Loans to be made by each Lender (which shall be pro rata based on each Lender's Revolving Credit Commitment as compared to the Total Revolving Credit Commitment) pursuant to such borrowing, (ii) the date of the borrowing (which shall be a Business Day), (iii) disbursement instructions with respect to such Loan, (iv) the amount of Revolving Loans outstanding, (v) the amount of the Revolving Loans that had been converted to Term Loans, and (vi) the face amounts of outstanding Letters of Credit issued pursuant to the Revolving Line of Credit and the Additional LC Facility, respectively. Each Notice of Borrowing shall also set forth the total Revolving Loans and Letters of Credit outstanding with respect to each Lender after giving effect to the Revolving Loans requested.

(c) (i) No later than 3:00 p.m. (Charlotte, North Carolina time) on the date specified in each Notice of Borrowing, each Lender will make available its pro rata portion of each borrowing requested to be made on such date in the manner

provided below.

(ii) All amounts that a Lender is to fund shall be made available in Dollars and immediately available funds to the Borrowers in accordance with the Notice of Borrowing.

(iii) Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its commitments hereunder or make any Lender responsible for the default of any other Lender in its obligation to make Loans hereunder.

2.2Term. The term of the Revolving Line of Credit will begin on the date hereof and end on May 31, 1998, unless terminated sooner in accordance with the terms of this Agreement; provided, however, that the term of the Revolving Line of Credit may be extended for successive one-year periods upon the request of the Borrowers and the agreement in writing of all of the Lenders to any such extension.

2.3Notes. On the Closing Date, each of the Borrowers shall execute and deliver to each of the Lenders a Note to evidence the Loans to be made by such Lender. Each Note shall (i) be dated as of the Closing Date, (ii) be in an amount equal to such Lender's Commitment, (iii) be payable to the order of such Lender, (iv) bear interest in accordance with this Loan Agreement hereof, and (v) be in the form of Exhibit A attached hereto with blanks appropriately completed in conformance herewith. On the date of the amendment and restatement of this Agreement, as specified above, the Borrowers will execute and deliver to each of the Lenders a new note dated as of such date but otherwise in accordance with the preceding sentence. The amount of principal owing on the Notes at any given time shall be the aggregate amount of all advances made under the Revolving Line of Credit,

less all payments of principal theretofore paid by the Borrower.

2.4 Conversion to Term Loans. Subject to the terms and conditions hereof, the Borrower, from time to time, may elect to convert up to Twenty Million Dollars (\$20,000,000) of the aggregate principal amount of the Revolving Loans into Term Loans by delivering to each of the Lenders at any time before May 31, 1998, an executed Conversion Notice setting forth the Conversion Date. Notwithstanding any provision of this Loan Agreement, no portion of the Revolving Loans may be converted to Term Loans at any time during the continuance of a Default or Event of Default. The amount of Revolving Loans held by any Lender that are so converted into Term Loans on the Conversion Date shall be in the proportion of such Lender's Commitment as compared to the Total Commitment.

2.5 Repayment.

(a) The Borrowers shall repay the outstanding principal balance of the Revolving Loans in full, immediately upon the occurrence of any Event of Default and acceleration by the Lenders pursuant to Articles IX and X hereof of the principal and interest due under the Notes.

(b) On the Revolving Loan Termination Date, the aggregate outstanding principal balance of the Revolving Loans under the Revolving Line of Credit plus all other Revolving Loan Obligations as of the Revolving Loan Termination Date shall be payable in full.

(c) The Borrowers shall repay the outstanding principal balance of the Term Loans.

(i) In sixteen equal quarterly installments, each equal to one sixteenth of the initial principal amount of such Term Loan, due on the last Business Day of each fiscal quarter of Cato commencing on the first such date following the Conversion Date of such Term Loan;

(ii) In full, immediately upon the occurrence of any Event of Default and acceleration by the Lenders pursuant to Articles IX and X hereof of the principal and interest due under the Notes.

2.6 Use of Proceeds. The proceeds of the Loans shall be used by the Borrowers solely (i) to provide working capital; (ii) to support the issuance of letters of credit; and (iii) for such other corporate purposes as the Borrowers may determine, other than uses restricted hereunder.

2.7 Revolving Line of Credit Facility Fee. During the term of the Revolving Line of Credit, the Borrowers shall pay to each Lender such Lender's pro rata portion (based on such Lender's Commitment as compared to the Total Commitment) of a facility fee of Seventy Thousand Dollars (\$70,000) per annum. Such fee shall accrue from the Closing Date and shall be payable to each Lender on the last day of each fiscal quarter of Cato thereafter, in arrears.

2.8 Term Loan Commitment Fee. On the Closing Date, the Borrowers shall pay to each Lender its pro rata portion (based on such Lender's Commitment as compared to the Total Commitment) of a \$50,000 fee in consideration of such Lender's commitment to

permit the conversion of Revolving Loans to Term Loans pursuant to Section 2.4 hereof. On the date of this amendment and restatement the Borrowers shall pay to each Lender its pro rata portion (based on such Lender's Commitment as compared to the Total Commitment) of a \$10,000 fee in consideration of the extension of such Lender's Commitment to permit the conversion of Revolving Loans to Term Loans pursuant to Section 2.4.

2.9Interest. (a) The Borrowers covenant and agree to pay to each Lender interest at the Applicable Rate on the unpaid principal amount of the Revolving Loans made by such Lender.

(b) The Borrowers covenant and agree to pay to each Lender interest at the Prime Rate on the unpaid principal amount of the Term Loan made by such Lender.

(c) All interest accrued on the Loans pursuant to the Notes shall be due and payable on the last Business Day of each fiscal quarter of Cato.

2.10Computation. Interest on the Loans and fees due hereunder shall be computed on the basis of the actual days elapsed in a year consisting of 360 days.

2.11Default Rate; Post-petition Interest. Notwithstanding any other provision of this Agreement, during the continuance of any Event of Default all outstanding principal amounts of the Loans, and to the full extent permitted by law, all interest accrued on the Loans shall bear interest at the Default Rate, and shall be payable on demand. To the full extent permitted by applicable law, interest shall continue to accrue on the Notes after the filing by or against any or all of the Borrowers of any petition seeking any relief in bankruptcy or under any act or law

pertaining to insolvency or debtor relief, whether state, federal or foreign.

2.12Maximum Interest Rate. Nothing contained in this Agreement or in the Notes shall be deemed to establish or require the payment of interest to any Lender at a rate in excess of the maximum rate permitted in the jurisdiction of enforcement of this Agreement or the Notes. In the event that the rate of interest required to be paid under other provisions of this Agreement or the Notes exceeds the maximum rate permitted in such jurisdiction, the rate of interest required to be paid hereunder and under the Notes shall be automatically reduced to the maximum rate permitted in such jurisdiction and any amounts collected in excess of the permissible amount shall be deemed a prepayment of principal on the Notes.

2.13Payment.

(a) All payments (including prepayments) by any Borrower on account of principal, interest and fees due hereunder and under the Notes shall be made, in immediately available funds, to the appropriate Lender at such Lender's address as shown on Annex I attached hereto prior to 2:00 p.m., Charlotte, North Carolina time, on the date payment is due, or at such other place as is designated in writing by such Lender. Any payments under this Agreement which are made later than 2:00 p.m. (Charlotte, North Carolina time) shall be deemed to have been made on the next succeeding Business Day.

(b) Upon the failure of the Borrowers to make any principal or interest payment within five (5) days of the due date thereof, and immediately upon the due date of any fees, expenses or other

charges due hereunder or under any of the Loan Documents, the Borrowers hereby authorize and direct each Lender to pay itself all such amounts by drawing such amounts under the Revolving Line of Credit. Such Lender shall give the Borrowers telephonic notice of the amount of any such draws on the day of such draws; provided, however, that a failure to give such notice shall not affect the validity of any such draws. Failure of any Lender to make payments to itself pursuant to this subparagraph shall in no way release or excuse the Borrowers from making the payments due the Lenders hereunder.

2.14 Application of Principal Payments; Register; Pro Rata Borrowings.

(a) All payments made by the Borrowers shall be applied (i) first, to the payment of fees, interest and expenses due and payable on the Notes, and (ii) second, to the payment of unpaid principal on the Notes that is due and payable (to the extent any payment of unpaid principal exceeds the amount of the installment of principal of the Term Loans then due and payable, such excess shall be applied to the principal amount of the Revolving Loans unless otherwise specified by the Borrowers in a notice delivered to the Lenders at the time of such payment).

(b) Each Lender will record on its internal records the amount of each Loan made by it and each payment in respect thereof. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrowers' obligations in respect of such Loans.

(c) Each Loan under this Agreement shall be loaned by each Lender in the proportion of such Lender's Commitment as compared to the Total Commitment.

ARTICLE IIA Additional Letter of Credit Facility

2.1A Additional Letter of Credit Facility. The Lenders hereby agree to establish, subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties made hereunder, an Additional LC Facility in the amount of Fifteen Million Dollars (\$15,000,000.00).

2.2A Term. The Additional LC Facility shall exist for a term beginning on December 16, 1994 and ending on May 31, 1995; provided, however, that the term of the Additional LC Facility may be extended from time to time for additional periods of up to 364 days upon the request of the Borrowers and the agreement in writing of all of the Lenders. The Borrowers may, within 60 days prior to the end of the then-current term, make a written request to the Lenders for an extension of the term of the Additional LC Facility, and within 30 days after the Lenders' receipt of such a request the Lenders shall give the Borrowers written notice of their agreement to extend the term or their refusal to do so. Any failure of the Lenders to respond will be deemed a refusal to extend the term.

2.3A Purpose. The sole purpose of the Additional LC Facility is to support the issuance of Letters of Credit pursuant to Article III.

2.4A Facility Fee. During the term of the Additional LC Facility the Borrowers shall pay each Lender such Lender's pro rata portion (based on such Lender's Commitment compared to the Total Commitment) of a facility fee of Eighteen Thousand Seven Hundred Fifty Dollars (\$18,750) per annum. Such fee shall accrue

from December 16, 1994 and shall be payable to each Lender on the last day of each fiscal quarter of Cato thereafter, in arrears.

2.5 Payment; Computation. Payment, applications of payments, and calculations with respect to such facility fee will be made pursuant to the provisions of Article II.

ARTICLE III Letters of Credit 3.1 Letters of Credit. During the term of this Agreement, any Borrower may request from time to time that the LC Bank issue for such Borrower's account one or more Letters of Credit to facilitate the purchase of inventory by the Borrowers in the ordinary course of business. Applications for Letters of Credit shall be made on the forms provided by the LC Bank to such Borrower for such purpose, which forms shall be substantially similar to the form attached hereto as Exhibit B. If the face amount of the Letter of Credit requested is available under the terms hereof, the LC Bank agrees to issue the Letter of Credit requested, on behalf of all of the Lenders, provided that (i) the expiration date of the requested Letter of Credit is no later than the Revolving Loan Termination Date; (ii) there is no currently existing Event of Default, and (iii) all of the other terms and conditions of this Agreement and any LC Agreements have been met. Notwithstanding the restriction of clause (i) above, the LC Bank agrees to issue Letters of Credit having expiration dates that are after the Revolving Loan Termination Date and having an aggregate face amount of not more than Four Million Dollars (\$4,000,000) provided that (w) the expiration date of such Letters of Credit are not more than 91 days after the Revolving Loan Termination Date, (x) such Letters of Credit by their terms require, as a condition to any draw thereunder, the presentation of documents of title to goods purchased upon

payment pursuant to such draw, (y) the Borrower's reimbursement obligations to the LC Bank with respect to such Letters of Credit are fully secured, to the satisfaction of the Lenders, by cash collateral on deposit with the LC Bank, and (z) the conditions of clauses (ii) and (iii) above are satisfied at the time the Borrower applies for such Letters of Credit.

In each application for a Letter of Credit the Borrowers shall designate whether such Letter of Credit shall be issued pursuant to the Revolving Line of Credit or the Additional LC Facility, but (i) no Letter of Credit with an expiration date that is more than 90 days after the Additional LC Facility Termination Date (as of the date of such application) will be issued pursuant to such Additional LC Facility, and (ii) the aggregate face amount of all Letters of Credit outstanding pursuant to the Additional LC Facility at any one time may not exceed \$15,000,000.

3.2 Notice of Issuance. Whenever a Borrower desires the issuance of a Letter of Credit, it shall, in addition to completing any application procedures and documents required by the LC Bank for the issuance of a Letter of Credit, notify the LC Bank no later than 2:00 p.m. (Charlotte time) on the Business Day of the proposed date of issuance. Each such notice shall specify (i) the proposed date of issuance (which shall be a Business Day), (ii) the face amount of the Letter of Credit, (iii) the expiration date of the Letter of Credit, and (iv) the name and address of the beneficiary with respect to such Letter of Credit.

3.3 Reimbursements. Prior to 2:00 p.m., Charlotte, North Carolina time, on any Disbursement Date the Borrowers will reimburse the LC Bank for all amounts which it has disbursed under a Letter of Credit. In the event the LC Bank is not

reimbursed by the Borrowers on the Disbursement Date, the Lenders shall fund (without any requirement that the conditions set forth in Article V shall have been fulfilled) the reimbursement obligation therefor by making Revolving Loans as provided in Section 2.1 (the Borrowers being deemed to have given a timely request therefor for such amount); provided, however, for the purpose of determining the availability of a borrowing under the Revolving Line of Credit immediately prior to giving effect to the application of the proceeds of such Revolving Loans, such Letter of Credit shall be deemed not to be outstanding at such time.

The Borrowers' obligations under this Section 3.3 to reimburse the LC Bank with respect to each disbursement (including interest thereon) in respect of a Letter of Credit, shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment that the Borrowers may have or have had against any Lender or any beneficiary of a Letter of Credit, including any defense based upon the occurrence of any Default or Event of Default, any draft, demand or certificate or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient, the failure of any disbursement to conform to the terms of the applicable Letter of Credit (if in good faith opinion of the LC Bank, such disbursement is determined to be appropriate) or any nonapplication or misapplication by the beneficiary of the proceeds of such disbursement, or the legality, validity, form, regularity or enforceability of such Letter of Credit.

3.4 Letter of Credit Fees. The Borrowers agree to pay the LC Bank, on demand, the LC Bank's standard opening and operating fees, commissions and charges in effect from time to time for

issuing and administering any Letters of Credit, all in accordance with the LC Agreements relating to such Letters of Credit, and all interest due under such LC Agreements. The Borrowers further agree to pay to the LC Bank (i) a fee at the rate of three-quarters percent (3/4%) per annum of any Letter of Credit that is not a Documentary Letter of Credit for the period commencing on the date of issuance of such Letter of Credit and ending on the termination date of such Letter of Credit, payable on the date of issuance of such Letter of Credit and (ii) a fee at the rate of three-sixteenths of one percent (0.1875%) of the amount of each drawing under a Documentary Letter of Credit, payable at the time of the drawing; provided, however, that the minimum fee for any Documentary Letter of Credit shall be \$50. The Lenders shall fund (without any requirement that the conditions set forth in Article V shall have been fulfilled) the amount of any such fees, commissions, charges and interest when due and payable through Revolving Loans, to the extent available (the Borrowers being deemed to have given a timely Loan request therefor).

3.5Reimbursement and Other Obligations. All obligations of a Borrower to pay money to the LC Bank, including without limitation, any reimbursement obligations pursuant to Section 3.3 or pursuant to the LC Agreements, shall be deemed Obligations of all Borrowers hereunder jointly and severally, and shall constitute Obligations under the Agreement and the other Loan Documents.

3.6Other Terms. All other terms and conditions of the Letters of Credit shall be subject to and governed by the provisions of the LC Agreements relating to each specific Letter of Credit.

3.7 Participations in Letters of Credit. The LC Bank will sell and the other Lenders will purchase, participation interests in the Letters of Credit, such that the relative risks, benefits, fees and expenses of each Letter of Credit will be shared by the Lenders pro rata based on each Lender's Commitment as compared to the Total Commitment.

ARTICLE IV Provisions Applicable to Both the Letters Of Credit and the Revolving Credit Loans

4.1 Capital Adequacy. In the event that any Lender shall have determined that the adoption of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or by any court, or compliance by such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of its obligations hereunder to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies as the case may be, with respect to capital adequacy) by an amount deemed by such Lender to be material, then the Borrowers, within fifteen (15) days of any written request by such Lender, shall pay to such Lender such additional amount or amounts as will compensate such Lender for any such reduction suffered; provided that no Borrower shall be obligated to pay any such amounts for actual reductions suffered more than one hundred-twenty (120) days prior to the date of such request. Within a reasonable time after making a

request for such additional amount hereunder, the Lender will furnish to the Borrowers a statement certifying the amount hereunder, the Lender will furnish to the Borrowers a statement certifying the amount of such reduction and describing the event giving rise to such reduction, which describing the event giving rise to such reduction, which determination shall be conclusive absent manifest error. Failure on the part of a Lender to demand payment of any additional amounts hereunder shall not constitute a waiver of such Lender's right to demand payment of any amounts arising at any subsequent time. Nothing herein contained shall be construed or so operate as to require the Borrowers to pay any interest, fees, costs or charges greater than is permitted by applicable law.

4.2 Taxes.

(a) Any and all payments by the Borrowers hereunder or under the Notes, the LC Agreements or the other Loan Documents shall be made in accordance with the terms hereof and thereof, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes measured by net income, and franchise taxes imposed on any Lender, by the jurisdiction under the laws of which such Lender is organized or transacting business or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrowers shall be required by law to deduct any Taxes from or in respect of any sum payable under any such documents to a Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.2) such Lender receives an amount

equal to the sum it would have received had no such deductions been made, (ii) the Borrowers shall make such deductions, (iii) the Borrowers shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) the Borrowers shall deliver to such Lender evidence of such payment to the relevant taxation authority or other authority.

(b) In addition, the Borrowers agree to pay any and all present or future intangibles, stamp or documentary taxes or any other excise or property taxes, charges or similar levies of the United States or any state or political subdivision thereof or any applicable foreign jurisdiction that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement (hereinafter referred to as "Other Taxes").

(c) The Borrowers hereby agree jointly and severally to indemnify the Agent and each Lender for the full amount of Taxes or Other Taxes (including without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 4.2) paid by the Agent and any Lender (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date the Agent or any Lender makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes pursuant to this Section 4.2, the Borrowers will furnish to the relevant Lender the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of the Borrowers hereunder, the agreements and obligations of the Borrowers contained in this Section 4.2 shall survive the payment in full of principal and interest and all other payments due hereunder.

ARTICLE VClosing; Conditions of Closing and Borrowing

5.1Closing. The Closing shall take place at 10:00 a.m. on March 9, 1993 at the offices of Robinson, Bradshaw & Hinson, P.A., 1900 Independence Center, 101 North Tryon Street, Charlotte, North Carolina 28246 or at such time as the parties hereto shall mutually agree.

5.2Conditions of Loans and Advances. The obligation of the Lenders to close this financing or to make any Loans or advances under this Agreement is subject to: (a) the accuracy and correctness of the representations and warranties of the Borrowers contained herein, in the other Loan Documents and in any certificate delivered pursuant to this Agreement or the other Loan Documents, in all respects as if made on the date of such Loan or advance; (b) the performance by the Borrowers of their respective agreements contained herein and in the other Loan Documents; and (c) the continued satisfaction of the following conditions:

5.2.1Executed Loan Documents.

(a) Certain Documents. The following Loan Documents shall have been duly authorized, executed and delivered by the appropriate Borrower or Borrowers, in form and substance satisfactory to each Lender, shall be in full force and effect and no event of default, as defined therein, or event or condition that, with the lapse of time or giving of notice, or both, would constitute an event of default thereunder, shall exist, and the Agent and each Lender shall have received fully executed originals thereof:

- (i) the Notes; and
- (ii) the Continuing Letter of Credit Agreement attached hereto as Exhibit B.

(b) Intercreditor Matters. The Agent and the Lenders shall have entered into a satisfactory intercreditor agreement setting forth the rights and responsibilities of the Agent and the Lenders.

5.2.2Closing Certificates, etc.

(a) Certificates of the Borrowers. The Agent and the Lenders shall have received a certificate dated as of the Closing Date from each Borrower, in form and substance satisfactory to the Lenders, to the effect that all representations and warranties of such Borrower contained in this Agreement and the other Loan Documents are true, correct and complete; that such Borrower is not in violation of any of the covenants contained in this Agreement or the other Loan Documents; that, giving effect to the transactions contemplated by this Agreement, no Event of Default nor any event or condition which with notice, lapse of time, or both would constitute such an Event of Default, has occurred and is continuing; and that each Borrower has satisfied each of the closing conditions applicable to such Borrower. Each request for an advance under the Revolving Line of Credit, each application for a Letter of Credit and each advance made or Letter of Credit issued by any Lender on behalf of a Borrower pursuant to such request or application shall be deemed to be a new certification by the Borrowers under this Section 5.2.2(a) as of the date of such request or advance.

(b) Certificates of Secretary. The Agent and the Lenders shall have received a certificate dated as of the Closing Date of the Secretary or an Assistant Secretary of each Borrower certifying: (a) that attached thereto is a true and complete copy of the bylaws of such Borrower, as in effect on the date of such certification; (b) that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of such Borrower authorizing the execution, delivery and performance of this Agreement and the other Loan Documents; and (c) as to the incumbency and genuineness of the signature of each officer of such Borrower, as applicable, executing this Agreement or any of the other Loan Documents.

(c) Articles of Incorporation. The Agent and the Lenders shall have received copies of the certificate of incorporation of each Borrower and all amendments thereto, certified as of a recent date by the Secretary of State of such Borrower's state of incorporation and a certification by each Borrower that such certificate of incorporation have not been amended since such

date.

(d) Certificates of Good Standing. With respect to each Borrower, the Agent and the Lenders shall have received (i) a long-form certificate as of a recent date of such corporation's good standing under the laws its state of incorporation and of each state in which it is authorized to transact business, and (ii) good standing certificates from the Department of Revenue of the state of incorporation of each Borrower, indicating that such Borrower has filed all required tax returns and such Borrower owes no delinquent taxes.

(e) Opinion of Counsel to the Borrower. The Lenders shall have received the favorable opinion of the law firm of Moore & Van Allen, counsel for the Borrowers, dated as of the Closing Date and addressed to the Lenders, as to the matters set forth on Exhibit D hereto, in form and substance satisfactory to the Lenders.

5.2.3 Consents, No Adverse Change.

(a) Governmental Approvals. All necessary approvals, authorizations and consents, if any be required, of all governmental bodies (including courts) having jurisdiction with respect to the transactions contemplated by this Agreement shall have been obtained.

(b) No Injunction, Etc. No injunction, restraining order, or judgment before any court, governmental agency or legislative body shall have been obtained which enjoins, restrains, or prohibits, or awards substantial damages in respect of, this Agreement or the consummation of the transactions contemplated hereby.

(c) Event of Default. No Event of Default, nor any event or condition which, with notice, lapse of time or the making of any Loan or advance, would constitute an Event of Default, shall have occurred and be continuing.

5.2.4 Miscellaneous.

(a) Proceedings and Documents. All certificates and other instruments and documents and all proceedings in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Lenders. The Agent and the Lenders shall have received copies of all other certificates, instruments and documents, and other evidence as they may reasonably request, in form and substance satisfactory to the Lenders, with respect to the transactions contemplated by this Agreement and the taking of all actions in connection therewith.

(b) Disbursement Instructions. The Lenders shall have received written instructions and authorization from the Borrowers to the Lenders as to the payment of any proceeds of Loans made under this Agreement that are to be paid on the Closing Date.

(c) Payment at Closing. There shall have been paid by the Borrowers to the respective parties entitled thereto the fees and expenses due hereunder, including the fees described in Section 2.8.

5.3 Waiver of Conditions Precedent. If any Lender makes any

Loan or advance hereunder prior to the fulfillment of any of the conditions precedent set forth in this Article V, the making of such Loan or advance shall constitute only an extension of time for the fulfillment of such condition and not a waiver thereof, and each Borrower shall thereafter use its best efforts to fulfill each such condition promptly.

ARTICLE VI Representations and Warranties

In order to induce the Lenders to enter into this Agreement and to make the Loans, each of the Borrowers (severally and jointly with the other Borrowers) makes the following warranties

and representations to the Agent and the Lenders, all of which shall be true and correct as of the date the initial Loan is made hereunder and shall survive the execution of this Agreement and the making of such initial Loan:

6.1 Corporate Organization and Power. Each of the Borrowers (i) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and (ii) is qualified to do business and is in good standing in every other jurisdiction in which the nature of its business or the ownership of its properties requires it to be so qualified and where failure to so qualify would have a Material Adverse Effect. Each Borrower (x) has the requisite corporate power and authority and the right to own and operate its properties, to lease the property it operates under lease, and to conduct its business as now and proposed to be conducted; (y) has full power to engage in the transactions contemplated hereby and in the other Loan Documents; and (z) has the full power, authority and legal right to execute and deliver this Agreement, and the other Loan Documents executed by it and to perform and observe the terms and provisions hereof and thereof. Cato, as of the date hereof, has no Subsidiaries except CHW, which is a wholly owned Subsidiary of Cato.

6.2 Litigation; Government Regulation. As of the Closing Date, there are no material actions, suits, investigations or proceedings pending or, to the knowledge of each Borrower, threatened against or affecting any Borrower, or that question the validity of this Agreement, or any of the Loan Documents, at law or in equity before any court or administrative officer or agency, and no Borrower is in violation of or in default under any applicable statute, rule, order, decree, writ, injunction or regulation of any governmental body (including any court) where

such violation may have a Material Adverse Effect.

6.3Taxes. No Borrower is delinquent in the payment of any taxes, including sales taxes, that have been levied or assessed by any governmental authority against it or its assets, unless such taxes are being diligently contested by such Borrower by appropriate proceedings and the failure to timely pay such taxes will not have a Material Adversely Effect. Each Borrower has timely filed all tax returns that are required by law to be filed, and has paid all taxes shown on said returns and all other assessments or fees levied upon such Borrower, or upon its properties to the extent that such taxes, assessments or fees have become due and if not due, such taxes have been adequately provided for. To the knowledge of each Borrower, no material controversy in respect of income taxes is pending or threatened.

6.4Enforceability of Loan Documents; Compliance With Other Instruments. Each of the Loan Documents executed by any Borrower is the legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms. No Borrower is in default in any material respect with respect to any indenture, loan agreement, mortgage, lease, deed or similar agreement related to the borrowing of monies to which such Borrower is a party or by which it is bound. Neither the execution, delivery or performance of the Loan Documents executed by the Borrowers, nor compliance therewith: (a) conflicts or will conflict with or results or will result in any breach of, or constitutes or will constitute with the passage of time or the giving of notice or both, a default under, (i) the certificate of incorporation or bylaws of any Borrower, (ii) any law, order, writ, injunction or decree of any court or governmental authority, or (iii) any agreement or instrument to which any Borrower is a party or by which any Borrower, or its respective

properties, is bound or (b) results or will result in the creation or imposition of any lien, charge or encumbrance upon its properties pursuant to any such agreement or instrument, except Permitted Liens.

6.5 Governmental Authorization. No authorization, consent or approval of, or declaration or filing with, any governmental authority is required for the valid execution, delivery and performance by each Borrower of the Loan Documents or the consummation by each Borrower of the transactions contemplated hereby and thereby. Each Borrower has, and is in good standing with respect to, all material governmental approvals, permits, certificates, inspections, consents and franchises necessary to continue to conduct its respective businesses as heretofore conducted and to own or lease and operate its properties as now owned or leased by it. None of such approvals, permits, certificates, consents, or franchises contains any term, provision, condition or limitation more burdensome than such as are generally applicable to Persons engaged in the same or similar business as such Borrower.

6.6 Event of Default. No event has occurred and is continuing that constitutes an Event of Default or would constitute such an Event of Default after notice or lapse of time or both.

6.7 Margin Securities. Neither the making of any Loan hereunder, nor the use of the proceeds thereof, will violate or be inconsistent with the provisions of Regulation G, T, U or X of the Board of Governors of the Federal Reserve System and no part of the proceeds of any Loans will be used to purchase or carry any Margin Stock in violation of Regulation U or to extend credit

for the purpose of purchasing or carrying any Margin Stock in violation of Regulation U.

6.8 Full Disclosure. None of the Loan Documents, nor any statements furnished to the Agent or any Lender by or on behalf of a Borrower in connection with the transactions contemplated by the Loan Documents, contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained therein or herein not misleading. There is no fact known to either Borrower not disclosed to the Lenders in writing that has or, to the best of either Borrower's knowledge, would have a Material Adverse Effect.

6.9 ERISA.

(a) No accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Internal Revenue Code), whether or not waived, has occurred with respect to any Employee Plan, and no termination event or Reportable Event has occurred or is reasonably expected to occur with respect to any Employee Plan. The present value of all accrued benefits under each Employee Plan (based on those assumptions used to fund such Employee Plan) did not, as of the most recent valuation date, exceed the then current value of the assets of such Employee Plan allocable to such benefits. Full payment has been made on or before the due date thereof of all amounts that each Borrower is required under the terms of each Employee Plan to have paid as contributions to such plan.

(b) No Borrower has incurred any withdrawal liability under Section 4201 of ERISA.

(c) No Borrower has participated in any prohibited

transaction (as defined in Section 406 or ERISA or Section 4975 of the Internal Revenue Code), which has subjected, or may subject, it to any material civil penalty or tax imposed by Section 502(i) of ERISA or Section 4975 of the Internal Revenue Code, respectively. No Borrower has incurred, or is reasonably expected to incur, any liability to the Pension Benefit Guaranty Corporation (other than for insurance premiums which have been paid when due).

(d) To the knowledge of each Borrower and based on actuarial reports, the present value (determined using actuarial and other assumptions that are reasonable in respect of the benefits provided and the employees participating) of the liability of each Borrower for post-retirement benefits to be provided to its current and former employees under all welfare benefit plans (as defined in Section 3(1) of ERISA) does not, in the aggregate, exceed the assets under all such plans allocable to such benefits by an amount that would have a Material Adverse Effect.

(e) The execution and delivery of this Agreement will not involve any transaction which is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975 of the Internal Revenue Code.

(f) No Borrower is making or has ever made or been required to make any contributions to a Multiemployer Plan.

6.10 Financial Statements. The Financial Statements of the Borrowers delivered to the Lenders by the Borrowers in connection with this Loan Agreement have been prepared by the Borrowers in accordance with Generally Accepted Accounting Principles, and in the case of the most recent annual Financial Statements have been

audited by Ernst and Young, independent certified public accountants, in accordance with generally accepted auditing standards, and they contain no material misstatement or omission and fairly present the consolidated financial position, assets and liabilities of the Borrowers as of the respective dates thereof and the results of operations of the Borrowers for the respective periods then ended. Since the date of the unaudited Financial Statements for the most recent fiscal quarter, there has been no material adverse change in the consolidated assets, liabilities or financial position of Cato and its Subsidiaries or in the consolidated results of operations of Cato and its Subsidiaries, and neither of the Borrowers has incurred any obligation or liability that would have a Material Adverse Effect.

6.11 Title to Assets. Each Borrower has good, indefeasible and merchantable title in fee simple (or its equivalent under applicable law) to and ownership of the properties owned by it (as reflected in the Financial Statements) and all of its other assets, including without limitation, the assets reflected in the most recent Financial Statements, free and clear of all liens, claims, security interests and encumbrances, except those in favor of the Lenders and Permitted Liens; and, except for financing statements filed in connection with a loan agreement being terminated on the Closing Date following the discharge on the Closing Date of all indebtedness thereunder, which financing statements shall be promptly terminated, and financing statements filed in connection with the Permitted Liens, no financing statement under the Uniform Commercial Code that names any Borrower as debtor has been filed and is still in effect, other than in favor of the Lenders, and no Borrower has signed any financing statement or any security agreement authorizing any

secured party thereunder to file any such financing statement.

Each Borrower enjoys peaceful and undisturbed possession under substantially all of its leases and all such leases are valid and subsisting and in full force and effect.

6.12 Use of Proceeds. Each Borrower's uses of the proceeds of any Loans made by the Lenders to the Borrowers pursuant to this Agreement are, and continue to be, legal and proper uses and such uses are and will be consistent with all applicable laws and statutes, as in effect from time to time.

6.13 Environmental Matters. Except for permitted operations in full compliance with all applicable federal, state and local Environmental Laws, regulations and rules: (a) No dangerous, hazardous or toxic substances, pollutants, contaminants, chemicals, wastes, or materials, within the meaning of any applicable federal, state or local laws, regulations or orders and including without limitation urea-formaldehyde, polychlorinated biphenyls (PCB's), nuclear fuel or waste, and petroleum, including but not limited to crude oil, natural gas, natural gas liquids, gasoline and synthetic gas, are stored or otherwise located on the Realty owned or leased by any Borrower (excluding de minimis quantities of materials and quantities of such materials in normal office and cleaning products) and no part of the Realty owned or leased by any Borrower, including the groundwater located thereon and thereunder, is presently known by the Borrower to be contaminated by any such substance. No improvement located on the Realty owned or leased by any Borrower is known to contain any friable asbestos or substances containing asbestos and deemed hazardous by any federal, state or local laws, regulations or orders respecting such material. To the knowledge of the Borrower, there were no releases of such hazardous substances, materials or wastes on any Realty

previously owned by the Borrower while the Borrower owned such Realty;

(b) No Realty owned or leased by the Borrower has, to the knowledge of the Borrower, ever been used as or for a mine, a gasoline service station, or an above-ground petroleum products storage facility, a landfill, a dump or other disposal facility, or for industrial, or manufacturing purposes;

(c) To the knowledge of the Borrowers, there are no underground storage tanks situated on the Denmark Road Real Estate, other than tanks installed by the Borrower which have been appropriately emptied and filled in compliance with all applicable Environment Laws and, to the knowledge of the Borrower, no underground leakage from such tanks has occurred;

(d) All activities, and operations of each Borrower meet in all material respects the requirements of all applicable Environmental Laws and regulations of all federal, state and local governments or regulatory bodies having jurisdiction over such Borrower, or its properties, including without limitation, RCRA and CERCLA;

(e) The Borrower, to its knowledge, has never sent a hazardous substance to a site which, pursuant to CERCLA or any similar state law, (1) has been placed on the "National Priorities List" of hazardous wastes, or (2) which is subject to a claim, an administrative order or other request to take "removal" or "remedial" action (as defined under CERCLA) or to pay for the costs of cleaning up such a site;

(f) The Borrower, to its knowledge, is not involved in any suit or proceeding nor has it received any notice from any governmental agency with respect to a release of hazardous

substances nor has it received notice of any claims from any person or entity relating to personal injuries from exposure to hazardous substances; and

(g) The Borrower has timely filed all material reports required to be filed, has acquired all necessary certificates, approvals and permits and has generated and maintained in all material respects all required data, documentation and records under any applicable Environmental Laws.

6.14 Authorization. The execution, performance and delivery of the Loan Documents by the Borrowers are within the corporate powers of such Borrowers and have been duly authorized by all necessary and appropriate corporate action and validly executed and delivered.

6.15 Assets for Conduct of Business. Each of the Borrowers possesses adequate assets, licenses, patents, patent applications, copyrights, trademarks, servicemarks and trade names to continue to conduct its business as heretofore conducted, without any material conflict with the rights of others.

6.16 Compliance With Laws. Each of the Borrowers has duly complied with, and the Realty and its business operations and leaseholds are in compliance in all material respects with, the provisions of all federal, state and local law, rules and regulations applicable to such Borrower, the Realty or the conduct of such Borrower's business, including, without limitation, all federal and state securities and antitrust laws, ERISA and OSHA, and there have been no citations, notices or orders of noncompliance issued to such Borrower under any such

law, rule or regulation which would have a Material Adverse Effect.

6.17Withholding Taxes. Each of the Borrowers is current in respect to payment of all federal and state withholding taxes, social security taxes and other payroll taxes. Each of the Borrowers currently accrues its payroll tax obligations and maintains sufficient available funds or borrowing capacity to satisfy its payroll tax liability, if any.

6.18Contracts; Labor Disputes. No Borrower is a party to any contract or agreement, or subject to any charge, corporate restriction, judgment, injunction, decree, rule, regulation or order of any court of governmental authority, which has or would have a Material Adverse Effect. As of the Closing Date, no Borrower is a party to any general labor disputes, and there are no strikes or walkouts relating to any labor contracts to which any Borrower is a party.

6.19Outstanding Indebtedness. As of the Closing Date, no Borrower has outstanding any Indebtedness for money borrowed, other than for outstanding Letters of Credit issued for the account of any Borrower, in excess of \$50,000.

ARTICLE VIIAffirmative Covenants

Until payment in full of all Obligations of each of the Borrowers to each of the Lenders, each of the Borrowers covenants and agrees that, unless the Lenders consent otherwise in writing:

7.1Repayment of Obligations. The Borrowers will promptly repay the Obligations when due, including without limitation the

amounts due under the Notes, according to the terms of this Agreement and the other Loan Documents.

7.2 Performance Under Loan Documents. Each Borrower will perform all obligations required to be performed by it under the terms of this Agreement and the other Loan Documents and any other agreements now or hereafter existing or entered into between any of the Borrowers and the Lenders, subject to notice and cure provisions contained therein.

7.3 Financial and Business Information about the Borrowers. The Borrowers shall deliver, or cause to be delivered, to each Lender:

(a) As soon as practicable and in any event within forty-five (45) days after the close of each fiscal quarter (except the fourth quarter in each fiscal year) of Cato, a consolidated balance sheet of Cato and its Subsidiaries as of the close of such fiscal quarter and consolidated statements of income and retained earnings and cash flows for that fiscal quarter and for the portion of the fiscal year then ended, prepared in accordance with Generally Accepted Accounting Principles, applied on a basis consistent with that of the preceding period or containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the period and certified by the chief financial officer of Cato;

(b) As soon as practicable and in any event within one hundred twenty (120) days after the close of a fiscal year of Cato, beginning with the close of the fiscal year ending January 30, 1993, an audited consolidated balance sheet of Cato and its Subsidiaries as of the close of such fiscal year, and an audited

consolidated statement of income, and retained earnings and cash flows prepared in accordance with Generally Accepted Accounting Principles, each audited by an independent certified public accountant acceptable to the Lenders in accordance with generally accepted auditing standards, applied on a basis consistent with those of the preceding year or containing disclosure of the effect on the financial position or results of operation of any change in the application of accounting principles and practices during the year; such financial statements shall be accompanied by a report thereon by such certified public accountants, containing an opinion that is not qualified with respect to scope limitations or accounting principles followed by Cato and its Subsidiaries not being in accordance with Generally Accepted Accounting Principles, all in a form acceptable to the Agent and the Lenders;

(c) Concurrently with the delivery of the financial statements of the Borrower described in subsection (b) above, a certificate from the independent certified public accountants that in making their examination of the financial statements of the Borrower, they obtained no knowledge of the occurrence or existence of any condition or event which constitutes or would constitute, upon the giving of notice or lapse of time or both, any Event of Default, or a statement specifying the nature and period of existence of any such condition or event disclosed by their examination;

(d) Concurrently with the delivery of the financial statements described in subsections (a) and (b) above, a certificate from the Borrowers by a Designated Officer certifying to the Lenders that the Borrowers have kept, observed, performed and fulfilled in all material respects each and every covenant,

obligation and agreement binding upon any Borrower contained in this Loan Agreement or the other Loan Documents, and that no Event of Default, or any event which with the giving of notice or lapse of time or both would constitute an Event of Default, has occurred, or specifying any such Event of Default;

(e) Such other information about the financial condition and operations of any Borrower as the Required Lenders may from time to time reasonably request.

7.4 Notice of Certain Events. The Borrowers shall promptly, but in no event later than three (3) Business Days after an executive officer of any Borrower obtains knowledge thereof, give written notice to the Lenders of: (a) any material litigation or proceeding brought against any Borrower, whether or not the claim is considered by any such Borrower to be covered by insurance (for the purpose hereof, any litigation against any Borrower seeking to recover \$1,000,000 or more in damages shall be deemed material); (b) any written notice of a violation received by any Borrower from any governmental regulatory body or law enforcement authority which, if such violation were established, would have a Material Adverse Effect; (c) any labor controversy that has resulted in a strike or other work action that might reasonably be expected to have a Material Adverse Effect; (d) any attachment, lien, or levy that may be placed on or assessed against or threatened against any Borrower, or any property of a Borrower, other than Permitted Liens; (e) any judgments or orders involving cost to the Borrowers in aggregate of more than \$500,000 in any fiscal year; (f) any Event of Default or any Default; and (g) any other matter that has or would have a Material Adverse Effect. The Borrowers shall promptly give notice to the Lenders of any change in any Designated Officer.

7.5 Corporate Existence and Maintenance of Properties. (a)

Each of the Borrowers shall maintain and preserve its corporate existence and all rights, privileges and franchises now enjoyed; provided, however, that any Subsidiary of Cato may merge with and into Cato or any other Subsidiary of Cato; (b) each of the Borrowers shall conduct its business in an orderly, efficient and customary manner, keep its tangible properties in good working order and condition (normal wear and tear excepted), and from time to time make all needed repairs to, renewals of or replacements of such properties (except to the extent that any of such properties is obsolete or is being replaced) so that the efficiency of such property shall be fully maintained and preserved; and (c) each Borrower shall file or cause to be filed in a timely manner all reports, applications, estimates and licenses that shall be required by any governmental authority and which, if not timely filed, would have a Material Adverse Effect.

7.6 Payment of Indebtedness; Performance of Other

Obligations. Each of the Borrowers shall pay all Indebtedness for money borrowed at maturity when due, and all other obligations in accordance with customary trade practices.

7.7 Maintenance of Insurance.

Notwithstanding any provision in any other Loan Documents requiring specified types or amounts of insurance, the Borrowers shall maintain worker's compensation insurance, liability insurance and insurance on its properties, assets and business, now owned or hereafter acquired, against such casualties, risks and contingencies, and in such types and amounts and with such insurance companies as shall be selected by management of Cato in its reasonable discretion and as are customarily maintained by prudent companies similarly situated in the Borrower's industry.

7.8 Maintenance of Books and Records; Inspection. The Borrower shall maintain adequate books, accounts and records, and prepare all financial statements required under this Agreement in accordance with Generally Accepted Accounting Principles and in compliance with the regulations of any governmental regulatory body having jurisdiction over it. Each of the Borrowers shall permit any representative of the Lenders to visit and inspect any of the properties of such Borrower, to examine all books of accounts, records, reports and other papers, to make copies and extracts therefrom, and to discuss the affairs, finances and accounts of such Borrower with its executive officers and, upon the consent of such Borrower, which shall not be unreasonably withheld, its independent public accountants (and by this provision each Borrower authorizes said accountants to discuss the finances and affairs of such Borrower and to provide said accountants with such further written authorization as they may require), all at such reasonable times and as often as may be reasonably requested.

7.9 Compliance with ERISA. Each Borrower shall: (i) make timely payment of contributions required to meet the minimum funding standards set forth in ERISA with respect to any Employee Plan; (ii) promptly, upon the request of any Lender, furnish to the Lenders copies of any annual report required to be filed under ERISA in connection with the Employee Plan; (iii) not take any action or fail to take action, the result of which action or inaction could be a material liability of Borrower to the Pension Benefit Guaranty Corporation or to a Multiemployer Plan; and (iv) notify the Lenders as soon as practicable of any Reportable Event and of any additional act or condition arising in connection with any Pension Plan which such Borrower believes might constitute grounds for the termination thereof by the

Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer such plan. No Borrower shall participate in any Prohibited Transaction which could subject any Borrower to any material civil penalty under ERISA or material tax under the Internal Revenue Code. Each Borrower shall furnish to a Lender upon a Lender's request such additional information about any Employee Plan or other employee benefit plan as may be reasonably requested by such Lender.

7.10COBRA. The Employee Plans shall be operated in such a manner that none of the Borrowers will incur any material tax liability under Section 4980B of the Internal Revenue Code or any material liability to any qualified beneficiary as defined in Section 4980B.

7.11Payment of Taxes. Each Borrower will pay and discharge all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become a lien or charge upon any properties of such Borrower, provided that such Borrower shall not be required to pay any such tax, assessment, charge, levy or claim that is being contested in good faith and by proper proceedings if it has maintained adequate reserves (in the good faith judgment of the management of such Borrower) with respect thereto in accordance with Generally Accepted Accounting Principles.

7.12Compliance with Statutes, etc. Each Borrower will comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its

business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls) other than those the noncompliance with which would not have a Material Adverse Effect. Each Borrower shall also observe and remain in compliance with all licenses, permits, franchises or other authorizations necessary to the ownership of its properties or the conduct of its business, and all covenants and conditions of all agreements and instruments to which a Borrower is a party, where failure to comply or failure to obtain would have a Material Adverse Effect.

ARTICLE VIIINegative Covenants

Until payment in full of the Obligations, the Borrowers jointly and severally covenant and agree that, unless the Required Lenders consent in writing, the Borrowers will not, nor will any Borrower permit any of its Subsidiaries, if any, to, individually or in the aggregate:

8.1Merger and Dissolution. Liquidate, windup or dissolve, or enter into any consolidation, merger, syndicate or other combination or sell, lease or dispose of, in a single transaction or a series of related transactions, its business or assets as a whole or such part as in the opinion of the Required Lenders constitutes a substantial portion of its business or assets or change its name; provided that any Borrower or Subsidiary of a Borrower may enter into a merger or share exchange transaction without the Required Lenders' prior written consent, if (i) such Borrower or such Subsidiary will be the surviving entity; (ii) immediately prior to the merger no Default or Event of Default exists hereunder; (iii) immediately following the merger no

Default or Event of Default will exist hereunder; (iv) the merger does not violate Section 8.13 hereof and (v) the merger will have no material adverse effect on the Borrowers' ability to repay the Loans when due.

8.2 Indebtedness. Create, incur or suffer to exist any Indebtedness for money borrowed or the equivalent except for: (a) the Obligations owed to the Lenders under this Agreement and the other Loan Documents; (b) Indebtedness owed from one Borrower solely to the other Borrower; (c) aggregate Indebtedness of the Borrowers and their Subsidiaries secured by Purchase Money Liens not exceeding \$1,000,000; (d) Indebtedness permitted pursuant to Section 8.4; (e) Indebtedness permitted pursuant to Section 8.16; and (f) other Indebtedness for money borrowed not in excess of \$250,000.

8.3 Liens and Encumbrances. Create, assume or suffer to exist any deed of trust, mortgage, encumbrance or other lien (including a lien of attachment, judgment or execution) or security interest (including the interest of a conditional seller of goods), securing a charge or obligation, on or of any of its property, real or personal, whether now owned or hereafter acquired, except for the liens and security interests in favor of the Lenders and the Permitted Liens.

8.4 Subordinated Debentures and Preferred Stock. Issue any Subordinated Debenture or Preferred Stock; provided, however, that Cato may issue Subordinated Debentures or Preferred Stock if each of the following conditions are satisfied: (i) such Subordinated Debentures or Preferred Stock shall not entitle the holder thereof to cause any of the Borrowers or their Subsidiaries to redeem or repurchase such Subordinated Debentures

or Preferred Stock at any time before May 31, 2002 (or, if earlier, a date four years after the Conversion Date if any of the Revolving Loans are converted to Term Loans pursuant to Section 2.4); (ii) at the time of issuance of such Subordinated Debentures or Preferred Stock no Default or Event of Default shall exist; and (iii) the issuance of such Subordinated Debentures or Preferred Stock would not cause a Default or Event of Default to exist.

8.5 Transactions with Related Persons. (a) Directly or indirectly make any loan or advance to, purchase, assume or guarantee any note to or from any of its officers, directors, or Affiliates, or to or from any member of the immediate family of any of its officers, directors, or Affiliates, or subcontract any operations to any Affiliate, except for (i) transactions, loans or advances solely between Cato, CHW and their Subsidiaries and (ii) transactions pursuant to the reasonable requirements of such Borrower's or such Subsidiary's business and upon fair and reasonable terms to such Borrower or Subsidiary that are no less favorable to such Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of such Borrower or such Subsidiary.

8.6 Restrictions on Dividends, Share Repurchase, etc.

(a) Declare or pay any dividends (other than dividends payable solely in its own Stock) upon any of its Stock (other than dividends paid to a Borrower) if a Default or Event of Default exists or would exist immediately after the payment of such dividend;

(b) Repurchase shares of its own capital stock, provided, however, that Cato may pay up to \$12,000,000 in the aggregate to

purchase shares of its own capital stock unless a Default or Event of Default exists or would exist immediately after payment for any such purchase; or

(c) Make any other distribution of property or assets (other than distributions of cash or Stock) among the holders of shares of its Stock.

8.7Hazardous Wastes. Permit any hazardous or toxic wastes, contaminants, oil, radioactive or other materials the removal of which is required or the maintenance of which is restricted, prohibited or penalized by any federal, state or local agency, authority or governmental unit, to be brought on to any Realty owned or operated by any Borrower or any Subsidiary of a Borrower, or if so brought or found located thereon, the presence of such material shall be related to operations in full compliance with all applicable Environmental Laws, or the Borrower shall cause such material to be removed as quickly as practicable, with proper disposal, and all required environmental cleanup procedures to be diligently undertaken pursuant to all such laws, ordinances and regulations.

8.8Restricted Investments. Except as otherwise permitted pursuant to this Agreement, purchase, own, invest in or otherwise acquire, directly or indirectly, any Stock, evidence of indebtedness, or other obligation or security or any interest whatsoever in any other Person, or make or permit to exist any loans, advances or extensions of credit to, or any investment in cash or by delivery of property in, any Person, except for the following:

(i) investments in Cash or in any of the following:

(A) investments in debt instruments or preferred stock of issuers having short-term debt securities rated no less than A-1 by Standard & Poor's Corporation or the equivalent thereof or no less than P-1 by Moody's Investor Service, Inc. or the equivalent thereof or long-term securities rated no less than A by Standard & Poor's Corporation or the equivalent thereof by a different rating agency, secured repurchase agreements in which the underlying debt instruments have such rating, or demand deposits, time deposits, certificates of deposit and banker's acceptances issued by or entered into with a financial institution organized under the laws of the United States of America or any state thereof; and

(B) investments in common stock of issuers having debt instruments rated at least A or A-1 or the equivalent thereof by Standard & Poor's Corporation or at least P-1 or the equivalent thereof by Moody's Investor Service, Inc.;

(C) provided, however, that the aggregate amount of investments in common stock described in clause (B) shall not exceed ten percent (10%) of the aggregate amount of investments described in this clause (i);

(ii) Intercompany Loans;

(iii) loans and advances to employees for reasonable travel and business and relocation expenses in the ordinary course of business;

(iv) investments in Subsidiaries existing on the Closing Date or created thereafter subject to the conditions set forth in Section 8.14; and

(v) any other investments not exceeding in the aggregate \$500,000.

8.9Net Worth. Permit Tangible Net Worth at the end of any fiscal quarter of Cato ending after October 29, 1994 to be less than the sum of \$120,000,000 plus (i) 50% of Net Income from October 30, 1994 through the end of such fiscal quarter and (ii) the net proceeds to Cato of the sale of any of its capital stock from October 30, 1994 through the end of such fiscal quarter, minus (x) any amount paid by Cato to purchase shares of its own capital stock from October 30, 1994 through the end of such fiscal quarter.

8.10Current Ratio. Permit the ratio of Current Assets to Current Liabilities at the end of any Fiscal quarter of Cato to be less than 1.5 to 1.0.

8.11Debt to Capitalization Ratio. Permit the ratio at the end of any fiscal quarter of Cato of (a) the sum of the aggregate amount of Funded Debt then outstanding plus Capitalized Rents to (b) the sum of Tangible Net Worth plus the aggregate amount of Funded Debt then outstanding plus Capitalized Rent to be greater than 0.75 to 1.0.

8.12Fixed Charge Coverage Ratio. Permit the Fixed Charge Coverage Ratio at the end of any fiscal quarter of Cato to be less than 1.75 to 1.0.

8.13New Business. Engage in any business other than the business in which any Borrower is currently engaged or a business reasonably related thereto.

8.14Subsidiaries or Partnerships. Create any new Subsidiary or transfer any assets to a Subsidiary, or become a partner or joint venturer, except as otherwise provided herein; provided, however, that the Borrowers may create any Subsidiary or transfer any assets to a Subsidiary if such Subsidiary enters into this Loan Agreement and delivers a guaranty of the Obligations, such guaranty to be in form and substance satisfactory to the Required Lenders.

8.15Capital Expenditures. Make Capital Expenditures in any fiscal year of Cato in excess of the sum of (i) the Capital Expenditure Limitation for such fiscal year plus (ii) the amount by which the Capital Expenditure Limitation for the immediately preceding fiscal year exceeded the Capital Expenditures for such fiscal year.

8.16Guaranties. Guarantee or otherwise, in any way, become liable with respect to the obligations or liabilities of any Person except by endorsement of instruments or items of payment for deposit to the general account of the Borrowers or for delivery to the Lenders on account of the Obligations of the Borrowers and except for guaranties of Indebtedness in an aggregate amount of no more than \$5,000,000.

8.17Change in Control. Permit a Change in Control to occur.

8.18Fiscal Year. Change its fiscal year from a fiscal year ending on the Saturday nearest January 31.

ARTICLE IX Events of Default 9.1 Events of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(a) Any Borrower fails to make when due any principal payment, or any reimbursement for any amount disbursed under a Letter of Credit, within five (5) Business Days of the date such payment or reimbursement is due hereunder or any payment of interest, fees or expenses relating to the Obligations within ten (10) Business Days of the date such payment is due hereunder;

(b) Any Borrower fails or neglects to observe, perform or comply with any term, provision, condition or covenant contained in Sections 7.5(a) and 7.7 or any of the Sections in Article VIII (other than Sections 8.5, 8.7, 8.9, 8.10, 8.11, 8.12 and 8.15) of this Loan Agreement;

(c) Any Borrower fails or neglects to observe, perform or comply with any other term, provision, condition or covenant contained in this Loan Agreement, except those enumerated in Sections 9.1(a) and 9.1(b) above, and the same is not cured to the Lenders' satisfaction within thirty (30) days after any executive officer of the Borrower acquires knowledge that such failure has occurred and that such failure constitutes a Default hereunder;

(d) If any representation or warranty made in writing by or on behalf of any Borrower in this Agreement or the other Loan Documents or in connection with the transactions contemplated

hereby, shall prove to have been false or incorrect in any material respect at the time as of which such representation or warranty was made;

(e) The filing by any Borrower of any voluntary petition seeking liquidation, reorganization, arrangement, readjustment of debts or for any other relief under the United States Bankruptcy Code or under any other act or law pertaining to insolvency or debtor relief, whether state, federal or foreign, now or hereafter existing;

(f) The filing against any Borrower of any involuntary petition seeking liquidation, reorganization, arrangement, readjustment of debts or for any other relief under the Bankruptcy Code or under any other act or law pertaining to insolvency or debtor relief, whether state, federal or foreign, now or hereafter existing;

(g) Any Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs;

(h) There shall occur any material uninsured damage to or loss, theft or destruction of any material portion of the assets of any Borrower.

(i) A notice of lien, levy or assessment of a material amount is filed of record (other than with respect to a Permitted Lien) on all or any portion of the assets of any Borrower by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, including, without limitation, the Pension Benefit Guaranty Corporation, or if any taxes or debts owing at the time

or times hereafter by any one of them becomes a lien or encumbrance upon any asset of the Borrower or its Subsidiaries and the same is not dismissed, released or discharged within thirty (30) days after the same becomes a lien or encumbrance or, in the case of ad valorem taxes, prior to the last day when payment may be made without penalty;

(j) The occurrence of any default or event of default on the part of any Borrower (including specifically, but without limitation, defaults due to nonpayment) under the terms of any agreement, document or instrument pursuant to which such Borrower has incurred any material Indebtedness for money borrowed, which default would permit acceleration of such Indebtedness;

(k) The occurrence of any default or event of default on the part of any Borrower under the terms of any agreement or contract that is material to the affairs, financial or otherwise, of such Borrower, and such default would have a Material Adverse Effect;

(l) If a custodian, trustee, receiver or assignee for the benefit of creditors is appointed or takes possession of any of the assets of any of the Borrowers;

(m) The occurrence of any of the following events: (i) the happening of a Reportable Event with respect to any Pension Plan; (ii) the termination of any such plan; (iii) the appointment of a trustee by an appropriate United States District Court to administer any such plan; (iv) the institution of any proceedings by the Pension Benefit Guaranty Corporation to terminate any such plan or to appoint a trustee to administer any such plan; (v) the failure of any Borrower to furnish promptly to each Lender, upon request of the Required Lenders, a copy of each report that is

filed by such Borrower with the Secretary of Labor or the Pension Benefit Guaranty Corporation; (vi) the failure of any of the Borrowers to notify each Lender promptly upon receipt by such Borrower of any notice of the institution of any proceeding or any other actions that may result in the termination of any such plan; or (vii) the failure of any Borrower to acquire and maintain, when available, the contingent employer liability coverage insurance provided for under Section 4023 of ERISA, such insurance to be satisfactory to the Lenders in coverage and amount;

(n) Any Borrower deliberately and willfully fails to promptly provide any notice required by Section 7.4(f); or

(o) There shall occur any material adverse change in the business of any Borrower, or its operations or conduct thereof, that, individually or in the aggregate, would have a material adverse effect on the ability of the Borrowers, taken as a whole, to perform the obligations of the Borrowers under any of the Loan Documents.

ARTICLE X Rights and Remedies after Event of Default 10.1 Rights and Remedies. Upon and after the occurrence of any Event of Default, the Lenders may, in their sole discretion, take any or all of the following actions, without prejudice to the rights of any Lender to enforce its claims against the Borrowers, except as otherwise specifically provided for in this Agreement (provided, however, that if an Event of Default specified in clauses (f), (g) or (n) shall occur, then the Lenders shall automatically be deemed to have taken the following actions): (i) declare the Total Commitment terminated, whereupon the Commitment of each Lender shall forthwith terminate immediately and any accrued fees payable in respect thereof shall forthwith become due and payable

without any other notice of any kind; (ii) declare all or any part of the Obligations owing hereunder immediately due and payable, whereupon such Obligations shall become immediately due and payable without presentment, demand, protest, notice or legal process of any kind, all of which are hereby expressly waived by each Borrower and (iii) exercise all of the rights and remedies of the Lenders under this Agreement, the other Loan Documents and applicable law, in order to satisfy all of the Borrowers' Obligations.

Notwithstanding the foregoing, if at any time within sixty (60) days after an acceleration of the Loans, the Borrowers shall pay all arrears of interest and all payments on account of principal which shall have become due otherwise than by acceleration (and, to the extent permitted by law, on interest or overdue interest at the Default Rate) and all Events of Default and Defaults (other than nonpayment of principal and interest due solely by virtue of acceleration) shall have been remedied or waived pursuant to Section 14.7, then the Lenders, by written notice to the Borrowers, may at their option rescind and annul the acceleration and its consequences; provided, however, that such action shall not affect any subsequent Default or Event of Default or remedies available thereon. The provisions of this paragraph are for the benefit of the Lenders only, are not intended to benefit the Borrowers and do not grant the Borrowers the right to require the Lenders to rescind or annul any acceleration hereunder, even if the conditions set forth herein are met.

10.2 Right of Set-off. In addition to any rights now or hereafter granted under applicable law or otherwise, upon the occurrence of an Event of Default, each Lender may, and is hereby authorized by the Borrowers, at any time and from time to time,

to the fullest extent permitted by applicable laws, without advance notice to any Borrower of any kind (any such notice being expressly waived by each Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and any other Indebtedness at any time owing by such Lender to or for the credit or the account of any Borrower against any or all of the Obligations of the Borrowers to such Lender under this Agreement or any other agreement, now or hereafter existing, whether or not such Obligations have matured and any unreimbursed drawings made under any Letter of Credit. Each Lender agrees promptly to notify the affected Borrower after any such set-off or application, provided that the failure to give such notice shall not affect the validity of such set-off and application.

10.3 Rights and Remedies Cumulative; Non-Waiver; Etc. The enumeration of the Lenders' rights and remedies set forth in this Agreement is not intended to be exhaustive and the exercise by any Lender of any right or remedy shall not preclude the exercise of any other rights or remedies, all of which shall be cumulative, and shall be in addition to any other right or remedy given hereunder, under the Loan Documents or under any other Agreement between any of the Borrowers and any of the Lenders or which may now or hereafter exist in law or in equity or by suit or otherwise. No delay or failure to take action on the part of the Agent or any Lender in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude other or further exercise thereof or the exercise of any other right, power or privilege or shall be construed to be a waiver of any Event of Default. No course of dealing between any Borrower and the Agent or any Lender or the agents or employees of either of them shall be effective to change, modify or

discharge any provision of this Agreement or to constitute a waiver of any Default or Event of Default.

ARTICLE XI Payment of Fees and Expenses

Whether or not the transactions contemplated by this Agreement shall be consummated, the Borrowers jointly and severally undertake:

11.1 Fees and Expenses. To pay or reimburse the Lenders and the Agent upon demand for all reasonable expenses (including, without limitation, reasonable attorneys' fees) incurred or paid by the Lenders in connection with: (a) the preparation, execution, delivery, interpretation, modification or amendment of this Agreement or the other Loan Documents; (b) any litigation, contest, dispute, suit, or proceeding or action (whether instituted by the Lenders or any of them, any Borrower or any other Person) in any way relating to this Agreement or the other Loan Documents; (c) any attempt to enforce any rights of any of the Lenders against any Borrower or any other Person that may be obligated to the Lender by virtue of this Agreement or the other Loan Documents; and (d) any refinancing or restructuring of the credit arrangement provided under this Loan Agreement in the nature of a "work-out" or in any insolvency or bankruptcy proceeding. In addition, the Borrowers shall pay to the Lenders on demand any and all fees, costs and expenses that the Lenders pay to a bank or other similar institution arising out of or in connection with (i) the forwarding to any Borrower, or any other Person on any of the Borrower's behalf, by the Lenders of proceeds of the Loans made by the Lenders to the Borrower pursuant to this Agreement.

ARTICLE XII The Agent
12.1 Appointment. The Lenders hereby designate and appoint NationsBank as Agent to act as specified

herein and in the other Loan Documents. Each Lender hereby irrevocably authorizes, and each holder of any Note by the acceptance of such Note shall be deemed irrevocably to authorize, the Agent to take such action on its behalf under the provisions of this Agreement, the other Loan Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto.

12.2 Nature of Duties. The Agent shall not have any duties or responsibilities except those expressly set forth in this Agreement and in the other Loan Documents. Neither the Agent, nor any of its officers, directors, employees or agents shall be liable to the Lenders for any action taken or omitted by them as such hereunder or under any other Loan Document or in connection herewith or therewith, unless caused by their gross negligence or willful misconduct. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement or any Loan Document a fiduciary relationship in respect of any Lender; and nothing in this Agreement or any Loan Document, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Agreement or any Loan Document except as expressly set forth herein.

12.3 Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with

reasonable care except to the extent otherwise required by Section 12.8.

12.4 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from the Borrowers or a Lender describing such Default or Event of Default and stating that such notice is a "notice of default." In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Lenders, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

12.5 Lack of Reliance on the Agent. Independently and without reliance upon the Agent, each Lender, to the extent it has deemed and shall deem appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of the Borrowers in connection with the making and the continuance of the Loans hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of the Borrowers, and, except as expressly provided in this Agreement or in any other Loan Document, the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the making of the Loans, or at any time or times thereafter. The Agent shall not be responsible to any Lender for any recitals,

statements, information, representations or warranties herein or in any other Loan Document or in any document, certificate or other writing delivered in connection herewith or therewith or for the execution, effectiveness, genuineness, validity, enforceability, perfection, collectibility, priority or sufficiency of this Agreement or any other Loan Document or the financial condition of the Borrowers or any other Person or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any other Loan Document, or the financial condition of the Borrowers or any other Person or the existence or possible existence of any Default or Event of Default.

12.6 Certain Rights of the Agent. If the Agent shall request instructions from the Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Loan Document, the Agent shall be entitled to refrain from such act or taking such action unless and until the Agent shall have received instructions from the Lenders; and the Agent shall incur no liability to any Person by reason of so refraining. The Agent shall be fully justified in failing or refusing to take any action hereunder or under any Loan Document (i) if such action would, in the opinion of the Agent, as the case may be, be contrary to law or the terms of this Agreement or the other Documents, (ii) if it shall not receive such advice or concurrence of the Lenders as it deems appropriate, or (iii) if it shall not first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Without limiting the foregoing, no Lender shall have any right of action whatsoever against the Agent (absent the Agent's gross negligence or willful misconduct) as a result of it acting

or refraining from acting hereunder or under any other Loan

Document in accordance with the instructions of the Lenders.

12.7Reliance. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, radiogram, order or other documentary, teletransmission or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper Person. The Agent may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

12.8Indemnification. To the extent the Agent is not reimbursed and indemnified by or on behalf of the Borrowers, the Lenders will reimburse and indemnify the Agent, in proportion to their respective initial Commitments, for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including counsel fees and expenses) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in performing its duties hereunder or under any other Loan Document or in any way relating to or arising out of this Agreement or any other Loan Document; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements, finally determined by a court of competent jurisdiction and not subject to any appeal, to be resulting from the Agent's gross negligence or willful misconduct.

12.9 Agent's Right to Seek Advice. The Agent shall have the right, at any time, and from time to time, to seek advice or directions from the Lenders regarding any action to be taken or determination to be made under this Agreement. Upon delivery of request for such advice or directions by the Agent to the Lenders, the Lenders will respond to such request as soon as reasonably possible with written instructions (or telephone instructions promptly confirmed in writing). If such instructions are not received by the Agent within a reasonable time, the Agent may take such action as it deems appropriate in its sole judgment, and the taking of such action by the Agent shall not give rise to any liability on the part of the Agent, except in the case of gross negligence or willful misconduct.

12.10 The Agent in its Individual Capacity. With respect to its obligations to make Loans under this Agreement, and with respect to the Loans made by it and the Notes issued to it, the Agent shall have the same rights and powers as any other Lender or holder of a Note and may exercise the same as though it were not performing the duties specified herein; and the term "Lenders," "holders of Notes," or any similar terms shall, unless the context clearly otherwise indicates, include the Agent in its individual capacity. The Agent may accept deposits from, lend money to, and generally engage in any kind of banking, trust, financial advisory or other business with the Borrowers or any Affiliate of the Borrower or any of its Subsidiaries as if it were not performing the duties specified herein, and may accept fees and other consideration from the Borrowers for services in connection with this Agreement and otherwise without having to account for the same to the Lenders.

12.11 Holders. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and

until a written notice of the assignment, transfer or endorsement thereof, as the case may be, shall have been filed with the Agent. Any request, authority or consent of any Person or entity who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee, assignee or endorsee, as the case may be, of such Note or of any Note(s) issued in exchange therefor.

12.12 Successor Agent. The Agent may resign from the performance of all its functions and duties hereunder and/or under the other Loan Documents at any time by giving ten (10) Business Days' prior written notice to the Borrowers and the Lenders or may be removed, with or without cause, by the Lenders, and, so long as no Event of Default has occurred and is continuing, with the consent (which consent shall not be unreasonably withheld) of the Borrowers, at any time by giving ten (10) Business Days' prior written notice to the Borrowers and the Agent. Such resignation or removal, as the case may be, shall take effect upon the appointment of a successor Agent as provided herein below. Upon any such notice of resignation or removal (and, in the case of removal, upon the consent of the Borrowers, if required), as the case may be, the Lenders shall with the consent of the Borrowers (which consent shall not be unreasonably withheld), appoint a successor Agent hereunder or thereunder who shall be a commercial bank, trust company or other financial institution with a combined capital and surplus in excess of \$1,000,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and

obligations under this Agreement. After any retiring Agent's resignation or removal, as the case may be, hereunder as Agent, the provisions of this Article XII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE XIII Assignment And Participation 13.1 Assignments. (a)

Subject to the prior written consent of the Borrowers, which shall not be unreasonably withheld, each Lender may at any time, upon notice to the Agent of its intent to do so, assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of the outstanding Loans and the Lender's Revolving Credit Commitment) and may act as agent for all such Assignees. Upon the execution and delivery of an Assignment and Acceptance Agreement in a form reasonably satisfactory to such Lender (an "Assignment and Acceptance"), from and after the effective date specified in each Assignment and Acceptance, (i) the Assignee thereunder shall be deemed a party hereto and, to the extent that rights and obligations (including any portion of any Loans or Revolving Credit Commitment) hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of the assigning Lender hereunder with respect thereto, including, without limitation, (x) the right to approve or disapprove actions which, in accordance with the terms hereof, require the approval of the Lenders (y) the obligation to fund Loans pursuant to Section 2.1 and (2) the right to enter into Participation Agreements pursuant to Section 13.2, and (ii) such Lender shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of such Lender's rights and obligations under this Loan

Agreement, such Lender shall cease to be a party hereto).

13.2 Participants. (a) Notwithstanding Section 13.1, each Lender in its sole discretion may allow other Persons to participate with such Lender in all or any part of the Loans or the Commitments extended by such Lender or the Notes issued to it; provided that such Lender shall act as sole agent for any such Participant and such Participant, other than an Affiliate of such Lender, shall not be entitled to require such Lender to take or omit to take any action hereunder except action directly affecting (i) the extension of the final maturity of the principal amount of, or any payment date for interest on, a Loan allocated to such participation, (ii) the reduction in the principal amount of, or rate of interest payable on, the Loans, or (iii) the release of all or substantially all of the collateral or guaranties supporting any of the Loans or Commitments in which such Participant is participating. The Participant shall not have any rights under this Agreement or any of the other Loan Documents (the Participant's rights against the granting Lender in respect of such participation to be those set forth in the agreement with such Lender creating such participation) and all amounts payable by the Borrowers hereunder shall be determined as if such Lender had not sold such participation, provided that such Participant shall be considered to be a "Lender" for purposes of Section 10.2, and shall be entitled to the benefits thereto to the extent that such Lender selling such participation would be entitled to such benefits if the participation had not been entered into or sold. In the event that any of the Lenders includes other Participants herein at any time hereafter, the Borrowers will execute any documents necessary to effectuate the rights of the Participants and to delineate the rights, powers and obligations of the agent, such as the Lender granting the participation may reasonably require.

(b) If a Participant shall at any time participate with a Lender in making Loans hereunder or under any other Agreement between such Lender and any Borrower, such Borrower hereby grants to such Participant (in addition to any other rights that such Participant shall have) and such Participant shall have and is hereby given a continuing lien and security interest in any money, securities or other property of such Borrower in the custody or possession of the Participant, including the right to set-off, to the extent of Participant's participation in the Obligations of the Borrowers to such Lender, as it would have if it were a direct lender to the Borrowers.

13.3 Obligations of Lenders. Except pursuant to an assignment, but only to the extent set forth in such Assignment and Acceptance, no Lender shall, as between the Borrowers and that Lender, be relieved of any of its obligations hereunder as a result of any sale, transfer or negotiation of, or granting of any participation in, all or any part of the Commitment, Loans or Notes.

13.4 Confidentiality. A Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Article XIII, disclose to the Assignee or Participant or proposed Assignee or Participant any information relating to the Borrowers furnished to the Lender by or on behalf of the Borrowers; provided, however, that prior to disclosing any such information to a Assignee or Participant or proposed Assignee or Participant such Lender shall have obtained from such Assignee or Participant or proposed Assignee or Participant an agreement (being of a form standard or customary in the banking industry) that such Assignee or Participant or

proposed Assignee or Participant keep such information confidential (except to the extent such Assignee or Participant deems necessary to enforce its rights hereunder or thereunder.)

ARTICLE XIV Miscellaneous 14.1 Survival of Agreements. All agreements, representations and warranties contained herein or made in writing by or on behalf of the Borrowers in connection with the transactions contemplated hereby shall survive the execution and delivery of this Agreement and the other Loan Documents. No termination or cancellation (regardless of cause or procedure) of this Agreement shall in any way affect or impair the powers, obligations, duties, rights and liabilities of the parties hereto in any way with respect to (a) any transaction or event occurring prior to such termination or cancellation or (b) any of the Borrowers' undertakings, agreements, covenants, warranties and representations contained in this Agreement and the other Loan Documents and all such undertakings, agreements, covenants, warranties and representations shall survive such termination or cancellation until payment in full of the Obligations. The Borrowers further agree that to the extent any Borrower makes a payment or payments to the Lenders, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy, insolvency or similar state or federal law, common law or equitable cause, then, to the extent of such payment or repayment, the Obligation or part thereof intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been received by the Lenders.

14.2 Governing Law; Waiver of Jury Trial. THIS AGREEMENT HAS BEEN EXECUTED, DELIVERED AND ACCEPTED AT, AND SHALL BE DEEMED TO HAVE BEEN MADE IN, NORTH CAROLINA AND SHALL BE

INTERPRETED, AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF). AS PART OF THE CONSIDERATION FOR NEW VALUE THIS DAY RECEIVED, EACH BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE STATE OF NORTH CAROLINA, AND CONSENTS THAT ALL SERVICE OF PROCESS BE MADE BY REGISTERED OR CERTIFIED MAIL DIRECTED TO SUCH BORROWER AT THE ADDRESS STATED IN SECTION 15.3 BELOW AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON THE EARLIER OF ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER DEPOSIT IN THE UNITED STATES MAILES, PROPER POSTAGE PREPAID. NOTHING IN THIS SECTION SHALL AFFECT THE RIGHT OF ANY LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF ANY LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST ANY BORROWER OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTION THAT HAS JURISDICTION OVER ANY BORROWER OR ITS PROPERTY.

14.3Notice. All notices and other communications hereunder shall be in writing and shall be deemed to have been validly served, given or delivered three (3) days after deposit in the United States mails with postage prepaid, and addressed to the party to be notified as follows:

If to the Borrowers: The Cato Corporation

8100 Denmark Road

Charlotte, North Carolina 28273-5975

CHW Corporation

8100 Denmark Road

Charlotte, North Carolina 28272-5975

With a copy to: Robinson, Bradshaw & Hinson, P.A.

1900 Independence Center
101 North Tryon Street
Charlotte, North Carolina 28246
Attention: Robert G. Griffin

If to the Agent at: NationsBank of North Carolina, N.A.

NationsBank Corporate Center
NC 1007-08-08
8th Floor
Charlotte, North Carolina 28255

Attention: Mark D.

Halmrast

With a copy to: Wachovia Bank of
North Carolina, N.A.

P.O. Box 31608
Charlotte, North

Carolina 28231

Attention: Zeta M.

Pittman

and if to any Lender, at its address specified for such Lender on
Annex I hereto (provided, however, that the attorneys listed
above will not receive copies of any reports or other business
information required to be provided by the Borrowers until the
Required Lenders request the Borrowers to do so), or to such
other address as each party may designate for itself by like
notice, or shall be deemed to have been validly served, given or
delivered on the date of delivery to such party at such address,
if notice is given or delivered by hand, telex, telegram or
facsimile transmitter.

14.4 Indemnification of the Agent and the Lenders. From and at all times after the date of this Agreement, and in addition to all of the Agent's and the Lenders' other rights and remedies against the Borrowers, each Borrower agrees to indemnify and hold harmless the Agent and each Lender and each director, officer, employee, agent and Affiliate of the Agent and each Lender against any and all claims, losses, damages, liabilities, costs and expenses of any kind or nature whatsoever (including without limitation reasonable attorneys' fees, costs and expenses) incurred by or asserted against the Agent or such Lender or any such director, officer, employee, agent or Affiliate, from and after the date hereof, whether direct, indirect or consequential, as a result of or arising from or in any way relating to any suit, action or proceeding (including any inquiry or investigation) by any Person other than a Borrower, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any Person under any statute or regulation, including, but not limited to, any federal or state securities laws, or under any common law or equitable cause or otherwise, arising from or in connection with the negotiation, preparation, execution or performance of this Agreement or the other Loan Documents or any transactions contemplated herein or therein, whether or not the Agent or the Lender or any such director, officer, employee, agent or Affiliate is a party to any such action, proceeding, suit or the target of any such inquiry or investigation; provided, however, that no indemnified party shall have the right to be indemnified hereunder for any liability resulting from the gross negligence or wilful misconduct of such indemnified party. All of the foregoing losses, damages, costs and expenses of the Agent or any Lender shall be payable by the Borrowers upon demand by the Agent or such Lender and shall be additional Obligations hereunder. The

Borrowers' obligations under this Section 14.4 shall survive any termination of this Agreement or any other Loan Document.

14.5 Waivers by the Borrowers. Except as otherwise provided for in this Agreement, each Borrower waives (a) presentment, demand and protest and notice of presentment, protest, default, nonpayment, maturity and all other notices; (b) notice prior to taking possession or control of any bond or security that might be required by any court prior to allowing the Agent or any Lender to exercise any of the Lenders' remedies under this Agreement or the other Loan Documents; and (c) the benefit of all valuation, appraisal and exemption laws.

14.6 Assignment and Sale. The Borrowers may not sell, assign or transfer this Agreement, or the other Loan Documents or any portion thereof, including without limitation the Borrowers' rights, title, interests, remedies, powers, and duties hereunder or thereunder. No Lender may sell, assign or transfer this Agreement, or the other Loan Documents or any portion thereof, including without limitation such Lender's rights, title, interests, remedies, powers and duties hereunder or thereunder without the prior written consent of the Borrowers, which shall not be unreasonably withheld.

14.7 Amendment or Waiver. Neither this Agreement nor any other Loan Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the Required Lenders; provided, however, that no such change, waiver, discharge or termination shall, without the written consent of each Lender, (i) extend the scheduled payment of principal of any Loan, or any portion thereof, or reduce the rate of or extend the time of payment of interest thereon (other than as a result of

waiving the applicability of any post-default increase in interest rates) or any fees relating thereto, or reduce the principal amount thereof; (ii) amend, modify or waive any provisions of this Section 14.7, Sections 2.2, 2.13, 2.14(c), 3.7, 4.1, 4.2, 7.1 and 9.1(a) or Articles XI or XIII; or (iv) change any percentage specified in, or otherwise modify, the definition of Required Lenders, (v) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement or (vi) amend any provision in the Loan Documents that calls for action, inaction or consent by all of the Lenders. No provision of Article XII may be amended without the consent of the Agent.

14.8 Severability. To the extent any provision of this Agreement is prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

14.9 Entire Agreement. This Agreement and the other documents, certificates and instruments referred to herein constitute the entire Agreement between the parties and supersede and rescind any prior agreements relating to the subject matter hereof, including, without limitation, the commitment letter dated January 15, 1993 between Cato and NationsBank.

14.10 Binding Effect. All of the terms of this Agreement and the other Loan Documents, as the same may from time to time be amended, shall be binding upon, inure to the benefit of and be enforceable by the respective successors and assigns of the Agent, the Borrowers and the Lenders. This provision, however, shall not be deemed to modify Section 14.6.

14.11 Execution in Counterparts. This Agreement may be executed in two or more counterparts, which when assembled shall constitute one and the same agreement.

14.12 Conflict of Terms. The provisions of the exhibits hereto and the other Loan Documents and any schedule or annex hereto are incorporated in this Agreement by this reference thereto. Except as otherwise provided in this Agreement and except as otherwise provided in the other Loan Documents, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision of the other Loan Documents, the provision contained in this Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their corporate names by their duly authorized corporate officers, and have affixed their corporate seals, as of the date first above written.

THE CATO CORPORATION

By: _____

Wayland H. Cato, Jr.

Chief Executive Officer

ATTEST:

Alan E. Wiley, Secretary

[CORPORATE SEAL]

By: _____

Gordon W. Stewart, Vice President

ATTEST:

Norman J. Shuman

Assistant Secretary

[CORPORATE SEAL]

NATIONSBANK OF NORTH CAROLINA, N.A.,

Individually and as Agent

By: _____

Title: _____

WACHOVIA BANK OF NORTH CAROLINA, N.A.

By: _____

Title: _____

Annex I

Lenders

NationsBank of North Carolina, N.A. \$24,500,000

NationsBank Corporate Center

NC 1007-08-08

Eighth Floor

Charlotte, North Carolina 28255

Attn: Kenneth A. Gill, III

Wachovia Bank of North Carolina, N.A. 10,500,000

Post Office Box 31608

Charlotte, North Carolina 28231

Attention: Zeta M. Pittman

Total Commitment \$35,000,000

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- Exhibit A Form of Promissory Note
- Exhibit B Form of Continuing Letter of Credit Agreement
- Exhibit C Form of Conversion Notice
- Exhibit D Form of Opinion of Borrowers' Counsel

MASTER EQUIPMENT LEASE AGREEMENT

BETWEEN

NATIONSBANC LEASING CORPORATION
OF NORTH CAROLINA

AND

THE CATO CORPORATION

January 27, 1995

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Exhibit

- A - Lease Supplement and Acceptance Certificate
- B - UCC Filing Offices
- C - Trade Names

MASTER EQUIPMENT LEASE AGREEMENT

THIS MASTER EQUIPMENT LEASE AGREEMENT dated as of January 27, 1995 (as supplemented, amended modified, restated or replaced from time to time the "Agreement") is between NATIONSBANC LEASING CORPORATION OF NORTH CAROLINA, a North Carolina corporation (the "Lessor"), having its principal place of business at NationsBank Corporate Center, 100 North Tryon Street, NC1-007-12-01, Charlotte, North Carolina 28255-0001 and THE CATO CORPORATION, a Delaware corporation (the "Lessee"), having its principal place of business at 8100 Denmark Road, Charlotte, North Carolina 28273.

WITNESSETH:

WHEREAS, Lessee has requested Lessor to purchase the Lessor Titled Equipment (as defined hereinafter) and Lessee has purchased the Lessee Titled Equipment and, simultaneously with

such acquisition, Lessee has requested Lessor to lease the Equipment to Lessee for use in its operations; and

WHEREAS, Lessor is willing to purchase and lease the Equipment subject to the terms and conditions hereinafter set forth, and Lessee has agreed to lease the Equipment from Lessor on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings for all purposes of this Agreement and shall be equally applicable to both the singular and the plural forms of the terms herein defined:

"Acceptance Date" means, with respect to any Equipment, the Basic Payment Date on which Lessor executes the Lease Supplement applicable to such item of Equipment and Lessee unconditionally accepts such Equipment for lease hereunder, as evidenced by the execution and delivery of such Lease Supplement related to such Equipment and dated such date.

"Acquisition Cost" means, with respect to any Equipment, an amount equal to the sum of (a) the total cost paid by Lessor (or Lessee, in its capacity as Lessor's agent) for or in connection with such Equipment (including without limitation, such amounts paid by Lessor to Lessee respecting Lessee Titled Equipment), plus (b) all excise, sales and use taxes and registration fees paid by Lessor on or with respect to the acquisition of such Equipment, less (c) the total cost paid by Lessor for or in connection with any such particular items of Equipment which have been the subject of an Event of Loss and for which an amount equal to the Termination Value for such particular items of Equipment has been paid in full to Lessor.

"Acquisition Expiration Date" means the date set forth in the respective Lease Supplement or such other dates as determined by Lessor in connection with any other Equipment.

"Affiliate" means a Person (other than a Subsidiary) which directly or indirectly through one or more intermediaries controls or is controlled by, or is under common control with, Lessee, the Guarantor or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting stock, by contract or otherwise.

"Appraisal Procedure" means the following procedure for determining the Fair Market Sales Value of any property or any other amount which may, pursuant to any provision of any Transaction Document, be determined by such procedure: if either party to this Agreement shall have given written notice to the other party requesting determination of such value by the Appraisal Procedure, the parties shall consult for the purpose of appointing a qualified independent appraiser by mutual agreement. If no such appraiser is so appointed within fifteen (15) days after such notice is given, each party shall appoint a qualified independent appraiser within twenty (20) days of the giving of such notice. If one (1) party, but not the other, appoints an appraiser pursuant to the preceding sentence, then the appropriately appointed appraiser shall conduct the appraisal. Any appraiser or appraisers appointed pursuant to the foregoing procedure shall be instructed to determine such value within thirty (30) days after his or their appointment. If the parties shall have appointed a single appraiser, his determination of values shall be final. If two (2) appraisers shall be appointed, the values determined shall be averaged. The parties shall share equally the costs and expenses of the appraiser or the appraisers, as the case may be.

"Assignee" means any Person to whom Lessor or any assignee has made any assignment, sale or transfer referred to in Section 14(b) hereof.

"Bank" shall mean NationsBank, N.A. (Carolinas), its successors or assigns.

"Basic Payment" means the amounts payable for the Equipment during the Term pursuant to Section 7(a) hereof.

"Basic Payment Date" means, with respect to any Equipment, each of the dates set forth on the appropriate Lease Supplement with respect to such Equipment.

"Basic Payment Factor" means, with respect to any Equipment, the Basic Payment Factor set forth on each Lease Supplement with respect to such Equipment.

"Basic Payment Period" means, with respect to any Equipment, each period from the date immediately succeeding a Basic Payment Date to the next occurring Basic Payment Date, except that the initial Basic Payment Period under each Lease Supplement shall

also include the date of execution of such Lease Supplement.

"Basic Term" means with respect to any Equipment, the period set forth in the applicable Lease Supplement with respect to such Equipment.

"Business Day" means any day on which Lessor is open for the transaction of business with the public of the nature required by the Transaction Documents.

"Casualty Loss Value Date" means the last day of each Basic Payment Period.

"Code" means the Internal Revenue Code of 1986, as supplemented, amended, modified, restated or replaced from time to time, and all rules and regulations promulgated thereunder.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of Lessee in its consolidated financial statements if such statements were prepared as of such date.

"Consolidated Tangible Net Worth" means at any date the consolidated stockholders' equity of Lessee and its Consolidated Subsidiaries, less their consolidated Intangible Assets, all determined as of such date. For purposes of this definition "Intangible Assets" means the amount (to the extent reflected in determining such consolidated stockholders' equity) of (a) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of assets of a going concern business made within twelve (12) months after the acquisition of such business) in the book value of any assets owned by Lessee or a Consolidated Subsidiary and (b) all goodwill, patents, trademarks, service marks, trade names, copyrights, organization or developmental expenses and other intangible assets.

"Default" means any event which with the giving of notice or the passage of time or both would result in an Event of Default.

"Early Termination Date" means the last day of the Basic Term or the last day of the Renewal Term, if any, on which Lessee exercises its early termination option under Section 5(d) hereof.

"Equipment" means all items of the equipment described in Annex A to the various Lease Supplements executed by Lessor and Lessee in connection with this Agreement, together with any Parts (including without limitation replacement Parts) which may from time to time be incorporated in such equipment or other property and title to which shall have vested in Lessor (including without limitation all Lessor Titled Equipment and Lessee Titled Equipment).

"ERISA" means the Employee Retirement Income Security Act of 1974, as supplemented, amended, modified, restated or replaced from time to time, and all rules and regulations promulgated thereunder.

"Event of Default" shall have the meaning given to such term in Section 22 hereof.

"Event of Loss" means, with respect to any Equipment, any of the following events: (a) loss of any Equipment or of the use thereof due to theft or disappearance during the Term, or the non-existence of any Equipment at the expiration or termination of the Term prior to its expiration, (b) destruction, damage beyond repair, or rendition of any Equipment permanently or temporarily for longer than a commercially reasonable period of time, unfit for normal use for any reason whatsoever, (c) any damage to any Equipment which results in an insurance settlement with respect to such Equipment on the basis of a total loss, or (d) the condemnation, confiscation, seizure, or requisition of use or title to any Equipment by any governmental authority under the power of eminent domain or otherwise.

"Expiration Date" means, with respect to any Equipment, the last day of the Term, unless this Agreement is sooner terminated pursuant to the provisions hereof.

"Fair Market Sales Value" means, with respect to any Equipment, the value which would obtain in an arm's length transaction between an informed and willing buyer (other than a lessee currently in possession or a used equipment dealer) and an informed and willing seller under no compulsion, respectively, to buy or sell. If the parties are unable to agree on the Fair Market Sales Value within thirty (30) days of Lessor's giving of notice as specified in Section 23(c) hereof, such Fair Market Sales Value shall be determined by the Appraisal Procedure.

"Improvement" shall have the meaning given to such term in Section 12 hereof.

"Indemnified Party" shall have the meaning given to such term in Section 18 hereof.

"Lease Supplement" means a Lease Supplement and Acceptance Certificate substantially in the form of Exhibit A hereto, to be executed by Lessor and Lessee for each item of the Equipment accepted under the terms of this Agreement on each Acceptance

Date, in accordance with the provisions of Section 4 hereof.

"Lessee Titled Equipment" means the Equipment accepted by Lessee for lease pursuant to Lease Supplement and Acceptance Certificate No. 1, titled solely in Lessee's name and subject to the terms and conditions of this Agreement.

"Lessor Titled Equipment" means the Equipment accepted by Lessee for lease subsequent to Lease Supplement and Acceptance Certificate No. 1, titled solely in Lessor's name (or in the name of Lessor's agent on behalf of Lessor) and subject to the terms and conditions of this Agreement.

"Lien" means any interest in property securing any obligation owed to, or claimed by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including, without limitation, the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes.

"Loan Agreement" shall have the meaning set forth in Section 22(d) hereof.

"Maximum Cost" means, with respect to any Equipment, an amount specified by Lessee for such Equipment and approved by Lessor and set forth in the Lease Supplement.

"Maximum Lessee Risk Amount" means, with respect to any Equipment, the percentage set forth in Annex C of each Lease Supplement applicable to such particular Equipment under the heading Maximum Lessee Risk Amount Percentage multiplied by the Acquisition Cost of such Equipment.

"Maximum Lessor Risk Amount" means, with respect to any Equipment, the percentage set forth in Annex C of each Lease Supplement applicable to such particular Equipment under the heading Maximum Lessor Risk Amount Percentage multiplied by the Acquisition Cost of such Equipment.

"Net Proceeds of Sale" means the net amount received by Lessor from a third party purchaser of all (but not less than all) the Equipment described on a particular Lease Supplement pursuant to a sale of all (but not less than all) such Equipment under Section 29 hereof.

"Option Election Notice Date" means the date occurring ninety (90) days prior to the final day of the Basic Term or the final Renewal Term, if any.

"Overall Transaction" means all of those transactions referred to in, provided for in, or contemplated by, this Agreement, including, without limitation, the financing, operation and management of the Equipment.

"Overdue Rate" means the lesser of the maximum rate permitted by applicable law and a per annum interest rate equal to the Prime Rate plus two percent (2%).

"Parts" means all appliances, parts, instruments, appurtenances, accessories and miscellaneous property of whatever nature that may from time to time be incorporated or installed in or attached to or otherwise part of the Equipment.

"Payments" means, collectively, Basic Payments and Supplemental Payments.

"Permitted Contest" means any contest by Lessee with respect to any Permitted Lien or any Taxes or Other Impositions incurred with respect to which Lessee has provided a legal opinion from outside counsel to Lessor stating in substance that the position adopted by Lessee in its contest has merit and has a reasonable likelihood of success, and so long as Lessee shall contest, in good faith and at its expense, the existence, the amount or the validity thereof, the amount of the damages caused thereby, or the extent of its liability therefor, by appropriate proceedings which do not result in (a) the collection of, or other realization upon, the Permitted Lien or any Taxes or Other Impositions so contested, (b) the sale, forfeiture or loss of any item of Equipment, any Part, the Payments or any portion thereof, or under any document, instrument, agreement or contract entered into in relation hereto or otherwise in relation to the Equipment, (c) any interference with the use of any item of Equipment or any Part thereof, or (d) any interference with the payment of the Payments or any portion thereof.

"Permitted Lien" means a Lien permitted by the provisions of Section 15 hereof.

"Permitted Sublease" means a sublease (a) to which Lessor has given its prior written consent (which consent shall not be unreasonably withheld), (b) the sublessee with respect to which shall be organized under the laws of the United States or any state thereof and shall have its principal place of business in the United States, (c) the term of which shall in no event exceed the then remaining portion of the Term, (d) immediately prior to the commencement of the term of which, and after giving effect to which, there shall exist no Default or Event of Default and (e)

which shall contain unconditional payment provisions and provisions relating to insurance, maintenance, operation in accordance with applicable laws and insurance requirements, possession, delivery and return conditions (insofar as the general condition of the Equipment is concerned), events of default, remedies and Permitted Liens on the Equipment which provide for benefits and protections to Lessee, as lessor, which are substantially similar to the benefits and protections provided to Lessor by such provisions of this Agreement.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, trustee(s) of a trust, unincorporated organization, or government or governmental authority, agency or political subdivision thereof.

"Prime Rate" means the per annum rate of interest established from time to time by the Bank at its principal office as its Prime Rate. Any change in the interest rate resulting from a change in the Prime Rate shall become effective as of 12:01 a.m. of the Business Day on which each change in the Prime Rate is announced by the Bank. The Prime Rate is a reference rate used by the Bank in determining interest rates on certain loans and is not intended to be the lowest rate of interest charged on any extension of credit to any debtor.

"Renewal Term" shall have the meaning given to such term in Section 5(b) hereof.

"Replacement" shall have the meaning given to such term in Section 12 hereof.

"Replacement Item" means any item of equipment conveyed to Lessor pursuant to Section 16(b) hereof in replacement of any item of Equipment.

"Required Alteration" shall have the meaning given to such term in Section 12 hereof.

"Sales Expenses" means (a) all property, excise, sales and use taxes and other taxes (as such may be applicable to the sale or transfer of the Equipment), (b) all fees, costs and expenses of such sale or transfer of the Equipment (including, without limitation, registration fees and fees, costs and expenses of attorneys or those associated with transportation, storage, security or insurance) incurred by Lessor and (c) any and all other amounts incurred in connection with such sale or transfer of the Equipment for which, if not paid, Lessor would be liable or which, if not paid, would constitute a Lien on the Equipment, or any Part.

"Seller" means each seller executing a Warranty Bill of Sale in favor of Lessor with respect to any Equipment.

"Solvent" means, when used with respect to any Person, that at the time of determination:

(i) the fair value of its assets is in excess of the total amount of its liabilities, including without limitation, contingent liabilities and obligations which would be required to be reflected as a liability on its financial statements (including any footnotes thereto) in accordance with generally accepted accounting principles; and

(ii) it is then able and expects to be able to pay its debts as they mature; and

(iii) it has capital sufficient to carry on its business as conducted and as proposed to be conducted.

"Subsidiary" of any Person means any corporation of which more than fifty percent (50%) of the voting rights of the outstanding capital stock at the time of determination is owned directly or indirectly by such Person or one of the Subsidiaries of such Person.

"Supplemental Payments" means all amounts, liabilities and obligations which Lessee assumes or agrees to pay hereunder to Lessor or others, including, without limitation, payments of Termination Value, interim rental payments and indemnities, but excluding Basic Payments.

"Taxes or Other Impositions" shall have the meaning given to such term in Section 18 hereof.

"Term" shall mean the Basic Term and any Renewal Term(s).

"Termination Value" means, with respect to any Equipment, an amount determined by multiplying the Acquisition Cost of such Equipment by the Termination Value Percentage for such Equipment as of the Expiration Date; provided, however, to the extent the Expiration Date is not a Basic Payment Date, the Termination Value Percentage shall be determined as of the immediately preceding Basic Payment Date.

"Termination Value Percentage" means each termination value percentage identified on Annex B to each Lease Supplement for the

applicable Basic Payment Date.

"Third Party Purchaser" means a third party purchaser of the Equipment which is selected by Lessee, is reasonably acceptable to Lessor, is financially capable of purchasing the Equipment and is not an Affiliate or a Subsidiary of Lessee.

"Transaction Costs" means all the costs, fees and expenses referenced in Section 27 hereof.

"Transaction Documents" means this Agreement, each Lease Supplement, each Warranty Bill of Sale and the Uniform Commercial Code financing statements (and with respect to each of the foregoing, all supplements, amendments and modifications thereto) whether heretofore, now or hereafter executed.

"Warranty Bill of Sale" means each warranty bill of sale, in form and substance satisfactory to Lessor, referring to various items of the Equipment duly executed by a Seller thereof in favor of Lessor and dated as of the Acceptance Date for such Equipment.

The words "this Agreement", "herein", "hereunder", "hereof", or other like words mean and include this Agreement and the Lease Supplements and any amendments and supplements hereto or thereto.

SECTION 2. Agreement for Lease of Equipment; Covenant of Quiet Enjoyment. Subject to, and upon all of the terms and conditions of this Agreement, Lessor hereby agrees to lease to Lessee and Lessee hereby agrees to lease from Lessor, each item of the Equipment from and including the Acceptance Date therefor for the duration of the Term. Provided that no Event of Default has occurred and is continuing, Lessor agrees that it shall not interfere with Lessee's quiet enjoyment and use of the Equipment during the Term.

SECTION 3. Conditions Precedent.

(a) Initial Lease Supplement. The obligations of Lessor to purchase, or to cause its agent to purchase, the Equipment specified on the Lease Supplement dated as of the date hereof, to reimburse Lessee with respect to any Lessee Titled Equipment and to lease the Equipment to Lessee and enter into the Overall Transaction are subject to the delivery to Lessor on or prior to the date hereof of the following documents each in form and substance satisfactory to Lessor:

(i) an officer's certificate from Lessee: (A) certifying Lessee's articles of incorporation, by-laws and resolutions, with such resolutions authorizing the Overall Transaction and Lessee's execution, delivery and performance of this Agreement; (B) containing an incumbency certification of Lessee with the name(s), title(s) and specimen signature(s) of the person or persons authorized on behalf of Lessee to execute this Agreement; (C) stating that no material adverse change has occurred in the condition of Lessee (financial or otherwise) since July 30, 1994 which would impair the ability of Lessee to pay and perform its obligations under this Agreement; and (D) stating that no Default or Event of Default shall have occurred and be continuing as of such date;

(ii) a written opinion of counsel for Lessee;

(iii) a certificate of insurance evidencing the coverages required under Section 17 hereof with respect to the Equipment referenced in the Lease Supplement dated as of the date hereof;

(iv) the Lease Supplement, duly executed by Lessee, and dated as of the date hereof with respect to the Equipment accepted by Lessee and subjected to the terms of this Agreement as of the date hereof;

(v) Uniform Commercial Code filings as deemed appropriate by Lessor's counsel duly executed by Lessee;

(vi) (intentionally omitted);

(vii) good standing certificates from the Secretary of State of Lessee's state of incorporation, the state of Lessee's principal place of business and the state(s) where the Equipment shall be used as set forth in the applicable Lease Supplement;

(viii) (intentionally omitted);

(ix) UCC-11 lien search results and all releases of liens as required by Lessor;

(x) tax lien searches against Lessee and all releases of such liens as required by Lessor;

(xi) judgment lien searches against Lessee and all releases of such liens as required by Lessor; and

(xii) a closing fee of one-half of one percent (.5%) of Acquisition Cost.

(b) Subsequent Lease Supplements. The obligations of Lessor to purchase Equipment on the respective Acceptance Date(s) therefor after the date hereof and to enter into the Lease Supplement with respect thereto is subject to the delivery to Lessor on such Acceptance Date of the following documents each in form and substance satisfactory to Lessor:

(i) the Lease Supplement, duly executed by Lessee and dated such Acceptance Date with respect to the Equipment accepted by Lessee and subjected to the terms of this Agreement on such Acceptance Date;

(ii) Uniform Commercial Code filings as deemed appropriate by Lessor's counsel duly executed by Lessee;

(iii) a Warranty Bill of Sale specifically referring to each item of the Equipment accepted by Lessee and subjected to the terms of this Agreement on such date, duly executed by the Seller thereof in favor of Lessor, or its agent, and dated such Acceptance Date or such other date as is acceptable to Lessor;

(iv) a written opinion of counsel for Lessee;

(v) certificates dated as of such Acceptance Date from officers of Lessee stating that there has been no material adverse change in the business, conditions or operations (financial or otherwise) of Lessee and its respective Consolidated Subsidiaries from that reflected in the financial statements referenced in Sections 3(a)(i) and (ii), that no Default or Event of Default shall have occurred and be continuing from the date of the Agreement to the respective Acceptance Date and that the representations and warranties of Lessee in the Agreement are true and correct as of such date;

(vi) a certificate of insurance evidencing the coverages required under Section 17 hereof with respect to the Equipment referenced in the Lease Supplement dated as of such Acceptance Date;

(vii) (intentionally omitted);

(viii) UCC-11 lien search results and all releases of liens as required by Lessor;

(ix) tax lien searches against Lessee and all releases of such liens as required by Lessor;

(x) judgment lien searches against Lessee and all releases of such liens as required by Lessor; and

(xi) a closing fee of one-half of one percent (.5%) of Acquisition Cost.

(c) Additional Requirements. The obligations of Lessor to purchase the items of Equipment on the respective Acceptance Dates therefor and to enter into the respective Lease Supplement are also subject to:

(i) the absence on the Acceptance Date of any Liens on the Equipment, other than any Permitted Lien of the type specified in Sections 15(a) or (b) hereof;

(ii) the aggregate Acquisition Cost of all Equipment will not exceed the Maximum Cost;

(iii) the Acceptance Date shall be a date between and inclusive of the date hereof and the Acquisition Expiration Date;

(iv) Lessee shall have paid all fees and expenses due and owing with respect to the Overall Transaction;

(v) in its sole discretion, Lessor shall have agreed in writing to purchase items of Equipment in excess of the original commitment of \$25,000,000 or after the Expiration Date and Lessor shall have obtained all internal approvals as Lessor shall have deemed necessary and/or appropriate; and

(vi) Lessor shall have received such other documents, appraisals, certificates, financing statements and other items, in form and substance satisfactory to Lessor, as Lessor may require.

SECTION 4. Delivery and Acceptance of Equipment. Lessor shall not be liable to Lessee for any failure or delay in obtaining the Equipment or making delivery thereof. Lessor hereby appoints Lessee as Lessor's agent for the sole and limited purpose of acquiring and accepting delivery of each item of the Lessor Titled Equipment and paying for the same. By the Acceptance Date for any item of the Equipment (including without limitation Lessor Titled Equipment and Lessee Titled Equipment), Lessee shall have promptly inspected each item of Equipment, and unless Lessee gives Lessor prompt written notice of any defect in or other proper objection to any item of such Equipment, Lessee shall promptly upon completion of such inspection execute and

deliver to Lessor the Lease Supplement, dated the Acceptance Date. Lessee (in its capacity as agent for Lessor respecting Lessor Titled Equipment and in its individual capacity respecting Lessee Titled Equipment) shall also pay to the Seller the Acquisition Cost of the Seller's Equipment referenced in the applicable Lease Supplement if all of the conditions precedent specified in Section 3 hereof have been fulfilled to Lessor's satisfaction. The execution of the Lease Supplement by Lessee and Lessor shall evidence that each item of Equipment has been accepted under this Agreement, upon and subject to all of the terms, conditions and provisions hereof and shall constitute Lessee's unconditional and irrevocable acceptance of the Equipment for all purposes under this Agreement. Lessee's execution of the Lease Supplement shall constitute Lessee's acknowledgement and agreement that, as between Lessor and Lessee, each item of Equipment has been inspected to Lessee's satisfaction, is in good operating order, repair and condition, is of a size, design, capacity and manufacture selected by Lessee, that each item of Equipment is duly certified or licensed by any governmental entity which is charged with issuing such certificates or licenses, that Lessee is satisfied that each item of Equipment is suitable for its purpose, that Lessor has made no warranty, expressed or implied, with respect to any item of Equipment and that Lessee has unconditionally accepted each item of Equipment under this Agreement.

SECTION 5. Basic Term; Renewal Term; Early Purchase Option; Early Termination Option.

(a) Basic Term. The Basic Term for each item of Equipment shall commence on the Acceptance Date set forth in the applicable Lease Supplement, and, unless sooner terminated or extended for the initial Renewal Term (in either case in accordance with the provisions of this Agreement), shall terminate on the date occurring one year from the Acceptance Date.

(b) Renewal Term. So long as such renewal shall not be prohibited by any applicable law or governmental regulation, Lessee may (at its option) at the expiration of the Basic Term, renew the lease of all but not less than all of the Equipment subject to a particular Lease Supplement for not more than six (6) renewal terms, each of one (1) year duration (each such term, a "Renewal Term"). Such option to renew shall be exercised by Lessee giving notice of renewal to Lessor (which notice shall be irrevocable) at least 90 days (but not more than 180 days) prior to the expiration of the Basic Term and each of the first five (5) Renewal Terms, if any. If Lessee fails to give such a notice within the permitted time period, Lessee shall be deemed to have requested a Renewal Term extension. All of the provisions of this Agreement shall be applicable during each Renewal Term, Anything in this Section 5(b) to the contrary notwithstanding, unless Lessor otherwise consents in writing, this Agreement may not be renewed for any Renewal Term if a Default or an Event of Default shall have occurred and be continuing on the day preceding the first day of such Renewal Term.

(c) Early Purchase Option. So long as no Default or Event of Default shall have occurred and be continuing, Lessee may (at its option) at the expiration of the Basic Term or any Renewal Term, retain all (but not less than all) of the Lessee Titled Equipment and purchase all (but not less than all) of the Lessor Titled Equipment for the aggregate Termination Value on that date as set forth in Annex B to each Lease Supplement, plus (i) all Basic Payments then due and owing and (ii) all Supplemental Payments then due and owing or accrued. Such option to retain and purchase shall be exercised by Lessee giving notice to Lessor (which notice shall be irrevocable) at least 90 days (but not more than 180 days) prior to the expiration of the Basic Term or any Renewal Term. If Lessee fails to give such a notice within the permitted time period, Lessee shall be deemed to have requested a Renewal Term extension as set forth in Section 5(b) hereof.

(d) Early Termination Option. To the extent no Default or Event of Default shall have occurred and be continuing, and upon a reasonable determination by the board of directors of Lessee that the Equipment subject to a particular Lease Supplement is obsolete or surplus for the purposes of Lessee, Lessee may terminate this Agreement on any Early Termination Date upon ninety (90) days' prior written notice to Lessor. Lessee may exercise such early termination option to the extent the following conditions are met: (i) Lessee arranges for the sale of all but not less than all of the Equipment to a Third Party Purchaser which is financially capable of purchasing the Equipment; (ii) on the Early Termination Date, such Third Party Purchaser pays Lessor the previously agreed purchase amount in good, immediately available funds; (iii) in the event that such purchase amount is less than the Termination Value determined as of the Basic Payment Date immediately preceding the Early Termination Date, Lessee shall pay Lessor the difference between such purchase amount and such Termination Value; (iv) on the Early Termination Date, Lessee shall pay all Basic Payments then due and owing and all Supplemental Payments then due and owing or accrued; (v) Lessee on a timely basis shall pay, or cause to be paid, all Sales Expenses associated with such sale of the Equipment; and (vi) Lessee shall deliver such Equipment to the Third Party Purchaser in accordance with the provisions of

Section 6 hereof as if such Third Party Purchaser were the Lessor; provided, further, that if the purchase amount paid by the Third Party Purchaser (as referenced in Section 5(d)(ii) hereof is in excess of the Termination Value referenced in Section 5(d)(iii) hereof, Lessor may retain any such excess to the extent, but only to the extent, Lessor has not been paid in full all amounts owed to Lessor under this Section 5(d) and after confirming receipt of all such amounts, Lessor shall promptly return to Lessee the remainder, if any, of such excess. Upon receipt of all funds then due and owing to Lessor hereunder, Lessor shall sell the Lessor Titled Equipment to such Third Party Purchaser on an "as-is, where-is" basis and deliver a bill of sale and all other documentation reasonably necessary to transfer to such Third Party Purchaser all of Lessor's right, title and interest in and to the Lessor Titled Equipment and Lessee shall transfer the Lessee Titled Equipment to such Third Party Purchaser pursuant to a bill of sale and other documentation reasonably satisfactory to Lessor reflecting a transfer of title regarding the Lessee Titled Equipment consistent with the obligations of Lessee hereunder to keep the Equipment free and clear of Liens.

SECTION 6. End of Term Delivery of Equipment.

If this Agreement shall be in full force and effect and Lessee shall not have elected to purchase the Lessor Titled Equipment and retain the Lessee Titled Equipment in accordance with Section 5(c) or with Section 29 hereof, then on the Expiration Date Lessee shall deliver, at Lessee's expense, all requested Equipment to Lessor (or to a third party to which the Equipment shall be sold pursuant to Sections 5(d) or 29) to a location or locations within the continental United States as specified in writing by Lessor or such third party. The terms of this Section 6 shall apply to Lessee's delivery of the Equipment. At the time of such return to Lessor or delivery to the third party, each item of Equipment (and each part or component thereof) shall (i) be in good operating order, and in the repair and condition as when originally delivered to Lessee, ordinary wear and tear from proper use thereof excepted, and refurbished where necessary, (ii) be capable of being immediately operated by a third party purchaser or third party lessee without further inspection, repair, replacement, alteration or improvement, (iii) be in accordance and compliance with any and all statutes, laws, ordinances, rules and regulations of any federal, state or local governmental body, agency or authority applicable to the use and operation of such item of Equipment, and (iv) be free and clear of all Liens, other than those granted or placed thereon by Lessor.

SECTION 7. Payments.

(a) Basic Payments. Lessee hereby agrees to pay Lessor Basic Payments for the Equipment from and including the Acceptance Date for each item of Equipment and throughout the Term, in consecutive quarterly installments, with each installment in an amount equal to the Basic Payment Factor set forth on the Lease Supplement applicable to such items of Equipment hereto multiplied by the Acquisition Cost thereof.

(b) Supplemental Payments. Lessee agrees to pay Lessor, or to whomsoever shall be entitled thereto as expressly provided herein, all Supplemental Payments promptly as the same shall become due and owing, and in the event of any failure on the part of Lessee to pay any such Supplemental Payment hereunder Lessor shall have all rights, powers and remedies provided for herein or by law or equity or otherwise in the case of nonpayment of Basic Payments.

(c) Method of Payment. If the date that any Payment is due is other than a Business Day, the Payment otherwise payable on such date shall be payable on the next succeeding Business Day. All Basic Payments and Supplemental Payments required to be made by Lessee to Lessor hereunder shall be made in immediately available funds and in United States dollars. In the event of any assignment to an Assignee pursuant to Section 14(b) hereof, all payments which are assigned to such Assignee, whether Basic Payments, Supplemental Payments or otherwise, shall be paid in the same manner specified herein for payments to Lessor at such address as shall be designated by such Assignee. Time is of the essence in connection with the payment of Basic Payments and Supplemental Payments.

SECTION 8. Net Lease. This Agreement is a net lease and Lessee acknowledges and agrees that Lessee's obligations hereunder, including, without limitation, its obligations to pay all Payments payable hereunder, shall be absolute and unconditional under any and all circumstances and shall be paid without notice or demand and without any abatement, reduction, diminution, setoff, defense, counterclaim or recoupment whatsoever, including, without limitation, any abatement, reduction, diminution, setoff, defense, counterclaim or recoupment due or alleged to be due to, or by reason of, any past, present or future claims which Lessee may have against Lessor, any Assignee, or the manufacturer of any item of the Equipment, any Part or unit or component of the Equipment, or any other Person for any reason whatsoever. Except to the extent expressly provided herein, and without in any manner limiting the generality of the foregoing sentence, the obligations and

Liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected for any reason, including, without limitation: (a) any defect in any item of the Equipment, any Part or unit or component of the Equipment, or the condition, design, operation or fitness for use thereof; (b) any damage to, or any loss, abandonment, salvage, scrapping or destruction of, any item of the Equipment, any Part or unit or component of the Equipment; (c) any Liens or rights of others with respect to any item of the Equipment, any Part or unit or component of the Equipment; (d) any prohibition or interruption of or other restriction against Lessee's use, operation or possession of any item of the Equipment, any Part or unit or component of the Equipment, for any reason whatsoever, or any interference with such use, operation or possession by any Person or entity; (e) any failure by Lessor to perform any of its obligations herein contained; (f) any other indebtedness or liability, howsoever and whenever arising, of Lessor or of any Assignee or of Lessee to any other Person; (g) any insolvency, bankruptcy or similar proceedings by or against Lessor, any Assignee, any guarantor of Lessee's obligations or Lessee; or (h) any other reason whatsoever, whether similar or dissimilar to any of the foregoing, any present or future law to the contrary notwithstanding; it being the intention of the parties hereto that the Basic Payments and Supplemental Payments payable by Lessee hereunder shall continue to be payable in all events and in the manner and at the times herein provided, without notice or demand, unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Agreement.

SECTION 9. Lessor's Title; Lessee's Title; Grant of Security Interest.

(a) Lessor's Title; Lessee's Title. Title to each item of Lessee Titled Equipment shall at all times remain in Lessee and title to each item of Lessor Titled Equipment shall at all times remain in Lessor. At no time during the Term for any Equipment shall title become vested in any other party; provided, notwithstanding the foregoing, Lessor shall be entitled to exercise its rights under Section 35 hereof.

(b) Grant of Security Interest. This Agreement is a lease intended as security. To secure the prompt payment and performance when due of each and every obligation of Lessee from time to time due and owing to Lessor under this Agreement or under any of the other Transaction Documents, Lessee hereby grants to Lessor a lien and security interest in and a right to set-off against (and acknowledges and agrees that Lessor has and shall continue to have a continuing lien and security interest in and a right of set-off against) any and all right, title and interest of Lessee in, to and under the following: (i) this Agreement and each and every other Transaction Document and each of Lessee's right, title and interest hereunder and thereunder, whether such right, title or interest is now existing or hereafter arising; (ii) each and every item of equipment, fixtures and other personal property located at the sites set forth in Annex A to the respective Lease Supplements executed in connection with this Agreement from time to time (including without limitation all of the Lessee Titled Equipment and the Lessor Titled Equipment), together with all accessories, equipment, parts and appurtenances pertaining or attached thereto, whether now owned or hereafter acquired, and all substitutions and renewals of any type or kind and additions, improvements, accessions and accumulations to any and all of the foregoing; and (iii) any and all proceeds of any kind or type with respect to any of the items referenced in this Section 9(b), including without limitation insurance proceeds.

SECTION 10. Use of Equipment; Compliance with Laws.

Lessee agrees that each item of Equipment will be used and operated only (a) for purposes or operations in the ordinary course of its business and at the location(s) set forth in the applicable Lease Supplement and (b) in the manner set forth in, and in accordance with, the terms, conditions and provisions of the insurance policy or policies providing the coverages specified in Section 17 hereof. In no event shall Lessee use or operate any item of Equipment, or knowingly permit any item of Equipment to be used or operated, for any purpose for which such item of Equipment is not designed or reasonably suitable, or in any fashion that may reasonably subject such item of Equipment to any Liens, other than Permitted Liens, or in any area excluded from coverage by any such insurance policy or policies. Lessee further agrees that each item of Equipment will be used and operated in the conduct of Lessee's business and in compliance with all statutes, law, ordinances, rules and regulations of any federal, state, local or foreign government or governmental authority having jurisdiction with respect to the use, operation, maintenance, condition and occupancy of any item of Equipment (including, without limitation, all zoning, environmental protection, pollution, sanitary and safety laws). Lessee will not load, use, operate, or store any item of Equipment, or knowingly permit the loading, using, operating or storing of any item of Equipment, in a negligent manner or otherwise in violation of this Agreement or so as to void any of the insurance coverages specified in Section 17 hereof respecting any item of Equipment. Lessee shall procure and maintain in effect all licenses, certificates, permits, approvals and consents required by federal, state, local or foreign laws or by any governmental body, agency or authority, in connection with the delivery, use, operation, maintenance,

condition and occupancy of each item of Equipment. The Equipment will at all times be and remain in the control of Lessee except as Lessee's relinquishment of control of an item of Equipment is specifically permitted by this Agreement and except while an item of Equipment is undergoing maintenance. To the extent that any applicable law requires the licensing or certification of an operator of any item of the Equipment, each such operator shall be duly licensed and currently certificated and qualified to operate such item of Equipment and authorized by the terms of (in accordance with the provisions and requirements of) the insurance policy or policies providing the coverages specified in Section 17 hereof.

SECTION 11. Operation and Maintenance of Equipment. Lessee agrees, at its own cost and expense, to keep, repair, maintain and preserve the Equipment in good order and operating condition, and in compliance with such maintenance and repair standards and procedures as are set forth in the manufacturer's manuals pertaining to the Equipment, and as otherwise may be required to enforce warranty claims against each vendor and manufacturer of each item of Equipment, and in compliance with the maintenance and repair standards of Lessee for similar equipment and with prudent industry standards and with all requirements of law applicable to the maintenance and condition of the Equipment. Lessee shall, at its own cost and expense, supply the necessary power and other items required in the operation of the Equipment. Lessee hereby waives any right now or hereafter conferred by law to make repairs on the Equipment at the expense of Lessor.

SECTION 12. Replacement of Parts; Alterations; Modifications and Additions. In case any part, component or unit of the Equipment is required to be altered or modified, or any equipment or appliance is required to be altered, added, replaced or modified on any item of Equipment or in either case in order to comply with the laws, regulations, requirements or rules ("Required Alteration") pursuant to Sections 10 or 11 hereof, Lessee agrees to make such Required Alteration at its own expense. Such Required Alteration shall immediately be and become the property of Lessor hereunder and subject to the terms of this Agreement. Lessee agrees that, within thirty (30) days after the close of any calendar quarter in which Lessee has made any material Required Alteration, Lessee will give written notice thereof to Lessor describing, in reasonable detail, the Required Alteration and specifying the cost thereof and the date or dates when made. All parts, equipment and appliances incorporated or installed in or attached to any item of Equipment in connection with servicing, repairing, maintaining and overhauling any item of Equipment pursuant to the requirements of Sections 10 or 11 hereof ("Replacement") shall be considered accessions to such item of Equipment and shall immediately, without further act, be and become the property of Lessor and part of the Equipment. Lessee may, without the prior written consent of Lessor, affix or install any accessory, equipment or device on the Equipment or make any improvement or addition thereto other than a Required Alteration or Replacement ("Improvement"); provided that, (a) a nonremovable Improvement may only be made to the Equipment if such Improvement does not reduce the value of the Equipment and (b) any other Improvement may only be made to the Equipment if such Improvement is readily removable without causing damage to the Equipment or impairing the value, utility or condition the Equipment would have had if such Improvement had not been so affixed or installed. Improvements shall be considered accessions to the Equipment and shall immediately without further act, be and become the property of Lessor and part of the Equipment. At the time title to any replacement Part, equipment or appliance has become vested in Lessor pursuant to the provisions of this Section 12, title to the part, equipment or appliance replaced thereby shall thereupon vest in Lessee in its individual capacity.

SECTION 13. Identification; Inspection; Reports; Change of Chief Executive Office and/or Name.

(a) Identification. If requested by Lessor, Lessee shall, promptly after each Acceptance Date, mark each item of the Equipment accepted under this Agreement on such date so as to identify that such item is owned by Lessor.

(b) Inspection. Lessor shall have the right on any Business Day during normal business hours and upon reasonable notice to Lessee to inspect (i) the Equipment (wherever located) and (ii) Lessee's records with respect thereto; provided, however, Lessor will conduct no such inspection which in Lessor's reasonable judgment is likely to disrupt Lessee's business operations. Upon receipt of Lessor's notice requesting to inspect certain Equipment, Lessee shall promptly notify Lessor of the location of the Equipment and shall make all necessary arrangements to facilitate the inspection.

(c) Reports. Upon Lessor's written request, Lessee shall furnish Lessor with an accurate statement showing the then current location of each item of the Equipment.

(d) Change of Chief Executive Office and/or Name. Lessee shall give Lessor written notice on or prior to the date as of which Lessee shall change (i) its chief executive office from the address referenced therefor in this Agreement and/or (ii) its name. Lessee shall stipulate the new address and/or its

new name in such notice.

SECTION 14. Assignment, Sublease or Transfer; Assignment; Consolidation and Merger.

(a) Assignment, Sublease or Other Transfer by Lessee. LESSEE WILL NOT, WITHOUT THE PRIOR WRITTEN CONSENT OF LESSOR (WHICH SHALL BE GIVEN OR WITHHELD IN LESSOR'S SOLE DISCRETION), ASSIGN, SUBLEASE OR OTHERWISE TRANSFER ITS RIGHTS OR OBLIGATIONS WITH RESPECT TO ANY OF THE EQUIPMENT, HEREUNDER OR UNDER ANY OF THE OTHER TRANSACTION DOCUMENTS AND ANY ATTEMPTED ASSIGNMENT, SUBLEASE OR OTHER TRANSFER BY LESSEE WITHOUT SUCH LESSOR CONSENT SHALL BE NULL AND VOID.

With respect to any sublease for which Lessor provides its written consent, such sublease must be a Permitted Sublease, no such sublease by Lessee will reduce any of the obligations of Lessee hereunder or the rights of Lessor hereunder, and all of the obligations of Lessee hereunder shall be and remain primary and shall continue in full force and effect as the obligations of a principal and not of a guarantor or surety. Lessee shall furnish to Lessor not later than the effective date of such sublease (i) new insurance certificates from Lessee's insurance broker, in form and substance satisfactory to Lessor, indicating compliance with the insurance provisions of this Agreement and (ii) an officer's certificate from Lessee naming the sublessee and specifying the address for the sublessee's chief executive office. Lessee shall, and shall cause such sublessee to, execute and deliver such instruments to the appropriate Person for filing and to deliver copies of the same to Lessor (including sublease agreements and Uniform Commercial Code financing statements) as may be requested by Lessor in connection with any such sublease.

(b) Assignment By Lessor. Lessor may at any time (i) assign, sell or transfer, in whole or in part, Lessor's right, title and interest in, to and under this Agreement and any Lease Supplement, including, without limitation, the right to receive any or all Payments payable under this Agreement and under any Lease Supplement with respect to the Equipment and (ii) sell or transfer all of Lessor's right, title and interest in and to the Equipment. Any such assignee, purchaser or transferee of Lessor's rights (an "Assignee") shall have all of Lessor's right, title and interest hereunder to the extent that the same relate to the interest of the Assignee covered by the assignment, including, without limitation, the right to receive such Assignee's portion of the Basic Payments payable for the Equipment sold or transferred for all Basic Payment Periods commencing on or after the date of such assignment, the right to receive such Assignee's portion of the Supplemental Payments which are payable as a result of acts or events which occur on or after the date of such assignment and the right to enforce, either in such Assignee's name or in Lessor's name, but without cost or expense to Lessor, all of Lessor's rights hereunder assigned to such Assignee. Any Assignee may re-assign all or a portion of its right, title and interest received in accordance with the terms hereof. Any such assignment shall be subject to Lessee's rights hereunder so long as no Event of Default has occurred and is continuing hereunder; provided, however, Lessee shall be deemed to have released Lessor from any liability under this Agreement arising after the effective date of the assignment and shall thereafter look solely to the Assignee for obligations hereunder arising after such effective date. Lessee shall be under no obligation to any Assignee except upon written notice of such assignment from Lessor. Upon written notice from Lessor to Lessee of such assignment, Lessee agrees to pay the Basic Payments and Supplemental Payments to the Assignee in accordance with the terms of this Agreement supplemented by the instructions specified in such notice, to give all notices which are required or permitted to be given by Lessee to Lessor hereunder to the Person(s) specified to receive the same in such notice of assignment and to otherwise comply with all reasonable notices, directions and demands which may be given by such Assignee in accordance with the provisions of this Agreement. Lessee agrees to deliver to any Assignee an acknowledgement of the assignment together with an opinion of Lessee's counsel regarding the validity and enforceability of this Agreement and each Lease Supplement against Lessee, an incumbency certificate of Lessee and such authorizing resolutions as such Assignee may reasonably request; provided, however, all out-of-pocket fees and expenses incurred by Lessee in connection with the production or delivery of the foregoing documents referenced previously in this sentence shall be for the account of Lessor or such Assignee, as agreed to by such parties.

Lessor may also transfer all, but not less than all, of Lessor's right, title and interest in, to and under the other Transaction Documents to the Assignee and after the effective date of such transfer, the Assignee shall have all of Lessor's right, title and interest under such other Transaction Documents.

(c) Consolidation, Merger, Conveyance, Transfer and Lease By Lessee. Lessee shall not consolidate with or merge into any other corporation or convey, transfer or lease substantially all of its stock or assets as an entirety or in one or more parcels to any Person or Persons unless:

(i) Lessee is the surviving entity of any such consolidation or merger and the requirements of Sections

14(c)(ii)(B)-(D) are satisfied; or

(ii) (A) the corporation formed by such consolidation or into which Lessee is merged, or the Person which acquires by conveyance, transfer or lease of substantially all of the stock or assets of Lessee as an entirety, shall be a Solvent corporation organized and existing under the laws of the United States or any state thereof or the District of Columbia and shall execute and deliver to Lessor an agreement containing an effective assumption by such successor, transferee or lessee corporation of the due and punctual performance and observance of each covenant and condition of this Agreement; provided any conveyance, transfer or lease of substantially all of its stock or assets shall not release Lessee from its obligations under this Agreement, which obligations shall at all times remain primary and direct;

(B) immediately prior to and after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(C) immediately after giving effect to such transaction, the consolidated tangible net worth (computed on the same basis as the Consolidated Tangible Net Worth) of the corporation formed by such consolidation or into which Lessee is merged or the Person which acquired by conveyance, transfer or lease substantially all the stock or assets of Lessee as an entirety, as the case may be, shall not be less than one hundred percent (100%) of the Consolidated Tangible Net Worth of Lessee as reflected in the then most recent financial statement furnished by Lessee pursuant hereto prior to such consolidation, merger, conveyance, transfer or lease; and

(D) Lessee shall have delivered to Lessor a certificate signed by an officer, who may be the President, any Vice President, the Chief Executive Officer or the Chief Financial Officer, stating that such consolidation, merger, conveyance, transfer or lease and the assumption agreement mentioned in clause 14(c)(ii)(A) above comply with the requirements of this Section 14(c) and that all conditions precedent herein provided for relating to such transaction have been complied with.

Upon any consolidation or merger in which Lessee is not the surviving corporation, or any conveyance, transfer or lease of substantially all the stock or assets of Lessee as an entirety, in each case in accordance with this Section 14(c), the successor corporation formed by such consolidation or into which Lessee is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for (but without release of Lessee from any of its obligations hereunder with respect to any conveyance, transfer or lease of substantially all the stock or assets of Lessee as an entirety), and may exercise every right and power of, Lessee under this Agreement with the same effect as if such successor corporation had been named as a Lessee herein.

SECTION 15. Liens; Permitted Contests. Lessee will not directly or indirectly create, incur, assume or suffer to exist any Lien on or with respect to any item of Equipment, or Lessor's title (or Lessee's title) thereto, except the following (collectively, the "Permitted Liens"): (a) any Lien granted to Lessor hereunder or granted or placed thereon by Lessor as a result of an assignment pursuant to Section 14(b) hereof, (b) any Lien resulting from an independent act of or claim against Lessor which does not result from, arise out of or relate to the manufacture, acquisition, ownership, operation, repair, maintenance, storage, usage or leasing of such item of Equipment or this Agreement or any Lease Supplement or any Default or Event of Default, (c) any Lien for Taxes or Other Impositions either not yet delinquent or which are the subject of a Permitted Contest, and (d) any materialmen's, mechanics', workmen's, repairmen's or employees' lien or any other like Lien arising in the ordinary course of business, which is not delinquent or the subject of a Permitted Contest. Lessee, at its own expense, will promptly pay, satisfy and otherwise take such actions as may be necessary to keep each item of Equipment free and clear of, and to duly discharge or eliminate or bond in a manner satisfactory to Lessor, any such Lien not excepted above if the same shall arise at any time. Lessee will maintain each Lien on the Equipment granted hereunder in favor of Lessor as a first priority, perfected security interest. Lessee will notify Lessor and any Assignee in writing promptly upon becoming aware of any Taxes or Other Impositions or other Lien (other than any Lien excepted above) that shall attach to any item of Equipment and of the full particulars thereof.

Lessee shall pay, and save Lessor harmless against, any and all losses, judgments, decrees and costs (including, without limitation, all reasonable attorneys' fees and expenses) in connection with any Permitted Contest and shall promptly after the final settlement, compromise or determination (including any appeals) of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith,

together with all penalties, fines, interests, costs and expenses thereof or in connection therewith, and perform all acts, the performance of which shall be ordered or decreed as a result thereof.

SECTION 16. Loss, Damage or Destruction.

(a) Risk of Loss, Damage or Destruction. Lessee hereby assumes all risk of loss, damage, theft, taking, destruction, confiscation, requisition or commandeering, partial or complete, of or to the Equipment, however caused or occasioned, such risk to be borne by Lessee with respect to the Equipment from the Acceptance Date therefor, and continuing until the Equipment has been delivered in accordance with the provisions of Section 6 hereof or has been purchased by Lessee or a third party in accordance with the provisions of Sections 5 or 29 hereof. Lessee agrees that no occurrence specified in the preceding sentence shall impair, in whole or in part, any obligation of Lessee under this Agreement, including, without limitation, the obligation to make Payments.

(b) Event of Loss with Respect to Equipment. (i) Upon the occurrence of an Event of Loss with respect to any item of Equipment during the Term, Lessee shall forthwith (and in any event within ten (10) days after such occurrence) give Lessor written notice of such Event of Loss and of its election to perform one of the following options (it being agreed that if Lessee shall not have given Lessor notice of such election within such ten (10) days after such occurrence, Lessee shall be deemed to have elected to perform the option set forth in the following clause (B)), provided that Lessee shall not have the right to select the option set forth in the following clause (A) if a Default or Event of Default shall have occurred and be continuing and in such circumstance shall be deemed to have selected the option set forth in the following clause (B):

(A) As promptly as practicable, and in any event within thirty (30) days of the occurrence of such Event of Loss, Lessee shall convey or cause to be conveyed to Lessor pursuant to Section 16(b)(ii), and to be leased by Lessee hereunder in replacement for such item of Equipment, a replacement item (the "Replacement Item"), such Replacement Item to be free and clear of all Liens (other than Permitted Liens) and to have a value and utility at least equal to, and be in as good operating condition as, the item of Equipment with respect to which such Event of Loss occurred, assuming such item of Equipment was of the value and utility and in the condition and repair required by the terms hereof immediately prior to the occurrence of such Event of Loss; provided that, if Lessee shall not perform its obligation to effect such replacement under this clause (A) during the period of time provided herein, then Lessee shall promptly give notice to Lessor, and shall be deemed (whether or not Lessee shall have so given such notice) to have elected to perform the option set forth in clause (B) below by the date and pursuant to the terms specified in said clause. (Notwithstanding such Event of Loss, Lessee's obligation to pay Basic Payments shall continue.)

(B) On the Casualty Loss Value Date next following the earlier of thirty (30) days after the occurrence of such Event of Loss and the date of receipt of insurance proceeds in respect of such occurrence, Lessee shall pay Lessor the sum of (i) the Termination Value (computed as of the Casualty Loss Value Date next following the date of such Event of Loss) for all the Equipment then subject to the Event of Loss, plus (ii) all accrued and unpaid Basic Payments (and/or any pro rata portion thereof) owing for all Basic Payment Periods (and/or any pro rata portion thereof) prior to such Casualty Loss Value Date, plus (iii) all Supplemental Payments then accrued and unpaid or due and owing. Upon payment in full of amounts specified in clauses (i) through (iii) of the preceding sentence, (A) the obligation of Lessee to pay Basic Payments hereunder, with respect to such item of Equipment for all Basic Payment Periods commencing after the occurrence of such Event of Loss shall terminate, (B) the Term shall end with respect to such item of Equipment, and (C) Lessor shall transfer to Lessee, or Lessee's designee, its title to such item of Lessor Titled Equipment consistent with the settlement terms of Section 29(e) hereof.

(ii) Conveyance of Replacement Equipment. Prior to or at the time of any conveyance of a Replacement Item, Lessee, at its own expense, will furnish, or cause to be furnished, to the Lessor the following documents (in form and substance satisfactory to Lessor) which shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect on the date of such conveyance:

(A) with respect to any such Replacement Item, a full warranty bill of sale and Uniform Commercial Code financing statements and such other evidence of title as Lessor or its counsel may reasonably request;

(B) a supplement to this Agreement, and if a

Permitted Sublease is in force and effect to such Permitted Sublease, in each case covering such Replacement Item, duly executed by Lessee and the sublessee under the Permitted Sublease, if any;

(C) such evidence of compliance with the insurance provisions of this Agreement with respect to such Replacement Item, as Lessor may reasonably request, including an independent insurance broker's report (stating the opinion of such insurance broker that such insurance complies with the terms of this Agreement) with certificates of insurance; and

(D) such other documents and evidence with respect to Lessee as Lessor or its counsel, may reasonably request in order to establish the consummation of the transactions contemplated by this Section 16(b), the taking of all corporate proceedings in connection with and compliance with the conditions set forth in this Section 16(b), in each case in form and substance satisfactory to Lessor.

Upon full compliance by Lessee with the terms of this Section 16(b), Lessor shall convey to Lessee in its individual capacity, at Lessee's cost and expense, all of Lessor's right, title and interest, as-is, where-is, without recourse or warranty, express or implied, in and to such replaced item of Lessor Titled Equipment, with respect to which Event of Loss occurred. No Event of Loss with respect to an item of Equipment under the circumstances contemplated by the terms of this Section 16(b) shall result in any reduction in Basic Payments or Lessee's obligation to pay Basic Payments hereunder.

Lessee further agrees to take such further action as Lessor may reasonably request with respect to such Replacement Item to perfect the interest of Lessor in such Replacement Item.

(c) Application of Other Payments Upon Event of Loss. Any payments for damages to the Equipment (including, without limitation, insurance proceeds) received at any time by Lessor or by Lessee from any insurer, governmental authority or other party as a result of the occurrence of an Event of Loss will be applied as follows: (i) any such payments received at any time by Lessee shall be promptly paid to Lessor for application pursuant to the following provisions of this Section 16(c); (ii) so much of such payments as shall not exceed the amounts required to be paid by Lessee pursuant to Section 16(b) hereof shall be applied in reduction of Lessee's obligation to pay such amount, if not already paid by Lessee, or, if already paid by Lessee, shall be applied to reimburse Lessee for its payment of such amount, unless a Default or an Event of Default shall have occurred and be continuing; and (iii) the balance, if any, of such payments remaining thereafter shall be paid to or retained by Lessee, unless a Default or an Event of Default shall have occurred and be continuing.

(d) Application of Payments Not Relating to an Event of Loss. Any payments (including, without limitation, insurance proceeds) received at any time by Lessor or Lessee from any insurer, governmental authority or other party with respect to any condemnation, confiscation, theft or seizure of, or requisition of title to or use of, or loss or damage to, any item of the Equipment not constituting an Event of Loss, will be applied (if no Default or Event of Default shall have occurred and be continuing) directly in payment of repairs or for replacement of property in accordance with the provisions of Sections 11 and 12 hereof, if not already paid by Lessee, or if already paid by Lessee and if no Default or Event of Default shall have occurred and be continuing, shall be applied to reimburse Lessee for such payment, and any balance remaining after compliance with said Sections 11 and 12 with respect to such loss or damage shall be paid to or retained by Lessee.

SECTION 17. Insurance.

(a) Coverage. Lessee shall:

(i) maintain property damage insurance for the Equipment in an amount not less than Termination Value for all property damage and loss including, without limitation, loss, vandalism, malicious mischief, damage from fire, and normal extended coverage perils customarily included in policies available with respect to property comparable to the Equipment;

(ii) maintain comprehensive general public liability, including blanket contractual, personal injury, property damage and loss of use of property of others, insurance applicable to the Equipment in such amounts usually carried by Lessee but in any event with a combined single limit of not less than Termination Value or such other amount as is mutually agreed to by Lessee and Lessor, as such agreement shall be reflected in the Lease Supplement applicable to certain Equipment; and

(iii) maintain such other insurance with respect to the Equipment in such amounts and against such insurable hazards as is usually carried by Lessee, but any loss of the

type customarily covered by the policies described in Sections 17(a)(i) and (ii) whether actually covered in whole or in part by such policies, shall be the responsibility of Lessee and the absence of such coverage shall not relieve Lessee from any of its obligations under any of the documents or agreements related to the Overall Transaction.

All insurance policies carried in accordance with this Section 17(a) (excepting any self-insurance permitted under this Agreement) shall be maintained with insurers of recognized responsibility and standing in the industry.

Any insurance policies carried in accordance with this Section 17 shall be subject only to (A) exclusions of the sort existing in the insurance policies in effect on the Acceptance Date and (B) deductible amounts and/or retentions not in excess of \$100,000 per occurrence with respect to comprehensive general public liability insurance and \$10,000 per occurrence with respect to property insurance.

Notwithstanding anything to the contrary in this Section 17, (i) Lessee shall at all times maintain insurance with respect to the Equipment in accordance with its standard corporate minimum practice with respect to other similar equipment and (ii) any loss of the type customarily covered by the policies described in Sections 17(a), whether actually covered in whole or in part by such policies, shall be the responsibility of Lessee and the absence of such coverage shall not relieve Lessee from any of its obligations under any of the documents or agreements related to the Overall Transaction.

(b) Policy. Any insurance policy maintained by Lessee pursuant to Section 17(a) hereof (excepting any self-insurance permitted under this Agreement) shall:

(i) specify Lessor, as its interest may appear, as a loss payee with respect to property damage insurance and as an additional insured with respect to liability insurance;

(ii) include effective waivers by the insurer of all claims for insurance premiums or commissions or (if such policies provide for the payment thereof) additional premiums or assessments against Lessor;

(iii) provide that in respect of the interests of Lessor such policies shall not be invalidated by any action or inaction of Lessee or any other Person (except for nonpayment of premiums, in which case Lessor shall receive at least thirty (30) days prior written notice of such nonpayment from the respective insurance carriers prior to the invalidation of any insurance coverage referenced hereunder) and shall insure the rights and interests of Lessor regardless of, and any claims for losses shall be payable notwithstanding:

(A) any act of negligence, including, without limitation, any breach of any condition or warranty in any policy of insurance, by Lessee, Lessor or any other Person;

(B) the use of the Equipment for purposes more hazardous than permitted by the terms of the policy;

(C) any foreclosure or other proceeding or notice of sale relating to the Equipment; or

(D) any change in the title to or ownership of the Equipment;

(iv) provide that such insurance shall be primary insurance and that the insurers under such insurance policies shall be liable under such policies without right of contribution from any other insurance coverage effected by or on behalf of Lessor under any other insurance policies covering a loss that is also covered under the insurance policies maintained by Lessee pursuant to this Section 17 and shall expressly provide that all provisions thereof, except the limits of liability (which shall be applicable to all insureds as a group) and liability for premiums (which shall be solely a liability of the Lessee), shall operate in the same manner as if there were a separate policy covering each insured;

(v) provide that any material adverse change therein shall not be effective as to Lessor until at least thirty (30) days after receipt by Lessor of written notice thereof and provide that any cancellation thereof shall not be effective as to Lessor until receipt by Lessor of written notice of cancellation at thirty (30) days before the effective date of cancellation;

(vi) waive any right of subrogation of the insurers against Lessor and waive any right of the insurers to any setoff or counterclaim or any other deduction, whether by attachment or otherwise, in respect of any liability of Lessor;

(vii) provide that the whole or any part of the right, title and interest of Lessor or Lessee therein may be assigned; and

(viii) subject to Section 17(a) hereof, be reasonably satisfactory to Lessor in all other material respects.

(c) Evidence of Insurance. Lessee shall deliver to Lessor by the Acceptance Date for each item of the Equipment certificates of insurance evidencing the provisions described in Sections 17(a) and 17(b)(i-vii) hereof executed by the insurer or its duly authorized agent.

(d) Annual Insurance Certificate. By the annual anniversary of the Acceptance Date for each item of the Equipment of each year commencing with January 27, 1995, and within thirty (30) days after any material adverse change (including, without limitation, any material increase in deductible and/or retention amounts) in the information set forth in the certificates provided pursuant to Section 17(c) hereof, Lessee shall deliver to Lessor a certificate of insurance with respect to the same items as described in Section 17(c).

SECTION 18. General Tax Indemnity. Lessee hereby assumes liability for, and does hereby agree, whether or not any of the transactions contemplated hereby are consummated, to indemnify, protect, save, defend, exonerate, pay and hold harmless Lessor, each Assignee and each of their respective officers, directors, stockholders, successors, assigns, agents and servants (each such party may be referred to herein as an "Indemnified Party") on an after-tax basis (at the then highest marginal federal and applicable state, local and foreign income tax rates) from, any and all federal, state, local and foreign taxes, fees, withholdings, levies, imposts, duties, assessments and charges of any kind and nature whatsoever, together with any penalties, fines or interest therein (herein called "Taxes or Other Impositions") howsoever imposed, whether levied or imposed upon or asserted against an Indemnified Party, Lessee or the Equipment by any federal, state or local government or taxing authority in the United States, or by any taxing authority or governmental subdivision of a foreign country, upon or with respect to (a) the Equipment, (b) the manufacture, construction, ordering, purchase, acceptance or rejection, ownership, delivery, leasing, re-leasing, subleasing, possession, use, operation, maintenance, storage, registration or re-registration, titling or re-titling, licensing or re-licensing, documentation, removal, return, sale (including, without limitation, sale to Lessee by an Indemnified Party pursuant to the terms hereof) or other applications or dispositions thereof, (c) the payments, receipts or earnings arising from the Equipment, or (d) this Agreement, any document, instrument, agreement or contract entered into in relation hereto or otherwise in relation to the Equipment or any payments payable by Lessee or to an Indemnified Party hereunder or pursuant to any document, instrument, agreement or contract entered into in relation hereto or otherwise in relation to the Equipment; provided, however, that the foregoing indemnity shall not apply to any taxes imposed solely as the result of the gross negligence or willful misconduct of an Indemnified Party or to the extent based upon or measured by an Indemnified Party's net income or gross receipts, which gross receipts tax is in the nature of a tax on net income (unless such tax is a Covered Income Tax as hereinafter defined), and which are imposed or levied by any federal, state or local taxing authority in the United States. For purposes of this Agreement, a "Covered Income Tax" shall mean an income tax (including, without limitation, a tax imposed upon gross income or receipts) imposed on an Indemnified Party by any state or local taxing authority (excluding the United States federal government) in whose jurisdiction, an Indemnified Party (including, without limitation, for this purpose all entities with which it is combined, integrated or consolidated in such taxing authority's jurisdiction) would not engage in business, would not maintain an office or other place of business, and would not otherwise be located therein, but for an Indemnified Party's role in the Overall Transaction, with respect to the Equipment, its manufacture, construction, ordering, purchase, acceptance or rejection, ownership, delivery, leasing, re-leasing, subleasing, possession, use, operation, maintenance, storage, registration or re-registration, titling or re-titling, licensing or re-licensing, documentation, removal, return, sale (including, without limitation, sale to Lessee by an Indemnified Party pursuant to the terms hereof) or other applications or dispositions thereof, or the presence of Lessee in such jurisdiction.

Each Indemnified Party shall furnish Lessee with copies of any requests for information received by such Indemnified Party from any taxing authority relating to any Taxes or Other Impositions with respect to which Lessee is required to indemnify hereunder, and if a claim is made against such Indemnified Party for any such Taxes or Other Impositions, with respect to which Lessee is liable for a payment or indemnity hereunder, such Indemnified Party shall give Lessee notice in writing at least 30 days (or if such Indemnified Party receives notice of such claim within 30 days of the date a response is required, promptly upon such receipt) prior to the expiration of the time period for responding to such claim. Lessee may, at its sole cost and expense, either in its own name or in the name of such

Indemnified Party, contest the validity, applicability or amount of any such Taxes or Other Impositions by means of a Permitted Contest; provided, however, that Lessee shall not be entitled to pursue such a Permitted Contest without Lessor's prior written consent (i) beyond the first level of appellate review or (ii) if the contested amount is greater than \$250,000.00. In all cases except those expressly described in the proviso to the immediately preceding sentence, an Indemnified Party shall have the absolute right in its sole discretion to terminate any Permitted Contest. Lessee shall pay, and save such Indemnified Party harmless against, any and all losses, judgments, decrees and costs (including, without limitation, all reasonable attorneys' fees and expenses) in connection with any Permitted Contest and shall promptly after the final settlement, compromise or determination (including, without limitation, any appeals) of such Permitted Contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interests, costs and expenses thereof or in connection therewith, and perform all acts, the performance of which shall be ordered or decreed as a result thereof. If an Indemnified Party shall obtain a refund of any amount paid by Lessee pursuant to this Section 18, such Indemnified Party shall pay to Lessee the amount of such refund, together with the amount of any interest actually received by Lessor on account of such refund. Lessee will promptly notify the appropriate Indemnified Party of all reports or returns required to be made with respect to any Taxes or Other Impositions with respect to which Lessee is required to indemnify hereunder, and will promptly provide such Indemnified Party with all information necessary for the making and timely filing of such reports or returns by such Indemnified Party. If an Indemnified Party requests that any such reports or returns be prepared and filed by Lessee, Lessee will prepare and file the same if permitted by applicable law to file the same, and if not so permitted, Lessee shall prepare such reports or returns for signature by such Indemnified Party, and shall forward the same, together with immediately available funds for payment of any Taxes or Other Impositions due, to such Indemnified Party, at least 10 days in advance of the date such payment is to be made. Upon written request, Lessee shall furnish an Indemnified Party with copies of all paid receipts or other appropriate evidence of payment for all Taxes or Other Impositions paid by Lessee pursuant to this Section 18. The provisions of this Section 18 and all of the indemnities and obligations of Lessee contained in this Section 18 shall apply to the Equipment and each component thereof and shall apply from the date of execution of this Agreement and shall continue in full force and effect notwithstanding the expiration or earlier termination of this Agreement or any other documents, instruments, agreements or contracts entered into in relation hereto or otherwise in relation to the Equipment or any component of the Equipment and are expressly made for the benefit of, and shall be enforceable by, each Indemnified Party.

SECTION 19. General Indemnity. Lessee hereby assumes liability for, and does hereby agree, whether or not any of the transactions contemplated hereby are consummated, to indemnify, protect, save, defend, exonerate, pay and hold harmless each Indemnified Party on a net after-tax basis (at the then highest marginal federal and applicable state, local and foreign income tax rates) from and against any and all obligations, fees, liabilities, losses, interest, damages, punitive damages, penalties, fines, claims, demands, actions, suits, judgments, costs and expenses, including, without limitation, reasonable legal fees and expenses (including, without limitation, such legal fees and expenses incurred in connection with the enforcement of this Agreement or any other Transaction Document), of every kind and nature whatsoever imposed on, incurred by, or asserted against any Indemnified Party, in any way relating to or arising out of (a) the manufacture, construction, ordering, purchase, acceptance or rejection, ownership, delivery, leasing, re-leasing, subleasing, possession, use, operation, maintenance, storage, registration or re-registration, titling or re-titling, licensing or re-licensing, documentation, removal, return, sale (including, without limitation, sale by an Indemnified Party to Lessee pursuant to the terms hereof) or other applications or dispositions thereof, including, without limitation, any of such as may arise from (i) loss or damage to any property or death or injury to any Person, (ii) patent or latent defects in the Equipment (whether or not discoverable by Lessee or any Indemnified Party), (iii) any claims based on strict liability in tort or otherwise, (iv) any claims based on patent, trademark or copyright infringement, and (v) any claims based on liability arising under the applicable environmental or noise or pollution control law or regulation, (b) any failure on the part of Lessee to perform or comply with any of the terms of this Agreement or any document, instrument, agreement or contract entered into in relation hereto or otherwise in relation to the Equipment but excluding any claim based upon any failure on the part of an Indemnified Party to comply with its obligations under this Agreement or any document, instrument, agreement or contract entered into by such Indemnified Party in relation hereto or otherwise in relation to the Equipment or (c) any claims, encumbrances, security interests, liens or legal processes regarding such Indemnified Party's title to or interest in the Equipment. Lessee shall not be required to indemnify any Indemnified Party for any claims resulting from acts which would constitute the willful misconduct or gross negligence of such

Indemnified Party. Lessee shall give each Indemnified Party prompt notice of any occurrence, event or condition known to Lessee as a consequence of which any Indemnified Party is or is reasonably likely to be entitled to indemnification hereunder. The indemnification provided in this Section 19 shall specifically apply to and include claims or actions brought by or on behalf of employees of Lessee and Lessee hereby expressly waives, as against any Indemnified Party, any immunity to which Lessee may otherwise be entitled under any industrial or worker's compensation laws. Lessee shall promptly upon request of any such Indemnified Party (but in any event within 15 days of such request) reimburse such Indemnified Party for amounts expended by it in connection with any of the foregoing or pay such amounts directly. Lessee shall be subrogated to an Indemnified Party's rights in any matter with respect to which Lessee has actually reimbursed such Indemnified Party for amounts expended by it or has actually paid such amounts directly pursuant to this Section 19. In case any action, suit or proceeding is brought against any Indemnified Party in connection with any claim indemnified against hereunder, such Indemnified Party will, after receipt of notice of the commencement of such action, suit or proceeding, notify Lessee thereof, enclosing a copy of all papers served upon such Indemnified Party. Lessee may, and upon such Indemnified Party's request will, at Lessee's expense, resist and defend such action, suit or proceeding, or cause the same to be resisted or defended by counsel selected by Lessee and reasonably satisfactory to such Indemnified Party and in the event of any failure by Lessee to do so, Lessee shall pay all costs and expenses (including, without limitation, reasonable attorney's fees and expenses) incurred by such Indemnified Party in connection with such action, suit or proceeding. The provisions of this Section 19, and all of the indemnities and the obligations of Lessee under this Section 19, shall apply to the Equipment and each component thereof and shall apply from the date of the execution of this Agreement and shall survive the expiration or earlier termination of this Agreement and all documents, instruments, agreements and contracts entered into in relation hereto or otherwise in relation to the Equipment or any component of the Equipment and are expressly made for the benefit of, and shall be enforceable by, each Indemnified Party

SECTION 20. NO WARRANTIES. LESSOR LEASES THE EQUIPMENT TO LESSEE ON AN AS-IS, WHERE-IS BASIS AND EXCEPT AS OTHERWISE EXPRESSLY STATED IN THIS AGREEMENT LESSOR EXPRESSLY DISCLAIMS AND MAKES NO REPRESENTATION OR WARRANTY, EITHER EXPRESSED OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE EQUIPMENT, THE DESIGN OR CONDITION OF EQUIPMENT, ITS MERCHANTABILITY, DURABILITY, SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, THE QUALITY OF THE MATERIAL OR WORKMANSHIP OF THE EQUIPMENT, OR THE CONFORMITY OF THE EQUIPMENT TO THE PROVISIONS AND SPECIFICATIONS OF ANY PURCHASE ORDER OR ORDERS RELATING THERETO, OR ANY OTHER MATTER CONCERNING, ANY ITEM OF THE EQUIPMENT OR THE FINANCING THEREOF (WHICH DISCLAIMER LESSEE HEREBY ACKNOWLEDGES). LESSEE HEREBY WAIVES ANY CLAIM (INCLUDING, WITHOUT LIMITATION, INCIDENTAL OR CONSEQUENTIAL DAMAGE) OR EXPENSE CAUSED BY ANY ITEM OF THE EQUIPMENT OR BY LESSEE'S LOSS OF USE THEREOF FOR ANY REASON WHATSOEVER. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, LESSOR SHALL NOT BE LIABLE OR RESPONSIBLE FOR ANY DEFECTS, EITHER PATENT OR LATENT (WHETHER OR NOT DISCOVERABLE BY LESSEE), IN ANY ITEM OF THE EQUIPMENT, OR FOR ANY DIRECT OR INDIRECT DAMAGE TO PERSONS OR PROPERTY RESULTING THEREFROM, OR FOR LESSEE'S LOSS OF USE OF ANY ITEM OF THE EQUIPMENT OR FOR ANY INTERRUPTION IN LESSEE'S BUSINESS CAUSED BY LESSEE'S INABILITY TO USE ANY ITEM OF THE EQUIPMENT FOR ANY REASON WHATSOEVER. So long and only so long as an Event of Default shall not have occurred and be continuing, and so long and only so long as all of the Equipment described in a particular Lease Supplement shall be subject to this Agreement and Lessee shall be entitled to possession of the Equipment hereunder, Lessor authorizes Lessee, at Lessee's sole expense, to assert for Lessor's account, all rights and powers of Lessor under any manufacturer's, vendor's or dealer's warranty on any item of Equipment; provided, however, that Lessee shall indemnify, protect, save, defend and hold harmless Lessor from and against any and all claims, and all costs, expenses, damages, losses and liabilities incurred or suffered by Lessor in connection therewith, as a result of, or incident to, any action by Lessee pursuant to the foregoing authorization.

SECTION 21. Lessee's Representations, Warranties and Covenants. Lessee hereby represents, warrants and covenants to Lessor that:

(a) Due Organization and Existence. Lessee is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, and is qualified to do business in each jurisdiction in which such qualification is necessary in order for Lessee to carry on its business and to perform its obligations hereunder, and is in good standing under the laws of each jurisdiction in which the failure to be in good standing would have a material adverse effect on the condition (financial or otherwise) of Lessee;

(b) Power and Authority. Lessee has the corporate power and authority to execute and perform this Agreement and the other Transaction Documents to which Lessee is a party and to lease the Equipment hereunder, and has duly authorized the execution, delivery and performance of this Agreement and the

other Transaction Documents to which Lessee is a party;

(c) Due Authorization. The leasing of the Equipment from Lessor by Lessee, the execution and delivery by Lessee of this Agreement and each Transaction Document to which it is a party, and the compliance by Lessee with the terms hereof and thereof, and the payment and performance by Lessee of all of its obligations hereunder and thereunder (i) have been duly and legally authorized by appropriate corporate action taken by Lessee, (ii) are not in contravention of, and will not result in a violation or breach of, any of the terms of Lessee's articles of incorporation, by-laws or of any provisions of any agreements relating to shares of the capital stock of Lessee, and (iii) will not violate or constitute a breach of any provisions of law applicable to Lessee, any order, writ, injunction, decree, determination or award of any court or other agency of government applicable to Lessee, or any indenture, agreement or other instrument to which Lessee is a party, or by or under which Lessee or the Guarantor or any of Lessee's property is bound, or be in conflict with, result in a breach of, or constitute (with due notice or lapse of time) a default under any such indenture, agreement or any instrument, or result in the creation or imposition of any Lien upon any of Lessee's property or assets;

(d) Enforceability. This Agreement, each Lease Supplement and every other Transaction Document have been (or in the case of future Lease Supplements, will be) executed by the duly authorized officer or officers of Lessee and delivered to Lessor and constitute (or in the case of future Lease Supplements, will constitute) the legal, valid and binding obligation of Lessee, enforceable in accordance with its terms;

(e) No Consents. Except as set forth in subsection (g) below, neither the execution and delivery of this Agreement, or any other Transaction Document by Lessee nor the payment and performance by Lessee of all of its obligations hereunder and thereunder, nor the sale of the Equipment by any Seller to Lessor for the purpose of leasing the same to Lessee under this Agreement requires the consent or approval of, the giving of notice to, the registration, filing or recording with or the taking of any action that has not already been taken and completed in respect of, any federal, state, local or foreign government or governmental authority or agency;

(f) No Liens. No mortgage, deed of trust, or other Lien (other than the Lien granted to Lessor hereunder) which now covers or affects, or which may hereafter cover or affect, any property, or interest therein of Lessee, now attaches or hereafter will attach to any item of Equipment, or in any manner affects or will affect adversely Lessor's rights and interests therein;

(g) Perfection of Security Interest. Except for the filing of Uniform Commercial Code financing statements with the filing offices referenced in Exhibit B, no further action, including any filing or recording of any document (including, without limitation, any additional financing statements under Article 9 of the Uniform Commercial Code of any applicable jurisdiction) is necessary in order to establish and perfect Lessor's title to and interest in, the Equipment as against Lessee or any third parties in any applicable jurisdiction;

(h) Financial Statements. All balance sheets, statements of profit and loss and other financial data that have been delivered to Lessor with respect to the Lessee (and its Subsidiaries) (i) are complete and correct in all material respects, (ii) accurately present the financial condition of the Lessee (and its Subsidiaries) on the dates for which, and the results of their respective operations for the periods for which, the same have been furnished and (iii) have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered thereby; all balance sheets disclose all known material liabilities, direct and contingent, as of their respective dates, and there has been no change in the condition of Lessee (and its Subsidiaries), financial or otherwise, since the date of the most recent financial statements delivered to Lessor with respect to the Lessee (and its Subsidiaries), other than changes in the ordinary course of business, none of which changes, either separately or in the aggregate, has been materially adverse;

(i) No Litigation. There is no litigation or any other proceedings now pending or, to the knowledge of Lessee, threatened, against or affecting Lessee, in any court or before any regulatory commission, board or other administrative governmental agency which would directly or indirectly adversely affect or impair the title and interest of Lessor in and to the Equipment, or which, in the reasonable opinion of Lessee's management, is likely to affect materially and adversely, the business, properties, operations or condition of Lessee (financial or otherwise), other than as disclosed in Lessee's consolidated financial statements;

(j) Income Tax Return. Lessee has filed all United States income tax returns which are required to be filed, and has paid, or made provisions for the payment of, all taxes which have or may become due pursuant to said returns or pursuant to any assessment received by Lessee, except such taxes, if any, as are

being contested by means of a Permitted Contest;

(k) ERISA. The Lessee has not entered into the Overall Transaction, directly or indirectly, in connection with any arrangement in any way involving any employee benefit plan or related trust to which it is a party in interest, all within the meaning of the ERISA and the Code;

(l) Investment Company. Lessee is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended;

(m) Taxes. All sales, use, documentation or similar taxes, fees or other charges due and payable prior to or as of the date of each Lease Supplement shall be paid prior to or as of the date of each Lease Supplement to the extent such are in connection with the sale to and purchase by Lessor of the Equipment or the leasing of the Equipment by Lessor to Lessee;

(n) No Offer to Sell or Assign. Lessee has not offered any interest in this Agreement, the Payments, or the Equipment or any similar security for sale to, or solicited offers to buy any thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser, other than Lessor;

(o) Invoices. In connection with each Lease Supplement, Lessee shall deliver or cause to be delivered to Lessor true, correct and complete copies of all purchase agreements, offering documents and invoices for the Equipment;

(p) Adverse Contract. Lessee is not a party to, or bound by, any contract, agreement or instrument or subject to any corporate restriction that would conflict with this Agreement or any other Transaction Document or a breach of which would likely have a material adverse effect on the business, properties, operations or condition (financial or otherwise) of Lessee;

(q) Misrepresentation. Neither this Agreement nor any other Transaction Document contains any misrepresentation or untrue statement of fact or omits to state any material fact necessary to make any of such Transaction Documents not misleading;

(r) Solvency. Lessee is Solvent and it will remain Solvent after giving effect to its entering into this Agreement and each other Transaction Document to which it is a party and carrying out any of the Overall Transaction;

(s) Equipment Representations, Warranties and Indemnities. Lessee is not a party to, or a beneficiary of, any contract, agreement or other document providing for any representation, warranty, covenant or indemnity relating to the Equipment and effective subsequent to the date hereof, and Lessee shall promptly notify Lessor in writing if Lessee hereinafter becomes such a party or a beneficiary;

(t) Chief Executive Office. The chief executive office of Lessee is located at 8100 Denmark Road, Charlotte, North Carolina 28273 and has been located at such address for no less than the four (4) months prior to the date hereof; and

(u) Trade Names. Lessee has not, and does not, use any trade name or any other name in the conduct of its business except for (i) its name set forth on the signature page hereof and (ii) the names listed on Exhibit C attached hereto.

SECTION 22. Events of Default. Any of the following events shall constitute an "Event of Default" (whether any such event shall be voluntary or involuntary, or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) Payment. Lessee shall fail to make (i) any Basic Payments within five (5) days after verbal or written notice to Lessee (as Lessor may elect in its sole discretion) that the same is due and payable or (ii) any Supplemental Payment within ten (10) days after receipt of written notice to Lessee that the same is due and payable; or

(b) Certain Covenants. Lessee shall fail to observe or perform any of the covenants or agreements of Lessee set forth in Sections 6, 8, 14(a), 14(c), 15, 17 or 29 hereof; or

(c) Other Covenants. Lessee shall fail to perform or observe any other covenant, condition, or agreement to be performed or observed by it under this Agreement, or in any agreement or certificate furnished to Lessor in connection herewith, and such failure shall continue unremedied for thirty (30) days after written notice to Lessee specifying such failure and demanding the same to be remedied; provided, however, that if Lessee shall have undertaken to cure any such failure and, notwithstanding the reasonable diligence of Lessee in attempting to cure such failure, such failure is not cured within said thirty (30) day period but is curable with future due diligence, there shall exist no Event of Default under this Section 22 for

such further time, not to exceed sixty (60) days, as may reasonably be required to effect such cure, so long as Lessee is proceeding with due diligence to cure such failure; or

(d) Default under Other Documents - Lessee. Lessee shall be in default under any of the Transaction Documents to which it is a party or with respect to any of the representations, warranties, covenants or other provisions set forth in that certain Amended and Restated Loan Agreement dated as of December 16, 1994 (as the same may be amended, modified, extended, replaced or substituted from the date hereof until the final Basic Payment Date under the respective Lease Supplements, the "Loan Agreement") among Lessee, CHW Corporation, Wachovia Bank of North Carolina, N.A. and NationsBank of North Carolina, N.A. (now known as NationsBank, N.A. (Carolinas)), as agent for such lenders; provided, however, that (i) in the event the Loan Agreement shall be refinanced or replaced by another credit agreement, then so long as the Bank shall be a party thereto, the representations, warranties, covenants and other provisions hereunder shall be amended, and deemed to be replaced by, those representations and warranties, covenants and other provisions contained in such replacement credit agreement and (ii) if the Loan Agreement is replaced and the Bank is not a party to such replacement credit agreement or the Loan Agreement is terminated and not replaced, then the representations, warranties, covenants and other provisions shall be as provided herein as of the date of such replacement or termination; or

(e) Bankruptcy; Insolvency - Lessee. Lessee shall become insolvent or bankrupt or make an assignment for the benefit of creditors or consent to the appointment of a trustee or receiver; or a trustee or a receiver shall be appointed for Lessee or for a substantial part of its property without its consent and shall not be dismissed for a period of sixty (60) days; or any petition for the relief, reorganization or arrangement of Lessee or any other petition in bankruptcy or for the liquidation, insolvency or dissolution of Lessee shall be filed by or against Lessee and, if filed against Lessee shall be consented to or be pending and not dismissed for a period of sixty (60) days; or an order for relief under any bankruptcy or insolvency law shall be entered by any court or governmental authority of competent jurisdiction with respect to Lessee; or any execution or writ of process shall be issued under any action or proceeding against Lessee whereby any item of Equipment may be taken or restrained; or Lessee's corporate existence shall cease; or Lessee shall, without Lessor's prior written consent, sell, transfer or dispose of, or pledge or otherwise encumber, all or substantially all of its assets or property, or, except as expressly permitted hereby, consolidate or merge with any other entity, or engage in any form of corporate reorganization; or

(f) Misrepresentation - Lessee. Any material representation, warranty, statement or certification made by Lessee under this Agreement or in any other Transaction Document to which Lessee is a party or in any document or certificate furnished to Lessor in connection herewith or pursuant hereto) shall prove to be untrue or incorrect when made in any material respect, or shall be breached in any material respect.

SECTION 23. Remedies Upon Default. Upon the occurrence of any Event of Default, Payments hereunder may be accelerated at Lessor's sole election without further action and at any time thereafter so long as the same shall be continuing, Lessor may exercise one or more of the following remedies with respect to the Equipment or any part thereof as Lessor in its sole discretion shall elect:

(a) Return of Equipment. Lessor may cause Lessee, upon the demand of Lessor and at Lessee's expense, to, and Lessee shall, promptly return the Equipment (or any item thereof) as Lessor may demand to Lessor at such location, in the manner and condition required by, and otherwise in accordance with all the provisions of, Section 6 hereof as if the Equipment were being returned at the end of the Term; or Lessor, at its option, may enter upon the premises where the Equipment is located or believed to be located and take immediate possession of and remove the Equipment (or any items thereof) without the necessity for first instituting proceedings, or by summary proceedings or otherwise, and Lessee shall comply therewith, all without liability to Lessor for or by reason for such entry or taking possession, whether for the restoration of damage to property caused by such taking or otherwise;

(b) Sell, Use, Lease or Otherwise Employ Equipment. Lessor may, by the exercise of its rights under Section 35 hereof or otherwise, (i) sell or otherwise dispose of the Equipment, at public or private sale and with or without notice to Lessee or advertisement, as Lessor may determine or (ii) hold, use, operate, lease to others or keep idle all or any part of the Equipment as Lessor, in its sole discretion, may determine, in the case of (i) or (ii) of this Section 23(b) free and clear of any rights of Lessee except as hereinafter set forth in this Section 23 and without any duty to account to Lessee with respect to such action or inaction or for any proceeds with respect thereto except to the extent required by Section 23(d) hereof in the event Lessor elects to exercise its rights under said Section 23(d) in lieu of its rights under Section 23(b) hereof;

(c) Excess of Termination Value over Fair Market Sales Value. Whether or not Lessor shall have exercised, or shall thereafter at any time exercise, any of its rights under Sections 23(a) or (b) hereof with respect to the Equipment, Lessor, by notice to Lessee specifying a payment date not earlier than the next Basic Payment Date, may cause Lessee to pay to Lessor, and Lessee shall pay to Lessor, on the payment date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Payments for the Equipment due after the specified payment date), any Payments with respect to the Equipment due on or before or accrued as of such payment date plus an amount equal to the excess, if any, of (i) the Termination Value for all the Equipment, determined as of such payment date over (ii) the Fair Market Sales Value for all the Equipment, computed as of the payment date specified pursuant to this Section 23(c), together with interest, to the extent permitted by applicable law, at the Overdue Rate on such Payments and the amount of such excess, if any, from such payment date specified pursuant to this Section 23(c), to the date of actual payment of all such Payments and other amounts;

(d) Excess of Termination Value over Sales Proceeds. In the event Lessor, pursuant to Section 23(b) hereof, shall have sold the Equipment, Lessor in lieu of exercising its rights under Section 23(c) hereof with respect to the Equipment, may, if it shall so elect, cause Lessee to pay Lessor, and Lessee shall pay to Lessor, on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Payments for the Equipment due after the date on which such sale occurs), any Payments with respect to the Equipment due on or before or accrued as of such date of sale, plus the amount of any deficiency of the net proceeds of such sale below the Termination Value of all the Equipment, determined as of the date of such sale, together with interest, to the extent permitted by applicable law, at the Overdue Rate on all such Payments and the amount of such deficiency from the date of such sale to the date of actual payment of all such Payments and other amounts; or

(e) Rescission. Rescind this Agreement as to the Equipment or exercise any other right or remedy which may be available under applicable law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

In addition, Lessee shall be liable for any and all Supplemental Payments due hereunder before or after any termination hereof, including all costs and expenses (including, without limitation, reasonable attorney's fees and disbursements) incurred by reason of the occurrence of any Event of Default or the exercise of Lessor's remedies with respect thereto including all costs and expenses incurred in connection with the return of the Equipment in accordance with the terms of Section 6 hereof or any appraisal of the Equipment. At any sale of the Equipment, Lessor may bid for and purchase such property. Except as otherwise expressly provided above, no remedy referred to in this Section 23 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to Lessor at law or in equity; and the exercise or beginning of exercise by Lessor of any one or more of such remedies shall not preclude the simultaneous or later exercise by Lessor of any or all such other remedies. No express or implied waiver by Lessor of any Event of Default hereunder shall in any way be or be construed to be, a waiver of any future or subsequent Event of Default. To the extent permitted by applicable law, Lessee hereby waives any rights now or hereafter conferred by statute or otherwise which may require Lessor, otherwise than in accordance with the provisions of this Section 23, to sell, lease or otherwise use the Equipment in mitigation of Lessor's damages or otherwise to limit or modify any of Lessor's rights or remedies under this Section 23.

SECTION 24. Lessor's Right to Perform for Lessee. If Lessee fails to make any Supplemental Payment required to be made by it hereunder or fails to perform or comply with any of its agreements contained herein, Lessor may itself, make such payment or perform or comply with such agreement, and the amount of such payment and the amount of the expenses of Lessor incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest thereon at the rate specified in Section 25 hereof, shall, if not paid by Lessee to Lessor on demand, be deemed a Supplemental Payment hereunder; provided, however, that no such payment, performance or compliance by Lessor shall be deemed to cure any Event of Default hereunder.

SECTION 25. Late Charges. Lessee shall pay to Lessor, upon demand, to the extent permitted by applicable law, interest on any Basic Payment not paid when due, and on any Supplemental Payment or other amount payable under this Agreement which is not paid when due, for any period for which any of the same is overdue (without regard to any grace period) at a rate equal to the Overdue Rate.

SECTION 26. Further Assurances. Lessor and Lessee agree to cooperate in good faith and to execute and deliver such documents and further assurances consistent with and in clarification of the characterization and intent of the parties with respect to the Overall Transactions.

SECTION 27. Transaction Costs, Fees and Expenses. Lessee shall pay all out-of-pocket costs, fees and expenses of Lessor and Lessee in connection with the negotiation, preparation, execution, delivery and enforcement of the Transaction Documents (and all amendments, modifications and supplements thereto in connection with each Acceptance Date after the date hereof) and all other such costs, fees and expenses of Lessor and Lessee in connection with the Overall Transaction including without limitation such costs, fees and expenses (a) of Moore & Van Allen, (b) of any appraiser of the Equipment or any item thereof and (c) associated with any and all filings, searches and recordations necessary or appropriate in connection with the Transaction Documents or the Overall Transaction.

SECTION 28. Notices. All notices provided for or required under the terms and provisions hereof shall be in writing, and any such notice shall be deemed given when personally delivered or when deposited with a nationally recognized overnight delivery service, with the cost therefor prepaid, or in the United States mails, with proper postage prepaid, for first class certified mail, return receipt requested, addressed (a) if to Lessor or Lessee, at their respective addresses as set forth herein or at such other address as either of them shall, from time to time, designate in writing to the other, and (b) if to any Assignee, to the address of such Assignee as such Assignee shall designate, from time to time, in writing to Lessor and Lessee.

If to Lessor: NationsBanc Leasing Corporation
of North Carolina
NationsBank Corporate Center
100 North Tryon Street, NC1-
007-12-01
Charlotte, North Carolina 28255-0001
Attention: Manager of Corporate Lease
Administration
Telephone: (704) 386-7783
Telecopy: (704) 386-0892

If to Lessee: The Cato Corporation
P.O. Box 34216
Charlotte, North Carolina 28234
Attention: Mr. V. Hollis Scott
Telephone: (704) 551-7266
Telecopy: (704) 551-7626

SECTION 29. End of Term Purchase Options.

(a) Lessee Retention/Purchase or Third Party Purchase. If this Agreement shall not have been earlier terminated with respect to the Equipment specified in a particular Lease Supplement, Lessee shall elect one of the options described in Sections 29(b or c) hereof upon written notice to Lessor delivered not later than 120 days prior to the final day of the Term for such Equipment; provided, that Lessee shall be deemed to have elected the option described in Section 29(b) hereof if Lessor does not receive such notice within the time periods specified in the preceding clause; provided, further that (x) Lessor shall not be bound by Lessee's election of the option described in Section 29(c) hereof unless an officer of Lessee certifies to Lessor that the Equipment is obsolete or surplus to its needs and (y) Lessor shall not be bound by Lessee's election of the option described in Section 29(c) hereof if a Default or Event of Default is continuing at the Expiration Date; provided, further that such election by Lessee once made shall be irrevocable.

(b) Lessee's Retention/Purchase. On the Expiration Date, Lessee shall retain all (but not less than all) of the Lessee Titled Equipment and shall purchase all (but not less than all) of the Lessor Titled Equipment referenced in the particular Lease Supplement. Lessee shall pay Lessor an amount equal to the aggregate Termination Value of all such Lessee Titled Equipment and Lessor Titled Equipment. Lessee shall also pay all other Basic Payments and Supplemental Payments then due and owing and all Sales Expenses. Lessor's sale of the Lessor Titled Equipment shall be on an as-is, where-is basis, without recourse to or warranty by Lessor and otherwise in accordance with the settlement terms of Section 29(e) hereof. If Lessee has exercised its option under this Section 29(b), but has not prior to or on the Expiration Date paid all amounts for which it is obligated under this Section 29(b), then Lessor in its sole discretion may elect to refuse to sell the Lessor Titled Equipment to Lessee and Lessee shall immediately upon the request of Lessor transfer good, marketable title to Lessor respecting the Lessee Titled Equipment pursuant to a bill of sale and other documentation reasonably satisfactory to Lessor reflecting a transfer of title regarding the Lessee Titled Equipment consistent with the obligations of Lessee hereunder to keep the Equipment free and clear of Liens, or Lessor, in its sole discretion, may exercise its rights under Section 35 hereof.

(c) Third Party Purchase. Lessee shall solicit bona fide bids for all the Equipment referenced in a particular Lease Supplement from bona fide prospective Third Party Purchasers. If Lessee so elects and Lessor agrees, Lessor, acting as Lessee's agent, shall solicit such bona fide prospective Third Party

Purchasers for all such Equipment. All bids received by Lessee or Lessor prior to the end of the Term shall be immediately certified to the other in writing, setting forth the amount of such bid and the name and address of the Person submitting such bid. If any bid is received from a bona fide prospective Third Party Purchaser for an amount in excess of the Maximum Lessor Risk Amount for all such Equipment, or if Lessor agrees in its reasonable discretion to accept a bid for less than the Maximum Lessor Risk Amount for all such Equipment, then on the Expiration Date (i) Lessor shall sell the Lessor Titled Equipment on an as-is, where-is basis, without recourse or warranty (and Lessee shall transfer the Lessee Titled Equipment pursuant to a bill of sale and other documentation reasonably satisfactory to Lessor reflecting a transfer of title regarding the Lessee Titled Equipment consistent with the obligations of Lessee hereunder to keep the Equipment free and clear of Liens), to the highest bidder, (ii) such bidder shall pay Lessor the bid amount for the all such Equipment solely for the account of Lessor and (iii) Lessee shall pay, or cause to be paid, all Basic Payments and Supplemental Payments then due and owing and all Sales Expenses. If Lessor (X) does not receive any bid in excess of the Maximum Lessor Risk Amount for all such Equipment from a bona fide prospective Third Party Purchaser and does not accept any bids received for less than the Maximum Lessor Risk Amount for all such Equipment, or (Y) does not receive the bid amount from the Third Party Purchaser on or prior to the Expiration Date, then on the Expiration Date, Lessee shall pay Lessor the Maximum Lessee Risk Amount for all such Equipment (and all amounts referenced in Section 29(c)(iii)), Lessee shall cause new verification of title to be issued in Lessor's name with respect to all such Equipment, and Lessee shall return such Equipment to Lessor in accordance with Section 6 hereof.

(d) End of Term Adjustment. If the Net Proceeds of Sale are more than the Termination Value of all Equipment for the Expiration Date, Lessor shall, on the Expiration Date, pay Lessee an amount equal to such excess as an adjustment to the Payments payable under this Agreement, provided that Lessor shall have the right to offset against such adjustment payable by Lessor, any amounts then due and payable from Lessee to Lessor. If the Net Proceeds of Sale are less than the Termination Value for the Expiration Date or if no sale occurs, Lessee shall, on the Expiration Date pay to Lessor, an amount equal to such deficiency as an adjustment to the Payments payable under this Agreement, but in no event shall the amount Lessee is required to pay Lessor with respect to such deficiency exceed the Maximum Lessee Risk Amount for all the Equipment which has such Expiration Date.

(e) Settlement Terms. In the event that Lessee retains or purchases any Equipment from Lessor pursuant to Section 16(b)(i)(B) or Section 29(b) hereof, Lessor and Lessee hereby agree that the following provisions shall apply:

(i) Representations and Warranties of Lessee. Lessee shall represent, warrant, covenant and agree with Lessor as of the date of any retention by Lessee of any Lessee Titled Equipment or any sale of Lessor Titled Equipment by Lessor to Lessee, except where specific reference is made to another date or dates, that:

(A) Lessee has the full right, power and authority to purchase such Lessor Titled Equipment from Lessor as provided in this Agreement, to retain the Lessee Titled Equipment and to carry out Lessee's obligations under this Agreement (as such pertain to the retention or sale of such Equipment), and all requisite action necessary to authorize Lessee to enter into the purchase of such Equipment or the retention of such Equipment and to carry out Lessee's obligations with respect thereto has been, or on or before the date of any sale of such Equipment to Lessee or any retention of such Equipment by Lessee, will have been, taken;

(B) Lessee acknowledges that:

(1) Lessee is purchasing such Lessor Titled Equipment, and such Equipment shall be conveyed and transferred to the Lessee, "AS-IS, WHERE-IS, AND WITH ALL FAULTS AND SPECIFICALLY AND EXPRESSLY WITHOUT ANY RECOURSE OR WARRANTIES, REPRESENTATIONS, COVENANTS OR GUARANTEES, EXPRESSED OR IMPLIED, OF ANY KIND, NATURE, OR TYPE WHATSOEVER FROM OR ON BEHALF OF LESSOR", provided, that Lessor shall represent that it has not voluntarily incurred any Liens on such Lessor Titled Equipment other than Liens provided for in the Transaction Documents. Lessee acknowledges that it has not relied, and is not relying, on any information, document, sales brochures, or other literature, sketches, projection, pro forma, statement, representation, guarantee, or warranty (whether express or implied, or oral or written, or material or immaterial) that may have been given by, or made by, or on behalf of, Lessor;

(2) Lessee shall not be entitled to, and should not rely on, Lessor or Lessor's

agents as to (a) the quality, nature, adequacy, or physical condition of any Equipment; (b) the quality of any labor or materials relating in any way to such Equipment; or (c) the condition of title to such Equipment;

(3) EXCEPT AS EXPRESSLY SET FORTH IN THE PROVISIO IN SUBPARAGRAPH (1) ABOVE (WITH RESPECT TO VOLUNTARILY INCURRED LIENS), LESSOR HAS NOT, DOES NOT, AND WILL NOT, WITH RESPECT TO ANY EQUIPMENT, MAKE ANY WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED, OR ARISING BY OPERATION OF LAW, INCLUDING BUT NOT IN ANY WAY LIMITED TO, ANY WARRANTY OF CONDITION, MERCHANTABILITY, HABITABILITY, OR FITNESS FOR A PARTICULAR USE, OR WITH RESPECT TO THE VALUE, PROFITABILITY, OR MARKETABILITY OF SUCH EQUIPMENT; and

(4) Without in any way limiting the generality of the preceding subparagraphs (1) through (3), Lessee specifically acknowledges and agrees that Lessee hereby waives, releases, and discharges any claim Lessee has, might have had, or may have against Lessor with respect to the condition of such Equipment, patent or latent, the actual or potential income or profits to be derived from such Equipment, and any other state of facts which exists with respect to such Equipment.

(ii) Survival Beyond Closing. The representations and warranties of Lessee contained in this Agreement as set forth in Section 29(e)(i) shall survive the closing of the sale of any Equipment to the Lessee.

(iii) Seller. At the sale of any Lessor Titled Equipment to Lessee, Lessor shall deliver or cause to be delivered to Lessee, at Lessee's sole cost and expense (except as provided to the contrary), a bill of sale of such Lessor Titled Equipment, duly executed by Lessor.

SECTION 30. Federal and State Tax Consequences. It is expressly agreed that for federal and state income tax purposes the parties entered into the transaction contemplated by this Agreement intending such transaction to be characterized as a mere financing and for Lessee to be considered the owner of the Equipment for such tax purposes; provided, however, Lessor makes no representation or warranty as to the availability of such tax treatment. Consistent with this, Lessee intends to claim the cost recovery deductions associated with the Equipment, and Lessor agrees not to take an inconsistent position on its federal or state income tax returns.

SECTION 31. Financial Information. Lessee agrees to furnish Lessor (a) as soon as available, and in any event within ninety (90) days after the last day of each fiscal year of the Lessee, (i) a copy of the consolidated balance sheet of the Lessee and its Consolidated Subsidiaries as of the end of such fiscal year, and related consolidated statements of income and retained earnings of the Lessee and its Consolidated Subsidiaries for such fiscal year, certified by an independent certified public accounting firm of recognized standing, each on a comparative basis with corresponding statements for the prior fiscal year, or (ii) a copy of the Lessee's Form 10-K filed with the Securities and Exchange Commission for such fiscal year (if the Lessee is subject to the reporting requirements under the rules and regulations promulgated by the Securities and Exchange Commission), and (b) within forty-five (45) days after the last day of each fiscal quarter of the Lessee (except the last such fiscal quarter), (i) a copy of the consolidated balance sheet as of the end of such quarter, and statement of income covering the fiscal year to date of the Lessee and its Consolidated Subsidiaries, each on a comparative basis with the corresponding period of the prior year, all in reasonable detail and certified by the treasurer or principal financial officer of the Lessee, or (ii) a copy of the Lessee's Form 10-Q filed with the Securities and Exchange Commission, all such other financial statements and reports as the Lessee shall send to the Securities and Exchange Commission.

SECTION 32. Miscellaneous. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating or diminishing Lessor's rights under the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. No term or provision of this Agreement may be amended, altered, waived, discharged or terminated orally, but only by an instrument in writing signed by a duly authorized officer or the party against which the enforcement of the amendment, alteration, waiver, discharge or termination is sought. A waiver on any one occasion shall not be construed as a waiver on a future occasion. All of the covenants, conditions and obligations contained in this Agreement shall be binding upon and shall inure to the benefit of the respective successors and assigns of Lessor and (subject to the restrictions of Section 14(a) hereof) Lessee. This Agreement may

be executed in as many counterparts as shall be determined by the parties hereto when so executed, each such counterpart shall be binding on both parties hereto, notwithstanding that both parties are not signatories to the same counterpart. This Agreement, each Lease Supplement and each related instrument, document, agreement and certificate collectively constitute the entire agreement of Lessor and Lessee with respect to the financing of the Equipment, and cancel and supersede any and all prior oral or written understandings with respect thereto. THIS AGREEMENT AND EACH OTHER TRANSACTION DOCUMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NORTH CAROLINA, INCLUDING, WITHOUT LIMITATION, ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. LESSEE AND LESSOR HEREBY IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION, AND THE VENUE, OF A NORTH CAROLINA STATE OR FEDERAL COURT LOCATED IN MECKLENBURG COUNTY, NORTH CAROLINA FOR ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT. LESSEE AND LESSOR HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD OR DETERMINED IN SUCH NORTH CAROLINA COURT, OR TO THE EXTENT PERMITTED BY LAW, SUCH FEDERAL COURT. LESSEE AND LESSOR HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT THEY MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY ACTION OR PROCEEDING.

SECTION 33. Interest Rate Calculations. All rate calculations made pursuant to this Agreement (including, without limitation, any calculation of a late charge, the Overdue Rate) shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

SECTION 34. Personal Property Taxes. Lessor and Lessee hereby agree that to the extent permitted by law (a) Lessee will file all returns and other appropriate documentation in regard to personal property taxes on the Equipment, (b) pay all such personal property taxes and (c) reimburse Lessor for any and all such personal property taxes previously paid by Lessor.

SECTION 35. Power of Attorney. The Lessee hereby constitutes and appoints the Lessor its true and lawful attorney-in-fact for the limited purpose of executing all documentation deemed necessary or advisable by Lessor or its counsel in the exercise of the Lessor's remedies under this Agreement to transfer title of all Lessee Titled Equipment to Lessor or with respect to Lessor's right to retain the Equipment pursuant to Section 29(c) hereof.

[The remainder of this page has been intentionally left blank.]
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

NATIONSBANC LEASING CORPORATION
OF NORTH CAROLINA

By: _____
Name: George L. Robinson, Jr.
Title: Vice President

THE CATO CORPORATION

By: _____
Name: _____
Title: _____

COUNTERPART NO. _____ OF 4 SERIALY NUMBERED MANUALLY EXECUTED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

EXHIBIT A

LEASE SUPPLEMENT AND ACCEPTANCE CERTIFICATE NO. ____

This Lease Supplement and Acceptance Certificate is dated _____ and is executed by NATIONSBANC LEASING CORPORATION OF NORTH CAROLINA, a North Carolina corporation ("Lessor") and THE CATO CORPORATION, a Delaware corporation ("Lessee"), pursuant to Section 4 of the Master Equipment Lease Agreement, dated as of _____, 199__ between Lessee and Lessor (the "Agreement"). All capitalized terms used herein but not defined herein shall have the meanings given to such terms in the Agreement.

Lessee hereby acknowledges and agrees that the equipment specified on Annex A hereto (the "Equipment") has been delivered to Lessee on or prior to the date hereof at the delivery place described below, and that, as between Lessor and Lessee, the Equipment (a) has been inspected to the complete satisfaction of Lessee, (b) is in good operating order, repair and condition, (c) is of a size, design, capacity and manufacture selected by

Lessee, (d) is suitable for Lessee's purposes, (e) has been unconditionally accepted by Lessee on the date hereof, for all purposes of the Agreement, and (f) is subject to all of the terms, conditions and provisions of the Agreement. Lessee further acknowledges, agrees and certifies that Lessor has made no representation, warranty, covenant or guarantee of any type or kind, expressed or implied, with respect to the Equipment and that the insurance policies, certificates or other documents evidencing the coverages required under the Agreement have been delivered to Lessor.

Lessee hereby leases from Lessor the Equipment upon and subject to all of the terms, conditions and provisions of the Agreement, and Lessor and Lessee further agree and state as follows:

1. Delivery Place and Location for the Equipment:
_____.
2. As of the date hereof, the Acquisition Cost is \$_____.
3. The Acquisition Expiration Date for the Equipment set forth on Annex A hereto is _____, 1995.
4. The Basic Term for the Equipment commences on _____, and ends on _____, both dates inclusive, unless sooner terminated in accordance with the provisions of the Agreement.
5. The Basic Payment Factor is ____%.
6. The Basic Payment Dates are _____, _____, _____ and _____ during the Term. Each Basic Payment shall be payable on the last day of each Basic Payment Period to which such Basic Period corresponds.
7. The Basic Payment for the Equipment for each quarterly period is in an amount equal to the Basic Payment Factor multiplied by the aggregate Acquisition Cost for the Equipment described in Annex A hereto.
8. The Termination Value Percentages for the Equipment during the Term are set forth on Annex B hereto.
9. This Lease Supplement and Acceptance Certificate may be executed in as many counterparts as shall be determined by the parties hereto when so executed, and each such counterpart shall be binding on both parties hereto, notwithstanding that both parties are not signatories to the same counterpart.
10. The liability insurance coverage referenced in Section 17(a)(ii) of the Agreement and applicable exclusively to the Equipment identified in this Lease Supplement shall be maintained in any event with a combined single limit of not less than \$_____.

IN WITNESS WHEREOF, the parties hereto have caused this Lease Supplement and Acceptance Certificate No. ___ to be executed by their duly authorized representatives as of the date first above written.

NATIONSBANC LEASING CORPORATION
OF NORTH CAROLINA

By: _____
Name: _____
Title: _____

THE CATO CORPORATION

By: _____
Name: _____
Title: _____

COUNTERPART NO. _____ OF _____ SERIALY NUMBERED MANUALLY EXECUTED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

Annex A to
Lease Supplement

(Equipment Description and Location)

Any and all right, title and interest of Debtor in and to the equipment, fixtures and other personal property (collectively, the "Equipment") located at the sites referenced below in this Annex A, together with all accessories, equipment, parts and appurtenances pertaining or attached thereto, whether now owned or hereafter acquired, and all substitutions and renewals of any type or kind and additions, improvements, accessions and accumulations to any and all of the foregoing.

The sites referenced in the prior paragraph shall include the following:

Annex B to
Lease Supplement
(Termination Value)

Termination Date	Termination Value Percentage
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*Expressed as a percentage of aggregate Acquisition Cost for the Equipment described in Annex A.

Annex C to
Lease Supplement
(Maximum Risk Amounts)

Risk Amount Date Percentage *	Maximum Lessor Risk Amount Percentage *	Maximum Lessee Risk Amount
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*Expressed as a percentage of aggregate Acquisition Cost for the Equipment described in Annex A.

Annex D to
Lease Supplement
(Equipment Locations)
EXHIBIT B

UCC FILING OFFICES
[REFERENCED IN SECTION 21(G)]
EXHIBIT C

TRADE NAMES
[REFERENCED IN SECTION 21(U)]2