CATO
The Cato Corporation

2000 ANNUAL REPORT

BUILDING ON OUR SUCCESS

VALUE

The structure for success

STYLE

is in place. Cato continues

QUALITY

to grow and expand.

FIT

Here's how we do it.

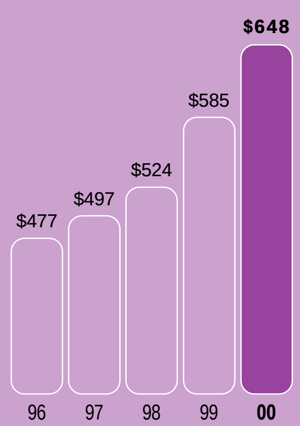
PRICE

CONTENTS

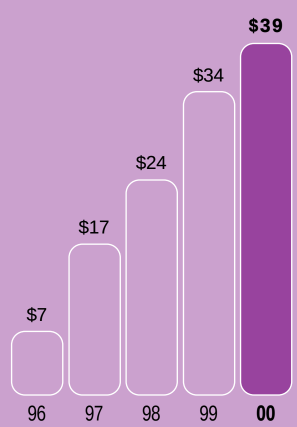
The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating two divisions, "Cato" and "It's Fashion!". The Company currently operates over 870 apparel specialty stores principally in the Southeast. Cato, the core division, offers women's private label merchandise with fashion and quality comparable to mall specialty stores at low prices, every day. Most Cato stores range from 4,000 to 6,000 square feet and are located primarily in strip shopping centers anchored by national discounters or dominant grocery stores. It's Fashion!, the off-price division, provides family fashion apparel and accessories with stores ranging from 3,000 to 4,000 square feet. The Company is headquartered in Charlotte, North Carolina.

FINANCIAL HIGHLIGHTS

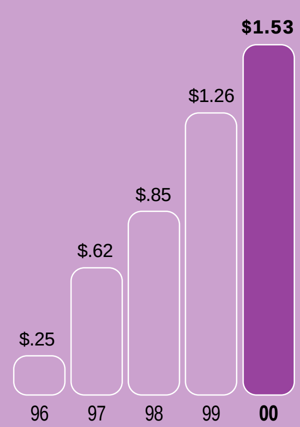
FISCAL YEAR (Dollars in thousands, except per share data)	**2000**	1999	1998	1997	1996
FOR THE YEAR					
Retail sales	**$ 648,482**	$ 585,085	$ 524,381	$ 496,851	$ 477,011
Total revenues	**669,135**	605,033	543,664	512,448	491,509
Comparable store sales increase (decrease)	**3%**	4%	2%	4%	(2)%
Income before income taxes	**60,042**	51,975	36,795	25,407	10,898
Net income	**39,027**	33,931	23,917	17,401	7,029
Net income as a percent of retail sales	**6.0%**	5.8%	4.6%	3.5%	1.5%
Cash dividends paid per share	**.425**	.28	.19	.16	.16
Basic earnings per share	**1.56**	1.28	.87	.62	.25
Diluted earnings per share	**1.53**	1.26	.85	.62	.25
AT YEAR END					
Cash and investments	**$ 83,112**	$ 87,275	$ 86,209	$ 69,487	$ 50,105
Working capital	**125,724**	124,988	124,024	113,327	105,373
Current ratio	**2.4**	2.5	2.7	2.6	2.9
Total assets	**310,742**	285,789	258,513	241,437	218,243
Stockholders' equity	**207,757**	188,780	172,234	157,516	151,903
Number of stores	**859**	809	732	693	655
Number of stores opened	**65**	83	52	55	28
Number of stores closed	**15**	6	13	17	44
Net increase (decrease) in number of stores	**50**	77	39	38	(16)



RETAIL SALES
(in millions)



NET INCOME
(in millions)



EARNINGS
Per Share

LETTER TO OUR SHAREHOLDERS

Fiscal 2000 was another record year for The Cato Corporation. Earnings grew to $39.0 million and $1.53 per share. Earnings per share increased 21% over 1999, exceeding our 2000 goal of 15-20% EPS growth. Fiscal 2000 marked our fourth consecutive year of earnings growth. The fourth quarter produced our sixteenth consecutive quarter of earnings improvement. Our balance sheet is strong and debt-free with over $80 million in cash and short-term investments. More importantly, we have the strategies and organization in place to grow earnings and to increase shareholder value.

BUILDING ON OUR SUCCESS: BEYOND 2000 The success we have enjoyed through 2000 demonstrates that Cato is prepared for long-term growth. We are a leading apparel retailer offering mall specialty store fashion and quality at low prices every day. In fact, we believe we offer the best value in our industry segment. Over the long term, we expect to deliver annual earnings growth averaging 15%. Our long-term growth expectations are centered on consistent comparable store sales increases, accelerated store growth, disciplined expense and inventory management, and increased leveraging of corporate overhead.

BUILDING ON OUR SUCCESS: PROVEN STRATEGIES Our business model is based on strategies that are refined continuously and are geared toward providing consistent, disciplined growth. We offer a broad assortment of on-trend merchandise to a diverse customer base, allowing us to successfully operate stores in rural, middle, and metro markets. We have simplified our processes so that all levels of our company are able to focus on the important details of our business. Our true strength comes from our ability to execute these strategies.

Our merchandise approach is straightforward – we are focused on our customers' needs and offer them high quality merchandise with exceptional value. Our unique combination of style, fit, quality, and price gives Cato a special niche in the marketplace. Our everyday low price strategy provides our customers a simplified shopping experience and a better everyday value. We meet our customers' fashion needs by tailoring our merchandise mix to match the demographics of a particular market. This "micro-merchandising" strategy is refined constantly for our existing stores and is an important element of our store expansion program.

Our It's Fashion! division had a successful year and continues to evolve. The It's Fashion! merchandising strategy focuses on providing young, trendy fashion apparel including discounted brand names. We look forward to its continued development and contribution.

BUILDING ON OUR SUCCESS: THE FUTURE We plan to open 85 new stores in 2001 and 90-120 per year for the next several years. In 2000, we opened 65 stores, relocated 33 stores, closed 15 stores, and remodeled 105 stores.

"Fiscal 2000 was another record year. We have the strategies and organization in place to grow earnings and to increase shareholder value."

Wayland H. Cato, Jr.   John P. Derham Cato

We are building our infrastructure to provide the foundation to meet our growth plans. We expanded the capacity of our distribution center to accommodate up to 1,500 stores. We will be implementing an enterprise-wide information system over the next 12 to 24 months that will provide our merchandising team with stronger analytical tools. We continue to enhance the functionality of our website. We are constantly improving our training programs to develop our associates. In fact, nearly 80% of our store and field management are promoted from within, allowing us to internally staff our expanding store base.

We are confident that our ability to successfully execute our strategies will ensure the Company's long-term growth leading to increased value to you, our shareholders. We more than tripled our dividend over the past three years from an annualized rate of $.16 per share to $.50 per share. Over the last four years, we have repurchased, on average, more than one million shares annually through our share repurchase program. This year, through April 20, we have repurchased 262,500 shares and have an open authorization to repurchase approximately 900,000 additional shares. We expect to further increase shareholder value through these initiatives.

The pieces are in place to successfully build the Cato brand. We are positioned financially and operationally to build on our success and to deliver earnings and dividend growth.

Our growth over the next several years will be dramatic. Within five years, we expect to operate coast-to-coast, serving customers as far away as California, New York, and Puerto Rico. The Cato Corporation is a company that is going places.

John P. Derham Cato

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

Wayland H. Cato, Jr.

Wayland H. Cato, Jr.
Chairman of the Board

BUILDING ON OUR SUCCESS:

OUR MERCHANDISE OFFERING

"Our goal is to continually improve the fashion, fit, and quality of our merchandise, providing our customers exceptional value."

In our stores, we offer on-trend fashions in exciting colors. The high quality and consistent fit of our brands are comparable to apparel you will find at mall specialty retailers at much higher prices.

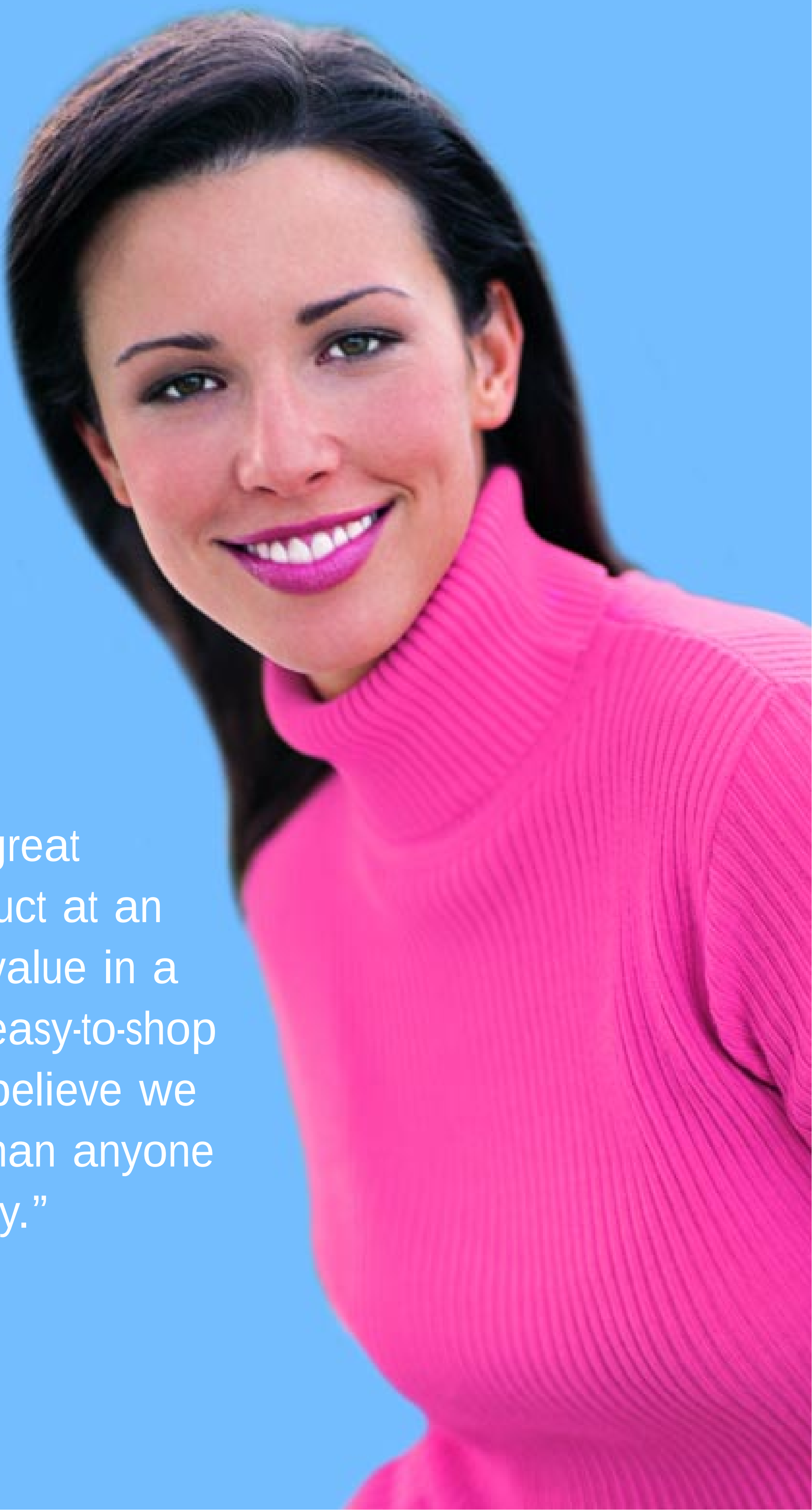
Our merchandising and product development team provides value to our customer and to our bottom line by keeping us on trend with our selections and delivering better quality merchandise at lower costs.

We forecast fashion trends for each season and deliver a new color palette every eight weeks. Each color story gives our customer a wide selection of coordinated tops, bottoms, and accessories.

Our technical services function maintains tight controls to ensure consistency of construction, color, quality, and fit. Our customers know our sizes are true and our fit is consistent. And, they will have a garment that is easy to care for and will give them long lasting wear.

This customer-focused merchandise strategy allows us to deliver high customer satisfaction and continually build the Cato brand.

“We offer a great fashion product at an exceptional value in a convenient, easy-to-shop format. We believe we do it better than anyone in our industry.”



BUILDING ON OUR SUCCESS:
THE SHOPPING EXPERIENCE

"Our customers are offered a wide assortment of fashion apparel and accessories in an easy-to-shop environment."

It is easier to shop at Cato than ever before. Lifestyle and color-coordinated presentations make it more convenient for our customers to find what they are looking for – whether for work, weekends, or special occasions.

We are the everyday low price leader in our segment. This not only provides our customers with more value but also assures that they are getting our best price. Our customers can see the savings on the ticket.

Through the use of technology we tailor each store's assortment to match that store's customer demographic profile. We match merchandise flow to sales patterns so our customers always see fresh merchandise assortments.

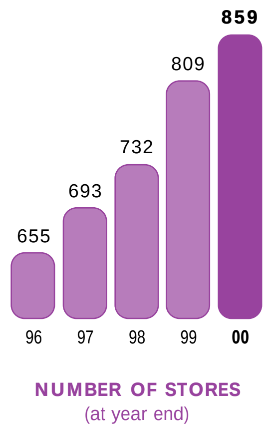
Our customers know they will save time and money at Cato.

We are focused on giving our customer the ability to "Look Smart. Buy Smart."

Our Cato Now magazine is published every eight weeks to give our customers and associates the latest information on current merchandise and developing fashion trends and colors.

BUILDING ON OUR SUCCESS:

STORE GROWTH AND EXPANSION



"Aggressive store growth is an integral part of our brand building strategy. We are ready to expand because we have the strategies and organization in place."

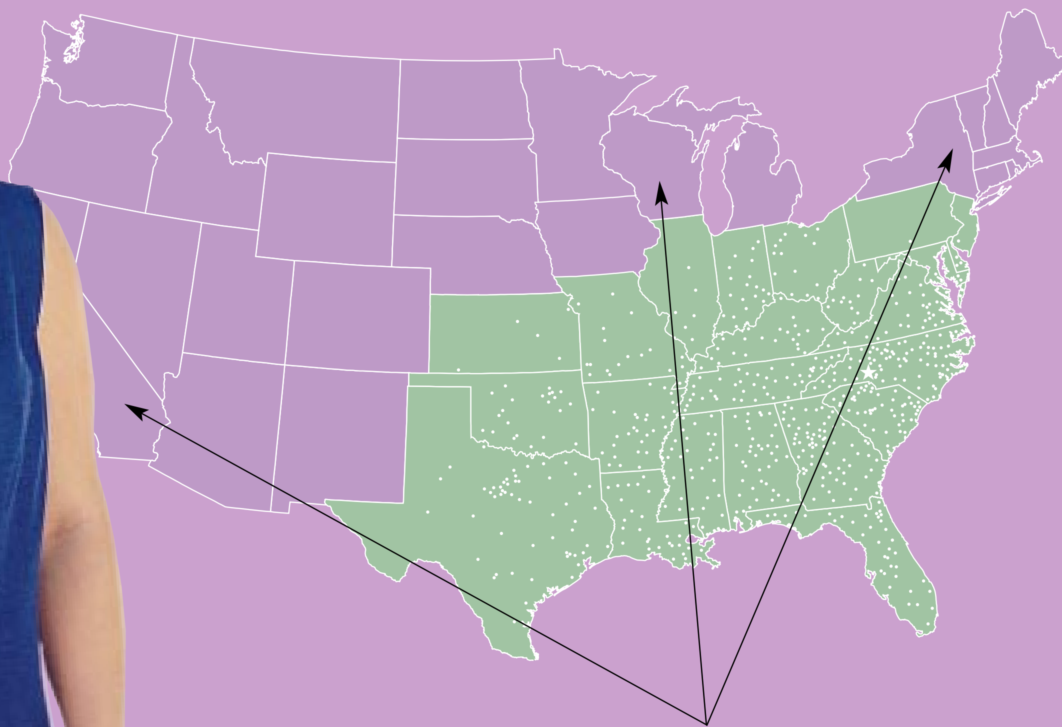
A cornerstone of our growth plan is the expansion of our store base. Our financial and organizational strength allows us to pursue a more aggressive store development strategy.

We have expanded our real estate team threefold in the last four years. This allows us to consider more markets and locations in both existing and adjacent states.

Our business model works in rural, middle, and metro markets requiring a minimum trade area of only 20,000 people. Our merchandise assortment appeals to a broad demographic profile and can be customized to each store location. Also, we have a store and field organization in place to internally staff store expansion.

Our growth over the next several years will be dramatic. Within five years, we expect to operate coast-to-coast, serving customers as far away as California, New York, and Puerto Rico. The Cato Corporation is going places.

A National Brand.
A National Chain.



"We plan to open 85 new stores in 2001 and 90 to120 per year in the next several years as we move toward becoming a national chain."

SELECTED FINANCIAL DATA

FISCAL YEAR	2000	1999	1998	1997	1996
(Dollars in thousands, except per share data and selected operating data)					
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$ 648,482**	$ 585,085	$ 524,381	$ 496,851	$ 477,011
Other income	**20,653**	19,948	19,283	15,597	14,498
Total revenues	**669,135**	605,033	543,664	512,448	491,509
Cost of goods sold	**445,407**	403,655	371,005	354,627	344,919
Gross margin percent	**31.3%**	31.0%	29.2%	28.6%	27.7%
Selling, general and administrative	**154,150**	140,741	128,207	124,676	121,837
Selling, general and administrative percent of retail sales	**23.8%**	24.0%	24.4%	25.1%	25.5%
Depreciation	**9,492**	8,639	7,638	7,713	8,330
Interest	**44**	23	19	25	25
Closed store expense	**—**	—	—	—	5,500
Income before income taxes and cumulative effect of accounting change	**60,042**	51,975	36,795	25,407	10,898
Income tax expense	**21,015**	18,191	12,878	8,006	3,869
Income before cumulative effect of accounting change	**39,027**	33,784	23,917	17,401	7,029
Cumulative effect of accounting change, net of taxes	**—**	147	—	—	—
Net income	**$ 39,027**	$ 33,931	$ 23,917	$ 17,401	$ 7,029
Basic earnings per share	**$ 1.56**	$ 1.28	$ .87	$ .62	$ .25
Diluted earnings per share	**$ 1.53**	$ 1.26	$ .85	$ .62	$ .25
Cash dividends paid per share	**$ .425**	$ .28	$ .19	$ .16	$ .16
SELECTED OPERATING DATA:					
Stores open at end of year	**859**	809	732	693	655
Average sales per store	**$ 781,000**	$ 756,000	$ 740,000	$ 748,000	$ 710,000
Average sales per square foot of selling space	**$ 187**	$ 177	$ 169	$ 163	$ 153
Comparable store sales increase (decrease)	**3%**	4%	2%	4%	(2)%
BALANCE SHEET DATA:					
Cash and investments	**$ 83,112**	$ 87,275	$ 86,209	$ 69,487	$ 50,105
Working capital	**125,724**	124,988	124,024	113,327	105,373
Total assets	**310,742**	285,789	258,513	241,437	218,243
Total stockholders' equity	**$ 207,757**	$ 188,780	$ 172,234	$ 157,516	$ 151,903

RESULTS OF OPERATIONS

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

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
Retail sales	**100.0%**	100.0%	100.0%
Other income	**3.2**	3.4	3.7
Total revenues	**103.2**	103.4	103.7
Cost of goods sold	**68.7**	69.0	70.8
Selling, general and administrative	**23.8**	24.0	24.4
Depreciation	**1.4**	1.5	1.5
Selling, general, administrative and depreciation	**25.2**	25.5	25.9
Income before income taxes and cumulative effect of accounting change	**9.3**	8.9	7.0
Net income	**6.0%**	5.8%	4.6%

FISCAL 2000 COMPARED TO FISCAL 1999

Retail sales increased by 11% to $648.5 million in fiscal 2000 from $585.1 million in fiscal 1999. The fiscal year ended February 3, 2001 contained 53 weeks versus 52 weeks in fiscal year ended January 29, 2000. On a comparable 53 week basis, total sales for the fiscal year ended February 3, 2001 increased 9%, and comparable store sales increased 3% from the prior year. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable, interest income and layaway fees), increased by 11% to $669.1 million in fiscal 2000 from $605.0 million in fiscal 1999. The Company operated 859 stores at February 3, 2001 compared to 809 stores operated at January 29, 2000.

The increase in retail sales in fiscal 2000 resulted from the Company's continuation of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 2000, the Company opened 65 new stores, relocated 33 stores, closed 15 stores and remodeled 105 stores.

Other income in fiscal 2000 increased $.7 million or 4% over fiscal 1999. The increase resulted primarily from increased earnings from finance charges and late fee income.

Cost of goods sold was $445.4 million, or 68.7% of retail sales, in fiscal 2000 compared to $403.7 million, or 69.0% of retail sales, in fiscal 1999. The decrease in cost of goods sold as a percent of retail sales resulted primarily by maintaining timely and aggressive markdowns on slow moving merchandise and improving inventory flow. Total gross margin dollars (retail sales less cost of goods sold) increased by 12% to $203.1 million in fiscal 2000 from $181.4 million in fiscal 1999.

Selling, general and administrative expenses (SG&A) were $154.2 million in fiscal 2000 compared to $140.7 million in fiscal 1999, an increase of 10%. As a percent of retail sales, SG&A was 23.8% compared to 24.0% in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses attributable to the Company's store development activities.

Depreciation expense was $9.5 million in fiscal 2000 compared to $8.6 million in fiscal 1999. The 10% increase in fiscal 2000 resulted primarily from the Company's store development.

FISCAL 1999 COMPARED TO FISCAL 1998

Retail sales increased by 12% to $585.1 million in fiscal 1999 from $524.4 million in fiscal 1998. Comparable store sales increased 4% from the prior year. Total revenues increased by 11% to $605.0 million in fiscal 1999 from $543.7 million in fiscal 1998. The Company operated 809 stores at January 29, 2000 compared to 732 stores operated at January 30, 1999.

The increase in retail sales in fiscal 1999 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1999, the Company increased its number of stores 11% by opening 83 new stores, relocating 21 stores while closing 6 existing stores.

Other income in fiscal 1999 increased $.7 million or 3% over fiscal 1998. The increase resulted primarily from increased earnings from higher finance charges, late fee income and income from cash equivalents and short-term investments partially offset by decreased layaway service charges.

Cost of goods sold was $403.7 million, or 69.0% of retail sales, in fiscal 1999 compared to $371.0 million, or 70.8% of retail sales, in fiscal 1998. The decrease in cost of goods sold as a percent of retail sales resulted primarily by maintaining timely and aggressive markdowns on slow moving merchandise, eliminating unprofitable promotions and improving inventory flow. Total gross margin dollars increased by 18% to $181.4 million in fiscal 1999 from $153.4 million in fiscal 1998.

SG&A expenses were $140.7 million in fiscal 1999 compared to $128.2 million in fiscal 1998, an increase of 10%. As a percent of retail sales, SG&A was 24.0% compared to 24.4% in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses attributable to the Company's store development activities.

Depreciation expense was $8.6 million in fiscal 1999 compared to $7.6 million in fiscal 1998. The 13% increase in fiscal 1999 resulted primarily from the Company's store development.

Effective for fiscal 1999, the Company changed its policy for recognizing revenues related to layaway sales to comply with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). Revenues for layaway sales and related fees are recognized when the layaway merchandise is delivered to the customer. Previously, revenues were recognized at the time of the sale. The Company accounted for the adoption of SAB 101 as a change in accounting principle and recorded a cumulative effect in the first quarter of fiscal 1999. The cumulative effect of this accounting change resulted in an increase in net income of $147,000, net of income tax of $79,000, or $.01 per share. This increase was driven by the release of the Company's layaway reserve, which slightly exceeded the associated margin on previously recognized layaway sales. The proforma effect of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

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

At February 3, 2001, the Company had working capital of $125.7 million compared to $125.0 million at January 29, 2000. Cash provided by operating activities was $44.1 million in fiscal 2000 compared to $44.5 million in fiscal 1999. The decrease in cash provided by operating activities in fiscal 2000 resulted primarily from an increase in net income, depreciation, provision for doubtful accounts, deferred income taxes, loss on disposal of property and equipment offset by an increase in accounts receivable, inventories and other assets and a decrease in accounts payable and other liabilities. At February 3, 2001, the Company had $83.1 million in cash, cash equivalents and short-term investments, compared to $87.3 million at January 29, 2000.

The Company had $1.3 million invested in privately managed investment funds at February 3, 2001, which are reported under other assets of the consolidated balance sheets.

At February 3, 2001, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding under the agreement during the fiscal year ended February 3, 2001 or January 29, 2000.

The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment. The operating leases are 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. If the Company had cancelled the leases at February 3, 2001, the purchase price for the equipment would have been approximately $5,929,000.

Expenditures for property and equipment totaled $27.2 million, $24.0 million and $13.5 million in fiscal 2000, 1999 and 1998, respectively. The expenditures for fiscal 2000 were primarily for store development, store remodels and investments in new technology for an enterprise-wide information system for merchandising, distribution and finance. In fiscal 2001, the Company is planning to invest approximately $31 million for capital expenditures. This includes expenditures to open 85 new stores, relocate 30 stores and close 10 stores. In addition, the Company plans to remodel 25 stores and has planned for investments in technology including an enterprise-wide information system scheduled to be implemented over the next 12 to 24 months.

During 2000, the Company repurchased 1,468,800 shares of Class A Common Stock for $15.4 million, or an average price of $10.52 per share. Over the course of fiscal 2000, the Company increased its quarterly dividend from $.075 per share to $.125 per share. In February 2000, the Board of Directors increased the quarterly dividend by 33% from $.075 per share to $.10 per share. In December 2000, the Board of Directors further increased the quarterly dividend by 25% from $.10 per share to $.125 per share.

The Company does not use derivative financial instruments in its investment portfolio. At February 3, 2001, the Company's investment portfolio was invested in governmental debt securities with maturities of up to 36 months. These securities are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains and losses reported as accumulated other comprehensive income.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". In June 2000, the FASB issued SFAS No. 138, which amended certain provisions of SFAS 133. The Company adopted SFAS 133 and the corresponding amendments under SFAS 138 on February 4, 2001. Management believes that the adoption of this statement has no impact on the Company's consolidated results of operations and financial position.

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

CONSOLIDATED STATEMENTS OF INCOME

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
(Dollars in thousands, except per share data)			
REVENUES			
Retail sales	**$ 648,482**	$ 585,085	$ 524,381
Other income (principally finance, late and layaway charges)	**20,653**	19,948	19,283
Total revenues	**669,135**	605,033	543,664
COSTS AND EXPENSES			
Cost of goods sold	**445,407**	403,655	371,005
Selling, general and administrative	**154,150**	140,741	128,207
Depreciation	**9,492**	8,639	7,638
Interest	**44**	23	19
Total operating expenses	**609,093**	553,058	506,869
Income before income taxes and cumulative effect of accounting change	**60,042**	51,975	36,795
Income tax expense	**21,015**	18,191	12,878
Income before cumulative effect of accounting change	**$ 39,027**	$ 33,784	$ 23,917
Cumulative effect of accounting change, net of tax ($79)	**—**	147	—
Net income	**$ 39,027**	$ 33,931	$ 23,917
Basic earnings per share	**$ 1.56**	$ 1.28	$ .87
Basic weighted average shares	**24,988,844**	26,486,407	27,522,582
Diluted earnings per share	**$ 1.53**	$ 1.26	$ .85
Diluted weighted average shares	**25,465,232**	26,953,948	28,181,585
Dividends per share	**$ .425**	$ .28	$ .19

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	FEBRUARY 3, 2001	JANUARY 29, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 25,201**	$ 30,389
Short-term investments	**57,911**	56,886
Accounts receivable, net of allowance for doubtful accounts of $5,422 at February 3, 2001 and $5,101 at January 29, 2000	**46,972**	45,458
Merchandise inventories	**79,161**	69,497
Deferred income taxes	**1,579**	4,093
Prepaid expenses	**4,665**	2,494
Total Current Assets	**215,489**	208,817
Property and equipment - net	**85,819**	69,338
Other assets	**9,434**	7,634
Total Assets	**$ 310,742**	$ 285,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 59,681**	$ 54,707
Accrued expenses	**24,378**	24,392
Income taxes	**5,706**	4,730
Total Current Liabilities	**89,765**	83,829
Deferred income taxes	**5,386**	5,806
Other noncurrent liabilities (primarily deferred rent)	**7,834**	7,374
Stockholders' Equity:		
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**—**	—
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; 24,643,420 and 24,173,480 shares issued at February 3, 2001 and January 29, 2000, respectively	**821**	805
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; 5,364,317 shares issued at February 3, 2001 and January 29, 2000	**179**	179
Additional paid-in capital	**76,778**	71,974
Retained earnings	**175,275**	146,881
Accumulated other comprehensive losses	**(884)**	(1,801)
Unearned compensation – restricted stock awards	**(689)**	(984)
	251,480	217,054
Less Class A common stock in treasury, at cost (4,759,148 and 3,290,348 shares at February 3, 2001 and January 29, 2000, respectively)	**(43,723)**	(28,274)
Total Stockholders' Equity	**207,757**	188,780
Total Liabilities and Stockholders' Equity	**$ 310,742**	$ 285,789

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
(Dollars in thousands)			
OPERATING ACTIVITIES			
Net income	**$ 39,027**	$ 33,931	$ 23,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**9,492**	8,639	7,638
Amortization of investment premiums	**126**	187	123
Provision for doubtful accounts	**5,292**	4,850	4,081
Deferred income taxes	**1,600**	175	38
Compensation expense related to restricted stock awards	**295**	196	–
Loss on disposal of property and equipment	**1,257**	727	942
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(6,806)**	(5,772)	(1,431)
Merchandise inventories	**(9,664)**	(8,385)	3,114
Other assets	**(3,971)**	(1,584)	(765)
Accrued income taxes	**2,025**	4,712	(463)
Accounts payable and other liabilities	**5,420**	6,845	3,705
Net cash provided by operating activities	**44,093**	44,521	40,899
INVESTING ACTIVITIES			
Expenditures for property and equipment	**(27,230)**	(23,964)	(13,519)
Purchases of short-term investments	**(11,906)**	(22,544)	(24,624)
Sales of short-term investments	**12,166**	4,496	10,717
Net cash used in investing activities	**(26,970)**	(42,012)	(27,426)
FINANCING ACTIVITIES			
Dividends paid	**(10,633)**	(7,416)	(5,204)
Purchases of treasury stock	**(15,449)**	(9,572)	(10,112)
Proceeds from employee stock purchase plan	**448**	447	336
Proceeds from stock options exercised	**3,323**	353	3,931
Net cash used in financing activities	**(22,311)**	(16,188)	(11,049)
Net increase (decrease) in cash and cash equivalents	**(5,188)**	(13,679)	2,424
Cash and cash equivalents at beginning of year	**30,389**	44,068	41,644
Cash and cash equivalents at end of year	**$ 25,201**	$ 30,389	$ 44,068

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation Restricted Stock Awards	Treasury Stock	Total Stockholders' Equity
BALANCE — JANUARY 31, 1998	$ 783	$ 176	$ 64,187	$101,653	$ (116)	$	$ (9,167)	$157,516
*Comprehensive income:								
Net income				23,917				23,917
Unrealized gains on available-for-sale securities, net of deferred income taxes of $174					340			340
Dividends paid ($.19 per share)				(5,204)				(5,204)
Class A common stock sold through employee stock purchase plan — 37,122 shares	1		335					336
Class A common stock sold through stock option plans — 530,750 shares	18		3,913					3,931
Income tax benefit from stock options exercised			1,381					1,381
Purchase of treasury shares — 1,006,500 shares							(10,112)	(10,112)
Contribution of treasury stock to Employee Stock Purchase Plan – 10,000 shares			62				67	129
BALANCE — JANUARY 30, 1999	802	176	69,878	120,366	224		(19,212)	172,234
*Comprehensive income:								
Net income				33,931				33,931
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of $1,091					(2,025)			(2,025)
Dividends paid ($.28 per share)				(7,416)				(7,416)
Class A common stock sold through employee stock purchase plan — 53,811 shares	2		445					447
Class A common stock sold through stock option plans — 49,150 shares	1		352					353
Income tax benefit from stock options exercised			100					100
Purchase of treasury shares — 985,400 shares							(9,572)	(9,572)
Contribution of treasury stock to Employee Stock Purchase Plan — 63,052 shares			22				510	532
Unearned compensation – restricted stock awards		3	1,177			(984)		196
BALANCE — JANUARY 29, 2000	805	179	71,974	146,881	(1,801)	(984)	(28,274)	188,780
*Comprehensive income:								
Net income				39,027				39,027
Unrealized gains on available-for-sale securities, net of deferred income taxes of $494					917			917
Dividends paid ($.425 per share)				(10,633)				(10,633)
Class A common stock sold through employee stock purchase plan — 44,590 shares	2		446					448
Class A common stock sold through stock option plans — 425,350 shares	14		3,309					3,323
Income tax benefit from stock options exercised			1,049					1,049
Purchase of treasury shares — 1,468,800 shares							(15,449)	(15,449)
Unearned compensation – restricted stock awards						295		295
BALANCE — FEBRUARY 3, 2001	$ 821	$ 179	$ 76,778	$175,275	$ (884)	$ (689)	$(43,723)	$207,757

See notes to consolidated financial statements.

*Total comprehensive income for the years ended February 3, 2001, January 29, 2000 and January 30, 1999 was $39,944, $31,906 and $24,257, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation: The consolidated financial statements include the accounts of The Cato Corporation and its wholly-owned subsidiaries ("the Company"). All significant intercompany accounts and transactions have been eliminated.

Description of Business and Fiscal Year: The Company has two business segments — the operation of women's fashion specialty stores and a credit card division. The apparel specialty stores operate under the names "Cato", "Cato Fashions", "Cato Plus" and "It's Fashion!" and are located primarily in strip shopping centers in the Southeast. The Company's fiscal year ends on the Saturday nearest January 31. Fiscal year 2000 included 53 weeks, and fiscal years 1999 and 1998 each included 52 weeks.

Use of Estimates: The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include the allowance for doubtful accounts receivable, reserves relating to workers' compensation, general and auto insurance liabilities and reserves for inventory markdowns.

Cash and 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 values of short-term investments are based on quoted market prices.

The Company's short-term investments are 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 a component of accumulated other comprehensive income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in other income.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash equivalents and accounts receivable. The Company places its cash equivalents with high credit qualified institutions and, by practice, limits the amount of credit exposure to any one institution. Concentrations of credit risks with respect to accounts receivable are limited due to the dispersion across different geographies of the Company's customer base.

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999 were $17,435,000, $13,895,000 and $13,394,000, respectively.

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

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 is provided on the straight-line method over the estimated useful lives of the related assets, as follows:

CLASSIFICATION	ESTIMATED USEFUL LIVES
Land improvements	10 years
Buildings	30-40 years
Leasehold improvements	5-10 years
Fixtures and equipment	3-10 years

Retail Sales: Revenues from retail sales, net of returns, are recognized upon delivery of the merchandise to the customer and exclude sales taxes.

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was $5,812,000, $5,109,000 and $5,755,000 for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively.

Earnings Per Share: Basic earnings per share excludes dilution of stock options and is computed by dividing net earnings by the weighted-average number of Class A and Class B common shares outstanding for the respective periods. The weighted-average number of shares used in the basic earnings per share computations was 24,988,844, 26,486,407 and 27,522,582 for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 476,388, 467,541 and 659,003 for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 25,465,232, 26,953,948 and 28,181,585 for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively.

Income Taxes: The Company files a consolidated federal income tax return. Income taxes are provided based on the asset and 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 and Closing Costs: Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. The Company evaluates all long-lived assets for impairment. Impairment losses are recognized when expected future cash flows from the use of the assets are less than the assets' carrying values.

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.

Insurance: The Company is self-insured with respect to employee health, workers compensation and general liability claims. Employee health claims are funded through a VEBA trust to which the Company makes periodic contributions. The Company has stop-loss insurance coverage for individual claims in excess of $250,000.

Fair Value of Financial Instruments: The Company's carrying values of financial instruments, such as cash and cash equivalents, approximate their fair values due to their short terms to maturity and/or their variable interest rates.

Recent Accounting Pronouncements: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". In June 2000, the FASB issued SFAS No. 138, which amended certain provisions of SFAS 133. The Company adopted SFAS 133 and the corresponding amendments under SFAS 138 on February 4, 2001. Management believes that the adoption of this statement has no impact on the Company's consolidated results of operations and financial position.

Effective for fiscal 1999, the Company changed its policy for recognizing revenues related to layaway sales to comply with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). Revenues for layaway sales and related fees are recognized when the layaway merchandise is delivered to the customer. Previously, revenues were recognized at the time of the sale. The Company accounted for the adoption of SAB 101 as a change in accounting principle and recorded a cumulative effect in the first quarter of fiscal 1999. The cumulative effect of this accounting change resulted in an increase in net income of $147,000, net of income tax of $79,000, or $.01 per share. This increase was driven by the release of the Company's layaway reserve, which slightly exceeded the associated margin on previously recognized layaway sales. The proforma effect of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

Reclassifications: Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with presentation for fiscal 2000.

2. SHORT-TERM INVESTMENTS:

Short-term investments at February 3, 2001 include the following (in thousands):

SECURITY TYPE	COST	UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
Obligations of federal, state and political subdivisions	$ 59,271	$ (1,360)	$ 57,911

Short-term investments at January 29, 2000 include the following (in thousands):

SECURITY TYPE	COST	UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
Obligations of federal, state and political subdivisions	$ 59,657	$ (2,771)	$ 56,886

The accumulated unrealized losses at February 3, 2001 of ($884,000), net of an income tax benefit of $476,000, and the accumulated unrealized losses at January 29, 2000 of ($1,801,000), net of an income tax benefit of $970,000, are reflected in other comprehensive income.

The amortized cost and estimated fair value of debt securities at February 3, 2001, by contractual maturity, are shown below (in thousands):

SECURITY TYPE	COST	ESTIMATED FAIR VALUE
Due in one year or less	$ 9,594	$ 9,520
Due in one year through three years	49,677	48,391
Total	$ 59,271	$ 57,911

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following (in thousands):

	FEBRUARY 3, 2001	JANUARY 29, 2000
Customer accounts – principally deferred payment accounts	**$ 48,429**	$ 47,702
Miscellaneous trade receivables	**3,965**	2,857
Total	**52,394**	50,559
Less allowance for doubtful accounts	**5,422**	5,101
Accounts receivable - net	**$ 46,972**	$ 45,458

Finance charge and late charge revenue on customer deferred payment accounts totaled $13,689,000, $11,870,000 and $11,113,000 for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively, and the provision for doubtful accounts was $5,292,000, $4,850,000 and $4,081,000, for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses in the accompanying statements of income.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following (in thousands):

	FEBRUARY 3, 2001	JANUARY 29, 2000
Land and improvements	**$ 1,947**	$ 1,739
Buildings	**17,656**	15,806
Leasehold improvements	**25,988**	23,145
Fixtures and equipment	**84,535**	75,566
Construction in progress	**20,723**	12,195
Total	**150,849**	128,451
Less accumulated depreciation	**65,030**	59,113
Property and equipment - net	**$ 85,819**	$ 69,338

Construction in progress primarily represents investments in technology including an enterprise-wide information system scheduled to be implemented over the next 12 to 24 months.

5. ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	FEBRUARY 3, 2001	JANUARY 29, 2000
Accrued bonus and retirement savings plan contributions	**$ 8,242**	$ 9,502
Accrued payroll and related items	**3,636**	3,735
Closed store lease obligations	**1,671**	1,878
Property and other taxes	**3,216**	2,925
Accrued health care plan	**2,894**	1,981
Other	**4,719**	4,371
Total	**$ 24,378**	$ 24,392

6. FINANCING ARRANGEMENTS:

At February 3, 2001, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the fiscal year ended February 3, 2001 or January 29, 2000.

The Company had approximately $3,977,000 and $4,594,000 at February 3, 2001 and January 29, 2000, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

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 October 1993, the Company registered 250,000 shares of Class A Common Stock available for issuance under an Employee Stock Purchase Plan (the "Plan"). In May 1998, the shareholders approved an amendment to the Plan to increase the maximum number of Class A shares of Common Stock authorized to be issued from 250,000 to 500,000 shares. 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 of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 44,590 shares, 53,811 shares and 37,122 shares for the years ended February 3, 2001, January 29, 2000 and January 30, 1999, respectively.

The Company has an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan for key employees of the Company. Total shares issuable under the plans are 3,900,000, 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 the option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant. Options granted under these plans vest over a 5-year period and expire 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

In August 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan, of which 1,000,000 shares are issuable. No awards shall be granted after July 31, 2004 and shares must be exercisable not later than 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

In August 1999, the Board of Directors granted under the 1999 Incentive Compensation Plan, restricted stock awards of 100,000 shares of Class B Common Stock, with a per share fair value of $11.81 to a key executive. These stock awards vest over four years and the unvested portion is included in stockholders' equity as unearned compensation in the accompanying financial statements. The charge to compensation expense for these stock awards in 2000 was $295,000 and in 1999 was $196,000.

Option plan activity for the three fiscal years ended February 3, 2001 is set forth below:

	OPTIONS OUTSTANDING	RANGE OF OPTION PRICES	WEIGHTED AVERAGE PRICE
Outstanding options,			
January 31, 1998	2,785,732	$ 1.50 - $ 9.31	$ 7.73
Granted	302,000	10.66 - 14.59	13.03
Exercised	(530,750)	1.50 - 9.31	7.38
Cancelled	(95,000)	4.94 - 12.56	7.63
Outstanding options,			
January 30, 1999	2,461,982	1.50 - 14.59	8.45
Granted	670,000	9.36 - 13.25	12.51
Exercised	(48,950)	1.50 - 8.25	7.25
Cancelled	(110,250)	3.21 - 12.69	8.23
Outstanding options,			
January 29, 2000	2,972,782	1.50 - 14.59	9.39
Granted	46,250	9.59 - 14.38	11.66
Exercised	(425,350)	4.94 - 13.44	7.82
Cancelled	(56,300)	6.94 - 13.44	10.23
Outstanding options,			
February 3, 2001	2,537,382	$ 4.94 - $14.59	$ 9.68

The following tables summarize stock option information at February 3, 2001:

	OPTIONS OUTSTANDING		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
$ 4.94 - $ 7.63	691,432	1.32 years	$ 7.48
$ 7.69 - $ 8.25	863,900	6.16 years	$ 8.13
$ 9.25 - $ 14.59	982,050	8.30 years	$ 12.59
$ 4.94 - $ 14.59	2,537,382	5.67 years	$ 9.68

	OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 4.94 - $ 7.63	672,232	$ 7.55
$ 7.69 - $ 8.25	546,300	$ 8.07
$ 9.25 - $ 14.59	241,200	$ 12.70
$ 4.94 - $ 14.59	1,459,732	$ 8.60

Outstanding options at February 3, 2001 covered 1,337,832 shares of Class B Common Stock and 1,199,550 shares of Class A Common Stock. Outstanding options at January 29, 2000 covered 717,000 shares of Class B Common Stock and 2,255,782 shares of Class A Common Stock. Options available to be granted under the option plans were 535,468 at February 3, 2001 and 526,018 at January 29, 2000.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock options plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for fiscal 2000, 1999 and 1998 stock options granted been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for fiscal 2000, 1999 and 1998 would approximate the following proforma amounts (dollars in thousands, except per share data):

	AS REPORTED	PROFORMA
Net income — Fiscal 2000	$ 39,027	$ 37,431
Basic earnings per share	$ 1.56	$ 1.50
Diluted earnings per share	$ 1.53	$ 1.47
Net income — Fiscal 1999	$ 33,931	$ 32,329
Basic earnings per share	$ 1.28	$ 1.22
Diluted earnings per share	$ 1.26	$ 1.20
Net income — Fiscal 1998	$ 23,917	$ 22,822
Basic earnings per share	$ .87	$ .83
Diluted earnings per share	$ .85	$ .81

The weighted-average fair value of each option granted during fiscal 2000, 1999 and 1998 is estimated as $5.45, $6.12 and $6.71 per share, respectively. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following assumptions for grants issued in 2000, 1999 and 1998, respectively: expected dividend yield of 2.42%, 2.62% and 2.20%; expected volatility of 60.34%, 62.10% and 66.44%, adjusted for expected dividends; risk-free interest rate of 4.71%, 6.40% and 5.07%; and an expected life of 5 years for 2000, 1999 and 1998. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

In February 2000, the Board of Directors increased the quarterly dividend by 33% from $.075 per share to $.10 per share. In December 2000, the Board of Directors further increased the quarterly dividend by 25% from $.10 per share to $.125 per share.

Total comprehensive income for the years ended February 3, 2001, January 29, 2000 and January 30, 1999 is as follows (in thousands):

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
Net income	**$ 39,027**	$ 33,931	$ 23,917
Unrealized gains (losses) on available-for-sale securities	**1,411**	(3,116)	514
Income tax effect	**(494)**	1,091	(174)
Unrealized gains (losses) net of taxes	**917**	(2,025)	340
Total comprehensive income	**$ 39,944**	$ 31,906	$ 24,257

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 to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended February 3, 2001, January 29, 2000 and January 30, 1999 were approximately $2,348,000, $2,145,000 and $1,606,000, 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 contribution was made to the ESOP for the year ended February 3, 2001. The contributions for the fiscal years ended January 29, 2000 and January 30, 1999 were $1,913,000 and $531,000, respectively.

The Company is self-insured with respect to employee health, workers compensation and general liability claims. The Company has stop-loss insurance coverage for individual claims in excess of $250,000 for workers compensation and employee health and $100,000 for general liability. Employee health claims are funded through a VEBA trust to which the Company makes periodic contributions. Contributions to the VEBA trust were $6,964,000, $5,214,000 and $4,177,000 in fiscal 2000, 1999 and 1998, respectively.

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. The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment, which do not meet criteria for capital lease accounting and are being accounted for as operating leases with terms of seven years. However, these leases 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. If the Company had cancelled the leases at February 3, 2001, the purchase price for the equipment would have been approximately $5,929,000.

The minimum rental commitments under non-cancelable operating leases are (in thousands):

FISCAL YEAR	
2001	$ 34,615
2002	25,977
2003	17,060
2004	8,921
2005	3,312
Thereafter	60
Total minimum lease payments	$ 89,945

The following schedule shows the composition of total rental expense for all leases (in thousands):

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
Minimum rentals	$ 34,449	$ 32,453	$ 30,313
Contingent rent	479	257	270
Total rental expense	$ 34,928	$ 32,710	$ 30,583

10. INCOME TAXES:

The provision for income taxes consists of the following (in thousands):

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
Current income taxes:			
Federal	$ 18,461	$ 17,826	$ 12,502
State	954	190	338
Total	19,415	18,016	12,840
Deferred income taxes:			
Federal	1,319	81	(190)
State	281	94	228
Total	1,600	175	38
Total income tax expense	$ 21,015	$ 18,191	$ 12,878

Significant components of the Company's deferred tax assets and liabilities as of February 3, 2001 and January 29, 2000 are as follows (in thousands):

	FEBRUARY 3, 2001	JANUARY 29, 2000
Deferred tax assets:		
Bad debt reserve	$ 2,085	$ 1,969
Inventory valuation	1,335	1,411
Unrealized losses on short-term investments	476	970
Other accruals	1,104	1,108
Total deferred tax assets	5,000	5,458
Deferred tax liabilities:		
Tax over book depreciation	6,167	6,527
Other, net	2,640	644
Total deferred tax liabilities	8,807	7,171
Net deferred tax liabilities	$ 3,807	$ 1,713

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

FISCAL YEAR ENDED	FEBRUARY 3, 2001	JANUARY 29, 2000	JANUARY 30, 1999
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**1.6**	0.5	1.2
Other	**(1.6)**	(0.5)	(1.2)
Effective income tax rate	**35.0%**	35.0%	35.0%

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial results have been restated for the effects of SAB 101 in 1999 and are as follows (in thousands, except per share data):

FISCAL 2000	FIRST	SECOND	THIRD	FOURTH
Retail sales	$ 162,154	$ 163,375	$ 136,856	$ 186,097
Total revenues	167,240	168,682	141,620	191,594
Cost of goods sold	105,324	110,015	97,429	132,640
Income before income taxes	22,400	17,535	6,842	13,265
Net income	14,560	11,398	4,447	8,622
Basic earnings per share	$ .58	$ .46	$ .18	$ .34
Diluted earnings per share	$ .57	$ .45	$ .18	$ .34

FISCAL 1999	FIRST	SECOND	THIRD	FOURTH
Retail sales	$ 153,047	$ 148,782	$ 127,367	$ 155,889
Total revenues	157,874	153,809	132,357	160,993
Cost of goods sold	100,017	100,100	90,247	113,291
Income before income taxes and cumulative effect of accounting change	20,906	15,477	5,418	10,174
Income before cumulative effect of accounting change	13,589	10,060	3,522	6,613
Cumulative effect of accounting change, net of tax	147	–	–	–
Net income	13,736	10,060	3,522	6,613
Basic earnings per share (before cumulative effect of accounting change)	$ .51	$ .38	$ .13	$ .25
Basic earnings per share	$ .52	$ .38	$ .13	$ .25
Diluted earnings per share (before cumulative effect of accounting change)	$ .51	$ .37	$ .13	$ .25
Diluted earnings per share	$ .51	$ .37	$ .13	$ .25

The restatement for the effects of SAB 101 for fiscal 1999 resulted in a decrease in income before cumulative effect of accounting change of $149,000 with no per share effect in the first quarter; an increase in net income of $126,000 with no per share effect in the second quarter; and a decrease in net income of $442,000 with a decrease of $.02 per share in the third quarter.

12. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 23 states, principally in the Southeast. The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate division of the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes. The Company does not allocate certain corporate expenses or income taxes to the segments.

The following schedule summarizes certain segment information (in thousands):

FISCAL 2000	RETAIL	CREDIT	TOTAL
Revenues	$ 655,150	$ 13,985	$ 669,135
Depreciation	9,426	66	9,492
Interest expense	44	—	44
Income before taxes	55,278	4,764	60,042
Total assets	244,199	66,543	310,742
Capital expenditures	27,195	35	27,230

FISCAL 1999	RETAIL	CREDIT	TOTAL
Revenues	$ 592,855	$ 12,178	$ 605,033
Depreciation	8,603	36	8,639
Interest expense	23	—	23
Income before taxes	47,347	4,628	51,975
Total assets	224,501	61,288	285,789
Capital expenditures	23,807	157	23,964

FISCAL 1998	RETAIL	CREDIT	TOTAL
Revenues	$ 532,330	$ 11,334	$ 543,664
Depreciation	7,613	25	7,638
Interest expense	19	—	19
Income before taxes	33,044	3,751	36,795
Total assets	200,946	57,567	258,513
Capital expenditures	13,459	60	13,519

13. COMMITMENTS AND CONTINGENCIES:

Workers compensation and general liability claims are settled through a claims administrator and are limited by stop-loss insurance coverage for individual claims in excess of $250,000 and $100,000, respectively. The Company paid claims of $1,486,000, $1,074,000 and $1,347,000 in fiscal 2000, 1999 and 1998, respectively. The Company had no outstanding letters of credit relating to such claims at February 3, 2001 or at January 29, 2000. See Note 6 for letters of credit related to purchase commitments, Note 8 for 401(k) plan contribution obligations and Note 9 for lease commitments.

The Company is a defendant in legal proceedings considered to be in the normal course of business and none of which, singularly or collectively, are considered to be material to the Company as a whole.

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders
of The Cato Corporation

We have audited the accompanying consolidated balance sheets of The Cato Corporation and subsidiaries (the Company) as of February 3, 2001 and January 29, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended February 3, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 3, 2001 and January 29, 2000, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina
March 16, 2001

MANAGEMENT EXECUTIVE GROUP AND BOARD OF DIRECTORS

MANAGEMENT EXECUTIVE GROUP

Wayland H. Cato, Jr.
Chairman of the Board

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

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

Howard A. Severson
Executive Vice President, Chief Real Estate and Store Development Officer and Assistant Secretary

B. Allen Weinstein
Executive Vice President, Chief Merchandising Officer of the Cato Division

David P. Kempert
Executive Vice President, Chief Store Operations Officer of the Cato Division

C. David Birdwell
Executive Vice President, President and General Manager of the It's Fashion! Division

Robert C. Brummer
Senior Vice President, Human Resources and Assistant Secretary

1 Member of the Executive/Finance Committee
2 Member of the Compensation Committee
3 Member of the Audit Committee

BOARD OF DIRECTORS

Wayland H. Cato, Jr. [1]
Chairman of the Board

John P. Derham Cato [1]
President, Vice Chairman of the Board and Chief Executive Officer

Edgar T. Cato [1]
Former Vice Chairman of the Board and Co-Founder

Howard A. Severson
Executive Vice President, Chief Real Estate and Store Development Officer and Assistant Secretary

Clarice Cato Goodyear
Special Assistant to the Chairman and the President and Assistant Secretary

Thomas E. Cato
Vice President, Divisional Merchandise Manager

Robert W. Bradshaw, Jr. [1]
Of Counsel - Robinson, Bradshaw & Hinson, P.A.

George S. Currin [1,3]
Chairman and Managing Director of The Fourth Stockton Company LLC and Chairman Currin-Patterson Properties LLC

Paul Fulton [1,2]
Chairman of the Board, Bassett Furniture Industries, Inc.

Grant L. Hamrick [1,2,3]
Retired Senior Vice President, Chief Financial Officer, American City Business Journals

James H. Shaw [2]
Retired Chairman and Chief Executive Officer Ivey's Department Stores

A. F. (Pete) Sloan [1,2,3]
Retired Chairman and Chief Executive Officer Lance, Inc.

CORPORATE INFORMATION

A copy of the Company's Annual Report to the Securities and Exchange Commission (Form 10-K) for the fiscal year ended February 3, 2001 is available to shareholders without charge upon written request to Mr. Michael O. Moore, Executive Vice President, Chief Financial Officer and Secretary, The Cato Corporation, P.O. Box 34216, Charlotte, North Carolina 28234.

CORPORATE HEADQUARTERS
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Deloitte & Touche LLP
Charlotte, North Carolina 28202-1675

CORPORATE COUNSEL
Robinson, Bradshaw & Hinson, P.A.
Charlotte, North Carolina 28246

TRANSFER AGENT AND REGISTRAR
First Union National Bank
Securities Transfer Department, CMG-5
Charlotte, North Carolina 28288

ANNUAL MEETING NOTICE
The Annual Meeting of Shareholders
11:00 a.m., Thursday, May 24, 2001
Corporate Office
8100 Denmark Road, Charlotte, NC.

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 2000 and 1999.

2000	PRICE HIGH	PRICE LOW	DIVIDEND
First quarter	$ 12 1/4	$ 9 3/16	$ .10
Second quarter	12 1/2	10 1/64	.10
Third quarter	12 7/8	10	.10
Fourth quarter	18	11	.125

1999	PRICE HIGH	PRICE LOW	DIVIDEND
First quarter	$ 11 7/16	$ 7 9/16	$ .055
Second quarter	13 15/16	10 1/2	.075
Third quarter	15 9/16	10 7/8	.075
Fourth quarter	13 3/8	10 1/4	.075

As of March 23, 2001 the approximate number of holders of the Company's Class A Common Stock was 3,600 and there were 12 record holders of the Company's Class B Common Stock.

CATO
The Cato Corporation

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