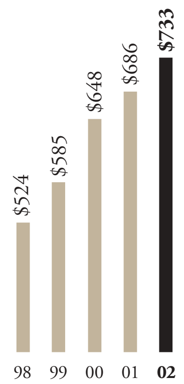
The Cato Corporation

ANNUAL REPORT 2002

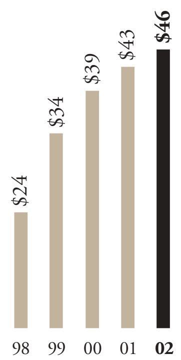
The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating two divisions, "Cato" and "It's Fashion!". The Company currently operates over 1,030 apparel specialty stores principally in the Southeast. Cato, the core division, primarily offers exclusive merchandise 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 market-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

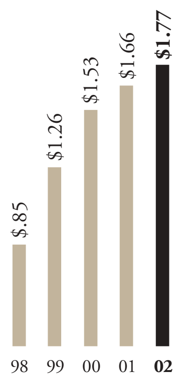
Fiscal Year	***2002***	***2001***	***2000***	***1999***	***1998***
(Dollars in thousands, except per share data)					
FOR THE YEAR ENDED					
Retail sales	$ 732,742	$ 685,653	$ 648,482	$ 585,085	$ 524,381
Total revenues	748,331	699,321	662,537	598,240	538,153
Comparable store sales increase	0%	1%	3%	4%	2%
Income before income taxes	71,839	66,286	60,042	51,975	36,795
Net income	45,833	43,086	39,027	33,931	23,917
Net income as a percent of retail sales	6.3%	6.3%	6.0%	5.8%	4.6%
Cash dividends paid per share	.585	.53	.425	.28	.19
Basic earnings per share	1.80	1.71	1.56	1.28	.87
Diluted earnings per share	1.77	1.66	1.53	1.26	.85
Number of stores	1,022	937	859	809	732
Number of stores opened	90	85	65	83	52
Number of stores closed	5	7	15	6	13
Net increase in number of stores	85	78	50	77	39
AT YEAR END					
Cash, cash equivalents and investments	$ 106,936	$ 84,695	$ 83,112	$ 87,275	$ 86,209
Working capital	162,609	139,633	125,724	124,988	124,024
Current ratio	2.7	2.7	2.4	2.5	2.7
Total assets	383,410	332,041	310,742	285,789	258,513
Stockholders' equity	270,164	234,698	207,757	188,780	172,234



Retail Sales
(in millions)



Net Income
(in millions)



Earnings (Diluted)
per share

For Cato customers, it has been another exciting year of new fashions, high quality and exceptional value.

For Cato shareholders, it has been another successful year of solid earnings, continued expansion and consistent growth.

Some things you can always count on from Cato.

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a message to our shareholders

Last year was challenging for Cato as well as most retailers. However, through the efforts of our 8,800 associates, Cato increased earnings and achieved record results in this difficult year. In fact, 2002 was the Company's fourth consecutive year of record earnings and sixth consecutive year of earnings growth.

Earnings improved to $45.8 million and $1.77 per share, a 6% increase in net income and a 7% increase in EPS over 2001. Cato remains financially strong with a debt-free balance sheet and $107 million in cash and short-term investments.

Our earnings improvement in 2002 and a number of other significant accomplishments provide strong insight into what makes Cato a consistent performer. Shareholders can count on Cato to execute its strategies to deliver consistent growth, improve earnings, and increase shareholder value over the long term, and deliver fashion, quality, and value to our customers every day.

Cato has returned a portion of its profits to shareholders through dividends for each of the last 11 years. In 2002, we continued to deliver value to shareholders by distributing $14.9 million in dividends and repurchasing shares under our stock repurchase program. Our current annualized dividend of $.60 per share has more than tripled since 1997.

In 2002, we opened 90 new stores, relocated 26 stores, remodeled 24 stores, and closed five stores under our store development program. We opened new stores in our current geography as well as new markets. We expanded into Iowa and Arizona and now have stores in 26 states.

The Company reached a significant milestone in 2002 by opening its 1,000th store in Charleston, South Carolina, not far from where the first Cato stores opened fifty-six years ago.

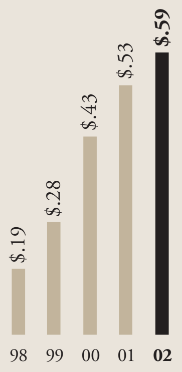
We finalized a new store prototype that improves the customer shopping experience and makes our stores a more inviting place to shop. We simplified the design and added natural wood elements to create a timeless look that will transcend fashion trends.

We implemented an enterprise-wide system that integrates our merchandising and financial systems and will provide better information. This system will allow us to continue to improve our overall inventory management and store merchandise allocations.

During 2002, the Company moved to the New York Stock Exchange. Our shareholders benefit from greater visibility in the financial community and increased liquidity in the trading of our stock.

Cato's core strategies have not changed. We continue to offer our customers a broad assortment of high quality, fashionable merchandise at low prices every day. We build our stores with an easy-to-shop format in convenient strip shopping centers. Our assortment appeals to a broad demographic profile and requires a minimum trade area of only 20,000 people. This allows us to serve communities in small, middle, and metropolitan markets. We adhere to a disciplined real estate approach that helps ensure that every store, regardless of the market size, is profitable. We continually work to refine these strategies, improve our execution, and strengthen our business over the long term. Our strong financial position and a focused approach allow us to leverage our existing infrastructure to further improve earnings.

Our goal is to deliver consistent value in everything we do, whether it is in the merchandise we offer our customers or the return we provide our shareholders.



Dividends
per share

During 2003, we expect to open 90 stores in our new prototype to drive sales and further enhance our customers' shopping experience by relocating and remodeling stores.

We remain committed to our long-term goal of growing both earnings and dividends at an annual rate of 10%.

Delivering value – whether you are a customer or a shareholder, you can count on it at Cato.

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

Style you can count on.

Providing our customers fashionable merchandise at an exceptional value and delivering friendly service in an inviting place to shop – that's Cato style.

Our merchandising and product development teams work together to identify styles, colors, and fabrics that appeal to our customer. They seek out the latest fashions from across the U.S. and around the world and then adapt these global trends to her needs.

The merchandise we offer not only meets her fashion and quality expectations, but by using fabrics that are long lasting and easy to care for, it also meets the demands of today's fast-paced world. We deliver new merchandise to every store on a weekly basis, so our customer can see new fashions and styles each time she visits the store.

The construction of our garments is tightly controlled to provide our customer with an assurance that they will find a reliable fit no matter what selection they make. We use live models to develop standardized sizes across all of our assortments. If a customer finds a size 10 skirt that fits her, she can be assured that fit will be consistent in any size 10 item she selects to complete her outfit.

Our new store prototype was created to increase customer awareness of Cato as a leading fashion apparel and accessory store. We simplified the design and added natural wood elements to create a timeless look that will transcend fashion trends. We increased the sales floor unit capacity while giving our customer a better place to shop.

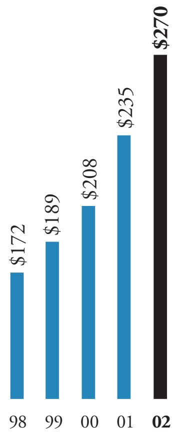
We are known for our wide assortment of fashionable casual, work, and weekend apparel. By shopping fashion markets in New York, Los Angeles, Montreal, and Europe, we gather valuable trend and fashion insights for exciting new products. And this dress is no exception.

Synergy – Our sportswear is designed to be completely interchangeable and versatile.
Many of the patterns we produce are exclusively ours
and give our customers fashion magazine looks at a fraction of the price.

Value you can count on. We provide value every day. From product development and sourcing, to our low price policy and how we run our stores, everything we do is designed to provide value to our customers.

Several years ago, we adopted a low price every day strategy that continues to provide our customers exceptional value. We work hard to maintain an efficient, low cost structure to keep prices low for our customers and increase earnings for our shareholders.

With low prices every day, we save money by not needing to advertise. Instead, our customer knows she pays the lowest price every day on every item and never has to wait for a sale. And, we use those savings to further improve the quality of our merchandise and deliver it at great prices every day. We offer exceptional value through a combination of fashion, quality, and price. We save our customers time and money.



Shareholders' Equity
(in millions)

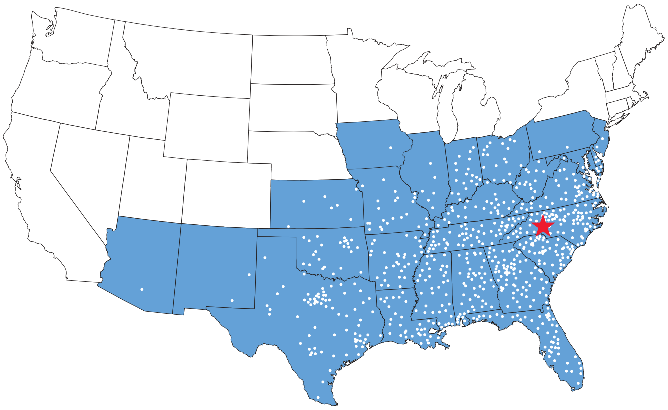
Performance you can count on.

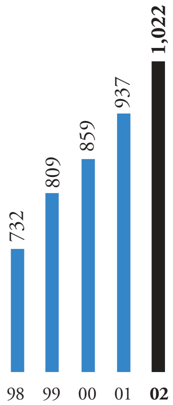
Consistent growth and profitability is something shareholders have come to count on from Cato.

In robust economic times, many businesses can generate profits. However, during tough economic times, sound strategies and superior execution are required to succeed and improve performance. Even in the current economic downturn, Cato has continued to reward both associates and shareholders.

Over the last three years, earnings have increased over 10% per year on average, the annual dividend has increased over 100%, 2.3 million shares have been repurchased, and we have opened 240 new stores. During this period, cash and short-term investments increased by $20 million to $107 million at the end of 2002.

Our long-term goal remains a 10% annual growth rate in earnings and dividends while building a national chain.





Number of Stores
(at year end)

You can count on Cato to bring the latest trends in style, fabric, and color to our customers at low prices every day. Our garments are well made and our colors coordinate across all styles and fabrics. We use live fit models so our customers can be assured that the fit will always be right.

SELECTED FINANCIAL DATA

Fiscal Year *(Dollars in thousands, except per share data and selected operating data)*	*2002*	*2001*	*2000*	*1999*	*1998*
STATEMENT OF OPERATIONS DATA:					
Retail sales	$ 732,742	$ 685,653	$ 648,482	$ 585,085	$ 524,381
Other income	15,589	13,668	14,055	13,155	13,772
Total revenues	748,331	699,321	662,537	598,240	538,153
Cost of goods sold	496,345	466,366	445,407	403,655	371,005
Gross margin	236,397	219,287	203,075	181,430	153,376
Gross margin percent	32.3%	32.0%	31.3%	31.0%	29.2%
Selling, general and administrative	168,914	162,082	154,150	140,741	128,207
Selling, general and administrative percent of retail sales	23.1%	23.6%	23.8%	24.0%	24.4%
Depreciation	14,913	10,886	9,492	8,639	7,638
Interest and other income, net	(3,680)	(6,299)	(6,554)	(6,770)	(5,492)
Income before income taxes and cumulative effect of accounting change	71,839	66,286	60,042	51,975	36,795
Income tax expense	26,006	23,200	21,015	18,191	12,878
Income before cumulative effect of accounting change	45,833	43,086	39,027	33,784	23,917
Cumulative effect of accounting change, net of taxes	–	–	–	147	–
Net income	$ 45,833	$ 43,086	$ 39,027	$ 33,931	$ 23,917
Basic earnings per share	$ 1.80	$ 1.71	$ 1.56	$ 1.28	$ .87
Diluted earnings per share	$ 1.77	$ 1.66	$ 1.53	$ 1.26	$ .85
Cash dividends paid per share	$ .585	$ .53	$ .425	$ .28	$ .19
SELECTED OPERATING DATA:					
Stores open at end of year	1,022	937	859	809	732
Average sales per store	$ 753,000	$ 767,000	$ 781,000	$ 756,000	$ 740,000
Average sales per square foot of selling space	$ 184	$ 186	$ 187	$ 177	$ 169
Comparable store sales increase	0%	1%	3%	4%	2%
BALANCE SHEET DATA:					
Cash, cash equivalents and investments	$ 106,936	$ 84,695	$ 83,112	$ 87,275	$ 86,209
Working capital	162,609	139,633	125,724	124,988	124,024
Total assets	383,410	332,041	310,742	285,789	258,513
Total stockholders' equity	270,164	234,698	207,757	188,780	172,234

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 1, 2003*	*February 2, 2002*	*February 3, 2001*
Retail sales	100.0%	100.0%	100.0%
Other income	2.1	2.0	2.1
Total revenues	102.1	102.0	102.1
Cost of goods sold	67.7	68.0	68.7
Selling, general and administrative	23.1	23.6	23.8
Depreciation	2.0	1.6	1.4
Interest and other income, net	(0.5)	(0.9)	(1.1)
Income before income taxes	9.8	9.7	9.3
Net income	6.3%	6.3%	6.0%

FISCAL 2002 COMPARED TO FISCAL 2001

Retail sales increased by 7% to $732.7 million in fiscal 2002 from $685.7 million in fiscal 2001. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable and layaway fees), increased by 7% to $748.3 million in fiscal 2002 from $699.3 million in fiscal 2001. The Company operated 1,022 stores at February 1, 2003 compared to 937 stores operated at February 2, 2002.

The increase in retail sales in fiscal 2002 resulted from the Company's continuation of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 2002, the Company opened 90 new stores, relocated 26 stores, remodeled 24 stores and closed 5 stores.

Other income, as included in total revenues in fiscal 2002, increased $1.9 million or 14% over fiscal 2001. The increase resulted primarily from increased earnings from finance and layaway charges.

Cost of goods sold was $496.3 million, or 67.7% of retail sales, in fiscal 2002 compared to $466.4 million, or 68.0% of retail sales, in fiscal 2001. The decrease in cost of goods sold as a percent of retail sales resulted primarily from maintaining timely and aggressive markdowns on slow moving merchandise and improving inventory flow and sourcing. Total gross margin dollars (retail sales less cost of goods sold) increased by 8% to $236.4 million in fiscal 2002 from $219.3 million in fiscal 2001.

Selling, general and administrative expenses (SG&A) were $168.9 million in fiscal 2002 compared to $162.1 million in fiscal 2001, an increase of 4%. As a percent of retail sales, SG&A was 23.1% compared to 23.6% 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 $14.9 million in fiscal 2002 compared to $10.9 million in fiscal 2001. The 37% increase in fiscal 2002 resulted primarily from the Company's store development and the implementation of an enterprise-wide information system.

Interest and other income, net was $3.7 million in fiscal 2002 compared to $6.3 million in fiscal 2001. The 41% decrease in fiscal 2002 resulted primarily from the Company's write-down of a $1.8 million decline in market value on investments deemed to be other than temporary.

FISCAL 2001 COMPARED TO FISCAL 2000

Retail sales increased by 6% to $685.7 million in fiscal 2001 from $648.5 million in fiscal 2000. The 2001 fiscal year contained 52 weeks versus 53 weeks in fiscal year 2000. On a comparable 52 week basis, total sales increased 7%, and comparable store sales increased 1% from the prior year. Total revenues increased by 6% to $699.3 million in fiscal 2001 from $662.5 million in fiscal 2000. The Company operated 937 stores at February 2, 2002 compared to 859 stores operated at February 3, 2001.

The increase in retail sales in fiscal 2001 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 2001, the Company increased its number of stores 9% by opening 85 new stores, relocating 24 stores while closing 7 existing stores.

Other income in fiscal 2001 decreased $.4 million or 3% over fiscal 2000. The decrease resulted primarily from decreased earnings from late fee income and lower credit sales.

Cost of goods sold was $466.4 million, or 68.0% of retail sales, in fiscal 2001 compared to $445.4 million, or 68.7% of retail sales, in fiscal 2000. The decrease in cost of goods sold as a percent of retail sales resulted primarily from maintaining timely and aggressive markdowns on slow moving merchandise and improving inventory flow. Total gross margin dollars increased by 8% to $219.3 million in fiscal 2001 from $203.1 million in fiscal 2000.

SG&A expenses were $162.1 million in fiscal 2001 compared to $154.2 million in fiscal 2000, an increase of 5%. As a percent of retail sales, SG&A was 23.6% compared to 23.8% 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 $10.9 million in fiscal 2001 compared to $9.5 million in fiscal 2000. The 15% increase in fiscal 2001 resulted primarily from the Company's store development.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company's financial statements include the allowance for doubtful accounts receivable, reserves relating to workers' compensation, general and auto insurance liabilities and reserves for inventory markdowns.

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

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows 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 1, 2003, the Company had working capital of $162.6 million compared to $139.6 million at February 2, 2002. Net cash provided by operating activities was $63.7 million in fiscal 2002 compared to $47.1 million in fiscal 2001. The increase in net cash provided by operating activities in fiscal 2002 is primarily the result of an increase in net income of $2.7 million which included a non-cash charge of $1.8 million of losses taken on investments and an increase in depreciation expense of $4.0 million due to store expansion and an enterprise-wide merchandise and finance system; a reduction in accounts receivable from weak fourth quarter sales and strong collection efforts of $4.6 million; and an increase in accounts payable, accrued expenses and other liabilities of $13.3 million primarily due to timing of payments. Offsetting these increases in net cash provided by operating activities was an increase in merchandise inventory to meet our store growth of $11.8 million.

Net cash used in investing activities was $61.5 million in fiscal 2002 compared to $10.4 million in fiscal 2001. The increase in net cash used in investing activities in fiscal 2002 was primarily due to a reduction of cash provided by sales of short-term investments of $37.5 million as well as increased purchases of short-term investments of $10.4 million.

Net cash used in financing activities was $11.9 million in fiscal 2002 compared to $20.1 million in fiscal 2001. The decrease in net cash used in financing activities in fiscal 2002 was primarily due to a reduction in treasury stock purchases of $10.5 million offset by an increase in dividends paid of $1.5 million.

At February 1, 2003, the Company had $106.9 million in cash, cash equivalents and short-term investments, compared to $84.7 million at February 2, 2002.

Additionally, the Company had $1.7 million invested in privately managed investment funds at February 1, 2003, which are reported under other assets of the consolidated balance sheets.

At February 1, 2003, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until October 2004. 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 1, 2003 or February 2, 2002.

The Company had approximately $6.5 million and $4.3 million at February 1, 2003 and February 2, 2002, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled $29.0 million, $25.7 million and $27.2 million in fiscal 2002, 2001 and 2000, respectively. The expenditures for fiscal 2002 were primarily for store development, store remodels and investments in new technology for an enterprise-wide information system for merchandising and finance. In fiscal 2003, the Company is planning to invest approximately $25 million for capital expenditures. This includes expenditures to open 90 new stores, relocate 25 stores and close 10 stores. In addition, the Company plans to remodel 30 stores and has planned for additional investments in technology scheduled to be implemented over the next 12 months.

During 2002, the Company repurchased 66,000 shares of Class A Common Stock for $1.2 million, or an average price of $17.98 per share. Additionally, for the fiscal years ended February 1, 2003 and February 2, 2002, the Company accepted in an option transaction from an officer for payment of an option exercise, 48,681 mature shares of Class A Common Stock for $1,144,500 or $23.51 per share, the average fair market value on the date of exchange and 92,600 mature shares of Class A Common Stock for $1,825,000 or $19.71 per share, the average fair market value on the date of exchange, respectively.

During fiscal 2002, the Company increased its quarterly dividend by 11% from $.135 per share to $.15 per share. Over the course of 2001, the Board of Directors increased the quarterly dividend by 8% from $.125 per share to $.135 per share.

The Company does not use derivative financial instruments. At February 1, 2003, the Company's investment portfolio was invested in governmental and other 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 temporary losses reported as accumulated other comprehensive income. Other than temporary declines in fair value of investments are recorded as a reduction in the cost of investments in the accompanying Consolidated Balance Sheets and a reduction of interest and other income, net in the accompanying Statements of Consolidated Income.

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, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

In July 2001, the FASB issued Statement of Financial Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". SFAS 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company adopted SFAS No. 142

on February 3, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position, as the Company had no goodwill or other indefinite lived intangible assets.

In August 2001, the FASB issued Statement of Financial Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121, "Accounting for Impairment of Long-Lived Assets to be Disposed Of" and Accounting Principles Bulletin (APB) No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Along with establishing a single accounting model, based on the framework established in SFAS No. 121 for impairment of long-lived assets, this standard retains the basic provisions of APB No. 30 for the presentation of discontinued operations in the income statement, but broadens that presentation to include a component of the entity. The Company adopted SFAS No. 144 on February 3, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Correction". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that statement, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements". Because of the rescission of SFAS No. 4, the gains and losses from the extinguishments of debt are no longer required to be classified as extraordinary items. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The amendment of SFAS No. 13 is effective for transactions occurring after May 15, 2002. There has been no impact to the Company due to the Amendment of SFAS No. 13. Lastly, SFAS No. 145 makes various technical corrections to existing pronouncements that are not substantive in nature. The Company adopted SFAS No. 145 in fiscal 2002 and the impact on its financial position and results of operations of the adoption was not material.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement is effective for exit or disposal activities initiated after December 31, 2002. Liabilities for costs associated with an exit activity should be initially measured at fair value, when incurred. This statement applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination, or a disposal activity covered by SFAS No. 144. The Company adopted SFAS No. 146 on December 31, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

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

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

In 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Cash Considerations Received from a Vendor". EITF Issue No. 02-16 provides guidance on how cash considerations received by a customer or reseller should be classified in the customer's statement of earnings. EITF Issue No. 02-16 is effective for all transactions with vendors after December 31, 2002. The adoption of EITF Issue No. 02-16 did not have a material impact on our consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements". This interpretation applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest it acquired before February 1, 2003. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative- effect adjustment as of the beginning of the first year restated. The implementation of this interpretation will not materially affect the Company's financial position or results of operations.

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 prove to be correct.

CONSOLIDATED STATEMENTS OF INCOME

Fiscal Year Ended (Dollars in thousands, except per share data)	*February 1, 2003`*	*February 2, 2002*	*February 3, 2001*
REVENUES			
Retail sales	$ 732,742	$ 685,653	$ 648,482
Other income (principally finance charges, late fees and layaway charges)	15,589	13,668	14,055
Total revenues	748,331	699,321	662,537
COSTS AND EXPENSES, NET			
Cost of goods sold	496,345	466,366	445,407
Selling, general and administrative	168,914	162,082	154,150
Depreciation	14,913	10,886	9,492
Interest and other income, net	(3,680)	(6,299)	(6,554)
	676,492	633,035	602,495
Income before income taxes	71,839	66,286	60,042
Income tax expense	26,006	23,200	21,015
Net income	$ 45,833	$ 43,086	$ 39,027
Basic earnings per share	$ 1.80	$ 1.71	$ 1.56
Basic weighted average shares	25,465,543	25,193,610	24,988,844
Diluted earnings per share	$ 1.77	$ 1.66	$ 1.53
Diluted weighted average shares	25,947,457	25,888,636	25,465,232
Dividends per share	$ .585	$ .53	$ .425

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	February 1, 2003	February 2, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 32,065	$ 41,772
Short-term investments	74,871	42,923
Accounts receivable, net of allowance for doubtful accounts of $6,099 at February 1, 2003 and $5,968 at February 2, 2002	54,116	52,293
Merchandise inventories	93,457	80,407
Deferred income taxes	1,392	777
Prepaid expenses	4,990	5,036
Total Current Assets	260,891	223,208
Property and equipment - net	113,307	100,137
Other assets	9,212	8,696
Total Assets	$ 383,410	$ 332,041
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 66,620	$ 57,495
Accrued expenses	28,776	25,260
Accrued income taxes	2,886	820
Total Current Liabilities	98,282	83,575
Deferred income taxes	6,310	5,177
Other noncurrent liabilities (primarily deferred rent)	8,654	8,591
Commitments and contingencies		
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; 25,218,678 and 25,011,732 shares issued at February 1, 2003 and February 2, 2002, respectively	840	833
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; 6,085,149 and 5,812,649 shares issued at February 1, 2003 and February 2, 2002, respectively	203	194
Additional paid-in capital	94,947	86,948
Retained earnings	235,904	204,961
Accumulated other comprehensive gains (losses)	253	(567)
Unearned compensation – restricted stock awards	(2,375)	(394)
	329,772	291,975
Less Class A common stock in treasury, at cost (5,741,179 and 5,626,498 shares at February 1, 2003 and February 2, 2002, respectively)	(59,608)	(57,277)
Total Stockholders' Equity	270,164	234,698
Total Liabilities and Stockholders' Equity	$ 383,410	$ 332,041

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year Ended (Dollars in thousands)	*February 1, 2003*	*February 2, 2002*	*February 3, 2001*
OPERATING ACTIVITIES			
Net income	$ 45,833	$ 43,086	$ 39,027
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	14,913	10,886	9,492
Amortization of investment premiums	66	160	126
Provision for doubtful accounts	4,764	5,913	5,292
Write-down of investments	1,800	–	–
Deferred income taxes	70	422	1,600
Compensation expense related to restricted stock awards	750	295	295
Loss on disposal of property and equipment	870	480	1,257
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(6,587)	(11,234)	(6,806)
Merchandise inventories	(13,050)	(1,246)	(9,664)
Prepaid and other assets	(470)	367	(3,971)
Accrued income taxes	2,066	(1,525)	2,025
Accounts payable, accrued expenses and other liabilities	12,704	(547)	5,420
Net cash provided by operating activities	63,729	47,057	44,093
INVESTING ACTIVITIES			
Expenditures for property and equipment	(28,953)	(25,684)	(27,230)
Purchases of short-term investments	(46,281)	(35,878)	(11,906)
Sales of short-term investments	13,735	51,194	12,166
Net cash used in investing activities	(61,499)	(10,368)	(26,970)
FINANCING ACTIVITIES			
Dividends paid	(14,890)	(13,400)	(10,633)
Purchases of treasury stock	(1,187)	(11,729)	(15,449)
Proceeds from employee stock purchase plan	509	443	448
Proceeds from stock options exercised	3,631	4,568	3,323
Net cash used in financing activities	(11,937)	(20,118)	(22,311)
Net increase (decrease) in cash and cash equivalents	(9,707)	16,571	(5,188)
Cash and cash equivalents at beginning of year	41,772	25,201	30,389
Cash and cash equivalents at end of year	$ 32,065	$ 41,772	$ 25,201

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 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
*Comprehensive income:								
Net income				43,086				43,086
Unrealized gains on available-for-sale securities, net of deferred income taxes of $171					317			317
Dividends paid ($.53 per share)				(13,400)				(13,400)
Class A common stock sold through employee stock purchase plan – 38,463 shares	1		442					443
Class A common stock sold through stock option plans – 329,850 shares	11		2,961					2,972
Class B common stock sold through stock option plans – 448,332 shares		15	3,406					3,421
Income tax benefit from stock options exercised			3,361					3,361
Purchase of treasury shares – 774,750 shares							(11,729)	(11,729)
Surrender of shares for stock options – 92,600 shares							(1,825)	(1,825)
Unearned compensation – restricted stock awards						295		295
Balance – February 2, 2002	833	194	86,948	204,961	(567)	(394)	(57,277)	234,698
*Comprehensive income:								
Net income				45,833				45,833
Unrealized gains on available-for-sale securities, net of deferred income taxes of $448					820			820
Dividends paid ($.585 per share)				(14,890)				(14,890)
Class A common stock sold through employee stock purchase plan – 32,487 shares	1		508					509
Class A common stock sold through stock option plans – 171,600 shares	6		1,547					1,553
Class B common stock sold through stock option plans – 172,500 shares		6	1,310					1,316
Income tax benefit from stock options exercised			1,906					1,906
Purchase of treasury shares – 66,000 shares							(1,187)	(1,187)
Surrender of shares for stock options – 48,681 shares							(1,144)	(1,144)
Restricted stock awards – 100,000 shares		3	2,728			(2,731)		–
Unearned compensation – restricted stock awards						750		750
Balance – February 1, 2003	$ 840	$ 203	$ 94,947	$235,904	$ 253	$ (2,375)	$(59,608)	$ 270,164

See notes to consolidated financial statements.

*Total comprehensive income for the years ended February 1, 2003, February 2, 2002 and February 3, 2001 was $46,653, $43,403 and $39,944, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 years 2002 and 2001 each included 52 weeks. Fiscal year 2000 included 53 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. As they are available for current operations, they are classified in consolidated balance sheets as current assets. Available-for-sale securities are carried at fair value, with unrealized gains and temporary losses, net of income taxes, reported as a component of accumulated other comprehensive income. Other than temporary declines in fair value of investments are recorded as a reduction in the cost of the investments in the accompanying Consolidated Balance Sheets and a reduction of interest and other income, net in the accompanying Statements of Consolidated Income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in other income.

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 1, 2003, February 2, 2002 and February 3, 2001 were $21,982,000, $24,841,000 and $17,435,000, respectively. Additionally, for the fiscal years ended February 1, 2003 and February 2, 2002, the Company accepted in an option transaction from an officer for payment of an option exercise, 48,681 mature shares of Class A Common Stock for $1,144,500 or $23.51 per share, the average fair market value on the date of exchange and 92,600 mature shares of Class A Common Stock for $1,825,000 or $19.71 per share, the average fair market value on the date of exchange, 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. The Company accounts for its software development costs in accordance with the American Institute of Certified Public Accountants Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". 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, equipment and software	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 $5,299,000, $4,563,000 and $5,812,000 for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, 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 25,465,543, 25,193,610 and 24,988,844 for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 481,914, 695,026 and 476,388 for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 25,947,457, 25,888,636 and 25,465,232 for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, respectively.

Vendor Allowances: The Company receives certain allowances from vendors primarily related to purchase discounts and markdown allowances. These allowances are reflected in gross margin at the time they are earned.

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 asset groups are less than the asset groups' carrying values.

Closed Store Lease Obligations: At the time stores are closed, provisions are 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.

Stock-based Compensation: The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for fiscal 2002, 2001 and 2000 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 2002, 2001 and 2000 would approximate the following proforma amounts (dollars in thousands, except per share data):

	As Reported	*Stock-Based Employee Compensation Cost**	*Proforma*
Net income – Fiscal 2002	$ 45,833	$ (740)	$ 45,093
Basic earnings per share	$ 1.80	$ (0.03)	$ 1.77
Diluted earnings per share	$ 1.77	$ (0.03)	$ 1.74
Net income – Fiscal 2001	$ 43,086	$ (1,593)	$ 41,493
Basic earnings per share	$ 1.71	$ (0.06)	$ 1.65
Diluted earnings per share	$ 1.66	$ (0.06)	$ 1.60
Net income – Fiscal 2000	$ 39,027	$ (1,596)	$ 37,431
Basic earnings per share	$ 1.56	$ (0.06)	$ 1.50
Diluted earnings per share	$ 1.53	$ (0.06)	$ 1.47

* determined using fair value method

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, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

In July 2001, the FASB issued Statement of Financial Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". SFAS 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. The Company adopted SFAS No. 142 on February 3, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position, as the Company had no goodwill or other indefinite lived intangible assets.

In August 2001, the FASB issued Statement of Financial Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121, "Accounting for Impairment of Long-Lived Assets to be Disposed Of" and Accounting Principles Bulletin (APB) No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Along with establishing a single accounting model, based on the framework established in SFAS No. 121 for impairment of long-lived assets, this standard retains the basic provisions of APB No. 30 for the presentation of discontinued operations in the income statement, but broadens that presentation to include a component of the entity. The Company adopted SFAS No. 144 on February 3, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Correction". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that statement, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements". Because of the rescission of SFAS No. 4, the gains and losses from the extinguishments of debt are no longer required to be classified as extraordinary items. SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The amendment of SFAS No. 13 is effective for transactions occurring after May 15, 2002. There has been no impact to the Company due to the Amendment of SFAS No. 13. Lastly, SFAS No. 145 makes various technical corrections to existing pronouncements that are not substantive in nature. The Company adopted SFAS No. 145 in fiscal 2002 and the impact on its financial position and results of operations of the adoption was not material.

In July 2002, the FASB issued SFAS no. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement is effective for exit or disposal activities initiated after December 31, 2002. Liabilities for costs associated with an exit activity should be initially measured at fair value, when incurred. This statement applies to costs associated with an exit activity that does not involve the entity newly acquired in a business combination or a disposal activity covered by SFAS No. 144. The Company adopted SFAS No. 146 on December 31, 2002, and the adoption of this statement had no impact on the Company's consolidated results of operations and financial position.

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

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In 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Cash Considerations Received from a Vendor". EITF Issue No. 02-16 provides guidance on how cash considerations received by a customer or reseller should be classified in the customer's statement of earnings. EITF Issue No. 02-16 is effective for all transactions with vendors after December 31, 2002. The adoption of EITF Issue No. 02-16 did not have a material impact on our consolidated financial position or results of operations.

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Reclassifications: Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with presentation for fiscal 2002.

2. SHORT-TERM INVESTMENTS:

Short-term investments at February 1, 2003 include the following (in thousands):

Security Type	*Cost*	*Unrealized Gains*	*Estimated Fair Value*
Obligations of federal, state and political subdivisions	$ 74,457	$ 414	$ 74,871

Short-term investments at February 2, 2002 include the following (in thousands):

Security Type	*Cost*	*Unrealized (Losses)*	*Estimated Fair Value*
Obligations of federal, state and political subdivisions	$ 43,795	$ (872)	$ 42,923

The accumulated unrealized gains in short-term investments at February 1, 2003 of $265,000 net of a deferred income tax liability of $149,000 offset by the accumulated unrealized losses in equity investments of $12,000 net of a deferred income tax benefit of $6,000 and the accumulated unrealized losses of February 2, 2002 of $567,000, net of a deferred income tax benefit of $305,000, are reflected in accumulated other comprehensive gains (losses) in the Consolidated Balance Sheets.

In fiscal 2002, the Company recorded a write-down of $1.8 million in market value on investments with other than temporary declines in fair value.

The amortized cost and estimated fair value of debt securities at February 1, 2003, by contractual maturity, are shown below (in thousands):

Security Type	*Cost*	*Estimated Fair Value*
Due in one year or less	$ 58,426	$ 58,483
Due in one year through three years	16,031	16,388
Total	$ 74,457	$ 74,871

Additionally, the Company had $1.7 million invested in privately managed investment funds at February 1, 2003, which are reported under other assets in the Consolidated Balance Sheets.

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following (in thousands):

	February 1, 2003	*February 2, 2002*
Customer accounts – principally deferred payment accounts	$ 56,853	$ 53,012
Miscellaneous trade receivables	3,362	5,249
Total	60,215	58,261
Less allowance for doubtful accounts	6,099	5,968
Accounts receivable - net	$ 54,116	$ 52,293

Finance charge and late charge revenue on customer deferred payment accounts totaled $13,672,000, $12,951,000 and $13,689,000 for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, respectively, and the provision for doubtful accounts was $4,764,000, $5,913,000 and $5,292,000, for the fiscal years ended February 1, 2003, February 2, 2002 and February 3, 2001, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

4. PROPERTY AND EQUIPMENT:

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

	February 1, 2003	*February 2, 2002*
Land and improvements	$ 2,019	$ 2,019
Buildings	17,751	17,751
Leasehold improvements	34,697	30,546
Fixtures, equipment and software	143,080	100,138
Construction in progress	2,246	23,333
Total	199,793	173,787
Less accumulated depreciation	86,486	73,650
Property and equipment - net	$ 113,307	$ 100,137

As of February 1, 2003, the Company has capitalized $25.7 million for an enterprise-wide merchandise and finance system in accordance with SOP 98-1.

Construction in progress primarily represents investments in technology and ongoing store developement activities scheduled to be implemented over the next 12 months.

5. ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	February 1, 2003	*February 2, 2002*
Accrued bonus and retirement savings plan contributions	$ 6,233	$ 7,605
Accrued payroll and related items	4,265	4,216
Closed store lease obligations	1,004	1,077
Property and other taxes	7,593	4,211
Accrued health care plan	4,347	3,558
Other	5,334	4,593
Total	$ 28,776	$ 25,260

6. FINANCING ARRANGEMENTS:

At February 1, 2003, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until October 2004. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the fiscal year ended February 1, 2003 or February 2, 2002.

The Company had approximately $6,496,000 and $4,314,000 at February 1, 2003 and February 2, 2002, 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. In February 2003, the Board of Directors recommended a new plan be adopted effective October 2003 and that an additional 250,000 shares be registered, subject to shareholder approval. 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 32,487 shares, 38,463 shares and 44,500 shares for the years ended February 1, 2003, February 2, 2002 and February 3, 2001, 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 may be granted after July 31, 2004 and shares must be exercised within 10 years of the grant date unless otherwise 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. In May 2002, the Board of Directors approved and 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 $27.31 to a key executive. These stock awards cliff vest after 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 was $750,000, $295,000 and $295,000 in fiscal 2002, 2001 and 2000, respectively.

Option plan activity for the three fiscal years ended February 1, 2003 is set forth below:

	Options	*Range of Option Prices*	*Weighted Average Price*
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
Granted	21,750	12.66 - 18.91	16.17
Exercised	(778,182)	4.94 - 14.59	8.20
Cancelled	(25,700)	7.69 - 14.59	11.61
Outstanding options,			
February 2, 2002	1,755,250	4.94 - 18.91	10.39
Granted	45,500	18.05 - 26.76	20.89
Exercised	(344,100)	4.94 - 17.63	8.11
Cancelled	(14,700)	8.25 - 12.28	11.27
Outstanding options,			
February 1, 2003	1,441,950	$ 4.94 - $ 26.76	$ 11.20

The following tables summarize stock option information at February 1, 2003:

	Options Outstanding		
Range of Exercise Prices	*Options*	*Weighted Average Remaining Contractual Life*	*Weighted Average Exercise Price*
$ 4.94 - $ 7.69	93,600	2.37 years	$ 7.52
$ 8.00 - $ 9.59	493,400	4.72 years	$ 8.28
$ 10.66 - $ 12.72	418,150	6.73 years	$ 12.40
$ 13.06 - $ 26.76	436,800	6.22 years	$ 14.14
$ 4.94 - $ 26.76	1,441,950	5.60 years	$ 11.20

	Options Exercisable	
Range of Exercise Prices	*Options*	*Weighted Average Exercise Price*
$ 4.94 - $ 7.69	93,600	$ 7.52
$ 8.00 - $ 9.59	483,600	$ 8.26
$ 10.66 - $ 12.72	211,750	$ 12.42
$ 13.06 - $ 26.76	275,450	$ 13.35
$ 4.94 - $ 26.76	1,064,400	$ 10.34

Outstanding options at February 1, 2003 covered 717,000 shares of Class B Common Stock and 724,950 shares of Class A Common Stock. Outstanding options at February 2, 2002 covered 889,500 shares of Class B Common Stock and 865,750 shares of Class A Common Stock. Options available to be granted under the option plans were 421,618 at February 1, 2003 and 452,418 at February 2, 2002.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for fiscal 2002, 2001 and 2000 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 2002, 2001 and 2000 would approximate the following proforma amounts (dollars in thousands, except per share data):

	As Reported	*Stock-Based Employee Compensation Cost**	*Proforma*
Net income – Fiscal 2002	$ 45,833	$ (740)	$ 45,093
Basic earnings per share	$ 1.80	$ (0.03)	$ 1.77
Diluted earnings per share	$ 1.77	$ (0.03)	$ 1.74
Net income – Fiscal 2001	$ 43,086	$ (1,593)	$ 41,493
Basic earnings per share	$ 1.71	$ (0.06)	$ 1.65
Diluted earnings per share	$ 1.66	$ (0.06)	$ 1.60
Net income – Fiscal 2000	$ 39,027	$ (1,596)	$ 37,431
Basic earnings per share	$ 1.56	$ (0.06)	$ 1.50
Diluted earnings per share	$ 1.53	$ (0.06)	$ 1.47

* determined using fair value method

The weighted-average fair value of each option granted during fiscal 2002, 2001 and 2000 is estimated at $8.29, $8.19 and $5.45 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 2002, 2001 and 2000, respectively: expected dividend yield of 3.29%, 2.62% and 2.42%; expected volatility of 57.06%, 59.84% and 60.34%, adjusted for expected dividends; risk-free interest rate of 2.60%, 4.36% and 4.71%; and an expected life of 5 years for 2002, 2001 and 2000. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

In May 2002, the Board of Directors increased the quarterly dividend by 11% from $.135 per share to $.15 per share.

Total comprehensive income for the years ended February 1, 2003, February 2, 2002 and February 3 2001 is as follows (in thousands):

Fiscal Year Ended	*February 1, 2003*	*February 2, 2002*	*February 3, 2001*
Net income	$ 45,833	$ 43,086	$ 39,027
Unrealized gains on available-for-sale securities	1,268	488	1,411
Income tax effect	(448)	(171)	(494)
Unrealized gains net of taxes	820	317	917
Total comprehensive income	$ 46,653	$ 43,403	$ 39,944

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 60% of their annual compensation up to the maximum elective deferral, designated by the IRS. 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 1, 2003, February 2, 2002 and February 3, 2001 were approximately $1,906,000, $2,596,000 and $2,348,000, 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 February 1, 2003, February 2, 2002 or February 3, 2001.

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 $8,970,000, $9,090,000 and $6,964,000 in fiscal 2002, 2001 and 2000, 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 minimum rental commitments under non-cancelable operating leases are (in thousands):

Fiscal Year	
2003	$ 37,308
2004	28,581
2005	21,711
2006	15,406
2007	8,177
Total minimum lease payments	$111,183

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

Fiscal Year Ended	*February 1, 2003*	*February 2, 2002*	*February 3, 2001*
Minimum rentals	$ 37,848	$ 37,117	$ 34,449
Contingent rent	389	471	479
Total rental expense	$ 38,237	$ 37,588	$ 34,928

10. RELATED PARTY TRANSACTIONS:

The Company leases certain of its stores from entities in which Mr. George S. Currin, a director of the Company, has an ownership interest. Rent expense and related charges totaling $883,367, $785,936 and $523,853 were paid in fiscal 2002, 2001 and 2000, respectively, under these leases.

During 2000, 2001, 2002 and the first quarter of 2003, the Company made payments totaling $59,017, $70,651, $115,069 and $92,122 for the benefit of entities in which Mr. Wayland H. Cato, Jr., Chairman of the Board, and Mr. Edgar T. Cato, Former Vice Chairman of the Board and Co-Founder and Director, have a material interest. These payments were charged to expense in the periods indicated. The Company subsequently determined these payments were unrelated to the business of the Company. In April 2003, $362,557, including interest of $25,698, was reimbursed to the Company.

11. INCOME TAXES:

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

Fiscal Year Ended	*February 1, 2003*	*February 2, 2002*	*February 3, 2001*
Current income taxes:			
Federal	$ 24,572	$ 22,309	$ 18,461
State	1,364	469	954
Total	25,936	22,778	19,415
Deferred income taxes:			
Federal	63	376	1,319
State	7	46	281
Total	70	422	1,600
Total income tax expense	$ 26,006	$ 23,200	$ 21,015

Significant components of the Company's deferred tax assets and liabilities as of February 1, 2003 and February 2, 2002 are as follows (in thousands):

	February 1, 2003	*February 2, 2002*
Deferred tax assets:		
Bad debt reserve	$ 2,338	$ 2,288
Inventory valuation	1,739	1,282
Write-down of short-term investments	669	–
Restricted stock options	407	296
Unrealized losses on short-term investments	–	305
Other, net	2,972	936
Total deferred tax assets	8,125	5,107
Deferred tax liabilities:		
Tax over book depreciation	11,682	5,898
Unrealized gains on short-term investments	143	–
Other, net	1,218	3,609
Total deferred tax liabilities	13,043	9,507
Net deferred tax liabilities	$ 4,918	$ 4,400

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

Fiscal Year Ended	*February 1, 2003*	*February 2, 2002*	*February 3, 2001*
Federal income tax rate	35.0%	35.0%	35.0%
State income taxes	1.2	0.9	1.6
Other	0.0	(0.9)	(1.6)
Effective income tax rate	36.2%	35.0%	35.0%

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

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

Fiscal 2002	*First*	*Second*	*Third*	*Fourth*
Retail sales	$ 196,617	$ 186,900	$ 158,217	$ 191,008
Total revenues (1)	200,491	190,715	162,228	194,897
Cost of goods sold	124,460	125,854	110,188	135,843
Gross margin	72,157	61,046	48,029	55,165
Income before income taxes	28,683	19,213	8,507	15,436
Net income	18,300	12,258	5,427	9,848
Basic earnings per share	$ .72	$ .48	$ .21	$ .39
Diluted earnings per share	$ .71	$ .47	$ .21	$ .38

Fiscal 2001	*First*	*Second*	*Third*	*Fourth*
Retail sales	$ 180,347	$ 172,444	$ 147,619	$ 185,243
Total revenues (2)	183,946	175,790	151,043	188,542
Cost of goods sold	116,391	118,093	101,743	130,139
Gross margin	63,956	54,351	45,876	55,104
Income before income taxes	24,485	16,867	7,746	17,188
Net income	15,916	10,963	5,035	11,172
Basic earnings per share	$ .63	$ .43	$ .20	$ .45
Diluted earnings per share	$ .61	$ .42	$ .20	$ .43

(1) For the first three quarters of 2002, the Company reported interest and dividend income of $1,150, $1,673 and $1,147, respectively, as part of total revenues. Such amounts have been reclassified outside of total revenues. This reclassification had no impact on Income before income taxes or Net Income.
(2) For the four quarters of 2001, the Company reported interest and dividend income of $1,784, $1,611, $1,827 and $1,115, respectively, as part of total revenues. Such amounts have been reclassified outside of total revenues. This reclassification had no impact on Income before income taxes or Net Income.

13. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 26 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 subsidiary of the Company.

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

Fiscal 2002	*Retail*	*Credit*	*Total*
Revenues	$ 734,352	$ 13,979	$ 748,331
Depreciation	14,851	62	14,913
Interest and other income, net	(3,680)	–	(3,680)
Income before taxes	66,375	5,464	71,839
Total assets	310,173	73,237	383,410
Capital expenditures	28,953	–	28,953

Fiscal 2001	*Retail*	*Credit*	*Total*
Revenues	$ 686,092	$ 13,229	$ 699,321
Depreciation	10,821	65	10,886
Interest and other income, net	(6,299)	–	(6,299)
Income before taxes	62,786	3,500	66,286
Total assets	263,909	68,132	332,041
Capital expenditures	25,684	–	25,684

Fiscal 2000	*Retail*	*Credit*	*Total*
Revenues	$ 648,552	$ 13,985	$ 662,537
Depreciation	9,426	66	9,492
Interest and other income, net	(6,554)	–	(6,554)
Income before taxes	55,278	4,764	60,042
Total assets	244,199	66,543	310,742
Capital expenditures	27,195	35	27,230

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.

14. 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 $1,652,000, $1,379,000 and $1,486,000 in fiscal 2002, 2001 and 2000, respectively. The Company had no outstanding letters of credit relating to such claims at February 1, 2003 or at February 2, 2002. 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 1, 2003 and February 2, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended February 1, 2003. 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 1, 2003 and February 2, 2002 and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina
April 21, 2003

MANAGEMENT EXECUTIVE GROUP AND BOARD OF DIRECTORS

MANAGEMENT EXECUTIVE GROUP

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

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

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

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

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

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

Clarice Cato Goodyear
Special Assistant to the Chairman

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

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.

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

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 1, 2003 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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Charlotte, North Carolina 28234

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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

Wachovia Bank, N.A.
Securities Transfer Department, CMG-5
Charlotte, North Carolina 28288

ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders
11:00 a.m., Thursday, May 22, 2003
Corporate Office, 8100 Denmark Road,
Charlotte, NC 28273-5975

MARKET & DIVIDEND INFORMATION

The Company's Class A Common Stock trades on the New York Stock Exchange (NYSE) under the symbol CTR. Below is the market range and dividend information for the four quarters of 2002 and 2001.

	Price		
2002	***High***	***Low***	***Dividend***
First quarter	$ 27.21	$ 19.91	$ .135
Second quarter	27.44	18.00	.15
Third quarter	19.95	14.18	.15
Fourth quarter	21.80	17.33	.15

	Price		
2001	***High***	***Low***	***Dividend***
First quarter	$ 20.00	$ 14.81	$ .125
Second quarter	21.75	15.51	.135
Third quarter	20.06	14.23	.135
Fourth quarter	21.34	16.68	.135

As of March 21, 2003 the approximate number of holders of the Company's Class A Common Stock was 1,314 and there were 10 record holders of the Company's Class B Common Stock.

The Cato Corporation

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CHARLOTTE, NC 28273-5975

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