

Annual Report

2018

CATO





A Message To Our Shareholders

We want to thank you, our shareholders, for your investment and support.

Cato increased profits in 2018, even as our industry remains challenged and in transition, with retailers still being overstored, e-commerce shopping continuing to grow, and customer preferences still changing. Net income increased 257% to \$30.5 million and earnings per diluted share increased 262% to \$1.23. We believe our business has stabilized and these positive results were due in large part to the merchandise adjustments made throughout the year, strong inventory control, and cost-saving initiatives to better align our cost structure with our current business.

Our balance sheet remains strong with more than \$210 million in cash and short-term investments, and Cato remains debt free. And this is after the company returned \$45.9 million to shareholders through quarterly dividends of \$32.6 million and share repurchases of \$13.3 million. We will continue to provide value to our long-term shareholders through dividends and opportunistic share repurchases.

For 2019, we are cautiously optimistic as Cato transitions to better position ourselves through this disruption in the retail industry, especially women's apparel, which is putting pressure on profitability. We remain focused on increasing sales through existing stores and growing our e-commerce business by continuing to develop strategies and tools to connect and remain relevant to our customers and that allow our customer to easily shop when, where, and how she chooses.

We also remain committed to improving our merchandise by providing exclusivity through in-house design, and direct sourcing using our overseas buying offices, providing us better quality, value and efficiency in our supply chain. We will continue to invest in technology and infrastructure to drive efficiency as we grow our business and add new stores.

I want to thank all of our associates for their contributions this year. Our associates allow us to achieve our commitment to provide fashion, value, and outstanding service to our customers.

On behalf of the entire Cato team and our Board, we thank you again for your investment in our company.

John P. D. Cato

Chairman, President &
Chief Executive Officer



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Financial Highlights

FISCAL YEAR	2018	2017*	2016	2015	2014
FOR THE YEAR ENDED					
Retail sales	\$ 821,113	\$ 841,997	\$ 947,370	\$ 1,001,390	\$ 977,867
Total revenues	829,664	849,981	956,569	1,011,091	986,914
Comparable store sales increase (decrease)	0%	(12)%	(6)%	0%	4%
Income before income taxes	33,051	15,973	49,114	99,127	91,473
Income tax expense	2,590	7,433	1,902	32,285	30,971
Net income	30,461	8,540	47,212	66,842	60,502
Net income as a percentage of retail sales	3.7%	1.0%	5.0%	6.7%	6.2%
Cash dividends paid per share	\$ 1.32	\$ 1.32	\$ 1.29	\$ 1.200	\$ 1.200
Basic earnings per share	\$ 1.23	\$.34	\$ 1.72	\$ 2.39	\$ 2.15
Diluted earnings per share	\$ 1.23	\$.34	\$ 1.72	\$ 2.39	\$ 2.15
Number of stores	1,311	1,351	1,371	1,372	1,346
Number of stores opened	0	6	8	31	33
Number of stores closed	40	26	9	5	7
Net increase (decrease) in number of stores	(40)	(20)	(1)	26	26
AT YEAR END					
Cash, cash equivalents and investments	\$ 211,116	\$ 200,605	\$ 252,158	\$ 287,024	\$ 260,610
Working capital	229,502	233,399	271,896	292,615	260,550
Current ratio	2.6	2.7	2.6	2.6	2.3
Total assets	497,906	516,076	606,324	642,344	608,278
Total Stockholders' equity	316,836	326,353	383,903	412,665	380,198

Dollars in thousands, except per share data and selected operating data.

*The fiscal year ended February 3, 2018 contained 53 weeks versus 52 weeks for all other fiscal years shown.

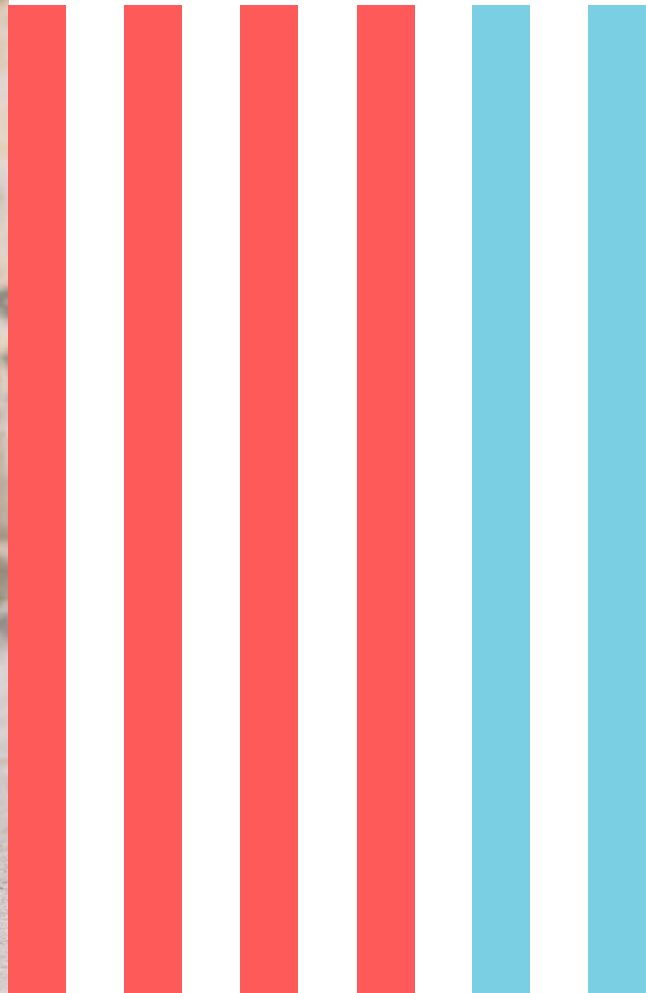


Fashion & Value Every Day

The Cato Corporation, headquartered in Charlotte, N.C., currently operates three distinct women's apparel concepts – Cato, It's Fashion and Versona. Each concept serves a different customer base, occupies a unique apparel niche, and provides consistent growth opportunities by offering fashion and accessories at exceptional values.

1,311

Total Store Count At End Of 2018





Cato

Cato provides high-quality, on-trend fashion in missy and plus sizes with great fit at value prices every day. The concept offers a broad assortment of exclusive merchandise under its Cato label, available in stores and online at catofashions.com.

4,500 average sq. ft. per store
1,047 stores at the end of 2018

It's Fashion

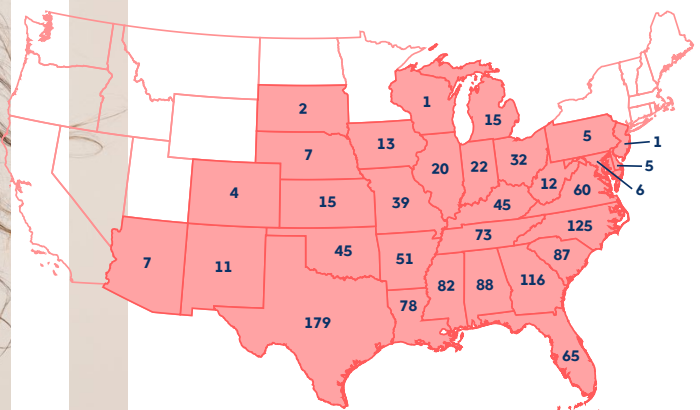
It's Fashion serves a younger customer with junior and junior plus-inspired fashions at low prices. It's Fashion Metro is an expanded version of It's Fashion, offering trendy fashions for the entire family at great values.

3,400 sq. ft. - It's Fashion
8,000 to 10,000 sq. ft. - It's Fashion Metro
203 stores at the end of 2018

Versona

Versona is an exclusive women's boutique offering unique high-end apparel and accessories at exceptional prices. Versona stores are in high-demand shopping areas and can also be shopped online at shopversona.com.

6,000 to 7,000 sq. ft. per store
61 stores at the end of 2018



Management Executive Group

John P. D. Cato
Chairman, President and
Chief Executive Officer

John R. Howe
Executive Vice President,
Chief Financial Officer

Michael T. Greer
Executive Vice President,
Director of Stores

Gordon D. Smith
Executive Vice President,
Chief Real Estate and
Store Development Officer

Board of Directors

John P. D. Cato
Chairman, President and
Chief Executive Officer

Dr. Pamela Davies^{1,2}
President
Queens University

Thomas B. Henson^{1,3}
President,
Chief Executive Officer
and Founder
American Spirit Media, LLC

Bryan F. Kennedy, III^{1,3}
President
North Carolina/
Virginia Division of
South State Bank

Thomas E. Meckley³
Retired Partner
Ernst & Young LLP

Bailey W. Patrick^{1,2}
Managing Partner
MPV Properties, LLC

D. Harding Stowe^{1,2}
Chairman and
Chief Executive Officer
New South Pizza

Edward I. Weisiger, Jr.^{1,2}
Chairman and
Chief Executive Officer
Carolina Tractor &
Equipment Company

¹ Member of the Corporate
Governance and
Nominating Committee

² Member of the
Compensation Committee

³ Member of the
Audit Committee



UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 2, 2019

or

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

Commission File Number 1-31340

The Cato Corporation

Registrant

Delaware
State of Incorporation

8100 Denmark Road
Charlotte, North Carolina 28273-5975
Address of Principal Executive Offices

56-0484485
I.R.S. Employer Identification Number

704/554-8510
Registrant's Telephone Number

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Class</u>	<u>Name of Exchange on Which Registered</u>
Class A Common Stock	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Emerging Growth Company
Non-accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of August 4, 2018, the last business day of the Company's most recent second quarter, was \$557,163,226 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of February 2, 2019, there were 22,838,149 shares of Class A common stock and 1,763,652 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2019 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

Part III — Items 10, 11, 12, 13 and 14

THE CATO CORPORATION

FORM 10-K

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Forward-looking Information

The following information should be read along with the Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-K that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; (4) statements relating to our operations or activities for our fiscal year ending February 1, 2020 (“fiscal 2019”) and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “will,” “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “may,” “plans,” “could,” “would,” “should” and any variations or negative formations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in the conditions that drive consumer confidence and spending, including, but not limited to, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, home values, consumer net worth and the availability of credit; changes in laws or regulations affecting our business including tariffs; uncertainties regarding the impact of any governmental responses to the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly changing fashion trends and consumer demands; adverse weather or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand, including the ability to liquidate excess inventory at anticipated margins; and other factors discussed under “Risk Factors” in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended February 2, 2019 (“fiscal 2018”), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission (“SEC”) from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

As used herein, the terms “we,” “our,” “us” (or when the context requires otherwise and similar terms), the “Company” or “Cato” include The Cato Corporation and its subsidiaries, except that when used with reference to common stock or other securities described herein and in describing the positions held by management of the Company, such terms include only The Cato Corporation. Our website is located at www.catofashions.com where we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports (including amendments to these reports) filed or furnished pursuant to Section 13(a) or 15(d) under the Securities Exchange Act of 1934. These reports are available as soon as reasonably practicable after we electronically file these materials with the SEC. We also post on our website the charters of our Audit, Compensation and Corporate Governance and Nominating Committees; our Corporate Governance Guidelines, Code of Business Conduct and Ethics; and any amendments or waivers thereto; and any other publicly available corporate governance materials contemplated by SEC or New York Stock Exchange regulations. The information contained on our website, www.catofashions.com, is not, and should in no way be construed as, a part of this or any other report that we filed with or furnished to the SEC.

PART I

Item 1. *Business:*

General

The Company, founded in 1946, operated 1,311 fashion specialty stores at February 2, 2019, in 31 states, principally in the southeastern United States, under the names “Cato,” “Cato Fashions,” “Cato Plus,” “It’s Fashion,” “It’s Fashion Metro” and “Versona.” The Cato concept seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy and plus sizes. The Cato concept’s stores and e-commerce websites feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the Cato concept’s merchandise is sold under its private label and is produced by various vendors in accordance with the concept’s specifications. The It’s Fashion and It’s Fashion Metro concepts offer fashion with a focus on the latest trendy styles for the entire family at low prices every day. The Versona concept’s stores and e-commerce website offer quality fashion apparel items, jewelry and accessories at exceptional values every day. The Company’s stores range in size from 2,100 to 19,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. The Company emphasizes friendly customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales under the Company’s plan represented 7% of retail sales in fiscal 2018. See Note 14 to the Consolidated Financial Statements, “Reportable Segment Information,” for a discussion of information regarding the Company’s two reportable segments: retail and credit.

Business

The Company’s primary objective is to be the leading fashion specialty retailer for fashion and value in its markets. Management believes the Company’s success is dependent upon its ability to differentiate its stores from department stores, mass merchandise discount stores and competing specialty stores. The key elements of the Company’s business strategy are:

Merchandise Assortment. The Company’s stores offer a wide assortment of on-trend apparel and accessory items in primarily junior/missy, plus sizes, mens and kids sizes, infant to boys size 20 and girls size 16 with an emphasis on color, product coordination and selection. Colors and styles are coordinated and presented so that outfit selection is easily made.

Value Pricing. The Company offers quality merchandise that is generally priced below comparable merchandise offered by department stores and mall specialty apparel chains, but is generally more fashionable than merchandise offered by discount stores. Management believes that the Company has positioned itself as the every day low price leader in its market segment.

Strip Shopping Center Locations. The Company locates its stores principally in convenient strip centers anchored by national discounters or market-dominant grocery stores that attract large numbers of potential customers.

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

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

Merchandising

Merchandising

The Company seeks to offer a broad selection of high quality and exceptional value apparel and accessories to suit the various lifestyles of fashion and value-conscious customers. In addition, the Company strives to offer on-trend fashion in exciting colors with consistent fit and quality.

The Company's merchandise lines include dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry, handbags, men's wear and lines for kids and infants. The Company primarily offers exclusive merchandise with fashion and quality comparable to mall specialty stores at low prices, every day.

The Company believes that the collaboration of its merchandising and design teams with an expanded in-house product development and direct sourcing function has enhanced merchandise offerings and delivers quality, exclusive on-trend styles at lower prices. The product development and direct sourcing operations provide research on emerging fashion and color trends, technical services and direct sourcing options.

As a part of its merchandising strategy, members of the Company's merchandising and design staff frequently attend trade shows to stay abreast of latest trends and styles, visit selected stores to monitor the merchandise offerings of other retailers, regularly communicate with store operations associates and frequently confer with key vendors. The Company also takes aggressive markdowns on slow-selling merchandise and typically does not carry over merchandise to the next season.

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 531 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2018, purchases from the Company's largest vendor accounted for approximately 7% of the Company's total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company sources a majority of its merchandise directly from manufacturers overseas. The Company purchases its remaining merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments. The Company opened its own overseas sourcing operations in the fall of 2014, replacing the Company's former sourcing agent in 2015. Although a significant portion of the Company's merchandise is manufactured overseas, the Company does not expect that any economic, political or social unrest in any one country would have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise. However, the Company can give no assurance that any changes or disruptions in its merchandise supply chain would not materially and adversely affect the Company. See "Risk Factors – Risks Relating To Our Business – Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition."

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

All merchandise is shipped directly to the Company's distribution center in Charlotte, North Carolina, where it is inspected and then allocated by the merchandise distribution staff for shipment to individual stores. The flow of merchandise from receipt at the distribution center to shipment to stores is controlled by an on-line system. Shipments are made by common carrier, and each store receives at least one shipment per week. The centralization of the Company's distribution process also subjects it to risks in the event of damage to or destruction of its distribution facility or other disruptions affecting the distribution center or the flow of goods into or out of Charlotte, North Carolina. See "Risk Factors – Risks Relating To Our Business – A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely affect our business and results of operations."

Advertising

The Company uses television, in-store signage, graphics, a Company website, two e-commerce websites and social media as its primary advertising media. The Company's total advertising expenditures were approximately 0.7%, 0.7% and 0.8% of retail sales for fiscal years 2018, 2017 and 2016, respectively.

Store Operations

The Company's store operations management team consists of one director of stores, five territorial managers, 16 regional managers and 136 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll and shrinkage control. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are typically staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the store and seasonal personnel needs. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers, assistant managers and sales associates are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

The Company constantly strives to improve its training programs to develop associates. Over 80% of store and field management are promoted from within, allowing the Company to internally staff its store base. The Company has training programs at each level of store operations. New store managers are trained in training stores managed by experienced associates who have achieved superior results in meeting the Company's goals for store sales, payroll expense and shrinkage control. The type and extent of district manager training varies depending on whether the district manager is promoted from within or recruited from outside the Company.

Store Locations

Most of the Company's stores are located in the southeastern United States in a variety of markets ranging from small towns to large metropolitan areas with trade area populations of 20,000 or more. Stores average approximately 4,500 square feet in size.

All of the Company's stores are leased. Approximately 97% are located in strip shopping centers and 3% in enclosed shopping malls. The Company typically locates stores in strip shopping centers anchored by a national discounter, primarily Walmart Supercenters, or market-dominant grocery stores. The Company's strip center locations provide ample parking and shopping convenience for its customers.

The Company's store development activities consist of opening new stores in new and existing markets, relocating selected existing stores to more desirable locations in the same market area and closing underperforming stores. The following table sets forth information with respect to the Company's development activities since fiscal 2014:

Store Development

<u>Fiscal Year</u>	<u>Number of Stores</u>			<u>Number of Stores End of Year</u>
	<u>Beginning of Year</u>	<u>Number Opened</u>	<u>Number Closed</u>	
2014.....	1,320	33	7	1,346
2015.....	1,346	31	5	1,372
2016.....	1,372	8	9	1,371
2017.....	1,371	6	26	1,351
2018.....	1,351	-	40	1,311

The Company expects to open 12 new stores during fiscal 2019. The Company anticipates closing up to 51 stores and relocating two stores by year end.

The Company periodically reviews its store base to determine whether any particular store should be closed based on its sales trends and profitability. The Company intends to continue this review process to identify underperforming stores.

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 3.3%, 3.3% and 3.4% of retail sales in fiscal 2018, 2017 and 2016, respectively. The Company's net bad debt expense was 3.8%, 3.8% and 3.5% of credit sales in fiscal 2018, 2017 and 2016, respectively.

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record and the Company has considered the customer's ability to make the required minimum payment. Customers are required to make minimum monthly payments based on their account balances. If the balance is not paid in full each month, the Company assesses the customer a finance charge. If payments are not received on time, the customer is assessed a late fee subject to regulatory limits.

Layaway Plan

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

The Company defers recognition of layaway sales to the accounting period when the customer picks up and completely pays for layaway merchandise. Administrative fees are recognized in the period in which the layaway is initiated. Recognition of restocking fees occurs in the accounting period when the customer defaults on the layaway purchase. Layaway sales represented approximately 4.0%, 4.0% and 4.4% of retail sales in fiscal 2018, 2017 and 2016, respectively.

Information Technology Systems

The Company's information technology systems provide daily financial and merchandising information that is used by management to enhance the timeliness and effectiveness of purchasing and pricing decisions. Management uses a daily report comparing actual sales with planned sales and a weekly ranking report to monitor and control purchasing decisions. Weekly reports are also produced which reflect sales, weeks of supply of inventory and other critical data by product categories, by store

and by various levels of responsibility reporting. Purchases are made based on projected sales, but can be modified to accommodate unexpected increases or decreases in demand for a particular item.

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

Competition

The women's retail apparel industry is highly competitive. The Company believes that the principal competitive factors in its industry include merchandise assortment and presentation, fashion, price, store location and customer service. The Company competes with retail chains that operate similar women's apparel specialty stores. In addition, the Company competes with mass merchandise chains, discount store chains, major department stores, off-price retailers and internet-based retailers. Although we believe we compete favorably with respect to the principal competitive factors described above, many of our direct and indirect competitors are well-established national, regional or local chains, and some have substantially greater financial, marketing and other resources. The Company expects its stores in larger cities and metropolitan areas to face more intense competition.

Seasonality

Due to the seasonal nature of the retail business, the Company has historically experienced and expects to continue to experience seasonal fluctuations in its revenues, operating income and net income. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods. See Note 13 of Notes to the Consolidated Financial Statements for information regarding our quarterly results of operations for the last two fiscal years.

Regulation

A variety of laws affect the revolving credit card program offered by the Company. The Credit Card Accountability Responsibility and Disclosure Act of 2009 ("The Act") amended the Truth in Lending Act to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan. The Act contained provisions addressing matters such as change in terms, notices, limits on fees, rate increases, payment allocation and account disclosures. The Act requires creditors to provide consumers with account disclosures that are timely and in a form that is readily understandable. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit lenders from discrimination against any credit applicants, establish guidelines for gathering and evaluating credit information and require written notification when credit is denied. Regulation AA, Unfair, Deceptive or Abusive Acts or Practices, establishes consumer complaint procedures and defines unfair or deceptive practices in extending credit to consumers. The Federal Trade Commission has adopted or proposed various trade regulation rules dealing with unfair credit and collection practices and the preservation of consumers' claims and defenses. The Company is also subject to the U.S. Patriot Act and the Bank Secrecy Act, which require the Company to monitor account holders and account transactions, respectively. Additionally, the Gramm-Leach-Bliley Act requires the Company to disclose to its customers the Company's privacy policy as it relates to a customer's non-public personal information.

The Tax Cuts and Jobs Act (the "Tax Act") enacted during fiscal 2017 significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21%, imposing a new minimum tax on global intangible low-taxed income ("GILTI") and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of

foreign subsidiaries. As of February 2, 2019, the accounting for the income tax effects of the Tax Act has been completed.

As of February 2, 2019, the Company's position is that its overseas subsidiaries will not invest undistributed earnings indefinitely. Future unremitted earnings when distributed are expected to be either distributions of GILTI-previously taxed income or eligible for a 100% dividends received deduction. The withholding tax rate on any unremitted earnings is zero and state income taxes on such earnings are considered immaterial. Therefore, the Company has not provided deferred U.S. income taxes on approximately \$7.1 million of earnings from non-U.S. subsidiaries.

Associates

As of February 2, 2019, the Company employed approximately 10,350 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers its associate relations to be good.

Item 1A. Risk Factors:

An investment in our common stock involves numerous types of risks. You should carefully consider the following risk factors, in addition to the other information contained in this report, including the disclosures under "Forward-looking Information" above in evaluating our Company and any potential investment in our common stock. If any of the following risks or uncertainties occur, our business, financial condition and operating results could be materially and adversely affected, the trading price of our common stock could decline and you could lose all or a part of your investment in our common stock. The risks and uncertainties described in this section are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business operating results and financial condition.

Risks Relating To Our Business:

If we are unable to anticipate, identify and respond to rapidly changing fashion trends and customer demands in a timely manner, our business and results of operations could materially suffer.

Customer tastes and fashion trends, particularly for women's apparel, are volatile, tend to change rapidly and cannot be predicted with certainty. Our success depends in part upon our ability to consistently anticipate, design and respond to changing merchandise trends and consumer preferences in a timely manner. Accordingly, any failure by us to anticipate, identify, design and respond to changing fashion trends could adversely affect consumer acceptance of our merchandise, which in turn could adversely affect our business, results of operations and our image with our customers. If we miscalculate either the market for our merchandise or our customers' tastes or purchasing habits, we may be required to sell a significant amount of unsold inventory at below-average markups over cost, or below cost, which would adversely affect our margins and results of operations.

Fluctuating comparable sales or our inability to effectively manage inventory may negatively impact our gross margin and our overall results of operations.

Comparable sales are expected to continue to fluctuate in the future. Factors affecting comparable sales include fashion trends, customer preferences, calendar and holiday shifts, competition, weather and economic conditions. In addition, merchandise must be ordered well in advance of the applicable selling season and before trends are confirmed by sales. If we are not able to accurately predict customers' preferences for our fashion items, we may have too much inventory which may cause excessive markdowns. If we are unable to accurately predict demand for our merchandise, we may end up with inventory shortages resulting in missed sales. A decrease in comparable sales or our inability to

effectively manage inventory may adversely affect our gross margin and results of operations.

Existing and increased competition in the women's retail apparel industry may negatively impact our business, results of operations, financial condition and market share.

The women's retail apparel industry is highly competitive. We compete primarily with discount stores, mass merchandisers, department stores, off-price retailers, specialty stores and internet-based retailers, many of which have substantially greater financial, marketing and other resources than we have. Many of our competitors offer frequent promotions and reduce their selling prices. In some cases our competitors are expanding into markets in which we have a significant market presence. In addition, our competitors also compete for the same retail store space. As a result of this competition, we may experience pricing pressures, increased marketing expenditures, increased costs to open new stores, as well as loss of market share, which could materially and adversely affect our business, results of operations and financial condition.

Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition.

A significant amount of our merchandise is manufactured overseas, principally in East Asia. We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. As a result, political unrest, labor disputes, terrorism, financial or other forms of instability or other events resulting in the disruption of trade from countries affecting our supply chain, increased security requirements for imported merchandise, or the imposition of, or changes in, laws, regulations or changes in duties, quotas, tariffs, taxes or governmental policies regarding these matters or other factors affecting the availability or cost of imports, could cause significant delays or interruptions in the supply of our merchandise or increase our costs. Our costs are also affected by currency fluctuations, and changes in the value of the dollar relative to foreign currencies may increase our cost of goods sold. Any of these factors could have a material adverse effect on our business and results of operations. In addition, increased energy and transportation costs have caused us significant cost increases from time to time, and future adverse changes in these costs or the disruption of the means by which merchandise is transported to us could cause additional cost increases or interruptions of our supply chain which could be significant. Further, we are subject to increased costs or potential disruptions impacting any port or trade route through which our products move. If we are forced to source merchandise from other countries or other domestic vendors with foreign sources in different countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell.

Our ability to attract consumers and grow our revenues is dependent on the success of our store location strategy and our ability to successfully open new stores as planned.

Our sales are dependent in part on the location of our stores in shopping centers where we believe our consumers and potential consumers shop. In addition, our ability to grow our revenues has been substantially dependent on our ability to secure space for and open new stores in attractive locations. Centers where we currently operate existing stores or seek to open new stores may be adversely affected by, among other things, general economic downturns or those particularly affecting the commercial real estate industry, the closing of anchor stores, changes in tenant mix and changes in customer shopping preferences. To take advantage of consumer traffic and the shopping preferences of our consumers, we need to maintain and acquire stores in desirable locations where competition for suitable store locations is intense. A decline in customer popularity of the strip shopping centers where we generally locate our stores or in availability of space in desirable centers and locations, or an increase in the cost of such desired space, limiting our ability to open new stores, could adversely affect consumer traffic and reduce our sales and net earnings or increase our operating costs.

Our ability to open and operate new stores depends on many factors, some of which are beyond our control. These factors include, but are not limited to, our ability to identify suitable store locations, negotiate acceptable lease terms, secure necessary governmental permits and approvals and hire and train appropriate store personnel. In addition, our continued expansion into new regions of the country where we have not done business before may present new challenges in competition, distribution and merchandising as we enter these new markets. Our failure to successfully and timely execute our plans for opening new stores or the failure of these stores to perform up to our expectations could adversely affect our business, results of operations and financial condition.

The inability of third-party vendors to produce goods on time and to the Company's specification may adversely affect the Company's business, results of operations and financial condition.

Our dependence on third-party vendors to manufacture and supply our merchandise subjects us to numerous risks that our vendors will fail to perform as we expect. For example, the deterioration in any of our key vendors' financial condition, their failure to ship merchandise in a timely manner that meets our specifications, or other failures to follow our vendor guidelines or comply with applicable laws and regulations, including compliant labor, environmental practices and product safety, could expose us to operational, quality, competitive, reputational and legal risks. If we are not able to timely or adequately replace the merchandise we currently source with merchandise produced elsewhere, or if our vendors fail to perform as we expect, our business, results of operations and financial condition could be adversely affected. Activities conducted by us or on our behalf outside the United States further subject us to numerous U.S. and international regulations and compliance risks, as discussed below under "Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition."

The operation of our sourcing offices in Asia may present increased legal and operational risks.

In October 2014, we established our own sourcing offices in Asia. Our experience with legal and regulatory practices and requirements in Asia is limited. If our sourcing offices are unable to successfully oversee merchandise production to ensure that product is produced on time and within the Company's specifications, our business, brand, reputation, costs, results of operations and financial condition could be materially and adversely affected. Further, the activities conducted by our sourcing office outside the United States further subject us to foreign operational risks, as well as U.S. and international regulations and compliance risks, as discussed elsewhere in this "Risk Factors" section, in particular below under "Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition."

Any actual or perceived deterioration in the conditions that drive consumer confidence and spending may materially and adversely affect consumer demand for our apparel and accessories and our results of operations.

Consumer spending habits, including spending for our apparel and accessories, are affected by, among other things, prevailing economic conditions and uncertainties, political conditions and uncertainties (such as those currently being debated in the U.S. regarding budgetary, spending and tax policies), levels of employment, fuel, energy and food costs, salaries and wage rates and other sources of income, tax rates, home values, consumer net worth, the availability of consumer credit, consumer confidence and consumer perceptions of adverse changes in or trends affecting any of these conditions. Any perception that these conditions may be worsening or continuing to trend negatively may significantly weaken many of these drivers of consumer spending habits. Adverse perceptions of these conditions or uncertainties regarding them also generally cause consumers to defer purchases of discretionary items, such as our

merchandise, or to purchase cheaper alternatives to our merchandise, all of which may also adversely affect our net sales and results of operations. In addition, numerous events, whether or not related to actual economic conditions, such as downturns in the stock markets, acts of war or terrorism, political unrest or natural disasters, or similar events, may also dampen consumer confidence, and accordingly, lead to reduced consumer spending. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in the price, availability and quality of inventory may result in higher cost of goods, which the Company may not be able to pass on to its customers.

Vendors are increasingly passing on higher production costs, which may impact our ability to maintain or grow our margins. The price and availability of raw materials may be impacted by demand, regulation, weather and crop yields, currency value fluctuations, as well as other factors. Additionally, manufacturers have and may continue to have increases in other manufacturing costs, such as transportation, labor and benefit costs. These increases in production costs result in higher merchandise costs to the Company. Due to the Company's limited flexibility in price point, the Company may not be able to pass on those cost increases to the consumer, which could have a material adverse effect on our results of operations and financial condition.

A failure or disruption relating to our information technology systems could adversely affect our business.

We rely on our existing information technology systems for merchandise operations, including merchandise planning, replenishment, pricing, ordering, markdowns and product life cycle management. In addition to merchandise operations, we utilize our information technology systems for our distribution processes, as well as our financial systems, including accounts payable, general ledger, accounts receivable, sales, banking, inventory and fixed assets. Despite the precautions we take, our information systems may be vulnerable to disruption or failure from numerous events, including but not limited to, natural disasters, severe weather conditions, power outages, technical malfunctions, cyber attacks, acts of war or terrorism, similar catastrophic events or other causes beyond our control or that we fail to anticipate. Any disruption or failure in the operation of our information technology systems, our failure to continue to upgrade or improve such systems, or the cost associated with maintaining, repairing or improving these systems, could adversely affect our business, results of operations and financial condition. Modifications and/or upgrades to our current information technology systems may also disrupt our operations.

A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely affect our business and results of operations.

The distribution of our products is centralized in one distribution center in Charlotte, North Carolina and distributed through our network of third-party freight carriers. The merchandise we purchase is shipped directly to our distribution center, where it is prepared for shipment to the appropriate stores and subsequently delivered to the stores by our third-party freight carriers. If the distribution center or our third-party freight carriers were to be shut down or lose significant capacity for any reason, including but not limited to, any of the causes described under "A failure or disruption relating to our information technology systems could adversely affect our business," our operations would likely be seriously disrupted. Such problems could occur as the result of any loss, destruction or impairment of our ability to use our distribution center, as well as any broader problem generally affecting the ability to ship goods into our distribution center or deliver goods to our stores. As a result, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes for us to reopen or replace the distribution center and/or our transportation network. Any such occurrence could adversely affect our business, results of operations and financial condition.

Changes to accounting rules and regulations may adversely affect our reported results of operations and financial condition.

In an effort to provide greater comparability of financial reporting in an increasing global environment, accounting regulatory authorities have been in discussions for many years regarding efforts to either converge U.S. Generally Accepted Accounting Principles with International Financial Reporting Standards (“IFRS”), have U.S. companies provide supplemental IFRS-based information or continue to work toward a single set of globally accepted accounting standards. If implemented, these potential changes in accounting rules or regulations could significantly impact our future reported results of operations and financial position. Changes in accounting rules or regulations and varying interpretations of existing accounting rules and regulations have significantly affected our reported financial statements and those of other participants in the retail industry in the past and may continue to do so in the future.

For example, changes to lease accounting standards effective for the Company beginning in fiscal 2019 will require lessees to capitalize operating leases in their financial statements. These changes will have a major impact on the Company as a retailer with numerous leased locations. Such changes will require us to record a significant amount of lease-related assets and liabilities on, and will materially affect, our balance sheet and will require us to make other changes to the recording and classification of lease-related expenses on our statements of income and cash flows. These changes could lead to the perception by investors that we are highly leveraged and would change the calculation of numerous financial metrics and measures of our performance and financial condition. These and other future changes to accounting rules or regulations may adversely affect our reported results of operations and financial position.

If the Company is unable to successfully integrate new businesses into its existing business, the Company’s financial condition and results of operations will be adversely affected.

The Company’s long-term business strategy includes opportunistic growth through the development of new store concepts. This growth may require significant capital expenditures and management attention. The Company may not realize any of the anticipated benefits of a new business and integration costs may exceed anticipated amounts. We have incurred substantial financial commitments and fixed costs related to our retail stores that we will not be able to recover if our stores are not successful and that could potentially result in impairment charges. If we cannot successfully execute our growth strategies, our financial condition and results of operations may be adversely impacted.

A security breach that results in unauthorized disclosure of employee, Company or customer information could adversely affect our costs, reputation and results of operations, and efforts to mitigate these risks may continue to increase our costs.

The protection of employee, Company and customer data is critical to the Company. Any security breach, mishandling, human or programming error or other event that results in the misappropriation, loss or other unauthorized disclosure of employee, Company or customer information, including but not limited to credit card data or other personally identifiable information, could severely damage the Company's reputation, expose it to remediation and other costs and the risks of legal proceedings, disrupt its operations and otherwise adversely affect the Company's business and financial condition. Despite measures the Company takes to protect confidential information, which are ongoing and may continue to increase our costs, there is no assurance that such measures will prevent the compromise of such information. The security of certain of this information also depends on the ability of third-party service providers, such as those we use to process credit and debit card payments as described below under “We are subject to payment-related risks,” to properly handle and protect such information. If any such compromise or unauthorized disclosure of this information were to occur, it could have a material adverse effect on the Company's reputation, business, operating results, financial condition and cash flows.

We are subject to payment-related risks.

We accept payments using a variety of methods, including third-party credit cards, our own branded

credit cards, debit cards, gift cards and physical bank checks. For existing and future payment methods we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in increased costs and reduce the ease of use of certain payment methods), as well as fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time, raising our operating costs and lowering profitability. We rely on third-party service providers for payment processing services, including the processing of credit and debit cards. In each case, it could disrupt our business if these third-party service providers become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, including data security rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card-issuing banks' costs, subject to fines and higher transaction fees. In addition we may lose our ability to accept credit and debit card payments from our customers and process electronic funds transfers or facilitate other types of payments, and our business and operating results could be adversely affected.

The Company's failure to successfully operate its e-commerce websites or fulfill customer expectations could adversely impact customer satisfaction, our reputation and our business.

Although the Company's e-commerce platform provides another channel to drive incremental sales, provide existing customers the on-line shopping experience and introduce the Company to a new customer base, it also exposes us to numerous risks. We are subject to potential failures in the efficient and uninterrupted operation of our websites, customer contact center or our distribution center, including system failures caused by telecommunication system providers, order volumes that exceed our present system capabilities, electrical outages, mechanical problems and human error. Our e-commerce platform may also expose us to greater potential for security or data breaches involving the unauthorized disclosure of customer information, as discussed above under "A security breach that results in unauthorized disclosure of employee, Company or customer information could adversely affect our costs, reputation and results of operations, and efforts to mitigate these risks may continue to increase our costs." We are also subject to risk related to delays or failures in the performance of third parties, such as shipping companies, including delays associated with labor strikes or slowdowns or adverse weather conditions. If the Company does not successfully meet the challenges of operating e-commerce websites or fulfilling customer expectations, the Company's business and sales could be adversely affected.

Adverse litigation matters may adversely affect our business and our financial condition.

From time to time the Company is involved in litigation and other claims against our business. Primarily these arise from our normal course of business but are subject to risks and uncertainties, and could require significant management time. The Company's periodic evaluation of litigation-related matters may change our assessment in light of the discovery of facts with respect to legal actions pending against us, not presently known to us or by determination of judges, juries or other finders of fact. We may also be subjected to legal matters not yet known to us. Adverse decisions or settlements of disputes may negatively impact our business, reputation and financial condition.

Failure to attract, train, and retain skilled personnel could adversely affect our business and our financial condition.

Like most retailers, we experience significant associate turnover rates, particularly among store sales associates and managers. Because our continued store growth will require the hiring and training of new associates, we must continually attract, hire and train new store associates to meet our staffing needs. A significant increase in the turnover rate among our store sales associates and managers would increase our recruiting and training costs, as well as possibly cause a decrease in our store operating efficiency and productivity. We compete for qualified store associates, as well as experienced management personnel,

with other companies in our industry or other industries, many of whom have greater financial resources than we do.

In addition, we depend on key management personnel to oversee the operational divisions of the Company for the support of our existing business and future expansion. The success of executing our business strategy depends in large part on retaining key management. We compete for key management personnel with other retailers, and our inability to attract and retain qualified personnel could limit our ability to continue to grow.

If we are unable to retain our key management and store associates or attract, train, or retain other skilled personnel in the future, we may not be able to service our customers effectively or execute our business strategy, which could adversely affect our business, operating results and financial condition.

Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition.

Our operations are subject to federal, state and local laws, rules and regulations, as well as U.S. and foreign laws and regulations relating to our activities in foreign countries from which we source our merchandise and operate our sourcing offices. Our business is also subject to regulatory and litigation risk in all of these jurisdictions, including foreign jurisdictions that may lack well-established or reliable legal systems for resolving legal disputes. Compliance risks and litigation claims have arisen and may continue to arise in the ordinary course of our business and include, among other issues, intellectual property issues, employment issues, commercial disputes, product-oriented matters, tax, customer relations and personal injury claims. International activities subject us to numerous U.S. and international regulations, including but not limited to, restrictions on trade, license and permit requirements, import and export license requirements, privacy and data protection laws, environmental laws, records and information management regulations, tariffs and taxes and anti-corruption laws, such as the Foreign Corrupt Practices Act, violations of which by employees or persons acting on the Company's behalf may result in significant investigation costs, severe criminal or civil sanctions and reputational harm. These and other liabilities to which we may be subject could negatively affect our business, operating results and financial condition. These matters frequently raise complex factual and legal issues, which are subject to risks and uncertainties and could divert significant management time. The Company may also be subject to regulatory review and audits, which results may have the potential to materially and adversely affect our business, results of operations and financial condition. In addition, governing laws, rules and regulations, and interpretations of existing laws are subject to change from time to time. Compliance and litigation matters could result in unexpected expenses and liability, as well as have an adverse effect on our operations and our reputation.

New legislation or regulation and interpretation of existing laws and regulations related to data privacy could increase our costs of compliance, technology and business operations. The interpretation of existing or new laws to existing technology and practices can be uncertain and may lead to additional compliance risk and cost.

If we fail to protect our trademarks and other intellectual property rights or infringe the intellectual property rights of others, our business, brand image, growth strategy, results of operations and financial condition could be adversely affected.

We believe that our "Cato", "It's Fashion", "It's Fashion Metro" and "Versona" trademarks are integral to our store designs, brand recognition and our ability to successfully build consumer loyalty. Although we have registered these trademarks with the U.S. Patent and Trademark Office ("PTO") and

have also registered, or applied for registration of, additional trademarks with the PTO that we believe are important to our business, we cannot assure that these registrations will prevent imitation of our trademarks, merchandising concepts, store designs or private label merchandise or the infringement of our other intellectual property rights by others. Infringement of our names, concepts, store designs or merchandise generally, or particularly in a manner that projects lesser quality or carries a negative connotation of our image could adversely affect our business, financial condition and results of operations.

In addition, we cannot assure that others will not try to block the manufacture or sale of our private label merchandise by claiming that our merchandise violates their trademarks or other proprietary rights. In the event of such a conflict, we could be subject to lawsuits or other actions, the ultimate resolution of which we cannot predict; however, such a controversy could adversely affect our business, financial condition and results of operations.

We may experience market conditions that could adversely impact the valuation and liquidity of, and our ability to access, our short-term investments and cash and cash equivalents.

Our short-term investments and cash equivalents are primarily comprised of investments in federal, state, municipal and corporate debt securities. The value of those securities may be impacted by factors beyond our control, such as changes to credit ratings, rates of default, collateral value, discount rates, and strength and quality of market credit and liquidity. As federal, state and municipal entities struggle with declining tax revenues and budget deficits, we cannot be assured of our ability to timely access these investments if the market for these issues declines. Similarly, the default by issuers could adversely affect our financial condition, results of operations and ability to execute our business strategy. In addition, we have significant amounts of cash and cash equivalents at financial institutions that are in excess of the federally insured limits. An economic downturn or development of adverse conditions affecting the financial sector and stability of financial institutions could cause us to experience losses on our deposits.

Maintaining and improving our internal control over financial reporting and other requirements necessary to operate as a public company may strain our resources, and any material failure in these controls may negatively impact our business, the price of our common stock and market confidence in our reported financial information.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the rules of the SEC and New York Stock Exchange and certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related rule-making that has been and may continue to be implemented over the next several years under the mandates of the Dodd-Frank Act. The requirements of these rules and regulations have, and may continue to, increase our compliance costs and place significant strain on our personnel, systems and resources. To satisfy the SEC’s rules implementing the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we must continue to document, test, monitor and enhance our internal control over financial reporting, which is a costly and time-consuming effort that must be re-evaluated frequently. We cannot give assurance that our disclosure controls and procedures and our internal control over financial reporting, as defined by applicable SEC rules, will be adequate in the future. Any failure to maintain the effectiveness of internal control over financial reporting or to comply with the other various laws and regulations to which we are and will continue to be subject, or to which we may become subject in the future, as a public company could have an adverse material impact on our business, our financial condition and the price of our common stock. In addition, our efforts to comply with these requirements, particularly with new requirements under the Dodd-Frank Act that have yet to be implemented, could significantly increase our compliance costs.

Unusual weather, natural disasters or similar events may adversely affect our sales or operations.

Extreme changes in weather, natural disasters or similar events can influence customer trends and shopping habits. For example, heavy rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect our business. The occurrence or threat of extreme weather, natural disasters, power outages, terrorist acts, outbreaks of flu or other communicable diseases or other catastrophic events could reduce customer traffic in our stores and likewise disrupt our ability to conduct operations, which could materially and adversely affect us.

Risks Relating To The Market Value Of Our Common Stock:

Our operating results are subject to seasonal and quarterly fluctuations, which could adversely affect the market price of our common stock.

Our business varies with general seasonal trends that are characteristic of the retail apparel industry. As a result, our stores typically generate a higher percentage of our annual net sales and profitability in the first and second quarters of our fiscal year compared to other quarters. Accordingly, our operating results for any one fiscal period are not necessarily indicative of results to be expected from any future period, and such seasonal and quarterly fluctuations could adversely affect the market price of our common stock.

The interests of a principal shareholder may limit the ability of other shareholders to influence the direction of the Company.

As of March 27, 2019, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 45.7% of the voting power of our common stock. As a result, Mr. Cato may be able to control or significantly influence substantially all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations or other significant Company transactions. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. In addition, the concentration of voting power held by Mr. Cato could have the effect of preventing, discouraging or deferring a change in control of the Company, which could depress the market price of our common stock.

Conditions in the stock market generally, or particularly relating to our industry, Company or common stock, may materially and adversely affect the market price of our common stock and make its trading price more volatile.

The trading price of our common stock at times has been, and is likely to continue to be, subject to significant volatility. A variety of factors may cause the price of the common stock to fluctuate, perhaps substantially, including, but not limited to, those discussed elsewhere in this report, as well as the following: low trading volume; general market fluctuations resulting from factors not directly related to our operations or the inherent value of our common stock; announcements of developments related to our business; fluctuations in our reported operating results; general conditions or trends affecting or perceived to affect the fashion and retail industry; conditions or trends affecting or perceived to affect the domestic or global economy or the domestic or global credit or capital markets; changes in financial estimates or the scope of coverage given to our Company by securities analysts; negative commentary regarding our Company and corresponding short-selling market behavior; adverse customer relations developments; significant changes in our senior management team; and legal proceedings. Over the past several years the stock market in general, and the market for shares of equity securities of many retailers in particular, have experienced extreme price fluctuations that have at times been unrelated to the operating

performance of those companies. Such fluctuations and market volatility based on these or other factors may materially and adversely affect the market price of our common stock.

Item 1B. *Unresolved Staff Comments:*

None.

Item 2. *Properties:*

The Company's distribution center and general offices are located in a Company-owned building of approximately 552,000 square feet located on a 15-acre tract in Charlotte, North Carolina. The Company's automated merchandise handling and distribution activities occupy approximately 418,000 square feet of this building and its general offices and corporate training center are located in the remaining 134,000 square feet. A building of approximately 24,000 square feet located on a 2-acre tract adjacent to the Company's existing location is used for receiving and distribution of store and office operating supplies. The Company also owns approximately 185 acres of land in York County, South Carolina as a potential new site for our distribution center.

Item 3. *Legal Proceedings:*

From time to time, claims are asserted against the Company arising out of operations in the ordinary course of business. The Company currently is not a party to any pending litigation that it believes is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Item 3A. Executive Officers of the Registrant:

The executive officers of the Company and their ages as of March 27, 2019 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
John P. D. Cato.....	68	Chairman, President and Chief Executive Officer
John R. Howe.....	56	Executive Vice President, Chief Financial Officer
Michael T. Greer.....	56	Executive Vice President, Director of Stores
Gordon Smith.....	63	Executive Vice President, Chief Real Estate and Store Development Officer

John P. D. Cato has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since January 2004, he has served as Chairman, President and Chief Executive Officer. From May 1999 to January 2004, he served as President, Vice Chairman of the Board and Chief Executive Officer. From June 1997 to May 1999, he served as President, Vice Chairman of the Board and Chief Operating Officer. From August 1996 to June 1997, he served as Vice Chairman of the Board and Chief Operating Officer. From 1989 to 1996, he managed the Company's off-price concept, serving as Executive Vice President and as President and General Manager of the It's Fashion concept from 1993 to August 1996. Mr. Cato is a former director of Harris Teeter Supermarkets, Inc., formerly Ruddick Corporation.

John R. Howe has been employed by the Company since 1986. Since September 2008, he has served as Executive Vice President, Chief Financial Officer. From June 2007 until September 2008, he served as Senior Vice President, Controller. From 1999 to 2007, he served as Vice President, Assistant Controller. From 1997 to 1999, he served as Assistant Vice President, Budgets and Planning. From 1995 to 1997, he served as Director, Budgets and Planning. From 1990 to 1995, he served as Assistant Tax Manager. From 1986 to 1990, Mr. Howe held various positions within the finance area.

Michael T. Greer has been employed by the Company since 1985. Since May 2006, he has served as Executive Vice President, Director of Stores of the Company. From November 2004 until May 2006, he served as Senior Vice President, Director of Stores of the Company. From February 2004 until November 2004, he served as Senior Vice President, Director of Stores of the Cato concept. From 2002 to 2003 Mr. Greer served as Vice President, Director of Stores of the It's Fashion concept. From 1999 to 2001 he served as Territorial Vice President of Stores of the Cato concept and from 1996 to 1999 he served as Regional Vice President of Stores of the Cato concept. From 1985 to 1995, Mr. Greer held various store operational positions in the Cato concept.

Gordon Smith has been employed by the Company since 1989. Since July 2011, he has served as Executive Vice President, Chief Real Estate and Store Development Officer. From February 2008 until July 2011 Mr. Smith served as Senior Vice President, Real Estate. From October 1989 to February 2008, Mr. Smith served as Assistant Vice President, Corporate Real Estate.

Item 4. Mine Safety Disclosures:

No matters requiring disclosure.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:*

Market & Dividend Information

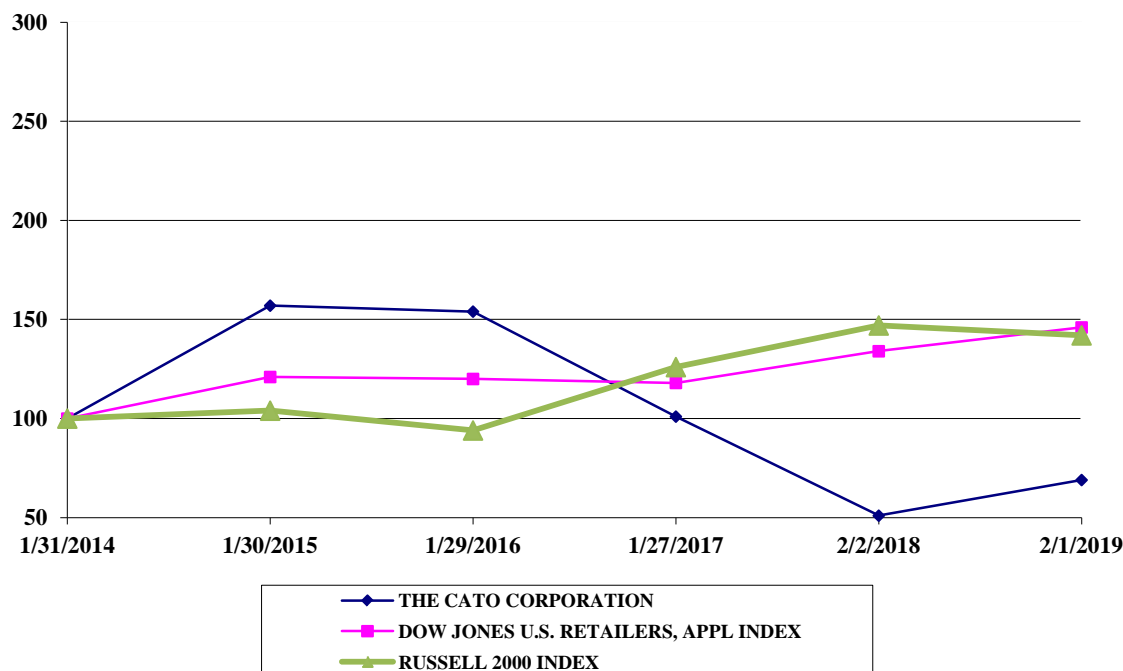
The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO.

As of March 27, 2019 the approximate number of record holders of the Company's Class A Common Stock was 5,000 and there were 2 record holders of the Company's Class B Common Stock.

Stock Performance Graph

The following graph compares the yearly change in the Company's cumulative total shareholder return on the Company's Common Stock (which includes Class A Stock and Class B Stock) for each of the Company's last five fiscal years with (i), the Dow Jones U.S. Retailers, Apparel Index and (ii) the Russell 2000 Index.

The Cato Corporation Stock Performance Graph



THE CATO CORPORATION
STOCK PERFORMANCE TABLE
(BASE 100 – IN DOLLARS)

LAST TRADING DAY OF THE FISCAL YEAR	THE CATO CORPORATION	DOW JONES U.S. RETAILERS, APPL INDEX	RUSSELL 2000 INDEX
1/31/2014	100	100	100
1/30/2015	157	121	104
1/29/2016	154	120	94
1/27/2017	101	118	126
2/2/2018	51	134	147
2/1/2019	69	146	142

The graph assumes an initial investment of \$100 on January 31, 2014, the last trading day prior to the commencement of the Company's 2014 fiscal year, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of its common stock for the three months ended February 2, 2019:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (2)</u>
November 2018	-	\$ -	-	-
December 2018	-	-	-	-
January 2019	-	-	-	-
Total	-	\$ -	-	2,019,002

(1) Prices include trading costs.

(2) On November 20, 2018, the Board of Directors increased, by 2,000,000 million shares, the authorization to purchase shares. During the fourth quarter ended February 2, 2019, the Company did not purchase shares under this program. As of the fourth quarter ended February 2, 2019, the Company had 2,019,002 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

Item 6. Selected Financial Data:

Certain selected financial data for the five fiscal years ended February 2, 2019 have been derived from the Company's audited financial statements. The financial statements and Independent Registered Public Accounting Firm's integrated audit reports for the most recent fiscal years are contained elsewhere in this report. All data set forth below are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this annual report.

Fiscal Year (1)	2018	2017	2016	2015	2014
(Dollars in thousands, except per share data and selected operating data)					
STATEMENT OF OPERATIONS DATA:					
Retail sales	\$821,113	\$841,997	\$947,370	\$1,001,390	\$977,867
Other revenue	8,551	7,984	9,199	9,701	9,047
Total revenues	829,664	849,981	956,569	1,011,091	986,914
Cost of goods sold (exclusive of depreciation shown below)	522,535	553,058	601,985	616,480	600,569
Selling, general and administrative (exclusive of depreciation shown below)	262,510	266,304	289,619	275,713	276,234
Selling, general and administrative percent of retail sales	32.0%	31.6%	30.7%	27.5%	28.2%
Depreciation	\$16,463	\$19,643	\$22,716	\$22,963	\$22,026
Interest expense	96	114	176	264	57
Interest and other income	4,991	5,111	7,041	3,456	3,445
Income before income taxes	33,051	15,973	49,114	99,127	91,473
Income tax expense	2,590	7,433	1,902	32,285	30,971
Net income	30,461	8,540	47,212	66,842	60,502
Basic earnings per share	1.23	0.34	1.72	2.39	2.15
Diluted earnings per share	1.23	0.34	1.72	2.39	2.15
Cash dividends paid per share	1.32	1.32	1.29	1.20	1.20
SELECTED OPERATING DATA:					
Stores open at end of year	1,311	1,351	1,371	1,372	1,346
Average sales per store (2)	\$596,000	\$604,880	\$681,000	\$729,000	\$730,000
Average sales per square foot of selling space	133	135	151	162	162
BALANCE SHEET DATA (at period end):					
Cash, cash equivalents, short-term investments and restricted cash	\$207,920	\$200,100	\$252,158	\$287,024	\$260,610
Working capital (3)	229,502	233,399	271,896	292,615	260,550
Total assets	497,906	516,076	606,324	642,344	608,278
Total stockholders' equity	316,836	326,353	383,903	412,665	380,198

(1) The fiscal year 2017 contained 53 weeks versus 52 weeks for all other years shown.

(2) Calculated using actual sales volume for stores open for the full year and an estimated annual sales volume for new stores opened during the year.

(3) Calculated using Total Current Assets offset by Total Current Liabilities.

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

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:

<u>Fiscal Year Ended</u>	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Retail sales	100.0 %	100.0 %	100.0 %
Other revenue	1.0	0.9	1.0
Total revenues	101.0	100.9	101.0
Cost of goods sold	63.6	65.7	63.5
Selling, general and administrative	32.0	31.6	30.7
Depreciation	2.0	2.3	2.4
Interest and other income	0.6	0.6	0.8
Income before income taxes	4.0	1.9	5.2
Net income	3.7 %	1.0 %	5.0 %

Fiscal 2018 Compared to Fiscal 2017

Retail sales decreased by 2.5% to \$821.1 million in fiscal 2018 compared to \$842.0 million in fiscal 2017. The decrease in retail sales in fiscal 2018 was largely attributable to flat same-store sales, non-comparable store sales and an additional week of sales in 2017. Fiscal 2018 had 52 weeks versus 53 weeks in fiscal 2017. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. In fiscal 2018 and fiscal 2017, e-commerce sales were less than 3% of total sales and same-store sales. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, gift card breakage and layaway fees), decreased by 2.4% to \$829.7 million in fiscal 2018 compared to \$850.0 million in fiscal 2017. The Company operated 1,311 stores at February 2, 2019 compared to 1,351 stores operated at February 3, 2018.

In fiscal 2018, the Company relocated one store and closed 40 stores.

Other revenue in total increased to \$8.6 million in fiscal 2018 from \$8.0 million in fiscal 2017. The increase resulted primarily from increased shipping charges for e-commerce purchases and gift card breakage being classified in other revenue due to the adoption of Topic 606, partially offset by lower finance charges and lower layaway charges.

Credit revenue of \$3.8 million represented 0.5% of total revenue in fiscal 2018, a \$0.4 million decrease compared to fiscal 2017 credit revenue of \$4.2 million or 0.5% of total revenue. The decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled \$1.9 million in fiscal 2018 compared to \$3.0 million in fiscal 2017. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes increased \$0.7 million to \$1.9 million in fiscal 2018 from \$1.2 million in fiscal 2017 due to bad debt expense being included in retail sales in fiscal 2018, in accordance with Topic 606, partially offset by lower credit revenue. Total credit income of \$1.9 million in fiscal 2018 represented 5.7% of total income before taxes of \$33.1 million compared to total credit income of \$1.2 million in fiscal 2017, which represented 7.5% of fiscal 2017 total income before taxes of \$16.0 million.

Cost of goods sold was \$522.5 million, or 63.6% of retail sales, in fiscal 2018 compared to \$553.1 million,

or 65.7% of retail sales, in fiscal 2017. The decrease in cost of goods sold as a percentage of sales resulted primarily from increased sales of regular priced product and decreased buying costs. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold and excluding depreciation) increased by 3.3% to \$298.6 million in fiscal 2018 from \$288.9 million in fiscal 2017. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses (“SG&A”), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were \$262.6 million in fiscal 2018 compared to \$266.4 million in fiscal 2017, a decrease of 1.4%. As a percent of retail sales, SG&A was 32.0% compared to 31.6% in the prior year. The increase in SG&A as a percent of sales resulted primarily from an increase in incentive bonuses, partially offset by lower impairment expenses, professional fees and litigation.

Asset impairment charges decreased to \$1,548,000 in fiscal 2018 compared to \$7,698,000 in fiscal 2017 due to fewer stores being impaired in 2018 and a lower average impairment per store. The impairment charges are related to lower estimated future cash flows resulting from significantly lower sales and income. See Note 1 to the Consolidated Financial Statements for further discussion.

Depreciation expense was \$16.5 million in fiscal 2018 compared to \$19.6 million in fiscal 2017. Depreciation expense decreased from fiscal 2017 due to older stores and previous impairments of leasehold improvements and fixtures, partially offset by store development and information technology expenditures.

Interest and other income decreased slightly to \$5.0 million in fiscal 2018 compared to \$5.1 million in fiscal 2017. The decrease is primarily attributable to classifying gift card breakage in Other Revenue in 2018 due to the adoption of Topic 606.

Income tax expense was \$2.6 million, or 0.3% of retail sales in fiscal 2018 compared to \$7.4 million, or 0.9% of retail sales in fiscal 2017. The dollar decrease resulted primarily from one-time tax expenses in 2017 resulting from the 2017 Tax Cut and Jobs Act (the “Tax Act”) for the deemed repatriation tax and reduction of the net deferred tax assets to reflect the reduction of the U.S. statutory rate, partially offset by higher pre-tax income. The SEC Staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. We recognized the provisional tax impacts related to deemed repatriated earnings and revaluation of our deferred tax assets, and included those amounts in our Consolidated Financial Statements for the year ended February 3, 2018. As of February 2, 2019, the accounting for income tax effects of the Tax Act has been completed. The effective tax rate was 7.8% in fiscal 2018 compared to 46.5% in fiscal 2017. See Note 12 to the Consolidated Financial Statements, “Income Taxes,” for further details.

Fiscal 2017 Compared to Fiscal 2016

Retail sales decreased by 11.1% to \$842.0 million in fiscal 2017 compared to \$947.4 million in fiscal 2016. The decrease in retail sales in fiscal 2017 was largely attributable to a same-store sales decrease of 12%, partially offset by a small increase in non-comparable store sales and an additional week of sales in 2017. Fiscal 2017 had 53 weeks versus 52 weeks in fiscal 2016. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. In fiscal 2017 and fiscal 2016, e-commerce sales were less than 2% of total sales and same-store sales. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, layaway fees and shipping charged

to customers for e-commerce purchases), decreased by 11.1% to \$850.0 million in fiscal 2017 compared to \$956.6 million in fiscal 2016. The Company operated 1,351 stores at February 3, 2018 compared to 1,371 stores operated at January 28, 2017.

In fiscal 2017, the Company opened six new stores, relocated three stores and closed 26 stores.

Other revenue in total decreased to \$8.0 million in fiscal 2017 from \$9.2 million in fiscal 2016. The decrease resulted primarily from lower finance charges and lower layaway charges, partially offset by increased shipping charges for e-commerce purchases.

Credit revenue of \$4.2 million represented 0.5% of total revenue in fiscal 2017, a decrease compared to fiscal 2016 credit revenue of \$4.9 million or 0.5% of total revenue. The decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled \$3.0 million in fiscal 2017 compared to \$3.2 million in fiscal 2016. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased \$0.5 million from \$1.7 million in fiscal 2016 to \$1.2 million in fiscal 2017 due to lower credit revenue. Total credit income of \$1.2 million in fiscal 2017 represented 7.5% of total income before taxes of \$16.0 million compared to total credit income of \$1.7 million in fiscal 2016, which represented 3.5% of fiscal 2016 total income before taxes of \$49.1 million.

Cost of goods sold was \$553.1 million, or 65.7% of retail sales, in fiscal 2017 compared to \$602.0 million, or 63.5% of retail sales, in fiscal 2016. The increase in cost of goods sold as a percentage of sales resulted primarily from increased sales of marked down product and increases in buying and occupancy costs. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold and excluding depreciation) decreased by 16.3% to \$288.9 million in fiscal 2017 from \$345.4 million in fiscal 2016. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses ("SG&A"), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were \$266.4 million in fiscal 2017 compared to \$289.8 million in fiscal 2016, a decrease of 8.1%. As a percent of retail sales, SG&A was 31.6% compared to 30.6% in the prior year. The increase in SG&A as a percent of sales resulted primarily from an increase in salaries, closed store expenses and health insurance, partially offset by lower impairment expenses, professional fees and litigation.

Asset impairment charges decreased to \$7,698,000 in fiscal 2017 compared to \$13,561,000 in fiscal 2016 due to a lower average impairment per store. However, there were more stores impaired in fiscal 2017 compared to fiscal 2016. The impairment charges are related to lower estimated future cash flows resulting from significantly lower sales and income. See Note 1 to the Consolidated Financial Statements for further discussion.

Depreciation expense was \$19.6 million in fiscal 2017 compared to \$22.7 million in fiscal 2016. Depreciation expense decreased from fiscal 2016 due to older stores and previous impairments of leasehold improvements and fixtures, partially offset by store development and information technology.

Interest and other income decreased to \$5.1 million in fiscal 2017 compared to \$7.0 million in fiscal 2016. The decrease is primarily attributable to a change in estimate related to the recognition of unredeemed gift card breakage income in 2016.

Income tax expense was \$7.4 million, or 0.9% of retail sales in fiscal 2017 compared to \$1.9 million, or

0.2% of retail sales in fiscal 2016. The dollar increase resulted primarily from one-time tax expenses resulting from the Tax Act for the deemed repatriation tax and reduction of the net deferred tax assets to reflect the reduction of the U.S. statutory rate offset by significantly lower pre-tax income and favorable adjustments from foreign and domestic tax initiatives. We have estimated the impact of the Tax Act incorporating assumptions made based upon our current interpretation of the Tax Act. The SEC Staff issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effect of the Tax Act. We have recognized the provisional tax impacts related to deemed repatriated earnings and revaluation of our deferred tax assets, and included those amounts in our consolidated financial statements for the year ended February 3, 2018. The actual impact of the Tax Act may differ from our estimates due to, among other things, further refinement of our calculations, changes in interpretations and assumptions we have made, guidance that may be issued and actions we may take as a result of the Tax Act. We expect the accounting to be completed within the measurement period, as allowed under SAB 118. The effective tax rate was 46.5% in fiscal 2017 compared to 3.9% in fiscal 2016. See Note 12 to the Consolidated Financial Statements, "Income Taxes," for further details.

Off-Balance Sheet Arrangements

Other than operating leases in the ordinary course of business, the Company is not a party to any off-balance sheet arrangements.

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 in the United States ("GAAP") 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, inventory shrinkage, the calculation of potential asset impairment, workers' compensation, general and auto insurance liabilities, reserves relating to self-insured health insurance, and uncertain tax positions.

The Company's critical accounting policies and estimates are discussed with the Audit Committee.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts based on the accounts receivable aging and estimates of actual write-offs. The allowance is reviewed for adequacy and adjusted, as necessary, on a quarterly basis. The Company also provides for estimated uncollectible late fees charged based on historical write-offs. The Company's financial results can be impacted by changes in bad debt write-off experience and the aging of the accounts receivable portfolio.

Merchandise Inventories

The Company's inventory is valued using the weighted-average cost method and is stated at the net realizable value. Physical inventories are conducted throughout the year to calculate actual shrinkage and inventory on hand. Estimates based on actual shrinkage results are used to estimate inventory shrinkage, which is accrued for the period between the last physical inventory and the financial reporting date. The Company regularly reviews its inventory levels to identify slow moving merchandise and uses

markdowns to clear slow moving inventory.

Lease Accounting

The Company recognizes rent expense on a straight-line basis over the lease term as defined in ASC 840 - *Leases*. Our lease agreements generally provide for scheduled rent increases during the lease term or rent holidays, including rental payments commencing at a date other than the date of initial occupancy. We include any rent escalation and rent holidays in our straight-line rent expense. In addition, we record landlord allowances for normal tenant improvements as deferred rent, which is included in other noncurrent liabilities in the consolidated balance sheets. This deferred rent is amortized over the lease term as a reduction of rent expense. Also, leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related lease term. See Note 1 to the Consolidated Financial Statements for further information on the Company's accounting for its leases.

Impairment of Long-Lived Assets

The Company invests in leaseholds and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to Fixtures and equipment, Leasehold improvements, and Information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when the Company determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and projected cash flows, which include future sales growth projections. Further, in determining when to close a store, the Company considers real estate development in the area and perceived local market conditions, which can be difficult to predict and may be subject to change. In addition, the Company regularly evaluates its other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Insurance Liabilities

The Company is primarily self-insured for healthcare, workers' compensation and general liability costs. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management reviews current and historical claims data in developing its estimates. The Company also uses information provided by outside actuaries with respect to healthcare, workers' compensation and general liability claims. If the underlying facts and circumstances of the claims change or the historical experience upon which insurance provisions are recorded is not indicative of future trends, then the Company may be required to make adjustments to the provision for insurance costs that could be material to the Company's reported financial condition and results of operations. Historically, actual results have not significantly deviated from estimates.

Uncertain Tax Positions

The Company records liabilities for uncertain tax positions principally related to state income taxes as of the balance sheet date. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax codes, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant judgments regarding the application of complex tax regulations across many jurisdictions. Despite the Company's belief that the estimates and

judgments are reasonable, differences between the estimated and actual tax liabilities can and do exist from time to time. These differences may arise from settlements of tax audits, expiration of the statute of limitations, or the evolution and application of the various jurisdictional tax codes and regulations. Any differences will be recorded in the period in which they become known and could have a material effect on the results of operations in the period the adjustment is recorded.

Revenue Recognition

On February 3, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“Topic 606”) using the modified retrospective method applied to contracts which were pending as of February 3, 2018. Financial results included in the Company’s Consolidated Statement of Income for the twelve months ended February 2, 2019 are presented under Topic 606, while prior year amounts have not been restated and continue to be reported in accordance with ASC 605, “Revenue Recognition” (“Topic 605”). As a result of adopting Topic 606, the Company did not adjust opening retained earnings.

The Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales from stores are also recorded when the customer takes possession of the merchandise. E-commerce sales are recorded when the risk of loss is transferred to the customer. Gift cards are recorded as deferred revenue until they are redeemed or forfeited. Layaway sales are recorded as deferred revenue until the customer takes possession or forfeits the merchandise. Gift cards do not have expiration dates. A provision is made for estimated merchandise returns based on sales volumes and the Company’s experience; actual returns have not varied materially from historical amounts. A provision is made for estimated write-offs associated with sales made with the Company’s proprietary credit card. Amounts related to shipping and handling billed to customers in a sales transaction are classified as Other revenue and the costs related to shipping product to customers (billed and accrued) are classified as Cost of goods sold.

In accordance with Topic 606, in fiscal 2018, the Company recognized \$591,000 of income on unredeemed gift cards (“gift card breakage”) as a component of Other Revenue on the Consolidated Statements of Income and Comprehensive Income. Under Topic 606, the Company recognizes gift card breakage using an expected breakage percentage based on redeemed gift cards. In fiscal 2017 and 2016, the Company recognized \$1,380,000 and \$3,434,000, respectively, of gift card breakage as a component of Other income on the Consolidated Statements of Income and Comprehensive Income. See Note 2 for further information on miscellaneous income. During the first quarter of 2016, the Company changed its estimate for recognizing gift card breakage, changing the dormancy period to 24 months of inactivity from 60 months of inactivity.

The Company offers its own proprietary credit card to customers. All credit activity is performed by the Company’s wholly-owned subsidiaries. None of the credit card receivables are secured. The Company estimated uncollectible amounts of \$897,000 and \$890,000 for the twelve months ended February 2, 2019 and February 3, 2018, respectively, on the Company’s proprietary credit card sales of \$27.4 million and \$27.5 million for the twelve months ended February 2, 2019 and February 3, 2018, respectively.

Liquidity, Capital Resources and Market Risk

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during fiscal 2018 was \$60.2 million as compared to \$36.0 million in fiscal 2017. These amounts have enabled the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and selective repurchases of the Company’s common stock.

Cash provided by operating activities for these periods was primarily generated by earnings adjusted

for depreciation, share-based compensation and changes in working capital. The increase of \$24.2 million for fiscal 2018 compared to fiscal 2017 is primarily due to an increase in net income and a decrease in prepaid assets, partially offset by a decrease in other noncurrent liabilities.

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, dividends and other operating requirements for fiscal 2019 and for the foreseeable future.

At February 2, 2019, the Company had working capital of \$229.5 million compared to \$233.4 million and \$271.9 million at February 3, 2018 and January 28, 2017, respectively.

At February 2, 2019, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to \$35.0 million less the balance of any revocable letters of credit discussed below. The revolving credit agreement is committed until August 2019. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of February 2, 2019. There were no borrowings outstanding under this credit facility as of the fiscal year ended February 2, 2019 or the fiscal year ended February 3, 2018.

The Company had no outstanding revocable letters of credit relating to purchase commitments at February 2, 2019, February 3, 2018 and January 28, 2017.

Expenditures for property and equipment totaled \$4.4 million, \$11.1 million and \$27.3 million in fiscal 2018, 2017 and 2016, respectively. The expenditures for fiscal 2018 were primarily for investments in new technology, automobile and home office improvements. In fiscal 2019, the Company is planning to invest approximately \$13.3 million in capital expenditures.

Net cash used in investing activities totaled \$71.1 million for fiscal 2018 compared to net cash provided by investing activities of \$67.7 million for fiscal 2017 and \$15.4 million used in fiscal 2016. In fiscal 2018, the cash used was due primarily to the purchase of short-term investments, partially offset by the sale of short-term investments.

Net cash used by financing activities totaled \$45.2 million compared to net cash used of \$72.0 million for fiscal 2017 and \$77.3 million for fiscal 2016. The decrease in cash used by financing activities was primarily due to a decrease in share repurchases and dividends paid.

On February 28, 2019, the Board of Directors maintained the quarterly dividend at \$0.33 per share, which was paid on March 26, 2019. As of March 27, 2019, the Company repurchased 126,891 shares for \$1,695,000, primarily to offset dilution from its equity compensation plans.

The Company does not use derivative financial instruments.

See Note 4, "Fair Value Measurements," for information regarding the Company's financial assets that are measured at fair value.

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at February 2, 2019. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from 1 month to 28.4 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities of 1 month. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and short-term investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised

of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at February 2, 2019, the Company had \$0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At February 3, 2018, the Company had \$0.8 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets.

Level 1 category securities are measured at fair value using quoted active market prices. Level 2 investment securities include corporate and municipal bonds for which quoted prices may not be available on active exchanges for identical instruments. Their fair value is principally based on market values determined by management with assistance of a third-party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the pricing service using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics, among other factors.

Deferred compensation plan assets consist primarily of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds' net asset values, as recorded in Other noncurrent liabilities in the Consolidated Balance Sheets. These funds are designed to mirror the return of existing mutual funds and money market funds that are observable and actively traded.

The following table shows the Company's obligations and commitments as of February 2, 2019, to make future payments under noncancellable contractual obligations (in thousands):

Contractual Obligations (1)	Payments Due During One Year Fiscal Period Ending						
	Total	2019	2020	2021	2022	2023	Thereafter
Operating leases	\$ 193,611	\$ 69,601	\$ 51,943	\$ 35,196	\$ 21,242	\$ 12,986	\$ 2,643
Total Contractual Obligations	\$ 193,611	\$ 69,601	\$ 51,943	\$ 35,196	\$ 21,242	\$ 12,986	\$ 2,643

(1) In addition to the amounts shown in the table above, \$8.5 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC 740 and we are uncertain if or when such amounts may be settled. See Note 12, Income Taxes, of the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

See Note 1, Summary of Significant Accounting Policies, Recently Adopted Accounting Policies and Recent Accounting Pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk:

The Company is subject to market rate risk from exposure to changes in interest rates based on its financing, investing and cash management activities, but the Company does not believe such exposure is material.

Item 8. Financial Statements and Supplementary Data:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of The Cato Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Cato Corporation and its subsidiaries (the “Company”) as of February 2, 2019 and February 3, 2018, and the related consolidated statements of income and comprehensive income, of stockholders’ equity and of cash flows for each of the three years in the period ended February 2, 2019, including the related notes and financial statement schedule in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 27, 2019

We have served as the Company's auditor since 2003.

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
(Dollars in thousands, except per share data)			
REVENUES			
Retail sales	\$ 821,113	\$ 841,997	\$ 947,370
Other revenue (principally finance charges, late fees and layaway charges)	8,551	7,984	9,199
Total revenues	829,664	849,981	956,569
COSTS AND EXPENSES, NET			
Cost of goods sold (exclusive of depreciation shown below)	522,535	553,058	601,985
Selling, general and administrative (exclusive of depreciation shown below)	262,510	266,304	289,619
Depreciation	16,463	19,643	22,716
Interest expense	96	114	176
Interest and other income	(4,991)	(5,111)	(7,041)
Cost and expenses, net	796,613	834,008	907,455
Income before income taxes	33,051	15,973	49,114
Income tax expense	2,590	7,433	1,902
Net income	\$ 30,461	\$ 8,540	\$ 47,212
Basic earnings per share	\$ 1.23	\$ 0.34	\$ 1.72
Diluted earnings per share	\$ 1.23	\$ 0.34	\$ 1.72
Dividends per share	\$ 1.32	\$ 1.32	\$ 1.29
Comprehensive income:			
Net income	\$ 30,461	\$ 8,540	\$ 47,212
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of \$77, \$28, and (\$608) for fiscal 2018, 2017 and 2016, respectively	244	(107)	(1,014)
Comprehensive income	\$ 30,705	\$ 8,433	\$ 46,198

See notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	February 2, 2019	February 3, 2018
(Dollars in thousands)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 24,603	\$ 78,047
Short-term investments	182,711	118,836
Restricted cash	606	3,217
Restricted short-term investments	3,196	505
Accounts receivable, net of allowance for doubtful accounts of \$842 at February 2, 2019 and \$1,148 at February 3, 2018	28,137	28,018
Merchandise inventories	119,585	121,535
Prepaid expenses and other current assets	11,750	22,322
Total Current Assets	370,588	372,480
Property and equipment – net	94,304	109,368
Deferred income taxes	11,209	12,570
Other assets	21,805	21,658
Total Assets	\$ 497,906	\$ 516,076
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 84,282	\$ 82,605
Accrued expenses	45,658	52,825
Accrued bonus and benefits	11,146	2,971
Accrued income taxes	-	680
Total Current Liabilities	141,086	139,081
Other noncurrent liabilities	39,984	50,642
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; 22,838,149 and 23,045,039 shares issued at February 2, 2019 and February 3, 2018, respectively	767	774
Convertible Class B common stock, \$.033 par value per share, 15,000,000 shares authorized; 1,763,652 and 1,755,601 shares at February 2, 2019 and February 3, 2018, respectively	59	58
Additional paid-in capital	105,580	99,948
Retained earnings	210,507	225,894
Accumulated other comprehensive income	(77)	(321)
Total Stockholders' Equity	316,836	326,353
Total Liabilities and Stockholders' Equity	\$ 497,906	\$ 516,076

See notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
	(Dollars in thousands)		
Operating Activities:			
Net income	\$ 30,461	\$ 8,540	\$ 47,212
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	16,463	19,643	22,716
Provision for doubtful accounts	470	690	832
Purchase premium and premium amortization of investments	576	3,834	783
Share based compensation	4,939	4,196	4,199
Excess tax benefits from share-based compensation	-	-	40
Deferred income taxes	1,285	1,176	(2,884)
Loss on disposal of property and equipment	1,089	2,127	2,060
Impairment of assets	1,548	7,698	13,561
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(579)	1,780	5,442
Merchandise inventories	1,950	24,147	(4,581)
Prepaid and other assets	10,384	(7,459)	(9,877)
Accrued income taxes	(680)	(1,602)	879
Accounts payable, accrued expenses and other liabilities	(7,662)	(28,780)	(8,254)
Net cash provided by operating activities	<u>60,244</u>	<u>35,990</u>	<u>72,128</u>
Investing Activities:			
Expenditures for property and equipment	(4,354)	(11,096)	(27,297)
Purchase of short-term investments	(157,515)	(15,770)	(113,031)
Sales of short-term investments	91,023	95,203	125,186
Purchase of other assets	(298)	(657)	(290)
Sales of other assets	7	6	-
Net cash provided by (used in) investing activities	<u>(71,137)</u>	<u>67,686</u>	<u>(15,432)</u>
Financing Activities:			
Dividends paid	(32,577)	(33,731)	(35,432)
Repurchase of common stock	(13,344)	(38,878)	(42,564)
Proceeds from line of credit	-	21,000	29,500
Payments to line of credit	-	(21,000)	(29,500)
Proceeds from employee stock purchase plan	570	484	501
Excess tax benefits from share-based compensation	-	-	(40)
Proceeds from stock options exercised	189	95	230
Net cash used in financing activities	<u>(45,162)</u>	<u>(72,030)</u>	<u>(77,305)</u>
Net increase (decrease) in cash and cash equivalents	(56,055)	31,646	(20,609)
Cash and cash equivalents at beginning of period	81,264	49,618	70,227
Cash and cash equivalents at end of period	<u>\$ 25,209</u>	<u>\$ 81,264</u>	<u>\$ 49,618</u>
Non-cash activity:			
Accrued plant and equipment	\$ 326	\$ 634	\$ 1,099
Accrued treasury stock	-	-	1,853

See notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Dollars in thousands)						
Balance — January 30, 2016	\$ 877	\$ 58	\$ 90,336	\$ 320,594	\$ 800	\$ 412,665
Comprehensive income:						
Net income	-	-	-	47,212	-	47,212
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of (\$608)	-	-	-	-	(1,014)	(1,014)
Dividends paid (\$1.29 per share)	-	-	-	(35,432)	-	(35,432)
Class A common stock sold through employee stock purchase plan — 17,455 shares	1	-	590	-	-	591
Class A common stock sold through stock option plans — 8,051 shares	-	-	248	-	-	248
Class A common stock issued through restricted stock grant plans 96,465 shares	3	-	4,073	15	-	4,091
Windfall tax benefit from equity compensation plans	-	-	(40)	-	-	(40)
Repurchase and retirement of treasury shares — 1,320,182 shares	(44)	-	-	(44,374)	-	(44,418)
Balance — January 28, 2017	\$ 837	\$ 58	\$ 95,207	\$ 288,015	\$ (214)	\$ 383,903
Comprehensive income:						
Net income	-	-	-	8,540	-	8,540
Unrealized gains on available-for-sale securities, net of deferred income tax liability of \$28	-	-	-	-	(107)	(107)
Dividends paid (\$1.32 per share)	-	-	-	(33,731)	-	(33,731)
Class A common stock sold through employee stock purchase plan — 34,238 shares	1	-	569	-	-	570
Class A common stock sold through stock option plans — 4,025 shares	-	-	112	-	-	112
Class A common stock issued through restricted stock grant plans 169,907 shares	6	-	4,060	27	-	4,093
Windfall tax benefit from equity compensation plans	-	-	-	-	-	-
Repurchase and retirement of treasury shares — 2,082,535 shares	(70)	-	-	(36,957)	-	(37,027)
Balance — February 3, 2018	\$ 774	\$ 58	\$ 99,948	\$ 225,894	\$ (321)	\$ 326,353
Comprehensive income:						
Net income	-	-	-	30,461	-	30,461
Unrealized gains on available-for-sale securities, net of deferred income tax liability of \$77	-	-	-	-	244	244
Dividends paid (\$1.32 per share)	-	-	-	(32,577)	-	(32,577)
Class A common stock sold through employee stock purchase plan — 44,770 shares	2	-	669	-	-	671
Class B common stock sold through stock option plans — 8,051 shares	-	1	194	-	-	195
Class A common stock issued through restricted stock grant plans 341,744 shares	11	-	4,769	54	-	4,834
Repurchase and retirement of treasury shares — 593,404 shares	(20)	-	-	(13,325)	-	(13,345)
Balance — February 2, 2019	\$ 767	\$ 59	\$ 105,580	\$ 210,507	\$ (77)	\$ 316,836

See notes to consolidated financial statements.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation: The Consolidated Financial Statements include the accounts of The 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 reportable segments — the operation of a fashion specialty stores segment (“Retail Segment”) and a credit card segment (“Credit Segment”). The apparel specialty stores operate under the names “Cato,” “Cato Fashions,” “Cato Plus,” “It’s Fashion,” “It’s Fashion Metro” and “Versona,” including e-commerce websites. The stores are located primarily in strip shopping centers principally in the southeastern United States. The Company’s fiscal year ends on the Saturday nearest January 31 of the subsequent year.

Use of Estimates: The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) 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, inventory shrinkage, the calculation of potential asset impairment, workers’ compensation, general and auto insurance liabilities, reserves relating to self-insured health insurance, and uncertain tax positions.

Cash and Cash Equivalents: Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

Short-Term Investments: Investments with original maturities beyond three months are classified as short-term investments. See Note 3 for the Company’s estimated fair value of, and other information regarding, its short-term investments. The Company’s short-term investments are all classified as available-for-sale. As they are available for current operations, they are classified on the 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 the 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 in the accompanying Consolidated Statements of Income and 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 Interest and other income.

Restricted Cash and Short-term Investments: The Company had \$3.8 million and \$3.7 million in escrow at February 2, 2019 and February 3, 2018, respectively, as security and collateral for administration of the Company’s self-insured workers’ compensation and general liability coverage, which is reported as Restricted cash and Restricted short-term investments on the Consolidated Balance Sheets.

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017 were a refund of \$407,000, and payments of \$4,356,000 and \$14,118,000, respectively.

Inventories: Merchandise inventories are stated at the net realizable value as determined by the weighted-average cost method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property and Equipment: Property and equipment are recorded at cost, including land. Maintenance and repairs are expensed to operations as incurred; renewals and betterments are capitalized. Depreciation is determined on the straight-line method over the estimated useful lives of the related assets excluding leasehold improvements. Leasehold improvements are amortized over the shorter of the estimated useful life or lease term. For leases with renewal periods at the Company's option, the Company generally uses the original lease term plus reasonably assured renewal option periods (generally one five-year option period) to determine estimated useful lives. Typical estimated useful lives are as follows:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Land improvements	10 years
Buildings	30-40 years
Leasehold improvements	5-10 years
Fixtures and equipment	3-10 years
Information technology equipment and software	3-10 years
Aircraft	20 years

Impairment of Long-Lived Assets

The Company invests in leaseholds and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to Fixtures and equipment, Leasehold improvements, and Information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when the Company determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and projected cash flows, which include future sales growth projections. Further, in determining when to close a store, the Company considers real estate development in the area and perceived local market conditions, which can be difficult to predict and may be subject to change. Asset impairment charges of \$1,548,000, \$7,698,000 and \$13,561,000 were incurred in fiscal 2018, fiscal 2017 and fiscal 2016, respectively. In addition, the Company regularly evaluates its other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Other Assets

Other assets are comprised of long-term assets, primarily insurance contracts related to deferred compensation assets and land held for investment purposes.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Year Ended	
	February 2, 2019	February 3, 2018
	(Dollars in thousands)	
Other Assets		
Deferred Compensation Investments	\$ 9,093	\$ 8,899
Miscellaneous Investments	1,277	1,392
Other Deposits	520	525
Investment In Partnership	526	699
Land Held for Investment	9,923	9,677
Other	466	466
Total Other Assets	\$ 21,805	\$ 21,658

Leases

The Company determines the classification of leases consistent with ASC 840 - *Leases*. The Company leases all of its retail stores. Most lease agreements contain construction allowances and rent escalations. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, including renewal periods considered reasonably assured, the Company begins amortization as of the initial possession date which is when the Company enters the space and begins to make improvements in preparation for intended use.

For deferred landlord allowances (construction allowances), the Company records a deferred rent liability in Other noncurrent liabilities on the Consolidated Balance Sheets and amortizes the deferred rent over the term of the respective lease as a reduction to Cost of goods sold on the Consolidated Statements of Income and Comprehensive Income.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases. Deferred landlord allowance and deferred step rent of \$19,334,000 are recorded in Other noncurrent liabilities at the end of February 2, 2019.

Revenue Recognition

In the First quarter of 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“Topic 606”) using the modified retrospective method applied to contracts which were pending as of February 3, 2018. Financial results included in the Company’s Consolidated Statement of Income for the twelve months ended February 2, 2019 are presented under Topic 606, while prior year amounts have not been restated and continue to be reported in accordance with ASC 605, “Revenue Recognition” (“Topic 605”). As a result of adopting Topic 606, the Company did not adjust opening retained earnings.

The Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales from stores are also recorded when the customer takes possession of the merchandise. E-commerce sales are recorded when the risk of loss is transferred to the customer. Gift cards are recorded as deferred revenue until they are redeemed or forfeited. Layaway sales are recorded as deferred revenue until the customer takes possession or forfeits the merchandise. Gift cards do not have expiration dates. A provision is made for estimated merchandise returns based on sales volumes and the Company’s experience; actual returns have not varied materially from historical amounts. A provision is made for estimated write-offs associated with sales made with the Company’s proprietary credit card. Amounts related to shipping and handling billed to customers in a sales

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

transaction are classified as Other revenue and the costs related to shipping product to customers (billed and accrued) are classified as Cost of goods sold.

In accordance with Topic 606, in fiscal 2018, the Company recognized \$591,000 of income on unredeemed gift cards (“gift card breakage”) as a component of Other Revenue on the Consolidated Statements of Income and Comprehensive Income. Under Topic 606, the Company recognizes gift card breakage using an expected breakage percentage based on redeemed gift cards. In fiscal 2017 and 2016, the Company recognized \$1,380,000 and \$3,434,000, respectively, of gift card breakage as a component of Other income on the Consolidated Statements of Income and Comprehensive Income. See Note 2 for further information on miscellaneous income. During the first quarter of 2016, the Company changed its estimate for recognizing gift card breakage income, changing the dormancy period to 24 months of inactivity from 60 months of inactivity.

The Company offers its own proprietary credit card to customers. All credit activity is performed by the Company’s wholly-owned subsidiaries. None of the credit card receivables are secured. The Company estimated uncollectible amounts of \$897,000 and \$890,000 for the twelve months ended February 2, 2019 and February 3, 2018, respectively, on sales purchased on the Company’s proprietary credit card of \$27.4 million and \$27.5 million for the twelve months ended February 2, 2019 and February 3, 2018, respectively.

The following table provides information about receivables and contract liabilities from contracts with customers (in thousands):

	Balance as of	
	February 2, 2019	February 3, 2018
Proprietary Credit Card Receivables, net	\$ 15,980	\$ 16,857
Gift Card Liability	\$ 7,721	\$ 7,565

Cost of Goods Sold: Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight, and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for our buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Buying, distribution, occupancy and internal transfer costs are treated as period costs and are not capitalized as part of inventory. The direct costs associated with shipping goods to customers are recorded as a component of Cost of goods sold.

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately \$5,546,000, \$5,558,000 and \$6,868,000 for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively.

Stock Repurchase Program: For fiscal year ending February 2, 2019, the Company had 2,019,002 shares remaining in open authorizations. There is no specified expiration date for the Company’s repurchase program. Share repurchases are recorded in Retained earnings, net of par value. As of March 27, 2019, the Company repurchased 126,891 shares for \$1,695,000, primarily to offset dilution from its equity compensation plans.

Earnings Per Share: ASC 260 - *Earnings Per Share*, requires dual presentation of basic EPS and diluted EPS on the face of all income statements for all entities with complex capital structures. The

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company has presented one basic EPS and one diluted EPS amount for all common shares in the accompanying Consolidated Statements of Income and Comprehensive Income. While the Company's certificate of incorporation provides the right for the Board of Directors to declare dividends on Class A shares without declaration of commensurate dividends on Class B shares, the Company has historically paid the same dividends to both Class A and Class B shareholders and the Board of Directors has resolved to continue this practice. Accordingly, the Company's allocation of income for purposes of EPS computation is the same for Class A and Class B shares and the EPS amounts reported herein are applicable to both Class A and Class B shares.

Basic EPS is computed as net income less earnings allocated to non-vested equity awards divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options and the Employee Stock Purchase Plan.

The following table reflects the basic and diluted EPS calculations for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017:

	Fiscal Year Ended		
	February 2, 2019	February 3, 2018	January 28, 2017
Numerator		(Dollars in thousands)	
Net earnings	\$ 30,461	\$ 8,540	\$ 47,212
Earnings allocated to non-vested equity awards	(862)	(172)	(956)
Net earnings available to common stockholders	<u>\$ 29,599</u>	<u>\$ 8,368</u>	<u>\$ 46,256</u>
Denominator			
Basic weighted average common shares outstanding	23,995,170	24,906,203	26,839,885
Dilutive effect of stock options and restricted stock	-	-	1,634
Diluted weighted average common shares outstanding	<u>23,995,170</u>	<u>24,906,203</u>	<u>26,841,519</u>
Net income per common share			
Basic earnings per share	<u>\$ 1.23</u>	<u>\$ 0.34</u>	<u>\$ 1.72</u>
Diluted earnings per share	<u>\$ 1.23</u>	<u>\$ 0.34</u>	<u>\$ 1.72</u>

Vendor Allowances: The Company receives certain allowances from vendors primarily related to purchase discounts and markdown and damage allowances. All allowances are reflected in Cost of goods sold as earned when the related products are sold. Cash consideration received from a vendor is presumed to be a reduction of the purchase cost of merchandise and is reflected as a reduction of inventory. The Company does not receive cooperative advertising allowances.

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.

Unrecognized tax benefits for uncertain tax positions are established in accordance with ASC 740 when, despite the fact that the tax return positions are supportable, the Company believes these positions may be challenged and the results are uncertain. The Company adjusts these liabilities in light of changing facts and circumstances. Potential accrued interest and penalties related to unrecognized tax benefits within operations are recognized as a component of Income before income taxes.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Tax Cuts and Jobs Act (the “Tax Act”) enacted during fiscal 2017 significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. The Company has finalized the impact of the enacted law during the measurement period allowed by SEC Staff Accounting Bulletin (“SAB 118”).

In addition, the Tax Act implemented a new minimum tax on global intangible low-taxed income (“GILTI”). The Company has elected to account for GILTI tax in the period in which it is incurred, which is included as a component of its current year provision for income taxes.

Store Opening Costs: Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. A portion of construction, design, and site selection costs are capitalized to new, relocated and remodeled stores.

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 on a discounted cash flow basis, reduced by any expected sublease rentals.

Insurance: The Company is self-insured with respect to employee health care, workers’ compensation and general liability. The Company’s self-insurance liabilities are based on the total estimated cost of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management reviews current and historical claims data in developing its estimates. The Company has stop-loss insurance coverage for individual claims in excess of \$325,000 for employee healthcare, \$350,000 for workers’ compensation and \$250,000 for general liability.

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

Stock Based Compensation: The Company records compensation expense associated with restricted stock and other forms of equity compensation in accordance with ASC 718 - *Compensation – Stock Compensation*. Compensation cost associated with stock awards recognized in all years presented includes: 1) amortization related to the remaining unvested portion of all stock awards based on the grant date fair value and 2) adjustments for the effects of actual forfeitures versus initial estimated forfeitures.

Recently Adopted Accounting Policies

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” that supersedes most current revenue recognition guidance and modifies the accounting treatment for certain costs associated with revenue generation. The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services, and provides several steps to apply to achieve that principle. In addition, the new guidance enhances disclosure requirements to include more information about specific revenue contracts entered into by the entity. Effective at the beginning of fiscal 2018 the Company adopted this new standard.

The Company has elected the modified retrospective approach to transition to Topic 606. As required by this expedient, the Company assessed its open contracts with customers at February 3, 2018 to determine the cumulative effect of initially applying this standard. The Company concluded that the cumulative effect of initially applying this standard is not material. In addition, the Company assessed the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

financial line items impacted by adopting this standard compared to the previous revenue guidance. The Company concluded that any differences in financial statement line items are not material. Please refer to Note 1, Summary of Significant Accounting Policies, for disclosures related to this adoption.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)." This standard requires that restricted cash and restricted cash equivalents be included in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. The Company adopted the provisions of ASU 2016-18 in the first quarter of 2018 using the retrospective transition method. The new guidance did not have a material impact on the financial statements.

Recently Issued Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board issued an effective date for ASU 2016-02, "Leases (Topic 842)," a new leasing standard that will require substantially all leases to be recorded on the balance sheet. The standard is effective for the Company's first quarter of its 2019 fiscal year; early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements and expects assets and liabilities to increase. We will continue evaluating the practical expedients as they are issued. However, the adoption of this standard will result in the recognition of a lease liability and related right-of-use asset and will materially impact our balance sheet.

2. Interest and Other Income:

The components of Interest and other income are shown below (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Dividend income	\$ (34)	\$ (22)	\$ (21)
Interest income	(3,893)	(2,433)	(2,308)
Miscellaneous income	(1,109)	(2,616)	(4,439)
Net loss (gain) on investment sales	45	(40)	(273)
Interest and other income	<u>\$ (4,991)</u>	<u>\$ (5,111)</u>	<u>\$ (7,041)</u>

3. Short-Term Investments:

At February 2, 2019, the Company's investment portfolio was primarily invested in governmental debt securities held in managed accounts. These securities are classified as available-for-sale as they are highly liquid and are recorded on the Consolidated Balance Sheets at estimated fair value, with unrealized gains and temporary losses reported net of taxes in Accumulated other comprehensive income.

The table below reflects gross accumulated unrealized gains (losses) in short-term investments at February 2, 2019 and February 3, 2018 (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	February 2, 2019			February 3, 2018		
	Debt securities issued by the U.S. Government, its various States, municipalities and agencies of each	Corporate debt securities	Total	Debt securities issued by the U.S. Government, its various States, municipalities and agencies of each	Corporate debt securities	Total
Cost basis	71,953	\$ 114,372	\$ 186,325	\$ 96,701	\$ 23,079	\$ 119,780
Unrealized gains	-	-	-	-	-	-
Unrealized (loss)	(371)	(147)	(518)	(718)	(226)	(944)
Estimated fair value	<u>\$ 71,582</u>	<u>\$ 114,225</u>	<u>\$ 185,807</u>	<u>\$ 95,983</u>	<u>\$ 22,853</u>	<u>\$ 118,836</u>

Accumulated other comprehensive income on the Consolidated Balance Sheets reflects the accumulated unrealized net gains in short-term investments in addition to unrealized gains from equity investments and restricted cash investments. The table below reflects gross accumulated unrealized gains in these investments at February 2, 2019 and February 3, 2018 (in thousands):

Security Type	February 2, 2019			February 3, 2018		
	Unrealized Gain/(Loss)	Deferred Tax Benefit	Unrealized Net Gain/ (Loss)	Unrealized Gain/(Loss)	Deferred Tax Benefit	Unrealized Net Gain/ (Loss)
Short-Term Investments	\$ (518)	\$ 121	\$ (397)	\$ (945)	\$ 225	\$ (720)
Equity Investments	417	(97)	320	524	(125)	399
Total	<u>\$ (101)</u>	<u>\$ 24</u>	<u>\$ (77)</u>	<u>\$ (421)</u>	<u>\$ 100</u>	<u>\$ (321)</u>

4. Fair Value Measurements:

The following tables set forth information regarding the Company's financial assets that are measured at fair value as of February 2, 2019 and February 3, 2018 (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Description	February 2, 2019	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	\$ 54,346	\$ -	\$ 54,346	\$ -
Corporate Bonds	90,891	-	90,891	-
U.S. Treasury/Agencies Notes and Bonds	17,236	-	17,236	-
Cash Surrender Value of Life Insurance	9,093	-	-	9,093
Asset-backed Securities (ABS)	23,334	-	23,334	-
Corporate Equities	690	690	-	-
Certificates of Deposit	101	101	-	-
Total Assets	\$ 195,691	\$ 791	\$ 185,807	\$ 9,093
Liabilities:				
Deferred Compensation	(8,908)	-	-	(8,908)
Total Liabilities	\$ (8,908)	\$ -	\$ -	\$ (8,908)

Description	February 3, 2018	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	\$ 95,983	\$ -	\$ 95,983	\$ -
Corporate Bonds	22,535	-	22,535	-
U.S. Treasury/Agencies Notes and Bonds	404	404	-	-
Cash Surrender Value of Life Insurance	8,900	-	-	8,900
Asset-backed Securities (ABS)	318	-	318	-
Corporate Equities	798	798	-	-
Certificates of Deposit	100	100	-	-
Total Assets	\$ 129,038	\$ 1,302	\$ 118,836	\$ 8,900
Liabilities:				
Deferred Compensation	(8,951)	-	-	(8,951)
Total Liabilities	\$ (8,951)	\$ -	\$ -	\$ (8,951)

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at February 2, 2019. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from 1 month to 28.4 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities of 1 month. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and short-term investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at February 2, 2019, the Company had \$0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At February 3, 2018, the Company had \$0.8 million of corporate equities, which are recorded within Other assets in the Consolidated Balance

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Sheets.

Level 1 category securities are measured at fair value using quoted active market prices. Level 2 investment securities include corporate and municipal bonds for which quoted prices may not be available on active exchanges for identical instruments. Their fair value is principally based on market values determined by management with assistance of a third-party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the pricing service using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics, among other factors.

Deferred compensation plan assets consist primarily of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds' net asset values, as recorded in Other noncurrent liabilities in the Consolidated Balance Sheets. These funds are designed to mirror the return of existing mutual funds and money market funds that are observable and actively traded.

The following tables summarize the change in fair value of the Company's financial assets and liabilities measured using Level 3 inputs as of February 2, 2019 and February 3, 2018 (in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)		
	Other		Total
	Investments	Cash	
	Private Equity	Surrender Value	
Beginning Balance at February 3, 2018	\$ -	\$ 8,900	\$ 8,900
Additions	-	596	596
Total gains or (losses)			
Included in interest and other income (or changes in net assets)	-	(403)	(403)
Included in other comprehensive income	-	-	-
Ending Balance at February 2, 2019	\$ -	\$ 9,093	\$ 9,093

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	
	Beginning Balance at February 3, 2018	\$ (8,951)
	Additions	(105)
Total (gains) or losses		
Included in interest and other income (or changes in net assets)	148	
Ending Balance at February 2, 2019	\$ (8,908)	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)		
	Other		Total
	Investments Private Equity	Cash Surrender Value	
Beginning Balance at January 28, 2017	\$ -	\$ 7,973	\$ 7,973
Additions	-	307	307
Total gains or (losses)			
Included in interest and other income (or changes in net assets)	-	620	620
Included in other comprehensive income	-	-	-
Ending Balance at February 3, 2018	\$ -	\$ 8,900	\$ 8,900

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	
	Beginning Balance at January 28, 2017	\$ (7,649)
Additions	(443)	
Total (gains) or losses		
Included in interest and other income (or changes in net assets)	(859)	
Ending Balance at February 3, 2018	\$ (8,951)	

5. Accounts Receivable:

Accounts receivable consist of the following (in thousands):

	February 2, 2019	February 3, 2018
Customer accounts — principally deferred payment accounts	\$ 16,821	\$ 18,004
Miscellaneous receivables	6,099	5,343
Bank card receivables	6,059	5,819
Total	28,979	29,166
Less allowance for doubtful accounts	842	1,148
Accounts receivable — net	\$ 28,137	\$ 28,018

Finance charge and late charge revenue on customer deferred payment accounts totaled \$3,814,000, \$4,222,000 and \$4,906,000 for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively, and charges against the allowance for doubtful accounts were approximately \$470,000, \$690,000 and \$832,000 for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively. Expenses relating to the allowance for doubtful accounts are classified as a component of Selling, general and administrative expense in the accompanying Consolidated Statements of Income and Comprehensive Income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Property and Equipment:

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

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Land and improvements	\$ 13,552	\$ 13,550
Buildings	35,773	35,461
Leasehold improvements	90,827	93,620
Fixtures and equipment	212,012	217,873
Information technology equipment and software	58,473	58,458
Construction in progress	-	64
Total	<u>410,637</u>	<u>419,026</u>
Less accumulated depreciation	<u>316,333</u>	<u>309,658</u>
Property and equipment — net	<u>\$ 94,304</u>	<u>\$ 109,368</u>

Construction in progress primarily represents costs related to new store development and investments in new technology.

7. Accrued Expenses:

Accrued expenses consist of the following (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Accrued employment and related items	\$ 9,252	\$ 13,472
Property and other taxes	17,981	17,515
Accrued self-insurance	10,980	11,637
Fixed assets	326	634
Other	7,119	9,567
Total	<u>\$ 45,658</u>	<u>\$ 52,825</u>

8. Financing Arrangements:

As of February 2, 2019, the Company had an unsecured revolving credit agreement to borrow \$35.0 million less the balance of any revocable credits discussed below. The revolving credit agreement is committed until August 2019. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of February 2, 2019. There were no borrowings outstanding under this credit facility as of February 2, 2019, February 3, 2018 or January 28, 2017. At February 2, 2019, the weighted average interest rate under the credit facility was zero due to no borrowings outstanding at the end of the year.

At February 2, 2019, February 3, 2018 and January 28, 2017, the Company had no outstanding revocable letters of credit relating to purchase commitments.

9. 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock cannot be paid unless cash dividends of at least an equal amount are paid on the Class A Common Stock.

The Company's certificate of incorporation 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 Common 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.

On March 26, 2019, the Company paid a quarterly dividend of \$0.33 per share.

10. Employee Benefit Plans:

The Company has a defined contribution retirement savings plan ("401(k) plan") which covers all associates who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 75% 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 2, 2019, February 3, 2018 and January 28, 2017 were approximately \$1,442,000, \$1,207,000 and \$1,234,000, respectively.

The Company has a trustee, non-contributory Employee Stock Ownership Plan ("ESOP"), which covers substantially all associates who meet minimum age and service requirements. The amount of the Company's discretionary contribution to the ESOP is determined annually by the Compensation Committee of the Board of Directors and can be made in Company Class A Common stock or cash. The Company has chosen to contribute cash and the plan purchases stock on the open market consistent with prior years. The Committee approved a contribution of approximately \$1,229,000 for the year ended February 2, 2019. The Company's contribution was \$1,026,000 and \$689,000 for the years ended February 3, 2018 and January 28, 2017, respectively.

The Company is primarily self-insured for healthcare. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims. Management reviews current and historical claims data in developing its estimates. If the underlying facts and circumstances of the claims change or the historical trend is not indicative of future trends, then the Company may be required to record additional expense or a reduction to expense which could be material to the Company's reported financial condition and results of operations. The Company funds healthcare contributions to a third-party provider.

11. Leases:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are at a fixed rate for periods of five years with renewal options. For leases with landlord capital improvement funding, the funded amount is recorded as a deferred liability and amortized over the term of the lease as a reduction to rent expense on the Consolidated Statements of Income and Comprehensive Income. Equipment leases are generally for one- to three-year periods.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fiscal Year

2019	\$ 69,601
2020	51,943
2021	35,196
2022	21,242
2023	12,986
Thereafter	2,643
Total minimum lease payments	<u>\$ 193,611</u>

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

<u>Fiscal Year Ended</u>	<u>February 2, 2019</u>	February 3, 2018	January 28, 2017
Minimum rentals	\$ 69,871	\$ 70,971	\$ 70,681
Contingent rent	1	-	3
Total rental expense	<u>\$ 69,872</u>	<u>\$ 70,971</u>	<u>\$ 70,684</u>

12. Income Taxes:

Unrecognized tax benefits for uncertain tax positions, primarily recorded in Other noncurrent liabilities, are established in accordance with ASC 740 when, despite the fact that the tax return positions are supportable, the Company believes these positions may be challenged and the results are uncertain. The Company adjusts these liabilities in light of changing facts and circumstances. As of February 2, 2019, the Company had gross unrecognized tax benefits totaling approximately \$8.5 million, of which approximately \$10.6 million (inclusive of interest) would affect the effective tax rate if recognized. The Company had approximately \$3.2 million, \$2.8 million and \$4.1 million of interest and penalties accrued related to uncertain tax positions as of February 2, 2019, February 3, 2018 and January 28, 2017, respectively. The Company recognizes interest and penalties related to the resolution of uncertain tax positions as a component of income tax expense. The Company recognized \$1,023,000, \$986,000 and \$716,000 of interest and penalties in the Consolidated Statements of Income and Comprehensive Income for the years ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively. The Company is no longer subject to U.S. federal income tax examinations for years before 2015. In state and local tax jurisdictions, the Company has limited exposure before 2008. During the next 12 months, various state and local taxing authorities' statutes of limitations will expire and certain state examinations may close, which could result in a potential reduction of unrecognized tax benefits for which a range cannot be determined.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

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<u>Fiscal Year Ended</u>	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Balances, beginning	\$ 9,531	\$ 10,668	\$ 9,560
Additions for tax positions of the current year	420	2,537	2,618
Reduction for tax positions of prior years for:			
Changes in judgment	-	(1,209)	-
Settlements during the period	(419)	(390)	(328)
Lapses of applicable statutes of limitations	(1,047)	(2,075)	(1,182)
Balances, ending	<u>\$ 8,485</u>	<u>\$ 9,531</u>	<u>\$ 10,668</u>

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

<u>Fiscal Year Ended</u>	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Current income taxes:			
Federal	\$ 281	\$ 1,726	\$ (411)
State	(359)	1,401	873
Foreign	1,371	1,952	2,053
Total	<u>1,293</u>	<u>5,079</u>	<u>2,515</u>
Deferred income taxes:			
Federal	2,064	3,816	45
State	(767)	(1,462)	(644)
Foreign	-	-	(14)
Total	<u>1,297</u>	<u>2,354</u>	<u>(613)</u>
Total income tax expense	<u>\$ 2,590</u>	<u>\$ 7,433</u>	<u>\$ 1,902</u>

Significant components of the Company's deferred tax assets and liabilities as of February 2, 2019 and February 3, 2018 are as follows (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>February 2, 2019</u>	<u>February 3, 2018</u>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 180	\$ 198
Inventory valuation	1,604	1,758
Non-deductible accrued liabilities	1,589	3,248
Other taxes	1,133	1,152
Federal benefit of uncertain tax positions	1,111	1,268
Equity compensation expense	4,242	4,321
Net Operating Losses	1,484	851
Charitable contribution carryover	1,568	2,041
State Tax Credits	1,150	789
Other	1,242	1,188
Total deferred tax assets	<u>15,303</u>	<u>16,814</u>
Deferred tax liabilities		
Property and equipment	1,529	1,859
Deferred lease liability	1,977	1,191
Accrued self-insurance reserves	481	1,043
Other	107	151
Total deferred tax liabilities	<u>4,094</u>	<u>4,244</u>
Net deferred tax assets	<u>\$ 11,209</u>	<u>\$ 12,570</u>

As of February 2, 2019, the Company's position is that its overseas subsidiaries will not invest undistributed earnings indefinitely. Future unremitted earnings when distributed are expected to be either distributions of GILTI-previously taxed income or eligible for a 100% dividends received deduction. The withholding tax rate on any unremitted earnings is zero and state income taxes on such earnings are considered immaterial. Therefore, the Company has not provided deferred U.S. income taxes on approximately \$7.1 million of earnings from non-U.S. subsidiaries.

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

<u>Fiscal Year Ended</u>	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Federal income tax rate	21.0 %	33.7 %	35.0 %
State income taxes	1.1	(4.7)	(0.2)
Global Intangible Low-taxed Income	6.2	-	-
Foreign Tax Credit	(4.0)	-	-
Foreign rate differential	(2.6)	(28.8)	(9.3)
Offshore Claim	(5.7)	(15.6)	(4.1)
Deemed Repatriation	-	38.6	-
Work Opportunity Credit	(3.4)	(6.0)	(3.4)
Addback on Wage Related Credits	0.7	2.0	1.2
Tax exempt interest	(2.4)	(4.4)	(1.6)
Charitable contribution of inventory	-	(1.0)	(13.1)
Uncertain tax positions	(1.5)	(4.4)	2.4
Deferred rate change	(2.0)	39.2	-
Other	0.4	(2.1)	(3.0)
Effective income tax rate	<u>7.8 %</u>	<u>46.5 %</u>	<u>3.9 %</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Tax Act enacted in fiscal 2017 significantly revised U.S. corporate income tax law by, among other things, reducing the corporate income tax rate to 21% and implementing a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. In response to the Tax Act, the SEC issued SAB 118, which allows issuers to recognize provisional estimates of the impact of the Tax Act in their financial statements and adjust in the period in which the estimate becomes finalized, or in circumstances where estimates cannot be made, to disclose and recognize within a one-year measurement period. As of February 2, 2019, the accounting for the income tax effects of the Tax Act has been completed.

Implementation of the Tax Act during 2017 resulted in an approximate \$6.2 million charge for the revaluation of the Company's net domestic deferred tax assets and a one-time provisional transition tax charge of approximately \$6.1 million, of which \$5.7 million was recorded in non-current liabilities in fiscal 2017. As of February 2, 2019, the Company has finalized these amounts. The finalization of the revaluation of the Company's net domestic deferred tax assets resulted in a \$.5 million benefit included as a component of its current year provision for income taxes and the non-current liability associated with the one-time transition tax charge was extinguished in 2018.

13. Quarterly Financial Data (Unaudited):

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

<u>Fiscal 2018</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Total revenues	\$ 238,300	\$ 208,917	\$ 190,012	\$ 192,435
Gross profit (exclusive of depreciation)	96,013	79,116	66,998	65,002
Net income (loss)	23,411	6,482	3,800	(3,232)
Basic earnings per share	\$ 0.94	\$ 0.26	\$ 0.16	\$ (0.13)
Diluted earnings per share	\$ 0.94	\$ 0.26	\$ 0.16	\$ (0.13)
<u>Fiscal 2017</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Total revenues	\$ 239,741	\$ 206,961	\$ 190,273	\$ 213,006
Gross profit (exclusive of depreciation)	93,958	65,703	65,811	71,451
Net income (loss)	22,233	(881)	2,694	(15,506)
Basic earnings per share	\$ 0.85	\$ (0.03)	\$ 0.11	\$ (0.62)
Diluted earnings per share	\$ 0.85	\$ (0.03)	\$ 0.11	\$ (0.62)

14. Reportable Segment Information:

The Company has determined that it has four operating segments, as defined under ASC 280-10, including Cato, It's Fashion, Versona and Credit. As outlined in ASC 280-10, the Company has two reportable segments: Retail and Credit. The Company has aggregated its three retail operating segments, including e-commerce, based on the aggregation criteria outlined in ASC 280-10, which states that two or more operating segments may be aggregated into a single reportable segment if aggregation is consistent with the objective and basic principles of ASC 280-10, which require the segments have similar economic characteristics, products, production processes, clients and methods of distribution.

The Company's retail operating segments have similar economic characteristics and similar operating, financial and competitive risks. They are similar in terms of product offered, as they all offer women's apparel, shoes and accessories. Merchandise inventory of the Company's retail operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Merchandise for the Company's retail operating segments is distributed to retail stores in a similar manner.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

through the Company's single distribution center and is subsequently distributed to clients in a similar manner.

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):

<u>Fiscal 2018</u>	<u>Retail</u>	<u>Credit</u>	<u>Total</u>
Revenues	\$ 825,850	\$ 3,814	\$ 829,664
Depreciation	16,441	22	16,463
Interest and other income	4,991	-	4,991
Income before taxes	31,149	1,902	33,051
Capital expenditures	4,315	39	4,354

<u>Fiscal 2017</u>	<u>Retail</u>	<u>Credit</u>	<u>Total</u>
Revenues	\$ 845,759	\$ 4,222	\$ 849,981
Depreciation	19,604	39	19,643
Interest and other income	5,111	-	5,111
Income before taxes	14,762	1,211	15,973
Capital expenditures	11,047	49	11,096

<u>Fiscal 2016</u>	<u>Retail</u>	<u>Credit</u>	<u>Total</u>
Revenues	\$ 951,663	\$ 4,906	\$ 956,569
Depreciation	22,667	49	22,716
Interest and other income	7,041	-	7,041
Income before taxes	47,447	1,667	49,114
Capital expenditures	27,248	49	27,297

	<u>Retail</u>	<u>Credit</u>	<u>Total</u>
Total assets as of February 2, 2019	\$ 454,143	\$ 43,763	\$ 497,906
Total assets as of February 3, 2018	469,652	46,424	516,076

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 1. The Company evaluates performance based on profit or loss from operations before income taxes. The Company does not allocate certain corporate expenses to the credit segment.

The following schedule summarizes the direct expenses of the credit segment which are reflected in Selling, general and administrative expenses (in thousands):

	<u>February 2, 2019</u>	<u>February 3, 2018</u>	<u>January 28, 2017</u>
Bad debt expense	\$ -	\$ 690	\$ 832
Payroll	749	861	865
Postage	506	546	635
Other expenses	635	875	858
Total expenses	\$ 1,890	\$ 2,972	\$ 3,190

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Stock Based Compensation:

As of February 2, 2019, the Company had four long-term compensation plans pursuant to which stock-based compensation was outstanding or could be granted. The Company's 1987 Non-Qualified Stock Option Plan is for the granting of options to officers and key employees. As of February 2, 2019, there were no available stock options for grant. The 2018 Incentive Compensation Plan, 2013 Incentive Compensation Plan and 2004 Amended and Restated Incentive Compensation Plan are for the granting of various forms of equity-based awards, including restricted stock and stock options for grant, to officers, directors and key employees. Effective May 24, 2018 and May 23, 2013, shares for grant were no longer available under the 2013 Incentive Compensation Plan and 2004 Amended and Restated Incentive Compensation Plan, respectively.

The following table presents the number of options and shares of restricted stock initially authorized and available for grant under each of the plans as of February 2, 2019:

	1987 Plan	2004 Plan	2013 Plan	2018 Plan	Total
Options and/or restricted stock initially authorized	5,850,000	1,350,000	1,500,000	4,725,000	13,425,000
Options and/or restricted stock available for grant:					
February 3, 2018	-	-	856,473	-	856,473
February 2, 2019	-	-	-	4,514,151	4,514,151

In accordance with ASC 718, the fair value of current restricted stock awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to compensation expense on a straight-line basis over a five-year vesting period. As of February 2, 2019, there was \$11,989,000 of total unrecognized compensation expense related to unvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.2 years. The total grant date fair value of the shares recognized as compensation expense during the twelve months ended February 2, 2019, February 3, 2018 and January 28, 2017 was \$4,833,000, \$4,093,000 and \$4,091,000, respectively. The expenses are classified as a component of Selling, general and administrative expenses in the Consolidated Statements of Income and Comprehensive Income.

The following summary shows the changes in the shares of unvested restricted stock outstanding during the years ended February 2, 2019, February 3, 2018 and January 28, 2017:

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Restricted stock awards at January 30, 2016	576,676	\$ 29.71
Granted	148,591	36.83
Vested	(103,808)	25.19
Forfeited or expired	<u>(60,136)</u>	31.68
Restricted stock awards at January 28, 2017	561,323	\$ 32.22
Granted	191,919	22.44
Vested	(125,761)	26.40
Forfeited or expired	<u>(32,302)</u>	31.52
Restricted stock awards at February 3, 2018	595,179	\$ 30.33
Granted	354,385	16.20
Vested	(139,669)	29.87
Forfeited or expired	<u>(38,044)</u>	24.34
Restricted stock awards at February 2, 2019	771,851	\$ 24.22

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a 15% discount through payroll deductions. During the twelve month period ended February 2, 2019, the Company sold 44,770 shares to employees at an average discount of \$2.25 per share under the Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately \$101,000, \$86,000 and \$88,000 for fiscal years 2018, 2017 and 2016, respectively. These expenses are classified as a component of Selling, general and administrative expenses.

The following is a summary of changes in stock options outstanding during the year ended February 2, 2019:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (a)</u>
Options outstanding at February 3, 2018	8,051	\$ 23.56	5.25 years	\$ -
Granted	-	-		
Forfeited or expired	-			
Exercised	<u>(8,051)</u>	-		
Outstanding at February 2, 2019	-	\$ -	0 years	\$ -
Vested and exercisable at February 2, 2019	-	\$ -	0 years	\$ -

(a) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

No options were granted in fiscal 2018, fiscal 2017 and fiscal 2016. The Company utilizes the Black-Scholes method to estimate the fair value of share based payments.

The total intrinsic value of options exercised during the years ended February 2, 2019, February 3, 2018 and January 28, 2017 were \$5,000, \$0 and \$109,000, respectively.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The stock option expense was \$4,000, \$17,000 and \$17,000 for the twelve months ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively.

16. Commitments and Contingencies:

The Company is, from time to time, involved in routine litigation incidental to the conduct of our business, including litigation regarding the merchandise that we sell, litigation regarding intellectual property, litigation instituted by persons injured upon premises under our control, litigation with respect to various employment matters, including alleged discrimination and wage and hour litigation, and litigation with present or former employees. During the third quarter of 2018, the Company favorably settled certain litigation matters, which are reflected in Selling, general and administrative expenses in the Consolidated Statements of Income and Comprehensive Income.

Although such litigation is routine and incidental to the conduct of our business, as with any business of our size with a significant number of employees and significant merchandise sales, such litigation could result in large monetary awards. Based on information currently available, management does not believe that any reasonably possible losses arising from current pending litigation will have a material adverse effect on our Consolidated Financial Statements. However, given the inherent uncertainties involved in such matters, an adverse outcome in one or more such matters could materially and adversely affect the Company's financial condition, results of operations and cash flows in any particular reporting period. The Company accrues for these matters when the liability is deemed probable and reasonably estimable.

17. Accumulated Other Comprehensive Income:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of February 2, 2019:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at February 3, 2018	\$ (321)
Other comprehensive income/(loss) before reclassification	278
Amounts reclassified from accumulated other comprehensive income (b)	(34)
Net current-period other comprehensive income/(loss)	244
Ending Balance at February 2, 2019	\$ (77)

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income ("OCI").

(b) Includes \$45 impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was \$11. Amounts in parentheses indicate a debit/reduction to OCI.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of February 3, 2018:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at January 28, 2017	\$ (214)
Other comprehensive income/(loss) before reclassification	(135)
Amounts reclassified from accumulated other comprehensive income (b)	28
Net current-period other comprehensive income/(loss)	(107)
Ending Balance at February 3, 2018	\$ (321)

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to OCI.

(b) Includes (\$36) impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was (\$9). Amounts in parentheses indicate a debit/reduction to OCI.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:*

None.

Item 9A. *Controls and Procedures:*

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of February 2, 2019. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of February 2, 2019, our disclosure controls and procedures, as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934 (the “Exchange Act”), were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of February 2, 2019 based on the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of February 2, 2019.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of February 2, 2019, as stated in its report which is included herein.

Changes in Internal Control Over Financial Reporting

No change in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company’s fiscal quarter ended February 2, 2019 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. *Other Information:*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance:*

Information contained under the captions “Election of Directors,” “Meetings and Committees,” “Corporate Governance Matters” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Registrant’s Proxy Statement for its 2019 annual stockholders’ meeting (the “2019 Proxy Statement”) is incorporated by reference in response to this Item 10. The information in response to this Item 10 regarding executive officers of the Company is contained in Item 3A, Part I hereof under the caption “Executive Officers of the Registrant.”

Item 11. *Executive Compensation:*

Information contained under the captions “2018 Executive Compensation,” “Fiscal Year 2018 Director Compensation,” “Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation” in the Company’s 2019 Proxy Statement is incorporated by reference in response to this Item.

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

Equity Compensation Plan Information

The following table provides information about stock options outstanding and shares available for future awards under all of Cato’s equity compensation plans. The information is as of February 2, 2019.

<u>Plan Category</u>	<u>(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)</u>	<u>(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (1)</u>	<u>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (2)</u>
Equity compensation plans approved by security holders	-	-	4,628,986
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	4,628,986

(1) This column contains information regarding employee stock options only; there are no outstanding warrants or stock appreciation rights.

(2) Includes the following:

Under the Company’s stock incentive plan, referred to as the 2018 Incentive Compensation Plan, 4,514,151 shares are available for grant. Under this plan, non-qualified stock options may be granted to key associates.

Under the 2013 Employee Stock Purchase Plan, 114,835 shares are available. Eligible associates may participate in the purchase of designated shares of the Company’s common stock. The purchase price of this stock is equal to 85% of the lower of the closing price at the beginning or the end of each semi-annual stock purchase period.

Information contained under “Security Ownership of Certain Beneficial Owners and Management” in the 2019 Proxy Statement is incorporated by reference in response to this Item.

Item 13. Certain Relationships and Related Transactions, and Director Independence:

Information contained under the caption “Certain Relationships and Related Person Transactions,” “Corporate Governance Matters-Director Independence” and “Meetings and Committees” in the 2019 Proxy Statement is incorporated by reference in response to this Item.

Item 14. Principal Accountant Fees and Services:

Information contained under the captions “Ratification of Independent Registered Public Accounting Firm-Audit Fees” and “-Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Service by the Independent Registered Public Accounting Firm” in the 2019 Proxy Statement is incorporated by reference in response to this item.

PART IV

Item 15. Exhibits and Financial Statement Schedules:

(a) The following documents are filed as part of this report:

(1) Financial Statements:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	33
Consolidated Statements of Income and Comprehensive Income for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017.....	35
Consolidated Balance Sheets at February 2, 2019 and February 3, 2018.....	36
Consolidated Statements of Cash Flows for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017	37
Consolidated Statements of Stockholders' Equity for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017	38
Notes to Consolidated Financial Statements.....	39
<p>(2) Financial Statement Schedule: The following report and financial statement schedule is filed herewith:</p>	
Schedule II — Valuation and Qualifying Accounts	67

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related Notes thereto.

(3) Index to Exhibits: The following exhibits listed in the Index below are filed with this report or, as noted, incorporated by reference herein. The Company will supply copies of the following exhibits to any shareholder upon receipt of a written request addressed to the Corporate Secretary, The Cato Corporation, 8100 Denmark Road, Charlotte, NC 28273 and the payment of \$.50 per page to help defray the costs of handling, copying and postage. In most cases, documents incorporated by reference to exhibits to our registration statements, reports or proxy statements filed by the Company with the Securities and Exchange Commission are available to the public over the Internet from the SEC's web site at <http://www.sec.gov>.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Registrant's Restated Certificate of Incorporation of the Registrant dated March 6, 1987, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283).
3.2	Registrant's By Laws incorporated by reference to Exhibit 99.2 to Form 8-K of the Registrant filed December 10, 2007.
10.3*	2004 Incentive Compensation Plan, amended and restated as of May 22, 2008, incorporated by reference to Appendix A to Definitive Proxy Statement on Schedule 14A filed April 11, 2008.
10.4*	2013 Incentive Compensation Plan, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed May 31, 2013 (SEC file No. 333-188993).
10.5*	2018 Incentive Compensation Plan, incorporated by reference to Exhibit 99.1 to Form S-8 of the Registrant filed June 1, 2018 (SEC file No. 333-225350).
10.6*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Wayland H. Cato, Jr., incorporated by reference to Exhibit 99(c) to Form 8-K of the Registrant filed on July 22, 2003.
10.7*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Edgar T. Cato, incorporated by reference to Exhibit 99(d) to Form 8-K of the Registrant filed on July 22, 2003.
10.8*	Retirement Agreement between Registrant and Wayland H. Cato, Jr. dated August 29, 2003 incorporated by reference to Exhibit 10.1 to Form 10-Q of the Registrant for quarter ended August 2, 2003.
10.9*	Retirement Agreement between Registrant and Edgar T. Cato dated August 29, 2003, incorporated by reference to Exhibit 10.2 to Form 10-Q of the Registrant for the quarter ended August 2, 2003.
10.10*	Letter Agreement between the Registrant and John R. Howe dated as of August 28, 2008, incorporated by Reference to Exhibit 99.1 to Form 8-K of the Registrant filed September 3, 2008.
10.11*	Deferred Compensation Plan effective July 28, 2011, incorporated by reference to Exhibit 10.1 to Form 8-K of the Registrant filed on July 19, 2011.
21.1**	Subsidiaries of Registrant.
23.1**	Consent of Independent Registered Public Accounting Firm.
31.1**	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2**	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101.1**	The following materials from Registrant's Annual Report on form 10-K for the fiscal years ended February 2, 2019, formatted in XBRL: (i) Consolidated Statements of Income and Comprehensive Income for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017; (ii) Consolidated Balance Sheets at February 2, 2019 and February 3, 2018;

(iii) Consolidated Statements of Cash Flows for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017; (iv) Consolidated Statements of Stockholders' Equity for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017; and (v) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan required to be filed under Item 15 of this report and Item 601 of Regulation S-K.

** Filed or submitted electronically herewith.

Item 16. *Form 10-K Summary:*

None.

SIGNATURES

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

The Cato Corporation

By /s/ JOHN P. D. CATO
John P. D. Cato
Chairman, President and
Chief Executive Officer

By /s/ JOHN R. HOWE
John R. Howe
Executive Vice President
Chief Financial Officer

By /s/ JEFFREY R. SHOCK
Jeffrey R. Shock
Senior Vice President
Controller

Date: March 27, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 2019 by the following persons on behalf of the Registrant and in the capacities indicated:

/s/ JOHN P. D. CATO
John P. D. Cato
(President and Chief Executive Officer
(Principal Executive Officer) and Director)

/s/ BAILEY W. PATRICK
Bailey W. Patrick
(Director)

/s/ JOHN R. HOWE
John R. Howe
(Executive Vice President
Chief Financial Officer (Principal Financial Officer))

/s/ THOMAS B. HENSON
Thomas B. Henson
(Director)

/s/ JEFFREY R. SHOCK
Jeffrey R. Shock
(Senior Vice President
Controller (Principal Accounting Officer))

/s/ BRYAN F. KENNEDY III
Bryan F. Kennedy III
(Director)

/s/ THOMAS E. MECKLEY
Thomas E. Meckley
(Director)

/s/ D. HARDING STOWE
D. Harding Stowe
(Director)

/s/ EDWARD I. WEISIGER, JR
Edward I. Weisiger, Jr.
(Director)

/s/ PAMELA L. DAVIES
Pamela L. Davies
(Director)

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Allowance for Doubtful Accounts(a)	Self Insurance Reserves(b)
Balance at January 30, 2016	\$ 1,447	\$ 12,759
Additions charged to costs and expenses	1,002	15,866
Additions (reductions) charged to other accounts	300 (c)	(105)
Deductions	<u>(1,401)(d)</u>	<u>(15,532)</u>
Balance at January 28, 2017	\$ 1,348	\$ 12,988
Additions charged to costs and expenses	851	17,303
Additions (reductions) charged to other accounts	304 (c)	220
Deductions	<u>(1,355)(d)</u>	<u>(18,888)</u>
Balance at February 3, 2018	\$ 1,148	\$ 11,623
Additions charged to costs and expenses	897	17,932
Additions (reductions) charged to other accounts	210 (c)	214
Deductions	<u>(1,413)(d)</u>	<u>(18,803)</u>
Balance at February 2, 2019	<u>\$ 842</u>	<u>\$ 10,966</u>

(a) Deducted from trade accounts receivable.

(b) Reserve for Workers' Compensation, General Liability and Healthcare.

(c) Recoveries of amounts previously written off.

(d) Uncollectible accounts written off.

SUBSIDIARIES OF THE REGISTRANT

<u>Name of Subsidiary</u>	<u>State of Incorporation/Organization</u>	<u>Name under which Subsidiary does Business</u>
CHW LLC	Delaware	CHW LLC
Providence Insurance Company, Limited	A Bermudian Company	Providence Insurance Company, Limited
CatoSouth LLC	North Carolina	CatoSouth LLC
Cato of Texas L.P.	Texas	Cato of Texas L.P.
Cato Southwest, Inc.	Delaware	Cato Southwest, Inc.
CaDel LLC	Delaware	CaDel LLC
CatoWest LLC	Nevada	CatoWest LLC
Cedar Hill National Bank	A Nationally Chartered Bank	Cedar Hill National Bank
catocorp.com, LLC	Delaware	catocorp.com, LLC
Cato Land Development, LLC	South Carolina	Cato Land Development, LLC
Cato WO LLC	North Carolina	Cato WO LLC
Cato Overseas Limited	A Hong Kong Company	Cato Overseas Limited
Cato Overseas Services Limited	A Hong Kong Company	Cato Overseas Services Limited
Shanghai Cato Overseas Business Consultancy Company, Limited	A China Company	Cato Shanghai Company, Limited
Cato Employee Services Management, LLC	Texas	Cato Employee Services Management, LLC
Cato Employee Services L.P.	Texas	Cato Employee Services L.P.
Fort Mill Land Development	North Carolina	Fort Mill Land Development
Cato of Florida, LLC	Florida	Cato of Florida, LLC
Cato of Georgia, LLC	Georgia	Cato of Georgia, LLC
Cato of Tennessee, LLC	Tennessee	Cato of Tennessee, LLC
Cato of Virginia, LLC	Virginia	Cato of Virginia, LLC

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-225350, 333-188993, 333-188990, 333-176511) of The Cato Corporation of our report dated March 27, 2019 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 27, 2019

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John P. D. Cato, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Cato Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 27, 2019

/s/ John P. D. Cato

John P. D. Cato
Chairman, President and
Chief Executive Officer

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Howe, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Cato Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 27, 2019

/s/ John R. Howe

John R. Howe
Executive Vice President
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, John P. D. Cato, Chairman, President and Chief Executive Officer of The Cato Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that on the date of this Certification:

1. the Annual Report on Form 10-K of the Company for the annual period ended February 2, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2019

/s/ John P. D. Cato

John P. D. Cato

Chairman, President and
Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT

I, John R. Howe, Executive Vice President, Chief Financial Officer of The Cato Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that on the date of this Certification:

1. the Annual Report on Form 10-K of the Company for the annual period ended February 2, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2019

/s/ John R. Howe

John R. Howe

Executive Vice President

Chief Financial Officer

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 2, 2019 is available to shareholders without charge upon written request to:

Mr. John R. Howe
Executive Vice President,
Chief Financial Officer
The Cato Corporation
P.O. Box 34216
Charlotte, North Carolina 28234

Corporate Headquarters

The Cato Corporation
8100 Denmark Road
Charlotte, North Carolina
28273-5975
704-554-8510

Mailing Address

P.O. Box 34216
Charlotte, North Carolina 28234

Independent Auditor

PricewaterhouseCoopers LLP
Charlotte, North Carolina 28202

Corporate Counsel

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

Transfer Agent and Registrar

American Stock Transfer
Securities Transfer Department,
CMG-5
Charlotte, North Carolina 28288

Annual Meeting Notice

The Annual Meeting of
Shareholders
Thursday, May 23, 2019
11:00 a.m.
Corporate Office
8100 Denmark Road
Charlotte, North Carolina
28273-5975

Market and Dividend Information

The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO. Below is the market range and dividend information for the four quarters of fiscal 2018 and 2017.

2018	PRICE		
	HIGH	LOW	DIVIDEND
First quarter	\$ 16.80	\$ 10.90	\$.33
Second quarter	26.46	15.78	.33
Third quarter	25.20	17.97	.33
Fourth quarter	21.12	13.53	.33

2017	PRICE		
	HIGH	LOW	DIVIDEND
First quarter	\$ 26.45	\$ 19.73	\$.33
Second quarter	23.08	16.01	.33
Third quarter	17.13	12.79	.33
Fourth quarter	17.04	11.41	.33

As of March 27, 2019 the approximate number of record holders of the Company's Class A Common Stock was 5,000 and there were 2 record holders of the Company's Class B Common Stock.





CATO

The CATO Corporation

8100 Denmark Road
Charlotte, NC 28273-5975
catofashions.com