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 January 31, 2009

or

o 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*	**56-0484485** *I.R.S. Employer Identification Number*
8100 Denmark Road **Charlotte, North Carolina 28273-5975** *Address of Principal Executive Offices*	**704/554-8510** *Registrant's Telephone Number*

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

Title of Class	Name of Exchange on Which Registered
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 o 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 o 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 o

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. o

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

Large accelerated filer o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of August 1, 2008, the last business day of the Company's most recent second quarter, was $484,326,775 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of March 24, 2009, there were 27,649,017 shares of Class A Common Stock and 1,743,525 shares of Convertible Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2009 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 later 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 Annual Report on 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 "Business," "Properties," "Legal Proceedings," "Controls and Procedures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for fiscal 2009 and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodelings 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 "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "should" and variations 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: general economic conditions; competitive factors and pricing pressures; our ability to predict fashion trends; consumer apparel buying patterns; adverse weather conditions; inventory risks due to shifts in market demand; 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 January 31, 2009 (fiscal 2008), as amended or supplemented, and in other reports we file with or furnish to the 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 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.catocorp.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 those 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 corporate governance materials contemplated by SEC or New York Stock Exchange regulations. The documents are also available in print to any shareholder who requests by contacting our corporate secretary at our Company offices at 8100 Denmark Road, Charlotte, North Carolina 28273-5975.

PART I

Item 1. *Business:*

General

The Company, founded in 1946, operated 1,281 women's fashion specialty stores at January 31, 2009, in 31 states, principally in the southeastern United States, under the names "Cato," "Cato Fashions", "Cato Plus", "It's Fashion", and "It's Fashion Metro". The Company seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy, plus sizes and girls sizes 7 to 16. The Company's stores 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 Company's merchandise is sold under its private label and is produced by various vendors in accordance with the Company's specifications. Most stores range in size from 3,500 to 6,000 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 represented 11% of retail sales in fiscal 2008. See Note 15 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 conscious females in its markets. Management believes the Company's success is dependent upon its ability to differentiate its stores from department stores, mass merchandise discount stores and competing women's specialty stores. The key elements of the Company's business strategy are:

Merchandise Assortment. The Company's stores offer a wide assortment of on-trend apparel and accessory items in primarily junior/missy, plus sizes and girls sizes 7 to 16 and emphasize 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 everyday 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 females. 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 and handbags. 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 team 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 staff frequently visit selected stores, 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 1,500 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2008, purchases from the Company's largest vendor accounted for approximately 4% of the Company's total purchases. No other vendor accounted for more than 3% of total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse 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 purchases most of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments in order to enable the Company to react to merchandise trends in a more timely fashion. Although a significant portion of the Company's merchandise is manufactured overseas, principally in the Far East, the Company does not expect that any economic, political or social unrest in any one geographic region 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 — Changes or other disruptions in the Company's merchandise supply chain, including those affecting the importation of goods from the foreign markets that supply a significant amount of the Company's merchandise, could materially and adversely affect the Company's costs and results of operations."

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 generally. See "Risk Factors — Risks Relating To Our Business — A disruption or shutdown of our centralized distribution center could materially and adversely affect our business and results of operations."

Advertising

The Company uses television, in store signage, graphics and a Company website as its primary advertising media. The Company's total advertising expenditures were approximately .8% of retail sales in fiscal 2008.

Store Operations

The Company's store operations management team consists of 1 director of stores, 4 territorial managers, 15 regional managers and 140 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll, shrinkage control and store profitability. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are 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 an expanding 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 4,000 square feet in size.

All of the Company's stores are leased. Approximately 96% are located in strip shopping centers and 4% in enclosed shopping malls. The Company locates stores in strip shopping centers anchored by a national discounter, primarily Wal-Mart 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, and relocating selected existing stores to more desirable locations in the same market area. The following table sets forth information with respect to the Company's development activities since fiscal 2004.

Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
2004	1,102	80	5	1,177
2005	1,177	82	15	1,244
2006	1,244	58	26	1,276
2007	1,276	62	20	1,318
2008	1,318	65	102	1,281

In fiscal 2008 the Company relocated 9 stores.

In fiscal 2009 the Company plans to open approximately 55 new stores, relocate 5 stores, close 25 stores, convert up to 20 It's Fashion stores to It's Fashion Metro stores and remodel 5 stores. The expected store openings for 2009 include 40 new stores (including conversions) of the It's Fashion Metro concept. It's Fashion Metro currently has 32 stores open and is a value-priced fashion format offering the latest styles for the entire family including urban-inspired, nationally recognized brands at everyday low prices.

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 close underperforming stores.

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 7.1%, 7.6% and 7.9% of retail sales in fiscal 2008, 2007 and 2006, respectively. The Company's net bad debt expense was 5.6%, 4.9% and 4.1% of credit sales in fiscal 2008, 2007 and 2006, respectively.

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record. 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.

Layaway Plan

Under the Company's layaway plan, merchandise is set aside for customers who agree to make periodic payments. The Company adds a nonrefundable administrative fee to each layaway sale. If no payment is made for 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 and its related fees to the accounting period when the customer picks up layaway merchandise. Layaway sales represented approximately 4.0%, 3.3% and 3.8% of retail sales in fiscal 2008, 2007 and 2006, respectively.

Management Information Systems

The Company's systems provide daily financial and merchandising information that is used by management to enhance the timeliness and effectiveness of purchasing and pricing decisions. Management uses a daily report comparing actual sales with planned sales and a weekly 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 and major department stores. 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.

Regulation

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

Associates

As of January 31, 2009, the Company employed approximately 9,100 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 and tend to change rapidly. Our success depends in part upon our ability to anticipate and respond to changing merchandise trends and consumer preferences in a timely manner. Accordingly, any failure by us to anticipate, identify and respond to changing fashion trends could adversely affect consumer acceptance of our merchandise, which in turn could adversely affect our business 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.

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

Extreme changes in weather patterns or natural disasters 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. Extreme weather patterns, natural disasters, power outages, terrorist acts 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.

Changes or other disruptions in the Company's merchandise supply chain, including those affecting the pricing or importation of goods from the foreign markets that supply a significant amount of the Company's merchandise, could materially and adversely affect the Company's costs and results of operations.

A significant amount of our merchandise is manufactured overseas, principally in the Far East. As a result, political instability or other events resulting in the disruption of trade from other countries or the imposition of additional regulations relating to or duties on imports could cause significant delays or interruptions in the supply of our merchandise or increase our costs, either of which could have a material adverse effect on our business. If we are forced to source merchandise from other countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell. If we were not able to timely or adequately replace the merchandise we currently source with merchandise produced elsewhere, our business could be adversely affected.

Our costs are affected by foreign currency fluctuations.

Because we purchase a significant portion of our inventory from foreign suppliers, our cost of these goods is affected by the fluctuation of the local currencies where these goods are produced against the dollar. Accordingly, changes in the value of the dollar relative to foreign currencies may increase our cost of goods sold and, if we are unable to pass such cost increases on to our customers, decrease our gross margins and ultimately our earnings. Accordingly, foreign currency fluctuations may have a material adverse effect on our business, financial condition and results of operations.

A continuation of, or further deterioration in, the current adverse conditions and the general economy or outlook and its related impact on 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, levels of employment, fuel and energy costs; salaries and wage rates and other sources of income, tax rates, home values, consumer net worth, the availability of consumer credit, consumer confidence generally or consumer perceptions of economic conditions or trends. The current recessionary economic and adverse credit market along with other factors have significantly weakened many of these drivers of consumer spending habits. As a result, consumer confidence and spending have significantly deteriorated and may continue to do so for an extended period of time, which may continue to adversely affect our net sales and results of operations. Adverse economic conditions or uncertainties also generally cause consumers to defer purchases of discretionary items, such as our merchandise or trade down the purchasing 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. A continuation or worsening of the current economic downturn and reduction in consumer confidence could have a material adverse effect on our business, results of operations and financial condition.

A disruption or shutdown of our centralized distribution center 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. The merchandise we purchase is shipped directly to our distribution center where it is prepared for shipment to the appropriate stores. If the distribution center were to be shutdown or lose significant capacity for any reason, 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 or out of the Charlotte metropolitan area. 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.

A delay in the successful opening of the number of new stores we have planned could adversely affect our business and results of operations.

Our ability to open and operate new stores depends on many factors including our ability to identify suitable store locations, negotiate acceptable lease terms, and hire and train appropriate store personnel. In addition, we continue to expand our operations to new regions of the country where we have not done business before. This expansion may present new challenges in competition, distribution and merchandising as we enter these new markets.

Risks Relating To 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 quarter of our fiscal year compared to other quarters. 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 24, 2009, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 39% 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. 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.

Item 1B. ***Unresolved Staff Comments:***

Not Applicable.

Item 2. ***Properties:***

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

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

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 or results of operations and cash flows.

Item 4. ***Submission of Matters to a Vote of Security Holders:***

None.

Item 4A. ***Executive Officers of the Registrant:***

The executive officers of the Company and their ages as of March 24, 2009 are as follows:

Name	Age	Position
John P. D. Cato	58	Chairman, President and Chief Executive Officer
Michael T. Greer	46	Executive Vice President, Director of Stores
John R. Howe	46	Executive Vice President, Chief Financial Officer
Howard A. Severson	61	Executive Vice President, Chief Real Estate and Store Development Officer
Stuart L. Uselton	48	Executive Vice President, Chief Administrative Officer
B. Allen Weinstein	62	Executive Vice President, Chief Merchandising 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 division, serving as Executive Vice President and as President and General Manager of the It's Fashion! Division from 1993 to August 1996. Mr. John Cato is currently a director of Ruddick Corporation.

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 Division. From 2002 to 2003 Mr. Greer served as Vice President, Director of Stores of the It's Fashion! Division. From 1999 to 2001 he served as Territorial Vice President of Stores of the Cato Division and from 1996 to 1999 he served as Regional Vice President of Stores of the Cato Division. From 1985 to 1995, Mr. Greer held various store operational positions in the Cato Division.

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 1995 to 1997, he served as Assistant Tax Manager. From 1986 to 1995, Mr. Howe held various positions within the finance area.

Howard A. Severson has been employed by the Company since 1985. Since January 1993, he has served as Executive Vice President, Chief Real Estate and Store Development Officer. From 1993 to 2001 Mr. Severson also served as a director. From August 1989 through January 1993, Mr. Severson served as Senior Vice President — Chief Real Estate Officer.

Stuart L. Uselton joined the Company as Vice President, Tax and Treasury in July 2000. Since November 2006, he has served as Executive Vice President, Chief Administrative Officer. From 1991 to 2000, he was employed by Tractor Supply Company, a supply specialty retailer, as Director of Tax and Assistant Treasurer. From 1984 to 1991, he was employed by Deloitte & Touche LLP, as a Tax Manager.

B. Allen Weinstein joined the Company as Executive Vice President, Chief Merchandising Officer of the Cato Division in August 1997 and served in that position until November 2004. Since November 2004, he has served as Executive Vice President, Chief Merchandising Officer of the Company. From 1995 to 1997, he was Senior Vice President — Merchandising of Catherines Stores Corporation. From 1981 to 1995, he served as Senior Vice President of Merchandising for Beall's, Inc.

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 CTR. As required by Section 3.03A.12(a) of the NYSE listing standards, The Cato Corporation filed with the NYSE the annual certification of its Chief Executive Officer that he is not aware of any violation by the Company of NYSE corporate governance listing standards. Below is the market range and dividend information for the four quarters of fiscal 2008 and 2007.

	Price		
2008	**High**	**Low**	**Dividend**
First quarter	$ 17.98	$ 14.05	$ .165
Second quarter	18.94	14.03	.165
Third quarter	19.38	11.99	.165
Fourth quarter	15.20	12.06	.165

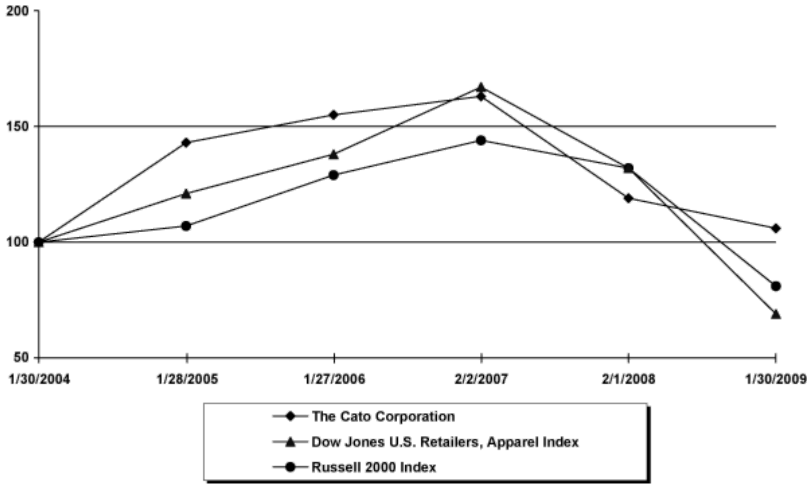
	Price		
2007	**High**	**Low**	**Dividend**
First quarter	$ 24.19	$ 20.38	$ .150
Second quarter	25.01	20.54	.165
Third quarter	22.07	17.86	.165
Fourth quarter	19.85	13.49	.165

As of March 24, 2009 the approximate number of record holders of the Company's Class A Common Stock was 1,037 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
1/30/04	100	100	100
1/28/05	143	121	107
1/27/06	155	138	129
2/02/07	163	167	144
2/01/08	119	132	132
1/30/09	106	69	81

The graph assumes an initial investment of $100 on January 30, 2004, the last trading day prior to the commencement of the Company's 2004 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 January 31, 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number (or Approximate Dollar Value) of Shares that may Yet be Purchased Under The Plans or Programs(2)
November 2008	100	$ 12.00	100	
December 2008	—	—	—	
January 2009	—	—	—	
Total	100	$ 12.00	100	195,942 shares

(1) Prices include trading costs.

(2) On August 30, 2007, the Company's Board of Directors authorized an increase in the share repurchase program of two million shares. At fiscal year end January 31, 2009, the Company had 195,942 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program. For fiscal 2008, the Company has repurchased 198,718 shares under this program for approximately $2.4 million or an average market price per share of $12.25.

(3) Subsequent to year end 2008, on February 26, 2009, the Company's Board of Directors authorized an increase in the share repurchase program of 500,000 shares.

Item 6. ***Selected Financial Data:***

Certain selected financial data for the five fiscal years ended January 31, 2009 have been derived from the Company's audited financial statements. The financial statements and Independent Registered Public Accounting Firm's reports for the three 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.

The five-year selected consolidated financial data presented in this Item 6 has been adjusted to reflect a three-for-two stock split in the form of a stock dividend of the Company's Class A and Class B Common Stock effected June 27, 2005.

Fiscal Year	2008	2007	2006	2005	2004
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$ 845,676**	$ 834,341	$ 862,813	$ 821,639	$ 773,809
Other income	**12,042**	12,096	13,072	14,742	15,795
Total revenues	**857,718**	846,437	875,885	836,381	789,604
Cost of goods sold (exclusive of depreciation shown below)	**562,056**	572,309	572,712	546,955	528,916
Selling, general and administrative (exclusive of depreciation shown below)	**227,645**	210,892	212,157	203,156	187,618
Selling, general and administrative percent of retail sales	**26.9%**	25.3%	24.6%	24.7%	24.2%
Depreciation	**22,572**	22,212	20,941	20,275	20,397
Interest expense	**53**	9	41	183	717
Interest and other income	**(7,218)**	(8,218)	(9,597)	(4,563)	(2,739)
Income before income taxes	**52,610**	49,233	79,631	70,375	54,695
Income tax expense	**18,976**	16,914	28,181	25,546	19,854
Net income	**$ 33,634**	$ 32,319	$ 51,450	$ 44,829	$ 34,841
Basic earnings per share	**$ 1.16**	$ 1.03	$ 1.64	$ 1.44	$ 1.13
Diluted earnings per share	**$ 1.15**	$ 1.03	$ 1.62	$ 1.41	$ 1.11
Cash dividends paid per share	**$ .660**	$ .645	$ .580	$ .507	$ .457
SELECTED OPERATING DATA:					
Stores open at end of year	**1,281**	1,318	1,276	1,244	1,177
Average sales per store(1)	**$ 640,000**	$ 640,000	$ 685,000	$ 684,000	$ 682,000
Average sales per square foot of selling space	**$ 162**	$ 165	$ 175	$ 173	$ 170
BALANCE SHEET DATA (at period end):					
Cash, cash equivalents and short-term investments	**$ 144,803**	$ 114,578	$ 123,542	$ 107,819	$ 107,228
Working capital	**164,639**	144,114	176,464	139,114	136,980
Total assets	**435,353**	420,792	432,322	406,636	397,323
Total stockholders' equity	**261,813**	247,370	276,793	239,948	211,175

(1) 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.

(2) The fiscal year 2006 contained 53 weeks versus 52 weeks for all other years shown.

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:

Fiscal Year Ended	January 31, 2009	February 2, 2008	February 3, 2007
Retail sales	**100.0%**	100.0%	100.0%
Other income	**1.4**	1.4	1.5
Total revenues	**101.4**	101.4	101.5
Cost of goods sold	**66.5**	68.6	66.4
Selling, general and administrative	**26.9**	25.3	24.6
Depreciation	**2.7**	2.7	2.4
Interest and other income	**(0.9)**	(1.0)	(1.1)
Income before income taxes	**6.2**	5.9	9.2
Net income	**4.0%**	3.9%	6.0%

Fiscal 2008 Compared to Fiscal 2007

Retail sales increased by 1.4% to $845.7 million in fiscal 2008 compared to $834.3 million in fiscal 2007. The increase in retail sales in fiscal 2008 was attributable to sales from store development. Comparable store sales decreased 1% from fiscal 2007. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable and layaway fees), increased by 1.3% to $857.7 million in fiscal 2008 compared to $846.4 million in fiscal 2007. The Company operated 1,281 stores at January 31, 2009 compared to 1,318 stores operated at February 2, 2008.

In fiscal 2008, the Company opened 65 new stores, relocated 9 stores and closed 102 stores.

Other income in total, as included in total revenues in fiscal 2008, decreased slightly to $12.0 million from $12.1 million in fiscal 2007. The decrease resulted primarily from lower credit revenue and finance and layaway charges.

Credit revenue of $10.1 million represented 1.2% of total revenue in fiscal 2008. This is comparable to 2007 credit revenue of $10.4 million or 1.2% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance 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 $7.0 million in fiscal 2008 compared to $6.1 million in fiscal 2007. The increase in these expenses was principally due to an increase in the bad debt reserve of $638,000. See Note 15 of the Consolidated Financial Statements for a schedule of credit related expenses. Total segment credit income before taxes decreased $1.2 million from $4.3 million in 2007 to $3.1 million in 2008 due to decreased finance charge income and increased bad debt expense due to an increase in the allowance for doubtful accounts. Total credit income of $3.1 million in 2008 represented 5.9% of total income before taxes of $52.6 million compared to total credit income of $4.3 million in 2007 which represented 8.7% of 2007 total income before taxes.

Cost of goods sold was $562.1 million, or 66.5% of retail sales, in fiscal 2008 compared to $572.3 million, or 68.6% of retail sales, in fiscal 2007. The decrease in cost of goods sold as a percent of retail sales resulted primarily from lower procurement costs and reduced markdowns. 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) increased by 8.2% to

$283.6 million in fiscal 2008 from $262.0 million in fiscal 2007. 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 $227.6 million in fiscal 2008 compared to $210.9 million in fiscal 2007, a increase of 7.9%. As a percent of retail sales, SG&A was 26.9% compared to 25.3% in the prior year. The overall dollar increase in SG&A resulted primarily from an increase in incentive based compensation expenses, salary expenses driven by store development, expenses incurred to close underperforming stores and insurance expense.

Depreciation expense was $22.6 million in fiscal 2008 compared to $22.2 million in fiscal 2007. The depreciation expense in fiscal 2008 and 2007 resulted primarily from the Company’s store development activity and investment in technology.

Interest and other income was $7.2 million in fiscal 2008 compared to $8.2 million in fiscal 2007. The decrease was due to lower interest income due to reduced interest rates. See Note 2 to the Consolidated Financial Statements for details.

Income tax expense was $19.0 million, or 2.2% of retail sales in fiscal 2008 compared to $16.9, or 2.0% of retail sales in fiscal 2007. The increase resulted from higher pre-tax income in conjunction with an increase in the effective tax rate. The effective tax rate was 36.1% in fiscal 2008 and 34.4% in fiscal 2007. The Company expects the effective rate in 2009 to be approximately 34.0% to 36.0%.

Fiscal 2007 Compared to Fiscal 2006

Retail sales decreased by 3.3% to $834.3 million in fiscal 2007 compared to $862.8 million in fiscal 2006. The fiscal year ended February 2, 2008 contained 52 weeks versus 53 weeks in fiscal year ended February 3, 2007. The decrease in retail sales in fiscal 2007 was attributable to the reduction of one week of sales estimated at $18.7 million and the difficult retail environment. On an equivalent 52 week basis, comparable store sales decreased 4% from fiscal 2006. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable and layaway fees), decreased by 3.4% to $846.4 million in fiscal 2007 compared to $875.9 million in fiscal 2006. The Company operated 1,318 stores at February 2, 2008 compared to 1,276 stores operated at February 3, 2007.

In fiscal 2007, the Company opened 62 new stores, relocated 18 stores, remodeled 9 stores and closed 20 stores.

Other income in total, as included in total revenues in fiscal 2007, decreased slightly to $12.1 million from $13.1 million in fiscal 2006. The decrease resulted primarily from lower credit revenue and finance and layaway charges.

Credit revenue of $10.4 million represented 1.2% of total revenue in fiscal 2007. This is comparable to 2006 credit revenue of $10.9 million or 1.2% of total revenue. The decrease in credit revenue was primarily due to reductions in finance 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 $6.1 million in fiscal 2007 compared to $5.9 million in fiscal 2006. The increase in these expenses was principally due to higher bad debt expense in fiscal 2007. See Note 15 of the Consolidated Financial Statements for a schedule of credit related expenses. Total segment credit income before taxes decreased $0.6 million from $4.9 million in 2006 to $4.3 million in 2007 due to decreased finance charge income and increased bad debt expense. Total credit income of $4.3 million in 2007 represented 8.7% of total income before taxes of $49.2 million compared to total credit income of $4.9 million in 2006, which represented 6.1% of 2006 total income before taxes.

Cost of goods sold was $572.3 million, or 68.6% of retail sales, in fiscal 2007 compared to $572.7 million, or 66.4% of retail sales, in fiscal 2006. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher occupancy costs and higher markdowns. 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) decreased by 9.7% to $262.0 million in fiscal 2007 from $290.1 million in fiscal 2006. 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 $210.9 million in fiscal 2007 compared to $212.2 million in fiscal 2006, a decrease of 0.6%. As a percent of retail sales, SG&A was 25.3% compared to 24.6% in the prior year. The overall dollar decrease in SG&A resulted primarily from a decrease in incentive based compensation expenses partially offset by increased salary expense driven by store development and increased health care expenses.

Depreciation expense was $22.2 million in fiscal 2007 compared to $20.9 million in fiscal 2006. The depreciation expense in fiscal 2007 and 2006 resulted primarily from the Company's store development activity and investment in technology.

Interest and other income was $8.2 million in fiscal 2007 compared to $9.6 million in fiscal 2006. The decrease was due to the settlement of a $2.4 million insurance claim for hurricane losses received in the fourth quarter of fiscal 2006, partially offset by higher interest income due to increased rates and higher average invested balances. See Note 2 to the Consolidated Financial Statements for details.

Income tax expense was $16.9 million, or 2.0% of retail sales in fiscal 2007 compared to $28.2 million or 3.2% of retail sales in fiscal 2006. The decrease resulted from lower pre-tax income in conjunction with a reduction in effective tax rate. The effective tax rate was 34.4% in fiscal 2007 and 35.4% in fiscal 2006.

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 requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgement. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company's financial statements include the allowance for doubtful accounts receivable, reserves relating to workers' compensation, general and auto insurance liabilities, reserves for inventory markdowns, calculation of asset impairment, shrinkage accrual and reserves for 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 collectibility of accounts receivable and records an allowance for doubtful accounts based on estimates of actual write-offs and the accounts receivable aging roll rates over a period of up to 12 months. 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 significantly 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 retail method of accounting and is stated at the lower of cost (first-in, first-out method) or market. Under the retail inventory method, the valuation of inventory at cost and resulting gross margin are calculated by applying an average cost to retail ratio to the retail value of inventory. The retail inventory method is an averaging method that has been widely used in the retail industry. Inherent in the retail method are certain significant estimates, including initial merchandise markup, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost and the resulting gross margins. 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 continuously reviews its inventory levels to identify slow moving merchandise and uses markdowns to clear slow moving inventory. The general economic environment for retail apparel sales could result in an increase in the level of markdowns, which would result in lower inventory values and increases to cost of goods sold as a percentage of net sales in future periods. Management makes estimates regarding markdowns based on inventory levels on hand and customer demand, which may impact inventory valuations. Markdown exposure with respect to inventories on hand is limited due to the fact that seasonal merchandise is not carried forward. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Lease Accounting

The Company recognizes rent expense on a straight-line basis over the lease term as defined in SFAS No. 13, *"Accounting for 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 primarily invests in property and equipment 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 assets, recording an impairment charge, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those 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 cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. In addition, the Company regularly evaluates its computer-related and 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 health care, 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 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 judgements regarding the application of complex tax regulations across many jurisdictions. Despite our belief that our estimates and judgements are reasonable, differences between our estimated and actual tax liabilities could exist. 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

While the Company's recognition of revenue is predominantly derived from routine retail transactions and does not involve significant judgement, revenue recognition represents an important accounting policy of the Company. As discussed in Note 1 to the Consolidated Financial Statements, 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 are also recorded when the customer takes possession of the merchandise. Gift cards, layaway deposits and merchandise credits granted to customers are recorded as deferred revenue until they are redeemed or forfeited. Gift cards and merchandise credits do not have expiration dates. A provision is made for estimated product returns based on sales volumes and the Company's experience; actual returns have not varied materially from amounts provided historically.

Beginning with the fourth quarter of fiscal 2007, the Company began recognizing income on unredeemed gift cards ("gift card breakage") as a component of other income. Gift card breakage is determined after 60 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions. Gift card breakage income will be recognized on a quarterly basis and is not expected to be material.

Credit revenue on the Company's private label credit card portfolio is recognized as earned under the interest method. Late fees are recognized as earned, less provisions for estimated uncollectible fees.

Liquidity, Capital Resources and Market Risk

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during fiscal 2008 was $71.6 million as compared to $74.2 million in fiscal 2007. These amounts have enabled the Company to primarily fund its regular operating needs, capital expenditure program, cash dividend payments and any repurchase of the Company's common stock. In addition, the Company maintains $35.0 million of unsecured revolving credit facilities for short-term financing of seasonal cash needs, none of which was outstanding at January 31, 2009.

Cash provided by operating activities for these periods was primarily generated by earnings adjusted for depreciation, deferred taxes, and changes in working capital. The decrease of $2.6 million for fiscal 2008 over fiscal 2007 is primarily due to a decrease in accounts payable offset by an increase in accrued bonus and benefits, deferred income taxes, merchandise inventory and accrued taxes.

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, purchase of treasury stock and other operating requirements for fiscal 2009 and for the foreseeable future.

At January 31, 2009, the Company had working capital of $164.6 million compared to $144.1 million at February 2, 2008. Additionally, the Company had $2.3 million invested in privately managed investment funds and other miscellaneous equities, which are reported under other noncurrent assets of the Consolidated Balance Sheets.

At January 31, 2009, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to $34.3 million. The revolving credit agreement is committed to August 2010. 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 January 31, 2009. There were no borrowings outstanding under these credit facilities during the fiscal year ended January 31, 2009 or the fiscal year ended February 2, 2008.

The Company had approximately $4.5 million and $4.3 million at January 31, 2009 and February 2, 2008, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. In addition, the Company has a standby LOC for payments to the current general liability and workers' compensation insurance processor.

Expenditures for property and equipment totaled $19.4 million, $18.3 million and $27.5 million in fiscal 2008, 2007 and 2006, respectively. The expenditures for fiscal 2008 were primarily for store development, store remodels and investments in new technology. In fiscal 2009, the Company is planning to invest approximately $17.7 million in capital expenditures. This includes expenditures to open 55 new stores, relocate 5 stores and convert up to 20 It's Fashion stores to It's Fashion Metro stores. In addition, the Company plans to remodel 5 stores and has planned for additional investments in technology scheduled to be implemented over the next 12 months.

Net cash used in investing activities totaled $29.3 million for fiscal 2008 compared to $12.1 million used for the comparable period of 2007. The increase was due primarily to purchases of short-term investments offset by the sales of short-term investments.

On May 22, 2008, the Board of Directors held the quarterly dividend to $.165 per share, or an annualized rate of $.66 per share.

The Company does not use derivative financial instruments.

At January 31, 2009, the Company's investment portfolio was primarily invested in tax exempt variable rate demand notes and governmental securities held in managed funds. These securities are classified as available-for-sale as they are highly liquid and are recorded on the balance sheet at fair value, with unrealized gains and temporary losses reported net of taxes as accumulated other comprehensive income. Other than temporary declines in fair value of investments are recorded as a reduction in the cost of investments in the accompanying Consolidated Balance Sheets.

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Applicable provisions of SFAS 157 were adopted by the Company effective February 3, 2008. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective date of FASB Statement No. 157*, which delayed for one year the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company has not yet determined the impact on its financial statements of the February 1, 2009 adoption of SFAS No. 157-2 as it pertains to non-financial assets and liabilities.

The following table sets forth information regarding the Company's financial assets that are measured at fair value (in thousands).

Description	January 31, 2009	Fair Value Measurements at Reporting Date Using: Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short term investments	$ 102,541	$ 99,091	$ 3,450	—
Other Assets	2,258	303	1,955	—

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes and governmental debt securities held in managed funds. These securities are classified as available-for-sale as they are highly liquid and are recorded on the balance sheet at estimated fair value, with unrealized gains and temporary losses reported net of taxes as accumulated other comprehensive income. Additionally, as of January 31, 2009, the Company had $2.0 million invested in privately managed investment funds and $0.3 million of other miscellaneous equities which are reported within other noncurrent assets in the Consolidated Balance Sheets.

As of January 31, 2009, the Company held $51.7 million in variable rate demand notes ("VRDN") and auction rate securities ("ARS") issued by tax exempt municipal authorities and agencies and rated A or better. The underlying securities have contractual maturities which generally range from thirteen to twenty-six years. The VRDN and ARS are recorded at estimated fair value and classified as available-for-sale. Of the $51.7 million in VRDN and ARS, $3.5 million failed their last auctions as of January 31, 2009. The Company has experienced continued sales in its failed ARS balances and reasonably expects the last ARS to either experience a successful auction or be called within a year and so has classified it as a short term investment.

The Company classified these failed ARS securities as Level 2 items under SFAS 157 since they were not trading within ARS auctions and there is not an actively quoted market price for these securities. Additionally, the Company valued these failed ARS investments at par using a number of market based inputs to estimate the fair value, including: (i) the underlying credit quality of the issuer and insurer and the probability of default of the issue; (ii) the Company's experience and observations with ARS investments that were similar in many material aspects such as credit quality, yield, coupon or term to the remaining failed securities; (iii) the present value of future principal and interest payments discounted at rates reflecting current market conditions, reflecting the Company's determination that the effects on the ARS' estimated fair value of the increased interest being paid by the non-auctioning bonds, as offset by a liquidity/risk value reduction, would render the fair values materially the same as their carrying value (par); (iv) the timing of expected future cash flows; and (v) the likelihood of repurchase at par for each security.

The following table shows the Company's obligations and commitments as of January 31, 2009, to make future payments under noncancellable contractual obligations (in thousands):

Contractual Obligations	Total	Payments Due During One Year Fiscal Period Ending: 2009	2010	2011	2012	2013	Thereafter
Merchandise letters of credit	$ 4,547	$ 4,547	$ —	$ —	$ —	$ —	$ —
Operating leases	161,144	55,548	43,082	31,435	20,516	10,310	253
Total Contractual Obligations	$ 165,691	$ 60,095	$ 43,082	$ 31,435	$ 20,516	$ 10,310	$ 253

(1) In addition to the amounts shown in the table above, $15.4 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN 48 and we are uncertain as to if or when such amounts may be settled. See Note 13, Income Taxes, of the Consolidated Financial Statements.

Recent Accounting Pronouncements

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The impact of the Company's adoption of SFAS 157 was immaterial.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 applies to all entities that elect the fair value option. The provisions of SFAS 159 were effective for the Company on February 3, 2008. The adoption of SFAS 159 did not have an impact on the Company's financial position, results of operation or cash flows.

On June 14, 2007, the FASB reached consensus on Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment*. EITF No. 06-11 requires that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to associates for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF No. 06-11 is effective for fiscal years beginning on or after December 15, 2007. The impact of the Company's adoption of EITF Issue No. 06-11 was immaterial.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. EITF 03-6-1 requires that unvested share-based payments that contain nonforfeitable rights to dividends are participating securities and they shall be included in the computation of EPS pursuant to the two class method. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The impact of the Company's adoption of EITF Issue No. 03-6-1 was immaterial.

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.

Item 8. ***Financial Statements and Supplementary Data:***

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
The Cato Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of The Cato Corporation and its subsidiaries at January 31, 2009 and February 2, 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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 31, 2009

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	**$ 845,676**	$ 834,341	$ 862,813
Other income (principally finance charges, late fees and layaway charges)	**12,042**	12,096	13,072
Total revenues	**857,718**	846,437	875,885
COSTS AND EXPENSES, NET			
Cost of goods sold (exclusive of depreciation shown below)	**562,056**	572,309	572,712
Selling, general and administrative (exclusive of depreciation shown below)	**227,645**	210,892	212,157
Depreciation	**22,572**	22,212	20,941
Interest expense	**53**	9	41
Interest and other income	**(7,218)**	(8,218)	(9,597)
	805,108	797,204	796,254
Income before income taxes	**52,610**	49,233	79,631
Income tax expense	**18,976**	16,914	28,181
Net income	**$ 33,634**	$ 32,319	$ 51,450
Basic earnings per share	**$ 1.16**	$ 1.03	$ 1.64
Basic weighted average shares	**29,065,594**	31,279,918	31,281,163
Diluted earnings per share	**$ 1.15**	$ 1.03	$ 1.62
Diluted weighted average shares	**29,151,759**	31,513,202	31,815,332
Dividends per share	**$ .660**	$ .645	$ .580
Comprehensive income:			
Net income	**$ 33,634**	$ 32,319	$ 51,450
Unrealized gains (losses) on available-for-sale securities, net of deferred income tax liability or benefit	**(296)**	484	147
Comprehensive income	**$ 33,338**	$ **32,803**	$ 51,597

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 31, 2009	February 2, 2008
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 42,262**	$ 21,583
Short-term investments	**102,541**	92,995
Accounts receivable, net of allowance for doubtful accounts of $3,723 at January 31, 2009 and $3,263 at February 2, 2008	**44,136**	45,282
Merchandise inventories	**112,290**	118,679
Deferred income taxes	**6,403**	6,756
Prepaid expenses	**7,737**	7,755
Total Current Assets	**315,369**	293,050
Property and equipment — net	**116,262**	123,190
Other assets	**3,722**	4,552
Total Assets	**$ 435,353**	$ 420,792
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 102,971**	$ 110,848
Accrued expenses	**29,946**	27,617
Accrued bonus and benefits	**6,307**	2,543
Accrued income taxes	**11,506**	7,928
Total Current Liabilities	**150,730**	148,936
Deferred income taxes	**2,528**	1,707
Other noncurrent liabilities (primarily deferred rent)	**20,282**	22,779
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; 36,303,922 and 36,109,263 shares issued at January 31, 2009 and February 2, 2008, respectively	**1,210**	1,204
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at January 31, 2009 and February 2, 2008	**58**	58
Additional paid-in capital	**61,608**	58,685
Retained earnings	**354,333**	340,088
Accumulated other comprehensive income	**413**	709
	417,622	400,744
Less Class A common stock in treasury, at cost (8,660,333 shares at January 31, 2009 and 8,461,615 shares at February 2, 2008, respectively)	**(155,809)**	(153,374)
Total Stockholders' Equity	**261,813**	247,370
Total Liabilities and Stockholders' Equity	**$ 435,353**	$ 420,792

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
		(Dollars in thousands)	
OPERATING ACTIVITIES			
Net income	**$ 33,634**	$ 32,319	$ 51,450
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**22,572**	22,212	20,941
Provision for doubtful accounts	**3,825**	2,844	2,633
Share-based compensation	**2,208**	1,694	1,326
Excess tax benefits from share-based compensation	**(66)**	(5,964)	(768)
Deferred income taxes	**1,175**	(6,358)	574
Loss on disposal of property and equipment	**3,799**	1,163	2,079
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(2,679)**	(2,168)	1,053
Merchandise inventories	**6,389**	(2,761)	(12,548)
Prepaid and other assets	**848**	(1,372)	2,238
Accrued income taxes	**3,644**	8,533	1,499
Accounts payable, accrued expenses and other liabilities	**(3,782)**	24,022	(11,776)
Net cash provided by operating activities	**71,567**	74,164	58,701
INVESTING ACTIVITIES			
Expenditures for property and equipment	**(19,443)**	(18,330)	(27,547)
Purchases of short-term investments	**(169,979)**	(313,761)	(180,463)
Sales of short-term investments	**160,136**	319,960	167,985
Net cash used in investing activities	**(29,286)**	(12,131)	(40,025)
FINANCING ACTIVITIES			
Change in cash overdrafts included in accounts payable	**(500)**	(1,000)	500
Dividends paid	**(19,389)**	(20,277)	(18,228)
Purchases of treasury stock	**(2,435)**	(58,561)	—
Proceeds from employee stock purchase plan	**432**	481	413
Excess tax benefits from share-based compensation	**66**	5,964	768
Proceeds from stock options exercised	**224**	8,110	970
Net cash used in financing activities	**(21,602)**	(65,283)	(15,577)
Net increase (decrease) in cash and cash equivalents	**20,679**	(3,250)	3,099
Cash and cash equivalents at beginning of year	**21,583**	24,833	21,734
Cash and cash equivalents at end of year	**$ 42,262**	$ 21,583	$ 24,833

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	Unearned Compensation Restricted Stock Awards	Treasury Stock	Total Stockholders' Equity
				(Dollars in thousands)				
Balance — January 28, 2006	$ 1,188	$ 23	$ 39,244	$ 294,462	$ 78	$ (229)	$ (94,818)	$ 239,948
*Comprehensive income:								
Net income				51,450				51,450
Unrealized gains on available-for-sale securities, net of deferred income tax liability of $78					147			147
Dividends paid ($.58 per share)				(18,228)				(18,228)
Class A common stock sold through employee stock purchase plan — 22,873 shares	1		484					485
Class A common stock sold through stock option plans — 95,775 shares	3		1,127					1,130
Class A common stock issued through restricted stock grant plans 214,882 shares	7		857					864
Income tax benefit from stock options exercised			768					768
Cancellation of treasury shares — 231 shares			(5)				5	—
Unearned compensation — restricted stock awards						229		229
Balance — February 3, 2007	1,199	23	42,475	327,684	225	—	(94,813)	276,793
*Comprehensive income:								
Net income				32,319				32,319
Unrealized gains on available-for-sale securities, net of deferred income tax liability of $247					484			484
Dividends paid ($.645 per share)				(20,277)				(20,277)
Class A common stock sold through employee stock purchase plan — 27,164 shares	1		565					566
Class A common stock sold through stock option plans — 39,200 shares	1		514					515
Class B common stock sold through stock option plans 1,053,000 shares		35	7,677					7,712
Class A common stock issued through restricted stock grant plans 87,085 shares	3		1,490					1,493
Income tax benefit from stock options exercised			5,964					5,964
Repurchase of treasury shares — 3,368,006 shares							(58,561)	(58,561)
Adoption of FIN 48				362				362
Balance — February 2, 2008	1,204	58	58,685	340,088	709	—	(153,374)	247,370
*Comprehensive income:								
Net income				33,634				33,634
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of ($138)					(296)			(296)
Dividends paid ($.66 per share)				(19,389)				(19,389)
Class A common stock sold through employee stock purchase plan — 32,830 shares	1		505					506
Class A common stock sold through stock option plans — 23,875 shares	1		314					315
Class A common stock issued through restricted stock grant plans 137,953 shares	4		2,038					2,042
Income tax benefit from stock options exercised			66					66
Repurchase of treasury shares — 198,718 shares							(2,435)	(2,435)
Balance — January 31, 2009	$ 1,210	$ 58	$ 61,608	$ 354,333	$ 413	$ —	$ (155,809)	$ 261,813

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 business segments — the operation of women's fashion specialty stores and a credit card division. The apparel specialty stores operate under the names "Cato," "Cato Fashions," "Cato Plus," "It's Fashion" and "It's Fashion Metro" and 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. Fiscal 2008 and fiscal 2007 had 52 weeks while fiscal 2006 had 53 weeks.

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

Cash and Cash Equivalents and Short-Term Investments: Cash equivalents consist of highly liquid investments with original maturities of three months or less. Investments with original maturities beyond three months are classified as short-term investments. The fair values of short-term investments with the exception of the failed ARS are based on quoted market prices.

The Company's short-term investments are all classified as available-for-sale. As they are available for current operations, they are classified in Consolidated Balance Sheets as current assets. Available-for-sale securities are carried at fair value, with unrealized gains and temporary losses, net of income taxes, reported as a component of accumulated other comprehensive income. Other than temporary declines in fair value of investments are recorded as a reduction in the cost of the investments in the accompanying Consolidated Balance Sheets and a reduction of interest and other income in the accompanying Consolidated Statements of 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.

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

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 were approximately $13,368,000, $15,012,000, and $26,651,000, respectively. Cash paid for interest for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 were $-0-, $8,000 and $-0-, respectively.

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

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property and Equipment: Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred; renewals and betterments are capitalized. The Company accounts for its software development costs in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets 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:

Classification	Estimated Useful Lives
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

Impairment of Long-Lived Assets

The Company primarily invests in property and equipment 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 assets, recording an impairment charge, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those 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 cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. Store asset impairment charges incurred in fiscal 2008, 2007 and 2006 were $498,239, $1,039,120 and $479,178, respectively. In addition, the Company regularly evaluates its computer-related and 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.

Leases

The Company determines the classification of leases consistent with SFAS No. 13, *Accounting for 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 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 reduction to "Cost of goods sold" on the Consolidated Statements of 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 as defined by SFAS 13.

Revenue Recognition

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 are also recorded when the customer takes possession of the merchandise. Gift cards, layaway deposits and merchandise credits granted to customers are recorded as deferred revenue until they are redeemed or forfeited. Gift cards and merchandise credits do not have expiration dates. A provision is made for estimated product returns based on sales volumes and the Company's experience; actual returns have not varied materially from amounts provided historically.

In fiscal 2008 and 2007, the Company recognized $287,000 and $79,000, respectively, of income on unredeemed gift cards ("gift card breakage") as a component of other income. Gift card breakage is determined after 60 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions.

Credit revenue on the Company's private label credit card portfolio is recognized as earned under the interest method. Late fees are recognized as earned, less provisions for estimated uncollectible fees.

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.

Credit Sales: The Company offers its own credit card to customers. All credit activity is performed by the Company's wholly-owned subsidiaries. None of the credit card receivables are secured. Finance income is recognized as earned under the interest method and late charges are recognized in the month in which they are assessed, net of provisions for estimated uncollectible amounts. The Company evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts based on the aging of accounts and estimates of actual write-offs.

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately $6,460,000, $6,760,000 and $6,546,000 for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively.

Stock Repurchase Program: On August 30, 2007, the Company's Board of Directors authorized an increase in the stock repurchase program of two million shares, bringing total authorized shares to repurchase to 9.581 million shares. As of January 31, 2009, the Company had repurchased 9.385 million shares under this program, leaving 195,942 shares remaining to open authorizations. There is no specified expiration date for the Company's repurchase program. For fiscal 2008, the Company repurchased 198,718 shares for approximately $2.4 million or an average market price per share of $12.25. Subsequent to fiscal year end 2008, on February 26, 2009, the Company's Board of Directors authorized an increase in the stock repurchase program of 500,000 shares.

Earnings Per Share: FASB No. 128, *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 Company has presented one basic EPS and one diluted EPS amount for all common shares in the accompanying Consolidated Statement of Income. While the Company's articles of incorporation provide 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

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

both Class A and Class B shares. Basic EPS is computed as net income divided by the weighted average number of both Class A and Class B common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities. Unvested restricted stock is included in the computation of diluted EPS using the treasury stock method.

	Twelve Months Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
Weighted-average shares outstanding	**29,065,594**	31,279,918	31,281,163
Dilutive effect of :			
Stock options	**12,916**	187,593	512,814
Restricted stock	**73,249**	45,691	21,355
Weighted-average shares and common stock equivalents outstanding	**29,151,759**	31,513,202	31,815,332

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 as the related products are sold in accordance with EITF 02-16, *"Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."* Under this EITF, cash consideration received from a vendor is presumed to be a reduction of the purchase cost of merchandise and should be reflected as a reduction of cost of sales. 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.

Capital loss carryovers included in the Company's deferred tax assets have a limited life and will expire in 2010 if not utilized. The Company believes realization is more likely than not.

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, on February 4, 2007. Unrecognized tax benefits for uncertain tax positions are established in accordance with FASB Interpretation No. 48, 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 will adjust these liabilities in light of changing facts and circumstances. As a result of the implementation of FASB Interpretation No. 48, the Company recognized a transition adjustment increasing beginning retained earnings by $362,000.

Store Opening and Closing Costs: Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. 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, reduced by expected sublease rentals.

Insurance: The Company is self-insured with respect to employee healthcare, 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 $250,000 for employee healthcare, $350,000 for worker's compensation and $250,000 for general liability.

Until December 31, 2008, employee health claims were funded through a VEBA trust to which the Company made periodic contributions. Contributions to the VEBA trust were $10,070,000, $12,065,000 and $10,430,000 in fiscal 2008, 2007 and 2006, respectively. After December 31, 2008 the VEBA trust was dissolved and the Company directly funds a checking account maintained by a third party provider. Beginning December 2008, the Company began funding contributions to a third party provider. Contributions to the third party provider account were $2,559,000. Accrued healthcare was $1,612,000 and $1,304,000 and assets held in VEBA trust were $-0-and $852,000 at January 31, 2009 and February 2, 2008, respectively.

The Company paid workers' compensation and general liability claims of $3,388,000, $4,080,000 and $3,329,000 in fiscal years 2008, 2007 and 2006, respectively. Including claims incurred, but not yet paid, the Company recognized an expense of $4,959,000, $4,739,000 and $3,971,000 in fiscal 2008, 2007 and 2006, respectively. Accrued workers' compensation and general liabilities were $4,889,000 and $4,127,000 at January 31, 2009 and February 2, 2008, respectively. At January 31, 2009, the Company had a $700,000 stand by letter of credit for the benefit of its current workers' compensation and general liability insurance carrier relating to claims incurred during 2008. At February 2, 2008, the Company had no outstanding letters of credit relating to such claims for 2007 and 2006.

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

Stock Based Compensation: Effective January 29, 2006, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, as interpreted by SEC Staff Accounting Bulletin No. 107. Compensation cost associated with stock options recognized in all years presented includes: 1) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to January 29, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) quarterly amortization related to all stock option awards granted subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

Recent Accounting Pronouncements

In September 2006, FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 applies to all entities that elect the fair value option. The provisions of SFAS 159 were effective for the Company on February 3, 2008. The adoption of SFAS 159 did not have an impact on the Company's consolidated financial statements.

On June 14, 2007, the FASB reached consensus on EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment*. EITF No. 06-11 requires that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to associates for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF No. 06-11 is effective for fiscal years beginning on or after December 15, 2007. The impact of the Company's adoption of EITF Issue No. 06-11 was immaterial.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*.
EITF 03-6-1 requires that unvested share-based

payments that contain nonforfeitable rights to dividends are participating securities and they shall be included in the computation of EPS pursuant to the two class method. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The impact of the Company's adoption of EITF Issue No. 03-6-1 was immaterial.

In February 2008, the FASB issued FASB Staff Position 157-2, *Effective date of FASB Statement No. 157*, which delayed for one year the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company has not yet determined the impact on its financial statements of the February 1, 2009 adoption of SFAS No. 157-2 as it pertains to non-financial assets and liabilities.

2. Interest and Other Income:

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

	January 31, 2009	February 2, 2008	February 3, 2007
Dividend income	**$ (10)**	$ (17)	$ (23)
Interest income	**(4,617)**	(5,729)	(4,221)
Hurricane claims settlement	—	—	(2,384)
Visa/Mastercard claims settlement	—	—	(470)
Miscellaneous income	**(2,709)**	(2,207)	(2,100)
(Gain)/loss on investment sales	**118**	(265)	(399)
Interest and other income	**$ (7,218)**	$ (8,218)	$ (9,597)

3. Short-Term Investments:

At January 31, 2009, the Company's investment portfolio was primarily invested in variable rate demand notes and governmental debt securities held in managed funds. These securities are classified as available-for-sale as they are highly liquid and are recorded on the balance sheet at estimated fair value, with unrealized gains and temporary losses reported net of taxes as accumulated other comprehensive income.

The table below reflects gross accumulated unrealized gains in short-term investments at January 31, 2009 and February 2, 2008.

	January 31, 2009			February 2, 2008		
Security Type:	Cost	Unrealized Gain/(Loss)	Estimated Fair Value	Cost	Unrealized Gain/(Loss)	Estimated Fair Value
Debt Securities issued by states of the United States and political subdivisions of the states:						
With unrealized gain (loss)	$ 101,867	$ 674	$ 102,541	$ 92,373	$ 622	$ 92,995
Total	$ 101,867	$ 674	$ 102,541	$ 92,373	$ 622	$ 92,995

Additionally, the Company had $2.3 million invested in privately managed investment funds and other miscellaneous equities at January 31, 2009 and $2.6 million at February 2, 2008, which are reported within other noncurrent assets in the Consolidated Balance Sheets.

Accumulated other comprehensive income in the Consolidated Balance Sheets reflects the accumulated unrealized gains in short-term investments shown above, which at January 31, 2009 was offset by unrealized losses in equity investments of $18,000, net of a deferred income tax benefit of $10,000 and at February 2, 2008 was offset by the accumulated unrealized gains in equity investments of $301,000, net of a deferred income tax liability of $157,000. All investments with unrealized losses disclosed were in a loss position for less than 12 months.

As disclosed in Note 2, the Company had realized losses of $118,000 in fiscal 2008, realized gains of $265,000 in fiscal 2007 and realized gains of $399,000 in fiscal 2006 relating to sales of debt securities.

4. Fair Value Measurements:

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Applicable provisions of SFAS 157 were adopted by the Company effective February 3, 2008. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective date of FASB Statement No. 157*, which delayed for one year the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company has not yet determined the impact on its financial statements of the February 1, 2009 adoption of SFAS No. 157-2 as it pertains to non-financial assets and liabilities.

The following table sets forth information regarding the Company's financial assets that are measured at fair value (in thousands).

	Fair Value Measurements at Reporting Date Using			
Description	January 31, 2009	Quoted Market Prices in Active Market for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short term investments	$ 102,541	$ 99,091	$ 3,450	—
Other assets (see Note 3)	2,258	303	1,955	—

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes and governmental debt securities held in managed funds. These securities are classified as available-for-sale as they are highly liquid and are recorded on the balance sheet at estimated fair value, with unrealized gains and temporary losses reported net of taxes as accumulated other comprehensive income. Additionally, as of January 31, 2009, the Company had $2.0 million invested in privately managed investment funds and $0.3 million of other miscellaneous equities which are reported within other noncurrent assets in the Consolidated Balance Sheets.

As of January 31, 2009, the Company held $51.7 million in variable rate demand notes ("VRDN") and auction rate securities ("ARS") issued by tax exempt municipal authorities and agencies and rated A or better. The underlying securities have contractual maturities which generally range from thirteen to twenty-six years. The VRDN and ARS are recorded at estimated fair value and classified as available-for-sale. Of the $51.7 million in VRDN and ARS, $3.5 million failed their last auctions as of January 31, 2009. The Company has experienced continued reductions in its failed ARS balances and reasonably expects the $3.5 million ARS to either experience a successful auction or be called within a year and so has classified it as a short term investment.

The Company classified the failed ARS security as Level 2 items under SFAS 157 since it was not trading within ARS auctions and there is not an actively quoted market price for this security. Additionally, the Company valued the failed ARS investment at par using a number of market based inputs to estimate the fair value, including: (i) the underlying credit quality of the issuer and insurer and the probability of default of the issue; (ii) the Company's experience and observations with ARS investments that were similar in many material aspects such as credit quality, yield, coupon or term to the remaining failed security; (iii) the present value of future principal and interest payments discounted at rates reflecting current market conditions, reflecting the Company's determination that the effects on the ARS' estimated fair value of the increased penalty interest being paid by the non-auctioning bond, as offset by a liquidity/risk value reduction, would render the fair value materially the same as the carrying value (par); (iv) the timing of expected future cash flows; and (v) the likelihood of repurchase at par for each security.

5. Accounts Receivable:

Accounts receivable consist of the following (in thousands):

	January 31, 2009	February 2, 2008
Customer accounts — principally deferred payment accounts	**$ 40,516**	$ 42,007
Miscellaneous trade receivables	**7,343**	6,538
Total	**47,859**	48,545
Less allowance for doubtful accounts	**3,723**	3,263
Accounts receivable — net	**$ 44,136**	$ 45,282

Finance charge and late charge revenue on customer deferred payment accounts totaled $10,073,000, $10,370,000 and $10,866,000 for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively, and charges against the allowance for doubtful accounts were approximately $3,825,000, $2,844,000 and $2,633,000 for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively. Expenses charged relating to the allowance for doubtful accounts are classified as a component of selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

6. Property and Equipment:

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

	January 31, 2009	February 2, 2008
Land and improvements	**$ 3,694**	$ 3,681
Buildings	**18,926**	18,518
Leasehold improvements	**56,224**	53,938
Fixtures and equipment	**164,136**	160,688
Information Technology equipment and software	**50,575**	48,649
Construction in progress	**865**	1,741
Total	**294,420**	287,215
Less accumulated depreciation	**178,158**	164,025
Property and equipment — net	**$ 116,262**	$ 123,190

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

7. Accrued Expenses:

Accrued expenses consist of the following (in thousands):

	January 31, 2009	February 2, 2008
Accrued payroll and related items	**$ 4,491**	$ 4,476
Accrued advertising	**257**	299
Property and other taxes	**11,978**	11,159
Accrued insurance	**6,264**	5,225
Other	**6,956**	6,458
Total	**$ 29,946**	$ 27,617

8. Financing Arrangements:

At January 31, 2009, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $34.3 million. This revolving credit agreement is committed until August 2010. 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 January 31, 2009. There were no borrowings outstanding under this facility during the fiscal years ended January 31, 2009 or February 2, 2008. Interest is based on LIBOR, which was 0.41% on January 31, 2009.

The Company had approximately $4.5 million and $4.3 million at January 31, 2009 and February 2, 2008 respectively, of outstanding irrevocable letters of credit relating to purchase commitments. In addition, the Company has a stand by LOC for payments to the current general liability and workers' compensation insurance processor.

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 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 Stock, trusts for their benefit, corporations and partnerships controlled by them and the Company's employee benefit plans. Any transfer of Class B Common Stock in violation of these restrictions, including a transfer to the Company, results in the automatic conversion of the transferred shares of Class B Common Stock held by the transferee into an equal number of shares of Class A Common Stock.

In April 2004, the Board of Directors adopted the 2004 Incentive Compensation Plan, of which 1,350,000 shares are issuable. As of January 31, 2009, 481,922 shares had been granted from this Plan.

In May 2003, the shareholders approved a new 2003 Employee Stock Purchase Plan with 250,000 Class A shares of Common Stock authorized. Under the terms of the Plan, substantially all associates may purchase Class A Common Stock through payroll deductions of up to 10% of their salary, up to a maximum market value of $25,000 per year. The Class A Common Stock is purchased at the lower of 85% of market value on the first or last business day of a six-month payment period. Additionally, each April 15, associates are given the opportunity to make a lump sum purchase of up to $10,000 of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 32,830 shares, 27,164 shares and 22,873 shares for the years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively.

In December 2003, the Board of Directors authorized a dividend of one preferred share purchase right (a “Right”) for each share of Class A Common Stock and Class B Common Stock, each par value $.033 per share of the Company outstanding at the close of business on January 7, 2004. In connection with the authorization of the Rights, the Company entered into a Rights Agreement, dated as of December 18, 2003 (the “Rights Agreement”), with American Stock Transfer & Trust Company, as Rights Agent (the “Rights Agent”).

The Company adopted in 1987 an Incentive Compensation Plan and a Non-Qualified Stock Option Plan for key associates of the Company. Total shares issuable under the plans are 5,850,000, of which 1,237,500 shares were issuable under the Incentive Compensation Plan and 4,612,500 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of the shares under an option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant. Options granted under these plans vest over a 5-year period and expire 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors. As of January 31, 2009, 5,831,373 shares had been granted under the plans.

In August 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan, of which 1,500,000 shares are issuable. The ability to grant awards under the 1999 Plan expired on July 31, 2004.

In May 2002, the Board of Directors approved and granted to a key executive under the 1999 Incentive Compensation Plan restricted stock awards of 150,000 shares of Class B Common Stock, with a per share fair value of $18.21. These stock awards cliff vested after four years. The charge to compensation expense for these stock awards was $-0-, $-0- and $229,000 in fiscal 2008, 2007 and 2006, respectively. As of January 31, 2009, all such shares were fully vested.

Option plan activity for the three fiscal years ended January 31, 2009 is set forth below:

	Options	Range of Option Prices	Weighted Average Price
Outstanding options,			
January 28, 2006	1,343,400	$ 5.50 – $21.75	$ 8.23
Granted	—	—	—
Exercised	(95,775)	5.50 – 21.37	10.12
Forfeited or expired	(10,950)	13.47 – 21.37	17.24
Outstanding options,			
February 3, 2007	1,236,675	5.50 – 21.75	8.01
Granted	—	—	—
Exercised	(1,092,200)	5.50 – 17.84	7.41
Forfeited or expired	(5,400)	13.52 – 19.53	17.45
Outstanding options,			
February 2, 2008	139,075	6.39 – 21.75	12.41
Granted	—	—	—
Exercised	(23,875)	8.19 – 13.97	9.36
Forfeited or expired	(7,250)	8.71 – 21.72	17.78
Outstanding options,			
January 31, 2009	107,950	$ 6.39 – 19.99	$ 12.72

The following tables summarize stock option information at January 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 6.39 – $ 8.83	21,700	1.88 years	$ 8.00	21,700	$ 8.00
11.10 – 14.79	68,850	5.64 years	13.25	57,675	13.10
15.08 – 19.99	17,400	6.82 years	16.50	13,350	16.49
$ 6.39 – $19.99	107,950	5.07 years	$ 12.72	92,725	$ 12.40

Outstanding options at January 31, 2009 covered 107,950 shares of Class A Common Stock and no shares of Class B Common Stock. Outstanding options at February 2, 2008 covered 139,075 shares of Class A Common Stock and no shares of Class B Common Stock. See Note 16 to the Consolidated Financial Statements for further information on the Company's Stock Based Compensation.

On May 22, 2008 the Board of Directors set the quarterly dividend at $.165 per share, or an annualized rate of $.66 per share.

10. Employee Benefit Plans:

The Company has a defined contribution retirement savings plan ("401(k)") which covers all associates who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 60% of their annual compensation up to the maximum elective deferral, designated by the IRS. The Company is obligated to make a minimum contribution to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended January 31, 2009, February 2, 2008 and February 3, 2007 were approximately $1,586,000, $1,530,000 and $1,455,000, respectively.

The Company has an Employee Stock Ownership Plan ("ESOP"), which covers substantially all associates who meet minimum age and service requirements. The Board of Directors determines contributions to the ESOP. The Company's contributions for the years ended January 31, 2009, February 2, 2008 and February 3, 2007 were approximately $-0-, $-0- and $1,789,000, respectively.

The Company is primarily self-insured for health care. 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. 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 has stop-loss insurance coverage for individual claims in excess of $250,000. Employee health claims were funded through a VEBA trust to which the Company made periodic contributions until December 2008, after which the Company funds health care 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 and most provide for additional contingent rentals based on a percentage of store sales in excess of stipulated amounts. 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. Equipment leases are generally for one to three year periods.

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

Fiscal Year	
2009	$ 55,548
2010	43,082
2011	31,435
2012	20,516
2013	10,310
Thereafter	253
Total minimum lease payments	$ 161,144

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

Fiscal Year Ended	January 31, 2009	February 2, 2008	February 3, 2007
Minimum rentals	**$ 52,762**	$ 51,142	$ 49,169
Contingent rent	**28**	54	106
Total rental expense	**$ 52,790**	$ 51,196	$ 49,275

12. Related Party Transactions:

The Company leases certain stores from entities in which Mr. George S. Currin, a director of the Company, has a controlling or non-controlling ownership interest. Rent expense and related charges totaling $432,199, $423,631 and $371,716 were paid to entities controlled by Mr. Currin or his family in fiscal 2008, 2007 and 2006, respectively, under these leases. Rent expense and related charges totaling $1,080,996, $1,008,664 and $939,443 were paid to entities in which Mr. Currin or his family had a non-controlling ownership interest in fiscal 2008, 2007 and 2006, respectively, under these leases.

In November 2006, the Company received $6,996,021 as payment for the purchase of a split-dollar life insurance policy by The Wayland H. Cato, Jr. Irrevocable Trust, the grantor of which is Wayland H. Cato, Jr., a Company founder and Chairman Emeritus. Mr. Cato was the insured and owned 50% of the death benefit, while the Company owned the policy and any cash value associated with it and 50% of the death benefit. The purchase was made under an agreement between the Company and the trust that allowed the trust to purchase the policy within three years of the date of Mr. Cato’s termination of employment for an amount equal to the policy’s cash value as of the date of transfer to the trust. Mr. Cato’s employment with the Company terminated January 31, 2004.

13. Income Taxes:

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, on February 4, 2007. Unrecognized tax benefits for uncertain tax positions are established in accordance with FIN 48 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 will adjust these liabilities in light of changing facts and circumstances. As of February 2, 2008, the company had gross unrecognized tax benefits totaling approximately $9.2 million, of which approximately $5.9 million would affect our effective tax rate if recognized. As of January 31, 2009, the Company had gross unrecognized tax benefits totaling approximately $9.5 million, of which approximately $6.4 million would affect our effective tax rate if recognized. The Company had approximately $5.9 million and $5.1 million of interest and penalties accrued related to uncertain tax positions as of January 31, 2009 and February 2, 2008, respectively. The Company continues to recognize interest and penalties related to uncertain tax positions in income tax expense. The Company recognized $1.1 and $1.5 million of interest and penalties in the Consolidated Statement of Income and Comprehensive Income as of

January 31, 2009 and February 2, 2008, respectively. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for years before 2006 and for state and local tax jurisdictions before 2003. During the next 12 months, various state and local taxing authorities' statues of limitations will expire and certain state examinations may close which could result in a potential reduction of unrecognized tax benefits of up to $2.8 million.

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

	January 31, 2009	February 2, 2008
Balances, beginning	**$ 9,180**	$ 6,193
Additions for tax positions of the current year	**1,394**	1,686
Additions for tax positions prior years	**35**	1,301
Reduction for tax positions of prior years for:		
Changes in judgement	**—**	—
Settlements during the period	**(571)**	—
Lapses of applicable statue of limitations	**(516)**	—
Balance, ending	**$ 9,522**	$ 9,180

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

Fiscal Year Ended	January 31, 2009	February 2, 2008	February 3, 2007
Current income taxes:			
Federal	**$ 15,895**	$ 23,800	$ 26,480
State	**1,768**	(280)	1,205
Total	**17,663**	23,520	27,685
Deferred income taxes:			
Federal	**1,173**	(5,902)	443
State	**140**	(704)	53
Total	**1,313**	(6,606)	496
Total income tax expense	**$ 18,976**	$ 16,914	$ 28,181

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of the Company's deferred tax assets and liabilities as of January 31, 2009 and February 2, 2008 are as follows (in thousands):

	January 31, 2009	February 2, 2008
Deferred tax assets:		
Bad debt reserve	**$ 1,467**	$ 1,227
Inventory valuation	**2,263**	2,164
Capital loss carryover	**232**	274
Deferred lease liability	**10,251**	9,148
Reserves	**1,721**	3,817
Other taxes	**1,282**	1,203
Federal benefit of FIN 48	**4,320**	3,906
Equity compensation expense	**2,109**	1,297
Total deferred tax assets	**23,645**	23,036
Deferred tax liabilities:		
Property and equipment	**19,381**	16,010
Unrealized gains on short-term investments	**233**	371
Other	**156**	1,606
Total deferred tax liabilities	**19,770**	17,987
Net deferred tax liabilities (assets)	**$ (3,875)**	$ (5,049)

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

Fiscal Year Ended	January 31, 2009	February 2, 2008	February 3, 2007
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**5.7**	2.9	2.4
Tax credits	**(2.5)**	(3.1)	(1.3)
Tax exempt interest	**(2.6)**	(3.4)	(1.5)
Effects of other permanent differences	**0.5**	0.4	(0.2)
Other	**0.0**	2.6	1.0
Effective income tax rate	**36.1%**	34.4%	35.4%

14. Quarterly Financial Data (Unaudited):

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

Fiscal 2008	First	Second	Third	Fourth
Retail sales	$ 225,791	$ 230,957	$ 179,838	$ 209,091
Total revenues	228,828	233,868	182,785	212,238
Cost of goods sold (exclusive of depreciation)	141,620	148,020	127,172	145,245
Income before income taxes	27,182	18,320	1,274	5,834
Net income	16,853	12,091	823	3,866
Basic earnings per share	$ 0.58	$ 0.42	$ 0.03	$ 0.13
Diluted earnings per share	$ 0.58	$ 0.41	$ 0.03	$ 0.13

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fiscal 2007	First	Second	Third	Fourth
Retail sales	$ 224,134	$ 218,973	$ 181,870	$ 209,364
Total revenues	227,228	221,934	184,838	212,436
Cost of goods sold (exclusive of depreciation)	143,422	147,514	126,080	155,294
Income before income taxes	29,172	18,650	3,947	(2,538)
Net income	18,670	12,510	2,936	(1,798)
Basic earnings per share	$ 0.60	$ 0.39	$ 0.09	$ (0.06)
Diluted earnings per share	$ 0.59	$ 0.39	$ 0.09	$ (0.06)

15. Reportable Segment Information:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 31 states, principally in the southeastern United States. The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

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

Fiscal 2008	Retail	Credit	Total
Revenues	$ 847,606	$ 10,112	$ 857,718
Depreciation	22,531	41	22,572
Interest and other income	(7,218)	—	(7,218)
Income before taxes	49,499	3,111	52,610
Total assets	361,697	73,656	435,353
Capital expenditures	19,443	—	19,443

Fiscal 2007	Retail	Credit	Total
Revenues	$ 836,023	$ 10,414	$ 846,437
Depreciation	22,112	100	22,212
Interest and other income	(8,218)	—	(8,218)
Income before taxes	44,983	4,250	49,233
Total assets	354,001	68,491	422,492
Capital expenditures	18,211	119	18,330

Fiscal 2006	Retail	Credit	Total
Revenues	$ 864,987	$ 10,898	$ 875,885
Depreciation	20,849	92	20,941
Interest and other income	(9,597)	—	(9,597)
Income before taxes	74,772	4,859	79,631
Total assets	368,786	63,536	432,322
Capital expenditures	27,483	64	27,547

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

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	January 31, 2009	February 2, 2008	February 3, 2007
Bad debt expense	**$ 3,844**	$ 2,844	$ 2,633
Payroll	**1,000**	983	1,008
Postage	**979**	985	1,034
Other expenses	**1,137**	1,252	1,272
Total expenses	**$ 6,960**	$ 6,064	$ 5,947

16. Stock Based Compensation:

As of January 31, 2009, the Company had three 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 authorized 5,850,000 shares for the granting of options to officers and key associates. The 1999 Incentive Compensation Plan and 2004 Incentive Compensation Plan authorized 1,500,000 and 1,350,000 shares, respectively, for the granting of various forms of equity-based awards, including restricted stock and stock options to officers and key associates. The 1999 Plan has expired as to the ability to grant new awards.

The following table presents the number of options and shares of restricted stock initially authorized and available to grant under each of the plans as of January 31, 2009:

	1987 Plan	1999 Plan	2004 Plan	Total
Options and/or restricted stock initially authorized	5,850,000	1,500,000	1,350,000	8,700,000
Options and/or restricted stock available for grant:				
February 2, 2008	12,277	—	1,006,033	1,018,310
January 31, 2009	18,627	—	868,078	886,705

Stock option awards outstanding under the Company's current plans were granted at exercise prices which were equal to the market value of the Company's stock on the date of grant, vest over five years and expire no later than ten years after the grant date.

The following is a summary of the changes in stock options outstanding during the twelve months ended January 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(a)
Options outstanding at February 2, 2008	139,075	$ 12.41	4.64 years	$ 494,087
Granted	—	—	—	—
Forfeited or expired	7,250			
Exercised	23,875			
Outstanding at January 31, 2009	107,950	$ 12.72	4.07 years	$ 124,257
Vested and exercisable at January 31, 2009	92,725	$ 12.40	3.80 years	$ 136,569

(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 2008 and no options were granted in fiscal 2007. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

As of January 31, 2009, there was approximately $59,587 of total unrecognized compensation cost related to nonvested options, which is expected to be recognized over a remaining weighted-average vesting period of .57 years. The total intrinsic value of options exercised in fiscal 2008 was approximately $192,627.

Effective January 29, 2006, the Company began recognizing share-based compensation expense ratably over the vesting period, net of estimated forfeitures. The Company recognized share-based compensation expense of $2,156,131 for the twelve month period ended January 31, 2009, which was classified as a component of selling, general and administrative expenses.

The Company's Employee Stock Purchase Plan allows eligible full-time associates 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 months ended January 31, 2009, the Company sold 32,830 shares to associates at an average discount of $2.26 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 $74,000, $85,000 and $73,000 for fiscal years 2008, 2007 and 2006, respectively.

In accordance with SFAS No. 123R, 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 the related vesting periods. As of January 31, 2009, there was $5,272,802 of total unrecognized compensation cost related to nonvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.95 years. The total fair value of the shares recognized as compensation expense during the twelve months ended January 31, 2009, February 2, 2008 and February 3, 2007 was $1,959,000, $1,493,000 and $1,093,000, respectively.

The following summary shows the changes in the shares of restricted stock outstanding during the three fiscal years ended January 31, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at January 28, 2006	150,000	$ 18.21
Granted	235,754	22.88
Vested	(150,000)	18.21
Forfeited	(20,872)	22.43
Restricted stock awards at February 3, 2007	214,882	22.92
Granted	102,399	21.14
Vested	—	—
Forfeited	(15,314)	19.90
Restricted stock awards at February 2, 2008	301,967	22.56
Granted	156,795	16.88
Vested	—	—
Forfeited	(18,841)	22.55
Restricted stock awards at January 31, 2009	439,921	$ 20.46

17. Commitments and Contingencies:

Workers compensation and general liability claims are settled through a claims administrator and are limited by stop-loss insurance coverage for individual claims in excess of $350,000 and $250,000, respectively. The Company paid claims of $3,388,000, $4,080,000 and $3,329,000 in fiscal 2008, 2007 and 2006, respectively. Including claims incurred, but not yet paid, the Company recognized an expense of $4,959,000, $4,739,000 and

$3,971,000 in fiscal 2008, 2007 and 2006, respectively. Accrued workers' compensation and general liabilities were $4,889,000 and $4,127,000 at January 31, 2009 and February 2, 2008, respectively. The Company had no outstanding letters of credit relating to such claims at January 31, 2009 or at February 2, 2008. See Note 8 for letters of credit related to purchase commitments, Note 10 for 401(k) plan contribution obligations and Note 11 for lease commitments.

The Company does not have any guarantees with third parties. The Company has placed a $2.0 million deposit with Cedar Hill National Bank ("Cedar Hill"), a wholly owned subsidiary, as security and collateral for the payment of amounts due from CatoWest LLC, a wholly owned subsidiary, to Cedar Hill. The deposit has no set term. The deposit is a regulation of the Office of the Comptroller of the Currency because the receivable is not settled immediately and Cedar Hill has a risk of loss until payment is made. CatoWest LLC purchases receivables from Cedar Hill on a daily basis (generally one day in arrears). In the event CatoWest LLC fails to transfer to Cedar Hill the purchase price for any receivable within two business days, Cedar Hill has the right to withdraw any amount necessary from the account established by the Company to satisfy the amount due Cedar Hill from CatoWest LLC. Although the amount of potential future payments is limited to the amount of the deposit, Cedar Hill may require, at its discretion, the Company to increase the amount of the deposit with no limit on the increase. The deposit is based upon the amount of payments that would be due from CatoWest LLC to Cedar Hill for the highest credit card sales weekends of the year that would remain unpaid until the following business day. The Company has no obligations related to the deposit at year-end. No recourse provisions exist nor are any assets held as collateral that would reimburse the Company if Cedar Hill withdraws a portion of the deposit.

In addition, the Company has $5.0 million in escrow with Branch Banking & Trust Co. on behalf of Zurich American Insurance Company as security and collateral for administration of the Company's self-insured workers' compensation and general liability coverage and $4.1 million on behalf of the Company's primary buying agent as security collateral for the Company's direct sourced purchases.

The Company is a defendant in legal proceedings considered to be in the normal course of business. The resolution of which, singularly or collectively, are not expected to have a material effect on the Company's results of operations, cash flows or financial position.

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 January 31, 2009. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of January 31, 2009, 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 Securities and Exchange Commission'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

Our 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 January 31, 2009 based on the *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2009.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 31, 2009, as stated in their 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 January 31, 2009 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 2009 annual stockholders' meeting (the "2009 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 4A, Part I hereof under the caption "Executive Officers of the Registrant."

Item 11. ***Executive Compensation:***

Information contained under the captions "Executive Compensation", "Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation" in the Company's 2009 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 January 31, 2009.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(1)	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(2)
Equity compensation plans approved by security holders	107,950	$ 12.72	1,107,785
Equity compensation plans not approved by security holders	—	—	—
Total	107,950	$ 12.72	1,107,785

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

(2) Includes the following:

868,078 shares available for grant under the Company's stock incentive plan, referred to as the 2004 Incentive Compensation Plan. Under this plan, non-qualified stock options may be granted to key associates. Additionally, 18,627 shares available for grant under the Company's stock incentive plan, referred to as the "1987 Non-qualified Stock Option Plan." Stock options have terms of 10 years, vest evenly over 5 years, and are assigned an exercise price of not less than the fair market value of the Company's stock on the date of grant; and

221,080 shares available under the 2003 Employee Stock Purchase Plan. 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 2009 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 2009 Proxy Statement is incorporated by reference in response to this Item.

Item 14. ***Principal Accountant Fees and Services:***

The information required by this Item is incorporated herein by reference to the section entitled "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 2009 Proxy Statement.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules:***

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

(1) Financial Statements:

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 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. You may also read and copy any such document at the SEC's public reference room located at Room 1580, 100 F. Street, N.E., Washington, D.C. 20549 under the Company's SEC file number (1-31340).

Exhibit Number	Description of Exhibit
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 4.2 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283).
4.1	Rights Agreement dated December 18, 2003, incorporated by reference to Exhibit 4.1 to Form 8-A12G of the Registrant filed December 22, 2003 and as amended in Form 8-A12B/A filed on January 6, 2004.
10.2*	1999 Incentive Compensation Plan dated August 26, 1999, incorporated by reference to Exhibit 4.3 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283).
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*	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.
10.5*	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.
10.6*	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.

Exhibit Number	Description of Exhibit
10.7*	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.
10.8*	Summary of Named Executive Officer Compensation Determinations, incorporated by reference to Item 5.02 of Form 8-K filed April 7, 2008.
10.9*	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.
21	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

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

EXHIBIT INDEX

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 31, 2009

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

/s/ JOHN P. D. CATO John P. D. Cato (President and Chief Executive Officer (Principal Executive Officer) and Director)	/s/ WILLIAM H. GRIGG William H. Grigg (Director)
/s/ JOHN R. HOWE John R. Howe (Executive Vice President Chief Financial Officer (Principal Financial Officer))	/s/ GRANT L. HAMRICK Grant L. Hamrick (Director)
/s/ JEFFREY R. SHOCK Jeffrey R. Shock (Senior Vice President Controller (Principal Accounting Officer))	/s/ JAMES H. SHAW James H. Shaw (Director)
/s/ ROBERT W. BRADSHAW, JR. Robert W. Bradshaw, Jr. (Director)	/s/ A.F. (PETE) SLOAN A.F. (Pete) Sloan (Director)
/s/ GEORGE S. CURRIN George S. Currin (Director)	/s/ D. HARDING STOWE D. Harding Stowe (Director)

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts(a)	Self Insurance Reserves(b)	Inventory Reserves(c)
Balance at January 28, 2006	$ 3,694	$ 4,650	$ 3,570
Additions charged to costs and expenses	2,633	3,971	664
Additions (reductions) charged to other accounts	1,600(d)	(690)	—
Deductions	(4,373)(e)	(3,329)	(1,094)
Balance at February 3, 2007	3,554	4,602	3,140
Additions charged to costs and expenses	2,844	4,739	1,350
Additions (reductions) charged to other accounts	1,038(d)	(1,134)	—
Deductions	(4,173)(e)	(4,080)	(664)
Balance at February 2, 2008	3,263	4,127	3,826
Additions charged to costs and expenses	3,825	4,959	747
Additions (reductions) charged to other accounts	933(d)	(809)	—
Deductions	(4,298)(e)	(3,388)	(1,142)
Balance at January 31, 2009	$ 3,723	$ 4,889	$ 3,431

(a) Deducted from trade accounts receivable.

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

(c) Reserves for inventory shortage and markdowns.

(d) Recoveries of amounts previously written off.

(e) Uncollectible accounts written off.

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State of Incorporation/Organization	Name under which Subsidiary does Business
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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Numbers 333-119300, 333-119299, 333-96283, 33-41314, 33-41315, 33-69844, and 333-96285) of The Cato Corporation of our report dated March 31, 2009 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 31, 2009

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 31, 2009

/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 31, 2009

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

EXHIBIT 32.1

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 January 31, 2009 (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 31, 2009

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

EXHIBIT 32.2

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 January 31, 2009 (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 31, 2009

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