ANNUAL REPORT 2001

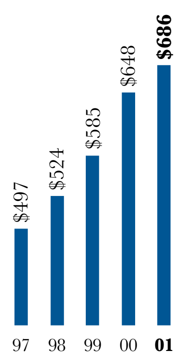
value

The Cato Corporation

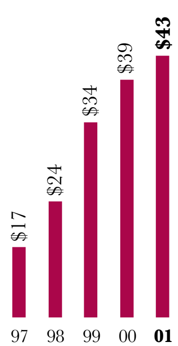
The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating two divisions, "Cato" and "It's Fashion!". The Company currently operates over 940 apparel specialty stores principally in the Southeast. Cato, the core division, offers women's private label merchandise with fashion and quality comparable to mall specialty stores at low prices, every day. Most Cato stores range from 4,000 to 6,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. It's Fashion!, the off-price division, provides family fashion apparel and accessories with stores ranging from 3,000 to 4,000 square feet. The Company is headquartered in Charlotte, North Carolina.

FINANCIAL HIGHLIGHTS

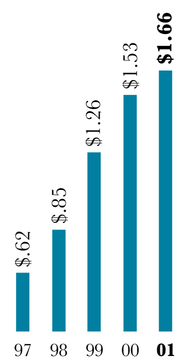
Fiscal Year (Dollars in thousands, except per share data)	**2001**	2000	1999	1998	1997
For the Year					
Retail sales	**$ 685,653**	$ 648,482	$ 585,085	$ 524,381	$ 496,851
Total revenues	**705,658**	669,135	605,033	543,664	512,448
Comparable store sales increase	**1%**	3%	4%	2%	4%
Income before income taxes	**66,286**	60,042	51,975	36,795	25,407
Net income	**43,086**	39,027	33,931	23,917	17,401
Net income as a percent of retail sales	**6.3%**	6.0%	5.8%	4.6%	3.5%
Cash dividends paid per share	**.53**	.425	.28	.19	.16
Basic earnings per share	**1.71**	1.56	1.28	.87	.62
Diluted earnings per share	**1.66**	1.53	1.26	.85	.62
At Year End					
Cash and investments	**$ 84,695**	$ 83,112	$ 87,275	$ 86,209	$ 69,487
Working capital	**139,633**	125,724	124,988	124,024	113,327
Current ratio	**2.7**	2.4	2.5	2.7	2.6
Total assets	**332,041**	310,742	285,789	258,513	241,437
Stockholders' equity	**234,698**	207,757	188,780	172,234	157,516
Number of stores	**937**	859	809	732	693
Number of stores opened	**85**	65	83	52	55
Number of stores closed	**7**	15	6	13	17
Net increase in number of stores	**78**	50	77	39	38



Retail Sales
(in millions)



Net Income
(in millions)



Earnings
per share

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THE LETTER
to our shareholders

John P. Derham Cato

Last year was a tough economic environment for U.S. businesses. Many specialty apparel retailers stumbled.

Cato performed well. Over the last five years, we have built a strong, but simple, value-based business model that delivers…and we believe will continue to deliver…consistent growth and return to shareholders.

We posted our third consecutive year of record earnings and have enjoyed five successive years of earnings growth. Last year, earnings grew to $43.1 million and $1.66 per share, a 10 percent increase in earnings and an 8 percent increase in EPS over 2000.

We continue to deliver value to our shareholders through our share repurchase and quarterly dividend programs. During 2001, we repurchased 775,000 shares and have approximately 1.4 million authorized shares remaining for repurchase. Our dividend, currently $.54 per share on an annualized basis, has more than tripled since 1997.

Our business proposition is simple. We offer our customers high quality, fashionable merchandise at low prices every day. We build our stores with an easy-to-shop format in convenient strip shopping centers. Our assortment appeals to a broad demographic profile and requires a trade area of only 20,000 people, allowing us to serve most communities.

As we have grown, we have adapted these strategies to compete in small, medium and metropolitan markets and expanded our geographic footprint to the Southwest, Midwest and Northeast. We can effectively compete across these varied markets because we offer a broad assortment of high quality, on-trend merchandise to a diverse customer base at an exceptional value.

We are a company based on real value – the value we offer in our merchandise and the value we provide to our shareholders.

We are not standing still. Our business model is evolving. We are improving core strategies and competencies focused on delivering value throughout our business.

We constantly strive to leverage our strengths to excel in every operating function. With dedicated associates, a seasoned management team, and a strong financial position, we can focus on customer-driven change. Our culture promotes an attitude of continuous improvement of our products and processes to enhance our customer's shopping experience and to provide better value.

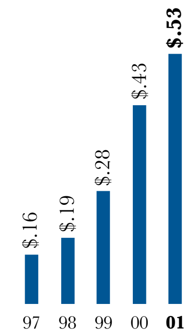
We have a debt-free balance sheet and more than $84 million in cash and short-term investments. We manage our business for the long-term through conservative real estate, inventory and expense management practices.

During 2002, we plan to open 90 new stores, continuing our accelerated store development program. We expect to open 90 to 120 stores per year over the next several years. We will continue to relocate, remodel and refresh our existing store base. Over half of all stores were added, remodeled or relocated in the last three years. We operate with a disciplined real estate strategy, helping to ensure the profitability of all stores. Each location must meet our specific requirements and make long-term economic sense.

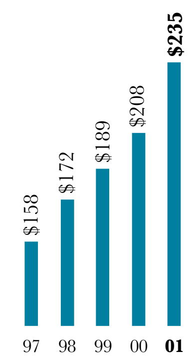
Our goal is to deliver annual earnings growth of 10% or more.

Cato is a company based on value. Our associates in our stores, home office, and distribution center are committed to superior service and quality. Our winning performance speaks for itself…and is based on our strong, but simple business model that delivers consistent growth and return to shareholders now and in the future.

We thank each of you for your continuing support.



Dividends
per share



Shareholders' Equity
(in millions)

John P. Derham Cato

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

THE MERCHANDISE OFFERING
we put value in fashion

We provide fashion and quality comparable to mall specialty stores at low prices every day.

HOW DOES CATO PROVIDE FASHION?

At Cato, we stay in touch with our customer to provide what she needs for her active lifestyle. We offer a broad assortment of on-trend fashions in exciting colors for casual, career and special occasions.

Our merchandising and product development teams keep us on trend. Each store receives new merchandise weekly and our color palette is updated every eight weeks so there is always something fresh, exciting, and new at Cato.

HOW DOES CATO PROVIDE QUALITY?

The construction of our merchandise is tightly controlled to ensure consistent color, quality, and fit. Our customers can be assured that colors will match among garments and they will find a reliable fit no matter what selection they make.

HOW DOES CATO PROVIDE LOW PRICES EVERY DAY?

We can provide low prices every day because we are an efficient, low cost operator. We operate with a low cost structure that includes low occupancy costs, no promotional costs, streamlined store operations, efficient corporate and distribution services, and strong sales productivity.

By regularly shopping our competition, we ensure we are the price leader in our industry segment. We offer low prices every day, assuring our budget-conscious but fashion-savvy customer that they are always getting our best price.

THE SHOPPING EXPERIENCE
we value customers

Our shopping experience saves our customers' time.

WHAT IS THE CATO SHOPPING EXPERIENCE?

From small towns to metropolitan areas, Cato offers customers a relaxed, helpful shopping environment. Our commitment to friendly customer service and a pleasant shopping experience builds a loyal following in our communities.

An important part of our customer service is providing fashion information to customers and store associates through our Cato Now magazine. Its publication is timed to match the change in our color palette and provides information on current fashion trends, upcoming merchandise assortments and tips on coordinating outfits.

HOW DOES CATO SAVE CUSTOMERS' TIME?

Our convenient locations and an easy-to-shop format allow our customers to find what they want easily and quickly.

Our stores are located primarily in strip shopping centers anchored by national discounters or market-dominant grocers. Our customers can visit Cato while doing their regular shopping.

Our stores are organized in coordinated lifestyle shops that guide customers in finding outfits and accessories that work for them.


CATO
junior misses plus
Look Smart. Buy Smart.

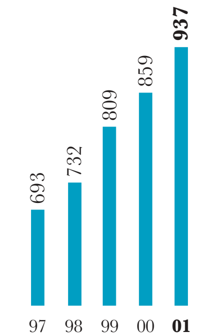
GROWTH AND EXPANSION
we value performance

We have performed well and are preparing to become a national chain.

HOW HAS CATO PERFORMED WELL?

We have performed well during difficult as well as prosperous times. We have grown our earnings from just over $17 million in 1997 to more than $43 million in 2001.

Our performance over the past five years has provided a strong cash flow and has allowed us to consistently return value to our shareholders through share repurchases and dividends. Since 1997, we have repurchased over 5.5 million shares through our repurchase program.



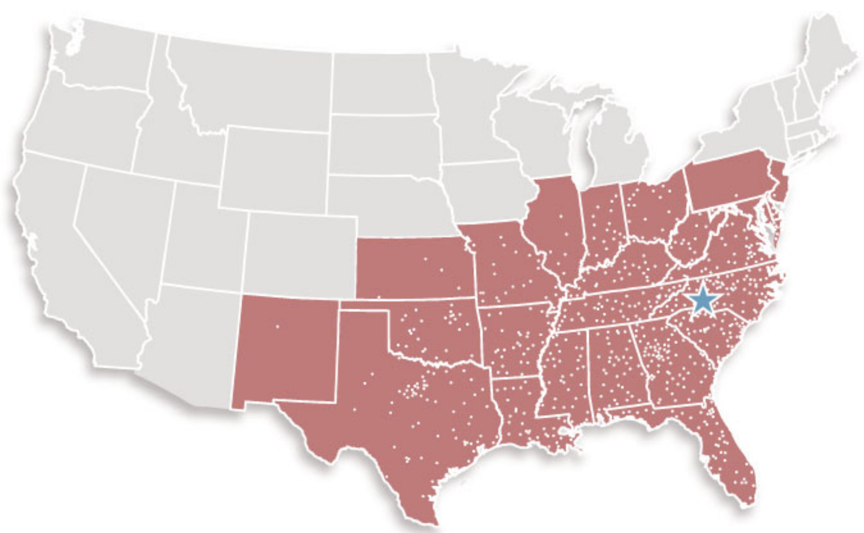
Number of Stores
(at year end)

We have paid a regular dividend every quarter since 1992. Since we began accelerating dividend increases in 1997, we have returned over $41 million in profits to our shareholders.

Even after investing over $90 million on these initiatives, our balance sheet remains sound with over $84 million in cash and investments and no debt.

HOW ARE WE PREPARING TO BECOME A NATIONAL CHAIN?

Our store count has grown from 655 stores at the beginning of 1997 to 937 stores at the end of 2001. We expect to open 90 to 120 stores per year for the next several years as we continue to expand in our current geography and adjacent states toward becoming a national chain.



SELECTED FINANCIAL DATA

Fiscal Year (Dollars in thousands, except per share data and selected operating data)	**2001**	2000	1999	1998	1997
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$ 685,653**	$ 648,482	$ 585,085	$ 524,381	$ 496,851
Other income	**20,005**	20,653	19,948	19,283	15,597
Total revenues	**705,658**	669,135	605,033	543,664	512,448
Cost of goods sold	**466,366**	445,407	403,655	371,005	354,627
Gross margin percent	**32.0%**	31.3%	31.0%	29.2%	28.6%
Selling, general and administrative	**162,082**	154,150	140,741	128,207	124,676
Selling, general and administrative percent of retail sales	**23.6%**	23.8%	24.0%	24.4%	25.1%
Depreciation	**10,886**	9,492	8,639	7,638	7,713
Interest	**38**	44	23	19	25
Income before income taxes and cumulative effect of accounting change	**66,268**	60,042	51,975	36,795	25,407
Income tax expense	**23,200**	21,015	18,191	12,878	8,006
Income before cumulative effect of accounting change	**43,086**	39,027	33,784	23,917	17,401
Cumulative effect of accounting change, net of taxes	**–**	–	147	–	–
Net income	**$ 43,086**	$ 39,027	$ 33,931	$ 23,917	$ 17,401
Basic earnings per share	**$ 1.71**	$ 1.56	$ 1.28	$ .87	$ .62
Diluted earnings per share	**$ 1.66**	$ 1.53	$ 1.26	$ .85	$ .62
Cash dividends paid per share	**$ .53**	$ .425	$ .28	$ .19	$ .16
SELECTED OPERATING DATA:					
Stores open at end of year	**937**	859	809	732	693
Average sales per store	**$ 767,000**	$ 781,000	$ 756,000	$ 740,000	$ 748,000
Average sales per square foot of selling space	**$ 186**	$ 187	$ 177	$ 169	$ 163
Comparable store sales increase	**1%**	3%	4%	2%	4%
BALANCE SHEET DATA:					
Cash and investments	**$ 84,695**	$ 83,112	$ 87,275	$ 86,209	$ 69,487
Working capital	**139,633**	125,724	124,988	124,024	113,327
Total assets	**332,041**	310,742	285,789	258,513	241,437
Total stockholders' equity	**$ 234,698**	$ 207,757	$ 188,780	$ 172,234	$ 157,516

RESULTS OF OPERATIONS

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

Fiscal Year Ended	February 2, 2002	February 3, 2001	January 29, 2000
Retail sales	**100.0%**	100.0%	100.0%
Other income	**2.9**	3.2	3.4
Total revenues	**102.9**	103.2	103.4
Cost of goods sold	**68.0**	68.7	69.0
Selling, general and administrative	**23.6**	23.8	24.0
Depreciation	**1.6**	1.4	1.5
Selling, general, administrative and depreciation	**25.2**	25.2	25.5
Income before income taxes and cumulative effect of accounting change	**9.7**	9.3	8.9
Net income	**6.3%**	6.0%	5.8%

FISCAL 2001 COMPARED TO FISCAL 2000

Retail sales increased by 6% to $685.7 million in fiscal 2001 from $648.5 million in fiscal 2000. The fiscal year ended February 2, 2002 contained 52 weeks versus 53 weeks in fiscal year ended February 3, 2001. On a comparable 52 week basis, total sales for the fiscal year ended February 2, 2002 increased 7%, and comparable store sales increased 1% from the prior year. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable, interest income and layaway fees), increased by 5% to $705.7 million in fiscal 2001 from $669.1 million in fiscal 2000. The Company operated 937 stores at February 2, 2002 compared to 859 stores operated at February 3, 2001.

The increase in retail sales in fiscal 2001 resulted from the Company's continuation of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 2001, the Company opened 85 new stores, relocated 24 stores, remodeled 35 stores and closed 7 stores.

Other income in fiscal 2001 decreased $.6 million or 3% over fiscal 2000. The decrease resulted primarily from decreased earnings from late fee income and lower credit sales.

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

Selling, general and administrative expenses (SG&A) were $162.1 million in fiscal 2001 compared to $154.2 million in fiscal 2000, an increase of 5%. As a percent of retail sales, SG&A was 23.6% compared to 23.8% in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses attributable to the Company's store development activities.

Depreciation expense was $10.9 million in fiscal 2001 compared to $9.5 million in fiscal 2000. The 15% increase in fiscal 2001 resulted primarily from the Company's store development.

FISCAL 2000 COMPARED TO FISCAL 1999

Retail sales increased by 11% to $648.5 million in fiscal 2000 from $585.1 million in fiscal 1999. The 2000 fiscal year contained 53 weeks versus 52 weeks in fiscal 1999. On a comparable 53 week basis, total sales increased 9%, and comparable store sales increased 3% from the prior year. Total revenues increased by 11% to $669.1 million in fiscal 2000 from $605.0 million in fiscal 1999. The Company operated 859 stores at February 3, 2001 compared to 809 stores operated at January 29, 2000.

The increase in retail sales in fiscal 2000 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 2000, the Company increased its number of stores 6% by opening 65 new stores, relocating 33 stores while closing 15 existing stores.

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

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

At February 2, 2002, the Company had working capital of $139.6 million compared to $125.7 million at February 3, 2001. Cash provided by operating activities was $47.1 million in fiscal 2001 compared to $44.1 million in fiscal 2000. Cash provided by operating activities in fiscal 2001 resulted primarily from net income, depreciation, provision for doubtful accounts, deferred income taxes, loss on disposal of property and equipment and changes in deferred income taxes, accounts receivable, inventories, other assets, accrued income taxes and accounts payable and other liabilities. At February 2, 2002, the Company had $84.7 million in cash, cash equivalents and short-term investments, compared to $83.1 million at February 3, 2001.

Additionally, the Company had $1.5 million invested in privately managed investment funds at February 2, 2002, which are reported under other assets of the consolidated balance sheets.

At February 2, 2002, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding under the agreement during the fiscal year ended February 2, 2002 or February 3, 2001.

The Company had approximately $4,314,000 and $3,977,000 at February 2, 2002 and February 3, 2001, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment. The operating leases are for a term of seven years but may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor. If the Company had cancelled the leases at February 2, 2002, the purchase price for the equipment would have been approximately $2,188,000. The operating leases, which expire in their entirety in 2002, will be purchased at a cost of approximately $1,330,000.

Expenditures for property and equipment totaled $25.7 million, $27.2 million and $24.0 million in fiscal 2001, 2000 and 1999, respectively. The expenditures for fiscal 2001 were primarily for store development, store remodels and investments in new technology for an enterprise-wide information system for merchandising, distribution and finance. In fiscal 2002, the Company is planning to invest approximately $29 million for capital expenditures. This includes expenditures to open 90 new stores, relocate 20 stores and close 10 stores. In addition, the Company plans to remodel 35 stores and has planned for additional investments in technology in the enterprise-wide information system scheduled to be implemented over the next 12 months.

During 2001, the Company repurchased 774,750 shares of Class A Common Stock for $11.7 million, or an average price of $15.14 per share and accepted 92,600 shares of Class A Common Stock in an option transaction for $1.8 million, or an average price of $19.71 per share. During fiscal 2001, the Company increased its quarterly dividend by 8% from $.125 per share to $.135 per share. Over the course of 2000, the Board of Directors increased the quarterly dividend by 67% from $.075 per share to $.125 per share.

The Company does not use derivative financial instruments. At February 2, 2002, the Company's investment portfolio was invested in governmental debt securities with maturities of up to 36 months. These securities are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains and losses reported as accumulated other comprehensive income.

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

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

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

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

CONSOLIDATED STATEMENTS OF INCOME

Fiscal Year Ended (Dollars in thousands, except per share data)	**February 2, 2002**	February 3, 2001	January 29, 2000
REVENUES			
Retail sales	**$ 685,653**	$ 648,482	$ 585,085
Other income (principally finance charges, late fees and layaway charges)	**20,005**	20,653	19,948
Total revenues	**705,658**	669,135	605,033
COSTS AND EXPENSES			
Cost of goods sold	**466,366**	445,407	403,655
Selling, general and administrative	**162,082**	154,150	140,741
Depreciation	**10,886**	9,492	8,639
Interest	**38**	44	23
Total operating expenses	**639,372**	609,093	553,058
Income before income taxes and cumulative effect of accounting change	**66,286**	60,042	51,975
Income tax expense	**23,200**	21,015	18,191
Income before cumulative effect of accounting change	**$ 43,086**	$ 39,027	$ 33,784
Cumulative effect of accounting change, net of tax ($79)	**–**	–	147
Net income	**$ 43,086**	$ 39,027	$ 33,931
Basic earnings per share	**$ 1.71**	$ 1.56	$ 1.28
Basic weighted average shares	**25,193,610**	24,988,844	26,486,407
Diluted earnings per share	**$ 1.66**	$ 1.53	$ 1.26
Diluted weighted average shares	**25,888,636**	25,465,232	25,953,948
Dividends per share	**$ .53**	$ .425	$ .28

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	**February 2, 2002**	**February 3, 2001**
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 41,772**	$ 25,201
Short-term investments	**42,923**	57,911
Accounts receivable, net of allowance for doubtful accounts of $5,968 at February 2, 2002 and $5,422 at February 3, 2001	**52,293**	46,972
Merchandise inventories	**80,407**	79,161
Deferred income taxes	**777**	1,579
Prepaid expenses	**5,036**	4,665
Total Current Assets	**223,208**	215,489
Property and equipment - net	**100,137**	85,819
Other assets	**8,696**	9,434
Total Assets	**$ 332,041**	$ 310,742
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 57,495**	$ 59,681
Accrued expenses	**25,260**	24,378
Accrued income taxes	**820**	5,706
Total Current Liabilities	**83,575**	89,765
Deferred income taxes	**5,177**	5,386
Other noncurrent liabilities (primarily deferred rent)	**8,591**	7,834
Stockholders' Equity:		
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**–**	–
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; 25,011,732 and 24,643,420 shares issued at February 2, 2002 and February 3, 2001, respectively	**833**	821
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; 5,812,649 and 5,364,317 shares issued at February 2, 2002 and February 3, 2001, respectively	**194**	179
Additional paid-in capital	**86,948**	76,778
Retained earnings	**204,961**	175,275
Accumulated other comprehensive losses	**(567)**	(884)
Unearned compensation – restricted stock awards	**(394)**	(689)
	291,975	251,480
Less Class A common stock in treasury, at cost (5,626,498 and 4,759,148 shares at February 2, 2002 and February 3, 2001, respectively)	**(57,277)**	(43,723)
Total Stockholders' Equity	**234,698**	207,757
Total Liabilities and Stockholders' Equity	**$ 332,041**	$ 310,742

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year Ended (Dollars in thousands)	February 2, 2002	February 3, 2001	January 29, 2000
OPERATING ACTIVITIES			
Net income	**$ 43,086**	$ 39,027	$ 33,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**10,886**	9,492	8,639
Amortization of investment premiums	**160**	126	187
Provision for doubtful accounts	**5,913**	5,292	4,850
Deferred income taxes	**422**	1,600	175
Compensation expense related to restricted stock awards	**295**	295	196
Loss on disposal of property and equipment	**480**	1,257	727
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(11,234)**	(6,806)	(5,772)
Merchandise inventories	**(1,246)**	(9,664)	(8,385)
Other assets	**367**	(3,971)	(1,584)
Accrued income taxes	**(1,525)**	2,025	4,712
Accounts payable and other liabilities	**(547)**	5,420	6,845
Net cash provided by operating activities	**47,057**	44,093	44,521
INVESTING ACTIVITIES			
Expenditures for property and equipment	**(25,684)**	(27,230)	(23,964)
Purchases of short-term investments	**(35,878)**	(11,906)	(22,544)
Sales of short-term investments	**51,194**	12,166	4,496
Net cash used in investing activities	**(10,368)**	(26,970)	(42,012)
FINANCING ACTIVITIES			
Dividends paid	**(13,400)**	(10,633)	(7,416)
Purchases of treasury stock	**(11,729)**	(15,449)	(9,572)
Proceeds from employee stock purchase plan	**443**	448	447
Proceeds from stock options exercised	**4,568**	3,323	353
Net cash used in financing activities	**(20,118)**	(22,311)	(16,188)
Net increase (decrease) in cash and cash equivalents	**16,571**	(5,188)	(13,679)
Cash and cash equivalents at beginning of year	**25,201**	30,389	44,068
Cash and cash equivalents at end of year	**$ 41,772**	$ 25,201	$ 30,389

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation Restricted Stock Awards	Treasury Stock	Total Stockholders' Equity
BALANCE – JANUARY 30, 1999	$ 802	$ 176	$ 69,878	$ 120,366	$ 224	$	$ (19,212)	$ 172,234
*Comprehensive income:								
Net income				33,931				33,931
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of $1,091					(2,025)			(2,025)
Dividends paid ($.28 per share)				(7,416)				(7,416)
Class A common stock sold through employee stock purchase plan – 53,811 shares	2		445					447
Class A common stock sold through stock option plans – 49,150 shares	1		352					353
Income tax benefit from stock options exercised			100					100
Purchase of treasury shares – 985,400 shares							(9,572)	(9,572)
Contribution of treasury stock to Employee Stock Purchase Plan – 63,052 shares			22				510	532
Unearned compensation – restricted stock awards		3	1,177			(984)		196
BALANCE – JANUARY 29, 2000	805	179	71,974	146,881	(1,801)	(984)	(28,274)	188,780
*Comprehensive income:								
Net income				39,027				39,027
Unrealized gains on available-for-sale securities, net of deferred income taxes of $494					917			917
Dividends paid ($.425 per share)				(10,633)				(10,633)
Class A common stock sold through employee stock purchase plan – 44,590 shares	2		446					448
Class A common stock sold through stock option plans – 425,350 shares	14		3,309					3,323
Income tax benefit from stock options exercised			1,049					1,049
Purchase of treasury shares – 1,468,800 shares							(15,449)	(15,449)
Unearned compensation – restricted stock awards						295		295
BALANCE – FEBRUARY 3, 2001	821	179	76,778	175,275	(884)	(689)	(43,723)	207,757
*Comprehensive income:								
Net income				43,086				43,086
Unrealized gains on available-for-sale securities, net of deferred income taxes of $171					317			317
Dividends paid ($.53 per share)				(13,400)				(13,400)
Class A common stock sold through employee stock purchase plan – 38,463 shares	1		442					443
Class A common stock sold through stock option plans – 329,850 shares	11		2,961					2,972
Class B common stock sold through stock option plans – 448,332 shares		15	3,406					3,421
Income tax benefit from stock options exercised			3,361					3,361
Purchase of treasury shares – 774,750 shares							(11,729)	(11,729)
Surrender of shares for stock options – 92,600 shares							(1,825)	(1,825)
Unearned compensation – restricted stock awards						295		295
BALANCE – FEBRUARY 2, 2002	$ 833	$ 194	$ 86,948	$ 204,961	$ (567)	$ (394)	$ (57,277)	$ 234,698

See notes to consolidated financial statements.

*Total comprehensive income for the years ended February 2, 2002, February 3, 2001 and January 29, 2000 was $43,403, $39,944 and $31,906, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Description of Business and Fiscal Year: The Company has two business segments — the operation of women's fashion specialty stores and a credit card division. The apparel specialty stores operate under the names "Cato", "Cato Fashions", "Cato Plus" and "It's Fashion!" and are located primarily in strip shopping centers in the Southeast. The Company's fiscal year ends on the Saturday nearest January 31. Fiscal years 2001 and 1999 each included 52 weeks. Fiscal year 2000 included 53 weeks.

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

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

The Company's short-term investments are classified as available-for-sale. As they are available for current operations, they are classified in consolidated balance sheets as current assets. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in other income.

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

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000 were $24,841,000, $17,435,000 and $13,895,000, respectively. Additionally, in 2001, the Company accepted 92,600 shares of Class A Common Stock in an option transaction for $1,825,000.

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

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

Classification	Estimated Useful Lives
Land improvements	10 years
Buildings	30-40 years
Leasehold improvements	5-10 years
Fixtures and equipment	3-10 years

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

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was $4,563,000, $5,812,000 and $5,109,000 for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively.

Earnings Per Share: Basic earnings per share excludes dilution of stock options and is computed by dividing net earnings by the weighted-average number of Class A and Class B common shares outstanding for the respective periods. The weighted-average number of shares used in the basic earnings per share computations was 25,193,610, 24,988,844 and 26,486,407 for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 695,026, 476,388 and 467,541 for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 25,888,636, 25,465,232 and 26,953,948 for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively.

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

Store Opening and Closing Costs: Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. The Company evaluates all long-lived assets for impairment. Impairment losses are recognized when expected future cash flows from the use of the assets are less than the assets' carrying values.

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

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

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

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

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

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

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

Reclassifications: Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with presentation for fiscal 2001.

2. SHORT-TERM INVESTMENTS:

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

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

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

Security Type	Cost	Unrealized Losses	Estimated Fair Value
Obligations of federal, state and political subdivisions	$ 59,271	$ (1,360)	$ 57,911

The accumulated unrealized losses at February 2, 2002 of $567,000, net of an income tax benefit of $305,000, and the accumulated unrealized losses at February 3, 2001 of $884,000, net of an income tax benefit of $476,000, are reflected in accumulted other comprehensive losses in the consolidated balance sheets.

The amortized cost and estimated fair value of debt securities at February 2, 2002, by contractual maturity, are shown below (in thousands):

Security Type	Cost	Estimated Fair Value
Due in one year or less	$ 10,259	$ 10,264
Due in one year through three years	33,536	32,659
Total	$ 43,795	$ 42,923

Additionally, the Company had $1.5 million invested in privately managed investment funds at February 2, 2002, which are reported under other assets of the consolidated balance sheets.

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following (in thousands):

	February 2, 2002	February 3, 2001
Customer accounts – principally deferred payment accounts	**$ 53,012**	$ 48,429
Miscellaneous trade receivables	**5,249**	3,965
Total	**58,261**	52,394
Less allowance for doubtful accounts	**5,968**	5,422
Accounts receivable - net	**$ 52,293**	$ 46,972

Finance charge and late charge revenue on customer deferred payment accounts totaled $12,951,000, $13,689,000 and $11,870,000 for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively, and the provision for doubtful accounts was $5,913,000, $5,292,000 and $4,850,000, for the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses in the accompanying statements of income.

4. PROPERTY AND EQUIPMENT:

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

	February 2, 2002	February 3, 2001
Land and improvements	**$ 2,019**	$ 1,947
Buildings	**17,751**	17,656
Leasehold improvements	**30,546**	25,988
Fixtures and equipment	**100,138**	84,535
Construction in progress	**23,333**	20,723
Total	**173,787**	150,849
Less accumulated depreciation	**73,650**	65,030
Property and equipment - net	**$100,137**	$ 85,819

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

5. ACCRUED EXPENSES:

Accrued expenses consist of the following (in thousands):

	February 2, 2002	February 3, 2001
Accrued bonus and retirement savings plan contributions	**$ 7,605**	$ 8,242
Accrued payroll and related items	**4,216**	3,636
Closed store lease obligations	**1,077**	1,671
Property and other taxes	**4,211**	3,216
Accrued health care plan	**3,558**	2,894
Other	**4,593**	4,719
Total	**$ 25,260**	$ 24,378

6. FINANCING ARRANGEMENTS:

At February 2, 2002, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the fiscal year ended February 2, 2002 or February 3, 2001.

The Company had approximately $4,314,000 and $3,977,000 at February 2, 2002 and February 3, 2001, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

7. STOCKHOLDERS' EQUITY:

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

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

In October 1993, the Company registered 250,000 shares of Class A Common Stock available for issuance under an Employee Stock

Purchase Plan (the "Plan"). In May 1998, the shareholders approved an amendment to the Plan to increase the maximum number of Class A shares of Common Stock authorized to be issued from 250,000 to 500,000 shares. Under the terms of the Plan, substantially all employees may purchase Class A Common Stock through payroll deductions of up to 10% of their salary. The Class A Common Stock is purchased at the lower of 85% of market value on the first or last business day of a six-month payment period. Additionally, each April 15, employees are given the opportunity to make a lump sum purchase of up to $10,000 of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 38,463 shares, 44,590 shares and 53,811 shares for the years ended February 2, 2002, February 3, 2001 and January 29, 2000, respectively.

The Company has an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan for key employees of the Company. Total shares issuable under the plans are 3,900,000, of which 825,000 shares are issuable under the Incentive Stock Option Plan and 3,075,000 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of the shares under the option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant. Options granted under these plans vest over a 5-year period and expire 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

In August 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan, of which 1,000,000 shares are issuable. No awards may be granted after July 31, 2004 and shares must be exercised within 10 years of the grant date unless otherwise authorized by the Board of Directors.

In August 1999, the Board of Directors granted under the 1999 Incentive Compensation Plan, restricted stock awards of 100,000 shares of Class B Common Stock, with a per share fair value of $11.81 to a key executive. These stock awards vest over four years and the unvested portion is included in stockholders' equity as unearned compensation in the accompanying financial statements. The charge to compensation expense for these stock awards $295,000 in 2001 and 2000, and $196,000 in 1999.

Option plan activity for the three fiscal years ended February 2, 2002 is set forth below:

	Options	Range of Option Prices	Weighted Average Price
Outstanding options,			
January 30, 1999	2,461,982	$ 1.50 - $ 14.59	$ 8.45
Granted	670,000	9.36 - 13.25	12.51
Exercised	(48,950)	1.50 - 8.25	7.25
Cancelled	(110,250)	3.21 - 12.69	8.23
Outstanding options,			
January 29, 2000	2,972,782	1.50 - 14.59	9.39
Granted	46,250	9.59 - 14.38	11.66
Exercised	(425,350)	4.94 - 13.44	7.82
Cancelled	(56,300)	6.94 - 13.44	10.23
Outstanding options,			
February 3, 2001	2,537,382	4.94 - 14.59	9.68
Granted	21,750	12.66 - 18.91	16.17
Exercised	(778,182)	4.94 - 14.59	8.20
Cancelled	(25,700)	7.69 - 14.59	11.61
Outstanding options,			
February 2, 2002	1,755,250	$ 4.94 - $ 18.91	$ 10.39

The following tables summarize stock option information at February 2, 2002:

	Options		
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 4.94 - $ 7.63	207,400	.58 years	$ 7.33
$ 7.69 - $ 8.25	658,900	5.29 years	$ 8.16
$ 9.25 - $ 14.59	874,700	7.25 years	$ 12.67
$17.25 - $ 18.91	14,250	9.47 years	$ 18.02
$ 4.94 - $ 18.91	1,755,250	5.78 years	$ 10.39

Range of Exercise Prices	Options: Number Exercisable	Options: Weighted Average Exercise Price
$ 4.94 - $ 7.63	201,000	$ 7.40
$ 7.69 - $ 8.25	503,300	$ 8.14
$ 9.25 - $ 14.59	346,200	$ 12.82
$ 4.94 - $ 14.59	1,050,500	$ 9.54

Outstanding options at February 2, 2002 covered 889,500 shares of Class B Common Stock and 865,750 shares of Class A Common Stock. Outstanding options at February 3, 2001 covered 1,337,832 shares of Class B Common Stock and 1,199,550 shares of Class A Common Stock. Options available to be granted under the option plans were 452,418 at February 2, 2002 and 535,468 at February 3, 2001.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock options plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for fiscal 2001, 2000 and 1999 stock options granted been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for fiscal 2001, 2000 and 1999 would approximate the following proforma amounts (dollars in thousands, except per share data):

	As Reported	Proforma
Net income – Fiscal 2001	$ 43,086	$ 41,493
Basic earnings per share	$ 1.71	$ 1.65
Diluted earnings per share	$ 1.66	$ 1.60
Net income – Fiscal 2000	$ 39,027	$ 37,431
Basic earnings per share	$ 1.56	$ 1.50
Diluted earnings per share	$ 1.53	$ 1.47
Net income – Fiscal 1999	$ 33,931	$ 32,329
Basic earnings per share	$ 1.28	$ 1.22
Diluted earnings per share	$ 1.26	$ 1.20

The weighted-average fair value of each option granted during fiscal 2001, 2000 and 1999 is estimated at $8.19, $5.45 and $6.12 per share, respectively. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following assumptions for grants issued in 2001, 2000 and 1999, respectively: expected dividend yield of 2.62%, 2.42% and 2.62%; expected volatility of 59.84%, 60.34% and 62.10%, adjusted for expected dividends; risk-free interest rate of 4.36%, 4.71% and 6.40%; and an expected life of 5 years for 2001, 2000 and 1999. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

In May 2001, the Board of Directors increased the quarterly dividend by 8% from $.125 per share to $.135 per share.

Total comprehensive income for the years ended February 2, 2002, February 3, 2001 and January 29, 2000 is as follows (in thousands):

Fiscal Year Ended	February 2, 2002	February 3, 2001	January 29, 2000
Net income	**$ 43,086**	$ 39,027	$ 33,931
Unrealized gains (losses) on available-for-sale securities	**488**	1,411	(3,116)
Income tax effect	**(171)**	(494)	1,091
Unrealized gains (losses) net of taxes	**317**	917	(2,025)
Total comprehensive income	**$ 43,403**	$ 39,944	$ 31,906

8. EMPLOYEE BENEFIT PLANS:

The Company has a defined contribution retirement savings plan (401(k)) which covers all employees who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 15% of their annual compensation. The Company is obligated to make a minimum contribution to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended February 2, 2002, February 3, 2001 and January 29, 2000 were approximately $2,596,000, $2,348,000 and $2,145,000, respectively.

The Company has an Employee Stock Ownership Plan (ESOP), which covers substantially all employees who meet minimum age and service requirements. The Board of Directors determines contributions to the ESOP. No contributions were made to the ESOP for the years ended February 2, 2002 or February 3, 2001. The contribution for the fiscal year ended January 29, 2000 was $1,913,000.

The Company is self-insured with respect to employee health, workers compensation and general liability claims. The Company has stop-loss insurance coverage for individual claims in excess of $250,000 for workers compensation and employee health and $100,000 for general liability. Employee health claims are funded through a VEBA trust to which the Company makes periodic contributions. Contributions to the VEBA trust were $9,090,000, $6,964,000 and $5,214,000 in fiscal 2001, 2000 and 1999, respectively.

9. LEASES:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are for periods of five years with renewal options and most provide for additional contingent rentals based on a percentage of store sales in excess of stipulated amounts. Equipment leases are generally for three to seven year periods. The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment, which do not meet criteria for capital lease accounting and are being accounted for as operating leases with terms of seven years. However, these leases may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor. If the Company had cancelled the leases at February 2, 2002, the purchase price for the equipment would have been approximately $2,188,000. The operating leases which expire in their entirety in 2002, will be purchased at a cost of approximately $1,330,000.

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

Fiscal Year	
2002	$ 34,996
2003	25,966
2004	16,985
2005	10,230
2006	4,632
Total minimum lease payments	$ 92,809

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

Fiscal Year Ended	**February 2, 2002**	**February 3, 2001**	**January 29, 2000**
Minimum rentals	**$ 37,117**	$ 34,449	$ 32,453
Contingent rent	**471**	479	257
Total rental expense	**$ 37,588**	$ 34,928	$ 32,710

The Company also leases certain of its stores from entities in which a director of the Company has an interest. Rent expense and related charges totaling $786,000, $524,000 and $534,000 were paid in fiscal 2001, 2000 and 1999, respectively, under these leases.

10. INCOME TAXES:

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

Fiscal Year Ended	**February 2, 2002**	**February 3, 2001**	**January 29, 2000**
Current income taxes:			
Federal	**$ 22,309**	$ 18,461	$ 17,826
State	**469**	954	190
Total	**22,778**	19,415	18,016
Deferred income taxes:			
Federal	**376**	1,319	81
State	**46**	281	94
Total	**422**	1,600	175
Total income tax expense	**$ 23,200**	$ 21,015	$ 18,191

Significant components of the Company's deferred tax assets and liabilities as of February 2, 2002 and February 3, 2001 are as follows (in thousands):

	February 2, 2002	February 3, 2001
Deferred tax assets:		
Bad debt reserve	**$ 2,288**	$ 2,085
Inventory valuation	**1,282**	1,335
Unrealized losses on short-term investments	**305**	476
Other accruals	**1,232**	1,104
Total deferred tax assets	**5,107**	5,000
Deferred tax liabilities:		
Tax over book depreciation	**5,898**	6,167
Other, net	**3,609**	2,640
Total deferred tax liabilities	**9,507**	8,807
Net deferred tax liabilities	**$ 4,400**	$ 3,807

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

Fiscal Year Ended	February 2, 2002	February 3, 2001	January 29, 2000
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**0.9**	1.6	0.5
Other	**(0.9)**	(1.6)	(0.5)
Effective income tax rate	**35.0%**	35.0%	35.0%

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

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

Fiscal 2001	First	Second	Third	Fourth
Retail sales	$ 180,347	$ 172,444	$ 147,619	$ 185,243
Total revenues	185,731	177,401	152,869	189,657
Cost of goods sold	116,391	118,093	101,743	130,139
Income before income taxes	24,485	16,867	7,746	17,188
Net income	15,916	10,963	5,035	11,172
Basic earnings per share	$ .63	$ .43	$ .20	$ .45
Diluted earnings per share	$ .61	$ .42	$ .20	$ .43

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 24 states, principally in the Southeast. The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

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

Fiscal 2001	Retail	Credit	Total
Revenues	$ 692,429	$ 13,229	$ 705,658
Depreciation	10,821	65	10,886
Interest expense	38	–	38
Income before taxes	62,786	3,500	66,286
Total assets	263,909	68,132	332,041
Capital expenditures	25,684	–	25,684

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

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

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

13. COMMITMENTS AND CONTINGENCIES:

Workers compensation and general liability claims are settled through a claims administrator and are limited by stop-loss insurance coverage for individual claims in excess of $250,000 and $100,000, respectively. The Company paid claims of $1,379,000, $1,486,000 and $1,074,000 in fiscal 2001, 2000 and 1999, respectively. The Company had no outstanding letters of credit relating to such claims at February 2, 2002 or at February 3, 2001. See Note 6 for letters of credit related to purchase commitments, Note 8 for 401(k) plan contribution obligations and Note 9 for lease commitments.

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

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders
of The Cato Corporation

We have audited the accompanying consolidated balance sheets of The Cato Corporation and subsidiaries (the Company) as of February 2, 2002 and February 3, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended February 2, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 2, 2002 and February 3, 2001 and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina
March 8, 2002

MANAGEMENT EXECUTIVE GROUP AND BOARD OF DIRECTORS

MANAGEMENT EXECUTIVE GROUP

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

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

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

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

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

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

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

BOARD OF DIRECTORS

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

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

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

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

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

Thomas E. Cato
Vice President, Divisional Merchandise Manager

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

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

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

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

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

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

CORPORATE INFORMATION

A copy of the Company's Annual Report to the Securities and Exchange Commission (Form 10-K) for the fiscal year ended February 2, 2002 is available to shareholders without charge upon written request to Mr. Michael O. Moore, Executive Vice President, Chief Financial Officer and Secretary, The Cato Corporation, P.O. Box 34216, Charlotte, North Carolina 28234.

CORPORATE HEADQUARTERS

The Cato Corporation
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Telephone: (704) 554-8510

MAILING ADDRESS

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INDEPENDENT AUDITORS

Deloitte & Touche LLP
Charlotte, North Carolina 28202-1675

CORPORATE COUNSEL

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

TRANSFER AGENT AND REGISTRAR

First Union National Bank
Securities Transfer Department, CMG-5
Charlotte, North Carolina 28288

ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders
11:00 a.m., Thursday, May 23, 2002
Corporate Office
8100 Denmark Road, Charlotte, NC.

MARKET & DIVIDEND INFORMATION

The Company's Class A Common Stock trades in the over-the-counter market under the NASDAQ National Market System symbol CACOA. Below is the market range and dividend information for the four quarters of 2001 and 2000.

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

	Price		
2000	**High**	**Low**	**Dividend**
First quarter	$ 12.25	$ 9.19	$ .10
Second quarter	12.50	10.02	.10
Third quarter	12.88	10.00	.10
Fourth quarter	18.00	11.00	.125

As of March 22, 2002 the approximate number of holders of the Company's Class A Common Stock was 3,470 and there were 12 record holders of the Company's Class B Common Stock.

The Cato Corporation
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