UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended February 2, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

REGISTRANT: THE CATO CORPORATION
COMMISSION FILE NUMBER 0-3747

State of Incorporation: Delaware	I.R.S. Employer Identification Number: 56-0484485
Address of Principal Executive Offices: 8100 Denmark Road Charlotte, North Carolina 28273-5975	Registrants Telephone Number: 704/554-8510
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:	SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE	CLASS A COMMON STOCK

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 [X]   No [ ]

Indicate by check mark, if disclosure of delinquent files pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of the Registrants 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 [X]

As of March 22, 2002, there were 19,395,237 shares of Class A Common Stock and 5,822,649 shares of Convertible Class B Common Stock outstanding. The aggregate market value of the Registrant's Class A Common Stock held by Non-affiliates of ties Registrant as of March 22, 2002 was approximately $376,867,918 based on the last reported sale price per share on the NASDAQ National Market System on that date.

Documents incorporated by reference:

Portions of the proxy statement dated April 24, 2002, relating to the 2002 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

Part III - Items 10,11,12 and 13

THE CATO CORPORATION
FORM 10-K
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PART I

ITEM 1. BUSINESS:

GENERAL

The Company, founded in 1946, operated 937 women's fashion specialty stores at February 2, 2002, under the names "Cato," "Cato Fashions;" "Cato Plus" and "It's Fashion!" in 24 states, principally in the Southeast. The Company offers quality fashion apparel and accessories at low prices, everyday in junior/missy and plus sizes. Additionally, the Company offers clothing for girls ages 7 - 16 in selected locations. The Company's stores feature a broad assortment of apparel and accessories, including casual and dressy sportswear, dresses, careerwear, coats, hosiery, shoes, costume jewelry, handbags and millinery. A major 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. Most stores range in size from 3,000 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 18% of retail sales in fiscal 2001. See Note 12 to the Consolidated Financial Statements, "Reportable Segment Information" for a discussion of segment information.

BUSINESS

The Company's primary objective is to be the leading fashion specialty retailer for fashion conscious low-to-middle income 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 apparel and accessory items in regular and large sizes and emphasize color, product coordination and selection.

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. The Company has positioned itself as the everyday low price leader in its segment.

ITEM 1. BUSINESS: (CONTINUED)

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.

Expansion. The Company plans to open new stores and relocate existing stores in rural, middle and metro markets in northern, midwestern and western adjacent states, as well as continuing to "fill-in" existing southeastern core geography.

MERCHANDISING

Merchandising

The Company offers a broad selection of high quality and exceptional value apparel and accessories to suit the various lifestyles of the fashion conscious low-to-middle income female, ages 18 to 50. In addition, the Company offers 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, hosiery, costume jewelry, handbags and millinery. Apparel for girls ages 7 - 16 are offered in selected stores. Most of the Company's merchandise is sold under its private labels.

The collaboration of the merchandising team with an expanded in-house product development and direct sourcing function has enhanced merchandise offerings delivering quality private label products at lower costs. Product development and the direct sourcing operation provide research on emerging fashion and color trends, technical services and direct sourcing options.

ITEM 1. BUSINESS: (CONTINUED)

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 tests most new fashion-sensitive items in selected stores to aid it in determining their appeal before making a substantial purchasing commitment. The Company also takes aggressive markdowns on slow-selling merchandise and 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 2001, purchases from the Company's largest vendor accounted for approximately 6% 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, any economic, political or social unrest in that region is not expected to have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise.

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 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.

ITEM 1. BUSINESS: (CONTINUED)

Advertising

The Company uses radio, graphics and a website as its primary advertising media The Company uses radio advertising in selected trade areas. The Company's total advertising expenditures were approximately .7% of retail sales in fiscal 2001.

STORE OPERATIONS

The Company's store operations management team consists of two directors of stores, three territorial managers, fourteen regional managers and ninety-eight district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll and 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 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 and assistant managers are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

The Company is constantly improving its training programs to develop associates. Nearly 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. All district managers receive at a minimum a one-week orientation program at the Company's corporate office.

STORE LOCATIONS

Most of the Company's stores are located in the Southeast in a variety of markets ranging from small towns to large metropolitan areas with trade area populations of 20,000 or more. Stores range in size from 3,000 to 6,000 square feet and average approximately 4,100 square feet.

ITEM 1. BUSINESS: (CONTINUED)

All of the Company's stores are leased. Approximately 92% are located in strip shopping centers, 1% in downtown locations and 7% in enclosed shopping malls. Where lease terms are acceptable and a potential location meets the Company's demographic and other site-selection criteria, the Company locates stores in strip shopping centers anchored by national discounters 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 1997.

STORE DEVELOPMENT

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
1997.........	655	55	17	693
1998.........	693	52	13	732
1999.........	732	83	6	809
2000.........	809	65	15	859
2001.........	859	85	7	937

In Fiscal 2002 the Company plans to open approximately 90 new stores, relocate 20 stores, close 10 stores, and remodel 35 stores.

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 approximately 13% of retail sales in fiscal 2001. The Company's net bad debt expense in fiscal 2001 was 6.2% of credit sales.

ITEM 1. BUSINESS: (CONTINUED)

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record and meet minimum income criteria. 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. In fiscal 1999, the Company changed its method of accounting for layaway sales. This change is the result of the issuance of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Under the new accounting method 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 5% of retail sales in fiscal 2001.

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 stockkeeping unit. 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 local apparel specialty stores, mass merchandise chains, discount store chains and, to some degree, with major department stores. To the extent that the Company opens stores in larger cities and metropolitan areas, competition is expected to be more intense in those markets.

ITEM 1. BUSINESS: (CONTINUED)

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 provisions of the Fair Debt Collection Practices Act, which regulates the manner in which the Company collects payments on revolving credit accounts. 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 February 2, 2002, the Company employed approximately 8,600 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 that its associate relations are good.

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. Substantially all of the leases provide for fixed rentals plus a percentage of sales in excess of a specified volume.

ITEM 3. LEGAL PROCEEDINGS:

There are no material pending legal proceedings to which the registrant or its subsidiaries is a party, or to which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS:

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 fiscal 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.

ITEM 6. SELECTED FINANCIAL DATA:

THE CATO CORPORATION
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

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	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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS: (CONTINUED)

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 $.O1 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS: (CONTINUED)

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 Board (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 ann 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

The response to this Item is submitted in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT:

The directors and executive officers of the Company and their ages as of March 31, 2002 are as follows:

Name	Age	Position
Wayland H. Cato, Jr.(1)	79	Chairman of the Board
John P. Derham Cato(1)	51	President, Vice Chairman of the Board and Chief Executive Officer
Edgar T. Cato(1)	77	Former Vice Chairman of the Board, Co-Founder and Director
Michael O. Moore	51	Executive Vice President, Chief Financial Officer and Secretary
Howard A. Severson	54	Executive Vice President, Chief Real Estate and Store Development Officer, Assistant Secretary and Director
B. Allen Weinstein	55	Executive Vice President, Chief Merchandising Officer of the Cato Division
David P. Kempert	52	Executive Vice President, Chief Store Operations Officer of the Cato Division
C. David Birdwell	62	Executive Vice President, President and General Manager of the It's Fashion! Division
Robert C. Brummer	57	Senior Vice President, Human Resources and Assistant Secretary
Clarice Cato Goodyear	55	Special Assistant to the Chairman and the President, Assistant Secretary and Director
Thomas E. Cato	47	Vice President, Divisional Merchandise Manager and Director
Robert W. Bradshaw, Jr.(1) ...	68	Director
George S. Currin(1)(3)	65	Director
Grant L. Hamrick(1)(2)(3)	63	Director
James H. Shaw(2)	73	Director
A.F. (Pete) Sloan(1)(2)(3) ...	72	Director

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

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT: (CONTINUED)

Wayland H. Cato, Jr. is Chairman of the Board and has been a director of the Company since 1946. From 1991 to May 1999, he served as Chairman of the Board and Chief Executive Officer. From 1970 until 1991, he served as the Chairman of the Board, President and Chief Executive Officer. From 1960 until 1970, he served as President and Chief Executive Officer of the Company.

John P. Derham Cato has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since May 1999, he has 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 1992 to August 1996, he served as Executive Vice President and as President and General Manager of the It's Fashion! Division. Mr. John Cato is a son of Mr. Wayland H. Cato, Jr.

Edgar T. Cato is the Former Vice Chairman of the Board and Co-Founder of the Company, and has been a director of the Company since 1946. Mr. Edgar T. Cato is the brother of Mr. Wayland H. Cato, Jr.

Michael O. Moore, 51, has been employed by the Company as Executive Vice President, Chief Financial Officer and Secretary since July 1998. Mr. Moore served as Vice President, Chief Financial Officer for Party Experience from 1997 to 1998, Executive Vice President, Chief Financial Officer of David's Bridal from 1994 to 1997, and was employed by Bloomingdales from 1984 to 1994 serving as Senior Vice President, Chief Financial officer from 1990 to 1994.

Howard A. Severson has been employed by the Company since 1985 and has served as a director of the Company since 1995. Since January 1993, he has served as Executive Vice President, Chief Real Estate and Store Development Officer, Assistant Secretary and Director. From August 1989 through January 1993, Mr. Severson served as Senior Vice President - Chief Real Estate Officer.

B. Allen Weinstein joined the Company as Executive Vice President, Chief Merchandising Officer of the Cato Division in August 1997. 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.

David P. Kempert joined the Company in August 1989. He currently serves as Executive Vice President, Chief Store Operations Officer of the Cato Division. From 1982 until 1989, he was employed by The Gap Stores, an apparel specialty chain, where his most recent position was Zone Vice President of the Northeast Region.

C. David Birdwell joined the Company as Executive Vice President, President and General Manager of the It's Fashion! Division in October 1996. From 1994 to 1996, he was employed as President/General Merchandise Manager of Allied Stores, a family apparel chain headquartered in Savannah, Georgia. In 1993, he was Executive Vice President/General Merchandise Manager of Ambers, Inc., based in Dallas, Texas. From 1989 to 1992, he was employed as a Chartered Financial Consultant with Jefferson Pilot, based in Greensboro, North Carolina. From 1985 to

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT: (CONTINUED)

1989, he was President/CEO of Maxway Stores, a discount chain headquartered in Sanford, North Carolina.

Robert C. Brummer joined the Company as Senior Vice President, Human Resources and Assistant Secretary in January 2001. From 1999 through 2000, he was employed by Sleepy's, a beddings specialty retailer as Vice President, Human Resources and Payroll. From 1997 through 1998, he was Vice President, Human Resources and Loss Prevention for The Party Experience, a party supplies specialty retailer. From 1995 until 1997, he was Vice President, Human Resources and Loss Prevention for No Body Beats The Wiz, an electronics specialty store chain.

Clarice Cato Goodyear has been employed by the Company since 1975 and has served as a director and officer of the Company since 1979. Since July 1993, she has served as Special Assistant to the Chairman and the President and as Assistant Secretary. From March 1987 to July 1993, Ms. Goodyear held senior administrative, operational services and human resources positions in the Company; she served as Executive Vice President, Chief Administrative Officer and Assistant Secretary from May 1992 to July 1993. Ms. Goodyear is a daughter of Mr. Wayland H. Cato, Jr.

Thomas E. Cato has been employed by the Company since 1977, has served as an officer since 1986 and has been a director of the Company since 1993. Since February 1987, he has served as Vice President, Divisional Merchandise Manager. Mr. Thomas Cato is a son of Mr. Wayland H. Cato, Jr.

Robert W. Bradshaw, Jr. has been a director of the Company since 1994. Since 1961, he has been engaged in the private practice of law with Robinson, Bradshaw & Hinson, P.A. and currently serves of counsel to the firm.

George S. Currin has been a director of the Company since 1973. Since 1989, he has served as Chairman and Managing Director of Fourth Stockton Company LLC and Chairman of Currin-Patterson Properties LLC, both privately held real estate investment companies.

Grant L. Hamrick has been a director of the Company since 1994. Mr. Hamrick was Senior Vice President and Chief Financial Officer for American City Business Journals, Inc. from 1989 until his retirement in 1996. From 1961 to 1985, Mr. Hamrick was employed by the public accounting firm Price Waterhouse and served as Managing Partner of the Charlotte, North Carolina Office.

James H. Shaw has been a director of the Company since 1989. Mr. Shaw was Chairman of Consolidated Ivey's, a regional department store chain, from 1988 until his retirement in 1989, Chairman and Chief Executive Officer of J.B. Ivey & Company from 1986 to 1988 and Chairman and Chief Executive Officer of Ivey's Carolinas from 1983 to 1986.

A.F. (Pete) Sloan has been a director of the Company since 1994. Mr. Sloan is retired Chairman and Chief Executive Officer of Lance, Inc. where he was employed from 1955 until his retirement in 1990.

ITEM 11. EXECUTIVE COMPENSATION:

Incorporated by reference to Registrant's proxy statement for 2002 annual stockholders' meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

Incorporated by reference to Registrant's proxy statement for 2002 annual stockholders' meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Incorporated by reference to Registrant's proxy statement for 2002 annual stockholders' meeting.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K:

(a) 1. & 2. LIST OF FINANCIAL STATEMENTS AND SCHEDULE

The response to this portion of Item 14 is submitted as a separate section of this report.

(a) 3. LIST OF EXHIBITS

See Exhibit Index at page 38 of this annual report.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended February 2, 2002.

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 14(a), (1) AND (2), (c) AND (d)

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LIST OF FINANCIAL STATEMENTS

CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULE

YEAR ENDED FEBRUARY 2, 2002

THE CATO CORPORATION

CHARLOTTE, NORTH CAROLINA

ITEM 14(A) 1 AND 2 LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE:

THE CATO CORPORATION

The following consolidated financial statements of The Cato Corporation are included in Item 8:

The following consolidated financial statement schedule of the Cato Corporation is included in Item 14 (d):

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. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule 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. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

Charlotte, North Carolina
March 8, 2002

THE CATO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

FISCAL YEAR ENDED FEBRUARY 2, FEBRUARY 3, JANUARY 29, 2002 2001 2000 ----------- ----------- ----------- (Dollars in thousands, except per share data) 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 statements.

Page 25 THE CATO CORPORATION CONSOLIDATED BALANCE SHEETS FEBRUARY 2, FEBRUARY 3, (Dollars in thousands) 2002 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 supplements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FISCAL YEAR ENDED		
	FEBRUARY 2, 2002	FEBRUARY 3, 2001	JANUARY 29, 2000
(Dollars in thousands)			
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 statements.

 THE CATO CORPORATION CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY CON- VERTIBLE ACCUMULATED UNEARNED TOTAL CLASS A CLASS B ADDITIONAL OTHER COMPENSATION STOCK- COMMON COMMON PAID-IN RETAINED COMPREHENSIVE RESTRICTED TREASURY HOLDERS' (Dollars in thousands) STOCK STOCK CAPITAL EARNINGS INCOME (LOSS) STOCK AWARDS STOCK 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.

 THE CATO CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS I. 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.

 THE CATO CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 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 Board (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): UNREALIZED ESTIMATED SECURITY TYPE COSTS LOSSES 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): UNREALIZED ESTIMATED SECURITY TYPE COSTS LOSSES 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 accumulated 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): ESTIMATED SECURITY TYPE COST 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, FEBRUARY 3, 2002 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 ======= =======

Page 31 THE CATO CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 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, FEBRUARY 3, 2002 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, FEBRUARY 3, 2002 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

Page 32 THE CATO CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 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 was $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: WEIGHTED RANGE OF AVERAGE OPTIONS OPTION PRICES 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 -- --- WEIGHTED AVERAGE WEIGHTED REMAINING AVERAGE RANGE OF CONTRACTUAL EXERCISE EXERCISE PRICES OPTIONS LIFE 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 ================ ========= ========== =======

 THE CATO CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OPTIONS ------- ------------------------ WEIGHTED AVERAGE RANGE OF NUMBER EXERCISE EXERCISE PRICES EXERCISABLE 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 $ 33,329 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, FEBRUARY 3, JANUARY 29, 2002 2001 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

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

THE CATO CORPORATION

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.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Rental Accounts(a)	Reserve for Commitments(b)
	(In thousands)	
Balance at January 30,1999	$ 4,201	$ 1,926
Additions charged to costs and expenses	4,850	998
Additions (Deductions) charged to other accounts	936 (d)	--
Deductions	(4,886) (c)	(1,153)
Balance at January 29, 2000	5,101	1,771
Additions charged to costs and expenses	5,292	1,710
Additions (Deductions) charged to other accounts	878 (d)	--
Deductions	(5,849) (c)	(1,832)
Balance at February 3, 2001	5,422	1,649
Additions charged to costs and expenses	5,913	691
Additions (Deductions) charged to other accounts	1,052 (d)	--
Deductions	(6,419) (c)	(1,263)
Balance at February 2, 2002	$ 5,968	$ 1,077

(a) Deducted from trade accounts receivable.
(b) Provision for the difference between costs and revenues from non-cancelable subleases over the lease terms of closed stores.
(c) Uncollectible accounts written off.
(d) Recoveries of amounts previously written off.

EXHIBIT INDEX

Page 41 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. Derham Cato By /s/ Michael O. Moore ------------------------------------ ----------------------------------- John P. Derham Cato Michael O. Moore President, Vice Chairman of the Board Executive Vice President and Chief Executive Officer Chief Financial Officer and Secretary By /s/ Robert M. Sandler ------------------------------------ Robert M. Sandler Senior Vice President Controller Date: April 24, 2002 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/ Wayland H. Cato, Jr. /s/ Robert W. Bradshaw, Jr. - ------------------------------ --------------------------------- Wayland H. Cato, Jr. Robert W. Bradshaw, Jr. (Director) (Director) /s/ John P. Derham Cato /s/ George S. Currin - ------------------------------ --------------------------------- John P. Derham Cato George S. Currin (Director) (Director) /s/ Edgar T. Cato /s/ Grant L. Hamrick - ------------------------------ --------------------------------- Edgar T. Cato Grant L. Hamrick (Director) (Director) /s/ Howard A. Severson /s/ James H. Shaw - ------------------------------ --------------------------------- Howard A. Severson James H. Shaw (Director) (Director) /s/ Clarice Cato Goodyear /s/ A.F. (Pete) Sloan - ------------------------------ --------------------------------- Clarice Cato Goodyear A.F. (Pete) Sloan (Director) (Director) /s/ Thomas E. Cato - ------------------------------ Thomas E. Cato (Director)

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY	STATE OF INCORPORATION	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 Charted Bank	Cedar Hill National Bank
catocorp.com, LLC	Delaware	catocorp.com, LLC

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-96283 on Form S-8 pertaining to The Cato Corporation 1999 Incentive Compensation Plan, in Registration Statement No. 33-41314 on Form S-8 pertaining to The Cato Corporation 1987 Incentive Stock Option Plan, in Registration Statement No. 33-41315 on Form S-8 pertaining to The Cato Corporation 1987 Nonqualified Stock Option Plan, and in the Registration Statement Nos. 33-69844 and 333-96285 on Forms S-8 pertaining to The Cato Corporation 1993 Employee Stock Purchase Plan, of our report dated March 8, 2002, with respect to the consolidated financial statements and financial statement schedule of The Cato Corporation included in and incorporated by reference in the Annual Report on Form 10-K for the year ended February 2, 2002.

Charlotte, North Carolina
April 24, 2002.