1999 ANNUAL REPORT

FISCAL YEAR ENDED JANUARY 29, 2000

Look SMART. Buy SMART.

The Cato Corporation

CATO
The Cato Corporation

The Cato Corporation is a leading value-priced women's fashion specialty retailer operating two divisions, "Cato" and "It's Fashion!". The Company currently operates over 815 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, everyday. Most Cato stores range from 4,000 to 6,000 square feet and are located primarily in strip shopping centers anchored by major discount stores or grocery chains. It's Fashion!, the off-price division, provides family fashion apparel and accessories in locations ranging from 3,000 to 4,000 square feet. The Company is headquartered in Charlotte, North Carolina.

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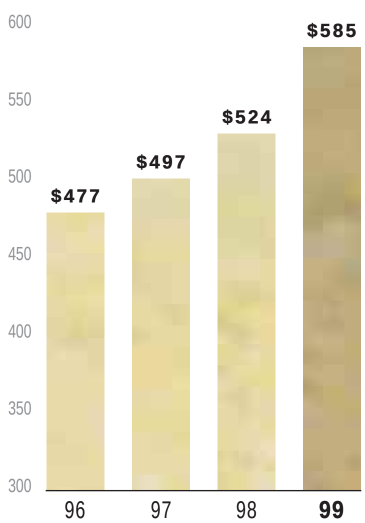
Financial HIGHLIGHTS

	Fiscal Year			
	1999	1998	1997	1996
	(Dollars in thousands, except per share data)			
FOR THE YEAR				
Retail Sales	**$ 585,085**	$ 524,381	$ 496,851	$ 477,011
Total Revenues	**605,033**	543,664	512,448	491,509
Comparable Store Sales Increase (Decrease)	**4%**	2%	4%	(2)%
Income Before Income Taxes	**51,975**	36,795	25,407	10,898
Net Income	**33,931**	23,917	17,401	7,029
Net Income as a Percent of Retail Sales	**5.8%**	4.6%	3.5%	1.5%
Cash Dividends Paid Per Share	**.28**	.19	.16	.16
Basic Earnings Per Share	**1.28**	.87	.62	.25
Diluted Earnings Per Share	**1.26**	.85	.62	.25
AT YEAR END				
Cash and Investments	**$ 87,275**	$ 86,209	$ 69,487	$ 50,105
Working Capital	**124,988**	124,024	113,327	105,373
Current Ratio	**2.5**	2.7	2.6	2.9
Total Assets	**285,789**	258,513	241,437	218,243
Stockholders' Equity	**188,780**	172,234	157,516	151,903
Number of Stores	**809**	732	693	655
Number of Stores Opened	**83**	52	55	28
Number of Stores Closed	**6**	13	17	44
Net Increase (Decrease) in Number of Stores	**77**	39	38	(16)

RETAIL SALES (in millions)



NET INCOME (in millions)

EARNINGS PER SHARE

Letter To Our SHAREHOLDERS

Wayland H. Cato, Jr. John P. Derham Cato

The results of this record year reflect our commitment to carry out our corporate mission, which is "serve our customers and enhance shareholder value". A key factor in achieving this mission was the superior execution of our strategies by our associates. This execution, along with the strengthening of the Cato brand and the consistent delivery of quality fashion products to our customers, will be the driving force in our ability to sustain long-term quality growth.

OUTPERFORMING EXPECTATIONS: RECORD SALES AND EARNINGS

Fiscal 1999 was an outstanding year for The Cato Corporation. Sales and earnings were the highest in the Company's 53-year history. We exceeded our stated goal of 15 to 20% growth in earnings per share by delivering a *48% increase in EPS* over fiscal 1998. Fourth quarter 1999 marked our twelfth consecutive quarter of earnings improvement.

STRATEGIES: THE FRAMEWORK OF SUCCESS

Our success continues to be driven by the fundamentals of our business – merchandising, operations and support - which all posted strong improvements in 1999. Our focus on these fundamentals represents the strategy that makes us unique in our market: we offer high quality, private label products that appeal to a broad customer base; we are the everyday low price leader which ensures that we deliver exceptional value to our customer; and we provide personalized customer service and the convenience of a strip center with an easy-to-shop format.

We will continue to develop new product categories and strengthen our existing offering to better serve our broad customer base. Expansion opportunities include intimate apparel, girls, shoes, gifts and casual apparel, all of which are experiencing strong growth.

We will continue to add significant value through our Product Development and Direct Sourcing operation. This organization provides fashion and color trend forecasting, technical services, and direct sourcing. As the operation grows, our product offerings have become more proprietary and distinctive to the Cato brand. Our strategies include on-going improvements in merchandise quality and fit. Utilizing our global sourcing network provides better value to our customers, as well as lower costs for the Company.

INFRASTRUCTURE: STRENGTHENING FOR GROWTH

Technology upgrades and the implementation of an enterprise-wide system will allow us to dramatically expand the level of detail by which we plan and analyze our business. For example, better size and color information will enable us to more accurately purchase and allocate tailored assortments by store. The new technology is scheduled to be in operation by the fall of 2001 and will integrate our merchandising, distribution and financial systems. As part of this initiative, we are currently updating our technical infrastructure to a web-enabled client/server environment.

In early 2000, we launched our new website at www.catocorp.com. We will continue to develop the website's functionality. A priority for 2000 will be to utilize the internet to enhance our business-to-business relationships and to better communicate with our customers.

We will support accelerated store growth with the reconfiguration of our Distribution Center. Through an enhanced physical plant and system upgrade in 2000, we will have the capacity to support up to 1,500 stores with our existing facility.

QUALITY OF GROWTH: AGGRESSIVE AND DISCIPLINED

We accelerated store growth in 1999 by opening 83 new stores. We plan to add 100 new stores in 2000 and more than 350 stores during the next three years. Our research has shown that we can double our store count within our existing geography. But we won't be satisfied until Cato is a national chain. Our strong financial position will enable us to support and fund this aggressive growth strategy.

BUILDING THE BRAND: THE POWER OF A NAME

Developing and strengthening the Cato brand was a major initiative in 1999 and will be a continuing strategy in 2000. The power of our name – showcased by high quality product offerings at the right prices – makes our private label merchandise attractive to our customer. We have enhanced our marketing programs to effectively convey a consistent message through in-store signage and collateral materials, print, radio and our website.

"Look Smart. Buy Smart.", our new ad campaign, is reflective of our customer and her shopping attitude. This campaign was the result of an intensive marketing study. Through this exercise, we developed additional knowledge about our customers' lifestyles and purchasing patterns to use in better serving our customers.

THE RESULT: MAXIMIZING SHAREHOLDER VALUE

Our strong earnings growth has outpaced our stock price performance. We continue to focus our efforts on executing and refining our strategies, building our infrastructure and strengthening the Cato brand with the ultimate goal of increasing shareholder value.

The Company's commitment to its share buyback program has been accretive to earnings. We repurchased 985,400 shares in fiscal 1999 and 1,468,800 shares in fiscal 2000 as of April 25, 2000 bringing our total to 4,832,200 shares repurchased since the inception of our share repurchase program. Currently, we have authorization to repurchase an additional 1,167,800 shares. The Company plans to continue to execute its share repurchase program.

An important component of our success is our strong, stable management team which is committed to the superior execution of our strategies. Our financial success as well as the satisfaction of our customers is reflective of the passion and commitment of our 8,500 associates. Thanks to our customers, associates, shareholders and business partners for your ongoing support and confidence.

Sincerely,

John P. Derham Cato

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

Wayland Cato, Jr.

Wayland H. Cato, Jr.
Chairman of the Board

Cato offers lifestyle dressing and broad fashion assortments in junior/missy and plus sizes, with girls sizes in selected stores. We have the latest looks for work and weekends, as well as special occasion apparel. Our shoes and accessories coordinate and complement the look. Through our own brands, we provide fashion and quality comparable to mall specialty stores, but at low prices, everyday.

Our value proposition is simple – we deliver the fashion, quality and price that allow our customers to *Look Smart. Buy Smart.* At Cato, we listen to our customers – we ask and we respond. We tailor our merchandise to the lifestyles of customers within specific demographic profiles – because customers are as distinctive as our brands.

Our proprietary brands have become synonymous with quality fashion at great prices. The expertise of our product development and direct sourcing operation, coupled with the experience of our merchants, allows us to take proven styles and customize them with Cato's quality, fit and price identified by our own private labels.


CATO NOW
www.catofashions.com
Spring 2000
Feminine Focus
the way to look for Spring
the LINEN LIFE
Live it and Love it!
Brights of Spring
Neckline News
Explore the Options

Establishing long-term relationships with our customers is a key element in our ability to effectively serve them. Rather than merely meeting our customers' expectations, we want to exceed them. Superior customer service, along with our proprietary Cato credit card, makes it enjoyable and convenient to shop at Cato. Cato prides itself on superior customer service. Through our training and monitoring programs, we continue to reinforce our commitment to serving our customer.

Our *Cato Now* magazine presents our fashion point of view. It provides customers and associates information on fashion, color and fabric trends, current and future merchandise assortments, and tips on coordinating outfits. Every eight weeks, we publish a new issue to keep customers and associates current and connected to fashion and value.

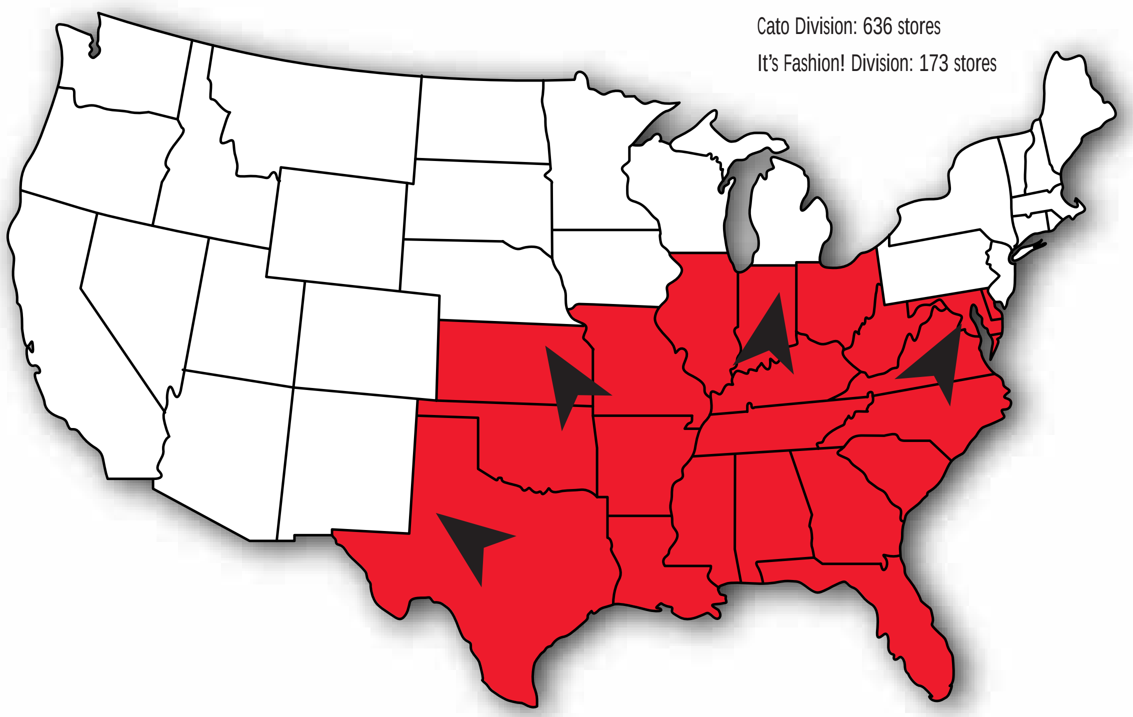

stretch
capris

From the eastern seaboard to the Texas panhandle, Cato serves customers in 21 states – and as the Cato brand strengthens, it's clear that we have plenty of room to grow.

Our ability to offer broad assortments has enabled us to grow successfully in rural, middle and metro markets. We will expand aggressively within existing and adjacent geography. We will support our growth strategy through an infrastructure that integrates state-of-the-art technology, a solid debt-free balance sheet and an outstanding organization. This growth strategy reinforces Cato's position as a leading value-priced women's fashion specialty retailer.

Cato CURRENT GEOGRAPHY

At Year End 1999
Cato Division: 636 stores
It's Fashion! Division: 173 stores



Selected FINANCIAL DATA

	Fiscal Year				
	1999	1998	1997	1996	1995
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$ 585,085**	$ 524,381	$ 496,851	$ 477,011	$ 476,638
Other income	**19,948**	19,283	15,597	14,498	13,357
Total revenues	**605,033**	543,664	512,448	491,509	489,995
Cost of goods sold	**403,655**	371,005	354,627	344,919	341,144
Gross margin percent	**31.0%**	29.2%	28.6%	27.7%	28.4%
Selling, general and administrative	**140,741**	128,207	124,676	121,837	122,961
Selling, general and administrative percent	**24.0%**	24.4%	25.1%	25.5%	25.8%
Depreciation	**8,639**	7,638	7,713	8,330	7,785
Interest	**23**	19	25	25	30
Closed store expense	**—**	—	—	5,500	—
Income before income taxes and cumulative effect of accounting change	**51,975**	36,795	25,407	10,898	18,075
Income tax expense	**18,191**	12,878	8,006	3,869	6,055
Income before cumulative effect of accounting change	**33,784**	23,917	17,401	7,029	12,020
Cumulative effect of accounting change, net of taxes	**147**	—	—	—	—
Net income	**$ 33,931**	$ 23,917	$ 17,401	$ 7,029	$ 12,020
Basic earnings per share	**$ 1.28**	$ .87	$ .62	$ .25	$ .42
Diluted earnings per share	**$ 1.26**	$ .85	$ .62	$ .25	$ .42
Cash dividends paid per share	**$ .28**	$ .19	$ .16	$ .16	$ .16
SELECTED OPERATING DATA:					
Stores open at end of year	**809**	732	693	655	671
Average sales per store	**$ 756,000**	$ 740,000	$ 748,000	$ 710,000	$ 721,000
Average sales per square foot of selling space	**$ 177**	$ 169	$ 163	$ 153	$ 158
Comparable store sales increase (decrease)	**4%**	2%	4%	(2)%	(5)%
BALANCE SHEET DATA:					
Cash and investments	**$ 87,275**	$ 86,209	$ 69,487	$ 50,105	$ 47,894
Working capital	**124,988**	124,024	113,327	105,373	102,169
Total assets	**285,789**	258,513	241,437	218,243	209,895
Total stockholders' equity	**$ 188,780**	$ 172,234	$ 157,516	$ 151,903	$ 149,682

RESULTS OF OPERATIONS

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

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
Retail sales	**100.0%**	100.0%	100.0%
Other income	**3.4**	3.7	3.1
Total revenues	**103.4**	103.7	103.1
Cost of goods sold	**69.0**	70.8	71.4
Selling, general and administrative	**24.0**	24.4	25.1
Depreciation	**1.5**	1.5	1.5
Selling, general, administrative and depreciation	**25.5**	25.9	26.6
Income before income taxes and cumulative effect of accounting change	**8.9**	7.0	5.1
Net income	**5.8%**	4.6%	3.5%

FISCAL 1999 COMPARED TO FISCAL 1998

Retail sales increased by 12% to $585.1 million in fiscal 1999 from $524.4 million in fiscal 1998. Comparable store sales increased 4% 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 11% to $605.0 million in fiscal 1999 from $543.7 million in fiscal 1998. The Company operated 809 stores at January 29, 2000, compared to 732 stores operated at January 30, 1999.

The increase in retail sales in fiscal 1999 resulted from the Company's continuation of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1999, the Company increased its number of stores 11% by opening 83 new stores, relocating 21 stores while closing 6 existing stores.

Other income in fiscal 1999 increased $.7 million or 3% over fiscal 1998. The increase resulted primarily from increased earnings from higher finance charges, late fee income and income from cash equivalents and short-term investments partially offset by decreased layaway service charges.

Cost of goods sold was $403.7 million, or 69.0% of retail sales, in fiscal 1999, compared to $371.0 million, or 70.8% of retail sales, in fiscal 1998. 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, eliminating unprofitable promotions and improving inventory flow. Total gross margin dollars (retail sales less cost of goods sold) increased by 18% to $181.4 million in fiscal 1999 from $153.4 million in fiscal 1998.

Selling, general and administrative expenses (SG&A) were $140.7 million in fiscal 1999, compared to $128.2 million in fiscal 1998, an increase of 10%. As a percent of retail sales, SG&A was 24.0% compared to 24.4% 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 $8.6 million in fiscal 1999 compared to $7.6 million in fiscal 1998. The 13% increase in fiscal 1999 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 Commissions 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. The proforma effects of retroactive application of the accounting change on fiscal 1998 and 1997 are immaterial to the financial statements.

FISCAL 1998 COMPARED TO FISCAL 1997

Retail sales increased by 6% to $524.4 million in fiscal 1998 from $496.9 million in fiscal 1997. Comparable store sales increased 2% from the prior year. Total revenues increased by 6% to $543.7 million in fiscal 1998 from $512.4 million in fiscal 1997. The Company operated 732 stores at January 30, 1999, compared to 693 stores operated at January 31, 1998.

The increase in retail sales in fiscal 1998 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1998, the Company increased its number of stores 6% by opening 52 new stores, relocating 18 stores while closing 13 existing stores.

Other income in fiscal 1998 increased $3.7 million or 24% over fiscal 1997. The increase resulted primarily from increased earnings on cash equivalents and short-term investments and from higher finance charge income partially offset by decreased layaway service charges.

Cost of goods sold was $371.0 million, or 70.8% of retail sales, in fiscal 1998, compared to $354.6 million, or 71.4% of retail sales, in fiscal 1997. The decrease in cost of goods sold as a percent of retail sales resulted primarily from maintaining timely and aggressive markdowns on slow moving merchandise, eliminating unprofitable promotions and improving inventory flow. Total gross margin dollars increased by 8% to $153.4 million in fiscal 1998 from $142.2 million in fiscal 1997.

SG&A expenses were $128.2 million in fiscal 1998, compared to $124.7 million in fiscal 1997, an increase of 3%. As a percent of retail sales, SG&A was 24.4% compared to 25.1% 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.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

At January 29, 2000, the Company had working capital of $125.0 million compared to $124.0 million at January 30, 1999. Cash provided by operating activities was $44.5 million in fiscal 1999, compared to $40.9 million in fiscal 1998. The increase in cash provided by operating activities in fiscal 1999 resulted primarily from an increase in net income, depreciation, accounts payable, other liabilities and accrued income taxes. At January 29, 2000, the Company had $87.3 million in cash, cash equivalents and short-term investments, compared to $86.2 million at January 30, 1999.

At January 29, 2000, 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 2002. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios with which the Company was in compliance. The Company feels the terms of the revolving credit agreement will continue to support the Company's future working capital needs through the next twelve months. There were no borrowings outstanding under the agreement at January 29, 2000.

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.

Expenditures for property and equipment totaled $24.0 million, $13.5 million and $7.4 million in fiscal 1999, 1998 and 1997, respectively. The expenditures for fiscal 1999 were primarily for store development, store remodels and investments in new technology for merchandising, distribution and finance. In fiscal 2000, the Company is planning to spend approximately $32 million for capital expenditures. This includes expenditures to open 100 new stores, close 10 stores and relocate 28 stores. In addition, the Company plans to remodel 100 stores and has provided for investments in technology including an enterprise-wide system scheduled to be implemented by fall 2001.

During 1999, the Company repurchased 985,400 shares of Class A Common Stock for $9.6 million, or an average price of $9.71 per share. Over the course of fiscal 1999, the Company increased its quarterly dividend from $.055 per share to $.075 per share. In February 2000, the Board of Directors further increased the quarterly dividend by 33% from $.075 per share to $.10 per share and approved a resolution to purchase an additional 2,000,000 shares of stock.

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.

The Company does not use derivative financial instruments in its investment portfolio. At January 29, 2000, 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.

The Company developed a two phase approach to address the Year 2000 issue, which involved the exposure to risks in its information technology (IT) systems, as well as potential risks in other non-IT systems with embedded technology. Phase 1 was an analysis to identify and fix all internally developed programs. Phase 2 was the identification and correction to all programs purchased from external sources. The Company successfully completed Phase 1 and Phase 2 on schedule at a cost of $575,000. Following the arrival of the Year 2000, the Company has not experienced any significant issues and there has been no interuption in business nor any material financial impact due to 2000 issues.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. SFAS 133 is effective for the Company's fiscal 2001. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

As previously described, during 1999 the Securities and Exchange Commission issued SAB 101, "Revenue Recognition in Financial Statements". The Company adopted SAB 101 in fiscal 1999 and changed its policy for recognizing revenues related to layaway sales. The cumulative effect of this change in accounting principle was an increase in net income of $147,000, net of income tax of $79,000, or $.01 per share.

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 will prove to be correct.

Consolidated Statements of INCOME

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	**$ 585,085**	$ 524,381	$ 496,851
Other income (principally finance, late and layaway charges)	**19,948**	19,283	15,597
Total revenues	**605,033**	543,664	512,448
COSTS AND EXPENSES			
Cost of goods sold	**403,655**	371,005	354,627
Selling, general and administrative	**140,741**	128,207	124,676
Depreciation	**8,639**	7,638	7,713
Interest	**23**	19	25
Total operating expenses	**553,058**	506,869	487,041
Income Before Income Taxes and Cumulative Effect of Accounting Change	**51,975**	36,795	25,407
Income tax expense	**18,191**	12,878	8,006
Income Before Cumulative Effect of Accounting Change	**$ 33,784**	$ 23,917	$ 17,401
Cumulative Effect of Accounting Change, Net of Tax ($79)	**147**	—	—
Net Income	**$ 33,931**	$ 23,917	$ 17,401
Basic Earnings Per Share	**$ 1.28**	$ .87	$ .62
Basic Average Shares	**26,486,407**	27,522,582	28,058,934
Diluted Earnings Per Share	**$ 1.26**	$ .85	$ .62
Diluted Average Shares	**26,953,948**	28,181,585	28,132,384
Dividends Per Share	**$ .28**	$ .19	$ .16

See notes to consolidated financial statements.

Consolidated BALANCE SHEETS

	January 29, 2000	January 30, 1999
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 30,389**	$ 44,068
Short-term investments	**56,886**	42,141
Accounts receivable, net of allowance for doubtful accounts of $5,101 at January 29, 2000 and $4,201 at January 30, 1999	**45,458**	44,536
Merchandise inventories	**69,497**	61,112
Deferred income taxes	**4,093**	3,372
Prepaid expenses	**2,494**	2,374
Total Current Assets	**208,817**	197,603
Property and Equipment - net	**69,338**	54,740
Other Assets	**7,634**	6,170
Total Assets	**$ 285,789**	$ 258,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 54,707**	$ 52,391
Accrued expenses	**24,392**	20,991
Income taxes	**4,730**	197
Total Current Liabilities	**83,829**	73,579
Deferred Income Taxes	**5,806**	5,922
Other Noncurrent Liabilities (primarily deferred rent)	**7,374**	6,778
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; 24,173,480 shares issued at January 29, 2000 and 24,070,519 shares issued at January 30, 1999	**805**	802
Convertible Class B Common Stock, $.033 par value per share, 15,000,000 shares authorized; 5,364,317 shares issued at January 29, 2000 and 5,264,317 issued at January 30, 1999	**179**	176
Additional paid-in capital	**71,974**	69,878
Retained earnings	**146,881**	120,366
Accumulated Other Comprehensive Income (Loss)	**(1,801)**	224
Unearned Compensation – Restricted Stock Awards	**(984)**	—
	217,054	191,446
Less Class A Common Stock in treasury, at cost (3,290,348 shares at January 29, 2000 and 2,368,000 shares at January 30, 1999)	**(28,274)**	(19,212)
Total Stockholders' Equity	**188,780**	172,234
Total Liabilities and Stockholders' Equity	**$ 285,789**	$ 258,513

See notes to consolidated financial statements.

Consolidated Statements of CASH FLOWS

	January 29, 2000	January 30, 1999	January 31, 1998
		Fiscal Year Ended	
		(Dollars in thousands)	
OPERATING ACTIVITIES			
Net income	**$ 33,931**	$ 23,917	$ 17,401
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**8,639**	7,638	7,713
Amortization of investment premiums	**187**	123	95
Provision for doubtful accounts	**4,850**	4,081	3,675
Deferred income taxes	**175**	38	496
Compensation expense related to restricted stock awards	**196**	–	–
Loss on disposal of property and equipment	**727**	942	1,196
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(5,772)**	(1,431)	(7,669)
Merchandise inventories	**(8,385)**	3,114	(258)
Other assets	**(1,584)**	(765)	(148)
Accrued income taxes	**4,712**	(463)	760
Accounts payable and other liabilities	**6,845**	3,705	15,674
Net cash provided by operating activities	**44,521**	40,899	38,935
INVESTING ACTIVITIES			
Expenditures for property and equipment	**(23,964)**	(13,519)	(7,377)
Purchases of short-term investments	**(22,544)**	(24,624)	(24,553)
Sales of short-term investments	**4,496**	10,717	30,122
Net cash used in investing activities	**(42,012)**	(27,426)	(1,808)
FINANCING ACTIVITIES			
Dividends paid	**(7,416)**	(5,204)	(4,510)
Purchases of treasury stock	**(9,572)**	(10,112)	(8,188)
Proceeds from employee stock purchase plan	**447**	336	234
Proceeds from stock options exercised	**353**	3,931	388
Net cash used in financing activities	**(16,188)**	(11,049)	(12,076)
Net Increase (Decrease) in Cash and Cash Equivalents	**(13,679)**	2,424	25,051
Cash and Cash Equivalents at Beginning of Year	**44,068**	41,644	16,593
Cash and Cash Equivalents at End of Year	**$ 30,389**	$ 44,068	$ 41,644

See notes to consolidated financial statements.

Consolidated Statements of STOCKHOLDERS' EQUITY

	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
				(Dollars in thousands)				
Balance — February 1, 1997	$ 778	$ 176	$ 63,272	$ 88,762	$ (106)	$	$ (979)	$ 151,903
*Comprehensive income:								
Net income				17,401				17,401
Unrealized losses on available for sale securities, net of deferred income tax benefit of $5					(10)			(10)
Dividends paid ($.16 per share)				(4,510)				(4,510)
Class A Common Stock sold through employee stock purchase plan — 47,194 shares	2		232					234
Class A Common Stock sold through stock option plans — 89,050 shares	3		385					388
Income tax benefit from stock options exercised			298					298
Purchase of treasury shares — 1,196,500 shares							(8,188)	(8,188)
Balance — January 31, 1998	783	176	64,187	101,653	(116)		(9,167)	157,516
*Comprehensive income:								
Net income				23,917				23,917
Unrealized gains on available for sale securities, net of deferred income taxes of $174					340			340
Dividends paid ($.19 per share)				(5,204)				(5,204)
Class A Common Stock sold through employee stock purchase plan — 37,122 shares	1		335					336
Class A Common Stock sold through stock option plans — 530,750 shares	18		3,913					3,931
Income tax benefit from stock options exercised			1,381					1,381
Purchase of treasury shares — 1,006,500 shares							(10,112)	(10,112)
Contribution of treasury stock to Employee Stock Purchase Plan – 10,000 shares			62				67	129
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

*Total comprehensive income for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 was $31,906, $24,257 and $17,391, respectively.
See 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 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 1999, 1998 and 1997 each included fifty-two weeks.

Use of Estimates — The preparation of the Company's financial statements in conformity with generally accepted accounting principles 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. 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 amortized 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 January 29, 2000, January 30, 1999 and January 31, 1998 were $13,895,000, $13,394,000 and $6,754,000, respectively.

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

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

Classification	Estimated Useful Lives
Land improvements	10 years
Buildings	30-40 years
Leasehold improvement	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 $5,109,000, $5,755,000 and $7,334,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, 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 26,486,407, 27,522,582 and 28,058,934 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 467,541, 659,003 and 73,450 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 26,953,948, 28,181,585 and 28,132,384 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, 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, including certain identifiable intangibles related to those 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.

Fair Value of Financial Instruments — The Company's carrying values of financial instruments, other than short-term investments, 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 issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. SFAS 133 is effective for the Company's fiscal 2001. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

Effective for fiscal 1999, the Company changed its policy for recognizing revenues related to layaway sales to comply with the Securities and Exchange Commissions 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. The proforma effects of retroactive application of the accounting change on fiscal 1998 and 1997 are immaterial to the financial statements.

Reclassifications — Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with presentation for fiscal 1999.

2. SHORT-TERM INVESTMENTS:

Short-term investments at January 29, 2000 include the following:

Security Type	Cost	Unrealized (Losses)	Estimated Fair Value
		(In thousands)	
Obligations of federal, state and political subdivisions	$ 59,657	$ (2,771)	$ 56,886
Total	$ 59,657	$ (2,771)	$ 56,886

Short-term investments at January 30, 1999 include the following:

Security Type		Cost		Unrealized Gains		Estimated Fair Value
				(In thousands)		
Obligations of federal, state and political subdivisions	$	41,796	$	345	$	42,141
Total	$	41,796	$	345	$	42,141

The accumulated unrealized losses at January 29, 2000 of ($1,801,000), net of an income tax benefit of $970,000, and the accumulated unrealized gains at January 30, 1999 of $224,000, net of an income tax expense of $121,000, are reflected in other comprehensive income.

The amortized cost and estimated fair value of debt securities at January 29, 2000, by contractual maturity, are shown below:

Security Type		Cost		Estimated Fair Value
		(In thousands)		
Due in one year or less	$	11,882	$	11,721
Due in one year through three years		47,775		45,165
Total	$	59,657	$	56,886

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

		January 29, 2000		January 30, 1999
		(In thousands)		
Customer accounts – principally deferred payment accounts	**$**	**47,702**	$	46,913
Miscellaneous trade receivables		**2,857**		1,824
Total		**50,559**		48,737
Less allowance for doubtful accounts		**5,101**		4,201
Accounts receivable - net	**$**	**45,458**	$	44,536

Finance charge and late charge revenue on customer deferred payment accounts totaled $11,870,000, $11,113,000 and $8,262,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively, and the provision for doubtful accounts was $4,850,000, $4,081,000 and $3,675,000, for the fiscal ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

		January 29, 2000		January 30, 1999
		(In thousands)		
Land and improvements	**$**	**1,739**	$	1,709
Buildings		**15,806**		15,784
Leasehold improvements		**23,145**		19,190
Fixtures and equipment		**75,566**		66,817
Construction in progress		**12,195**		3,449
Total		**128,451**		106,949
Less accumulated depreciation		**59,113**		52,209
Property and equipment - net	**$**	**69,338**	$	54,740

5. ACCRUED EXPENSES:

Accrued expenses consist of the following:

	January 29, 2000	January 30, 1999
	(In thousands)	
Accrued bonus and retirement savings plan contributions	**$ 9,502**	$ 6,371
Accrued payroll and related items	**3,735**	2,705
Closed store lease obligations	**1,878**	2,168
Property and other taxes	**2,925**	2,266
Accrued health care plan	**1,981**	2,068
Other	**4,371**	5,413
Total accrued expenses	**$ 24,392**	$ 20,991

6. FINANCING ARRANGEMENTS:

At January 29, 2000, 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 2002. 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 under the agreement at January 29, 2000 or January 30, 1999.

The Company had approximately $4,594,000 and $5,524,000 at January 29, 2000 and January 30, 1999, 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 worth of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 53,811 shares, 37,122 shares and 47,194 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, 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 option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant and must be exercisable not later than 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 shall be granted after July 31, 2004, and shares must be exercisable not later than 10 years after the date of the grant unless otherwise expressly 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 at January 29, 2000 in the accompanying financial statements. The charge to compensation expense for these stock awards in 1999 was $196,000.

Option plan activity for the three fiscal years ended January 29, 2000 is set forth below:

	Options Outstanding	Range of Option Prices	Weighted Average Price
Outstanding options, February 1, 1997	2,831,750	$ 1.42 - $ 9.31	$ 7.41
Granted	1,023,000	5.03 - 9.25	8.10
Exercised	(89,050)	1.42 - 7.69	4.36
Cancelled	(979,968)	6.97 - 8.25	7.51
Outstanding options, January 31, 1998	2,785,732	1.50 - 9.31	7.73
Granted	302,000	10.66 - 14.59	13.03
Exercised	(530,750)	1.50 - 9.31	7.38
Cancelled	(95,000)	4.94 - 12.56	7.63
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

The following tables summarize stock option information at January 29, 2000:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1.50 - $ 7.63	814,682	2.39 years	$ 7.42
$ 7.69 - $ 8.25	1,169,900	6.88 years	$ 8.08
$ 9.25 - $ 14.59	988,200	9.17 years	$ 12.57
$ 1.50 - $ 14.59	2,972,782	6.41 years	$ 9.39

	Options Exercisable	
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$ 1.50 - $ 7.63	778,082	$ 7.53
$ 7.69 - $ 8.25	575,000	$ 8.00
$ 9.25 - $ 14.59	69,400	$ 12.41
$ 1.50 - $ 14.59	1,422,482	$ 7.96

Outstanding options at January 29, 2000 covered 717,000 shares of Class B Common Stock and 2,255,782 shares of Class A Common Stock. Outstanding options at January 30, 1999 covered 517,000 shares of Class B Common Stock and

1,944,982 shares of Class A Common Stock. Options available to be granted under the option plans were 526,018 shares at January 29, 2000 and 184,368 shares at January 30, 1999.

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 1999, 1998 and 1997 stock options granted been determined consistent with Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for fiscal 1999, 1998 and 1997 would approximate the following proforma amounts (dollars in thousands, except per share data):

	As Reported	Proforma
Net Income — Fiscal 1999	$ 33,931	$ 32,329
Basic Earnings Per Share	$ 1.28	$ 1.22
Diluted Earnings Per Share	$ 1.26	$ 1.20
Net Income — Fiscal 1998	$ 23,917	$ 22,822
Basic Earnings Per Share	$ .87	$ .83
Diluted Earnings Per Share	$ .85	$ .81
Net Income — Fiscal 1997	$ 17,401	$ 16,476
Basic Earnings Per Share	$ .62	$ .59
Diluted Earnings Per Share	$ .62	$ .59

The weighted-average fair value of each option granted during fiscal 1999, 1998 and 1997 is estimated as $6.12, $6.71 and $4.02 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 1999, 1998 and 1997, respectively: expected dividend yield of 2.62%, 2.20% and 1.49%; expected volatility of 62.10%, 66.44% and 58.14%, adjusted for expected dividends; risk-free interest rate of 6.40%, 5.07% and 5.44%; and an expected life of 5 years, 5 years and 5 years. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

In February 2000, the Board of Directors increased the quarterly dividend by 33% from $.075 per share to $.10 per share.

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which requires the components of comprehensive income to be disclosed in the financial statements. Total comprehensive income is composed of net income and unrealized gains or losses on available-for-sale securities. Total comprehensive income for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 is as follows:

		Fiscal Year Ended	
	January 29, 2000	January 30, 1999	January 31, 1998
		(In thousands)	
Net income	**$ 33,931**	$ 23,917	$ 17,401
Unrealized gains (losses) on available for sale securities, net of taxes	**(2,025)**	340	(10)
Total comprehensive income	**$ 31,906**	$ 24,257	$ 17,391

The following schedule summarizes the activity in other comprehensive income for the year ended January 29, 2000 (in thousands):

	Pre-tax	Tax Expense (Benefit)	Net of Tax
Net unrealized (losses) arising during the year	$ (3,116)	$ (1,091)	$ (2,025)
Other comprehensive income (loss)	$ (3,116)	$ (1,091)	$ (2,025)

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 16% of their annual compensation. The Company is obligated to make a minimum contribution to cover plan administrative expenses and further Company contributions, at the discretion of the Board of Directors. The Company's contributions for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 were approximately $2,145,000, $1,606,000 and $1,177,000, 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. The contributions for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998 were $1,913,000, $531,000 and $130,000, respectively.

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 $220,000. Contributions to the VEBA trust were $5,214,000, $4,177,000 and $3,854,000 in fiscal 1999, 1998 and 1997, 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 cancelled the leases at January 29, 2000, the purchase price for the equipment would be approximately $8,815,000.

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

Fiscal Year	
2000	$ 30,032
2001	24,409
2002	14,456
2003	5,886
2004	803
Thereafter	834
Total minimum lease payments	$ 76,420

The following schedule shows the composition of total rental expense for all leases:

	Fiscal Year Ended		
	January 29, 2000	January 30, 1999	January 31, 1998
		(In thousands)	
Minimum rentals	**$ 32,453**	$ 30,313	$ 29,660
Contingent rent	**257**	270	226
Total rental expense	**$ 32,710**	$ 30,583	$ 29,886

10. INCOME TAXES:

The provision for income taxes consists of the following:

	Fiscal Year Ended January 29, 2000	January 30, 1999	January 31, 1998
		(In thousands)	
Current income taxes:			
Federal	**$ 17,826**	$ 12,502	$ 6,825
State	**190**	338	685
Total	**18,016**	12,840	7,510
Deferred income taxes:			
Federal	**81**	(190)	205
State	**94**	228	291
Total	**175**	38	496
Total income tax expense	**$ 18,191**	$ 12,878	$ 8,006

Significant components of the Company's deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999 are as follows:

	January 29, 2000	January 30, 1999
	(In thousands)	
Deferred tax assets:		
Bad debt reserve	**$ 1,969**	$ 1,623
Inventory valuation	**1,411**	1,134
Unrealized losses on short-term investments	**970**	—
Reserves	**1,108**	958
Total deferred tax assets	**5,458**	3,715
Deferred tax liabilities:		
Tax over book depreciation	**6,527**	6,326
Unrealized gains on short-term investments	**—**	121
Other, net	**644**	(182)
Total deferred tax liabilities	**7,171**	6,265
Net deferred tax liabilities	**$ 1,713**	$ 2,550

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

	Fiscal Year Ended January 29, 2000	January 30, 1999	January 31, 1998
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**0.5**	1.2	2.9
Other	**(0.5)**	(1.2)	(6.4)
Effective income tax rate	**35.0%**	35.0%	31.5%

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial results have been restated for the effects of SAB 101 and are as follows (in thousands, except per share data):

Fiscal 1999	First	Second	Third	Fourth
Retail sales	$ 153,047	$ 148,782	$ 127,367	$ 155,889
Total revenues	157,874	153,809	132,357	160,993
Cost of goods sold	100,017	100,100	90,247	113,291
Income before income taxes and cumulative effect of accounting change	20,906	15,477	5,418	10,174
Income before cumulative effect of accounting change	13,589	10,060	3,522	6,613
Cumulative effect of accounting change, net of tax	147	–	–	–
Net income	13,736	10,060	3,522	6,613
Basic earnings per share (before cumulative effect of accounting change)	$ .51	$ .38	$ .13	$ .25
Basic earnings per share	$ .52	$ .38	$ .13	$ .25
Diluted earnings per share (before cumulative effect of accounting change)	$ .51	$ .37	$ .13	$ .25
Diluted earnings per share	$ .51	$ .37	$ .13	$ .25
Fiscal 1998				
Retail sales	$ 136,174	$ 132,573	$ 113,834	$ 141,800
Total revenues	141,044	137,176	118,600	146,844
Cost of goods sold	89,179	93,864	81,364	106,598
Income before income taxes	16,844	8,928	4,322	6,701
Net income	11,117	5,635	2,809	4,356
Basic earnings per share	$ .40	$ .20	$ .10	$ .16
Diluted earnings per share	$ .39	$ .20	$ .10	$ .16

The restatement for the effects of SAB 101 for fiscal 1999 resulted in a decrease in net income before cumulative effect of accounting change of $149,000 with no per share effect in the first quarter; an increase in net income of $126,000 with no per share effect in the second quarter; and a decrease in net income of $442,000 with a decrease of $.02 per share in the third quarter.

12. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 21 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 division of the Company.

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.

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

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
Fiscal 1998	**Retail**	**Credit**	**Total**
Revenues	$ 532,330	$ 11,334	$ 543,664
Depreciation	7,613	25	7,638
Interest expense	19	—	19
Income before taxes	33,044	3,751	36,795
Total assets	200,946	57,567	258,513
Capital expenditures	13,459	60	13,519

Fiscal 1997	Retail	Credit	Total
Revenues	$ 503,914	$ 8,534	$ 512,448
Depreciation	7,685	28	7,713
Interest expense	25	—	25
Income before taxes	24,535	872	25,407
Total assets	197,871	43,566	241,437
Capital expenditures	7,377	—	7,377

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 $1,074,000, $1,347,000 and $970,000 in fiscal 1999, 1998 and 1997, respectively. The Company had no outstanding letters of credit relating to such claims at January 29, 2000, and $1,600,000 at January 30, 1999. 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 January 29, 2000 and January 30, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility if 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 January 29, 2000 and January 30, 1999 and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Charlotte, North Carolina
March 13, 2000

MANAGEMENT Executive Group and BOARD of Directors

MANAGEMENT EXECUTIVE GROUP

Wayland H. Cato, Jr.
Chairman of the Board

John P. Derham Cato
Vice Chairman of the Board,
President 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

Stephen R. Clark
Senior Vice President, Human Resources and
Assistant Secretary

BOARD OF DIRECTORS

Wayland H. Cato, Jr. *
Chairman of the Board

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

Edgar T. Cato
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 President
and Assistant Secretary

Thomas E. Cato
Vice President, Divisional Merchandise Manager

Robert W. Bradshaw, Jr. *
Partner - Robinson, Bradshaw & Hinson, P.A.

George S. Currin *
Chairman and Managing Director of The Fourth
Stockton Company and Chairman Currin-
Patterson Properties LLC

Paul Fulton + *
Chairman of the Board, Bassett Furniture
Industries, Inc.

Grant L. Hamrick + *
Retired Senior Vice President, Chief Financial
Officer, American City Business Journals

James H. Shaw + *
Retired Chairman and Chief Executive Officer
Ivey's Department Stores

A. F. (Pete) Sloan + *
Retired Chairman of the Board of Lance, Inc.

\+ Member of the Compensation Committee
* 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 January 29, 2000 is available to stockholders 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.

INDEPENDENT AUDITORS

Deloitte & Touche LLP

Charlotte, North Carolina 28202-1675

TRANSFER AGENT AND REGISTRAR

First Union National Bank

Securities Transfer Department, CMG-5

Charlotte, North Carolina 28288

CORPORATE COUNSEL

Robinson, Bradshaw & Hinson, P.A.

Charlotte, North Carolina 28246

CORPORATE HEADQUARTERS

The Cato Corporation

8100 Denmark Road

Charlotte, North Carolina 28273-5975

Telephone: (704) 554-8510

MAILING ADDRESS

P.O. Box 34216

Charlotte, North Carolina 28234

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 1999 and 1998.

	PRICE				PRICE		
1999	**High**	**Low**	**Dividend**	**1998**	**High**	**Low**	**Dividend**
First quarter	$ 11 7/16	$ 7 9/16	$ .055	First quarter	$ 15 1/8	$ 10 1/2	$ .045
Second quarter	13 15/16	10 1/2	.075	Second quarter	19 1/8	13 1/8	.045
Third quarter	15 9/16	10 7/8	.075	Third quarter	15 1/2	7 1/2	.05
Fourth quarter	13 3/8	10 1/4	.075	Fourth quarter	15 5/8	7 11/16	.05

As of March 24, 2000 the approximate number of holders of the Company's Class A Common stock was 3,600 and there were 12 record holders of the Company's Class B Common Stock.

ANNUAL MEETING NOTICE

The Annual Meeting of Stockholders will be held at 11:00 a.m., Thursday, May 25, 2000 at the Company's corporate offices located at 8100 Denmark Road, Charlotte, North Carolina.

The Cato Corporation

8100 DENMARK RD.
CHARLOTTE, NC 28273-5975
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