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

Form 10-K

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

For the fiscal year ended January 30, 2021

or

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

Commission File Number 1-31340

The Cato Corporation

Registrant

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A—Common Stock, par value $.033 per share	CATO	New York Stock Exchange

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

None

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of August 1, 2020, the last business day of the Company's most recent second quarter, was $234,143,784 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of January 30, 2021, there were 20,839,795 shares of Class A common stock and 1,763,652 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2021 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

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

THE CATO CORPORATION

FORM 10-K

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Forward-looking Information

The following information should be read along with the Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-K and any documents incorporated by reference that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; (4) statements relating to our operations or activities for our fiscal year ending January 29, 2022 (“fiscal 2021”) and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures, statements regarding the potential impact of the COVID-19 pandemic and related responses and mitigation efforts on our business, results of operations and financial condition and statements regarding new store development strategy; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “will,” “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “may,” “plans,” “could,” “would,” “should” and any variations or negative formations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in the conditions that drive consumer confidence and spending, including, but not limited to, prevailing social, economic, political and public health conditions and uncertainties, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, interest rates, home values, consumer net worth and the availability of credit; changes in laws, regulations or governmental policies affecting our business, including but not limited to tariffs; uncertainties regarding the impact of any governmental action regarding, or responses to, the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly changing fashion trends and consumer demands; our ability to successfully implement our new store development strategy to increase new store openings and our ability of any such new stores to grow and perform as expected; adverse weather, public health threats (including the global coronavirus (COVID-19) pandemic) or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand, including the ability to liquidate excess inventory at anticipated margins; and other factors discussed under “Risk Factors” in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended January 30, 2021 (“fiscal 2020”), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission (“SEC”) from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

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

PART I

Item 1. *Business:*

Background

The Company, founded in 1946, operated 1,330 fashion specialty stores at January 30, 2021, in 33 states, principally in the southeastern United States, under the names “Cato,” “Cato Fashions,” “Cato Plus,” “It’s Fashion,” “It’s Fashion Metro” and “Versona.” The Cato concept seeks to offer quality fashion apparel and accessories at low prices every day, in junior/missy and plus sizes. The Cato concept’s stores and e-commerce website feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the Cato concept’s merchandise is sold under its private label and is produced by various vendors in accordance with the concept’s specifications. The It’s Fashion and It’s Fashion Metro concepts offer fashion with a focus on the latest trendy styles for the entire family at low prices every day. The Versona concept’s stores and e-commerce website offer quality fashion apparel items, jewelry and accessories at exceptional values every day. The Company’s stores range in size from 2,100 to 19,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. The Company emphasizes friendly customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales under the Company’s plan represented 5% of retail sales in fiscal 2020. See Note 14 to the Consolidated Financial Statements, “Reportable Segment Information,” for a discussion of information regarding the Company’s two reportable segments: retail and credit.

The Company has operated Cato-branded retail stores for approximately 75 years. The Company originated as a family-owned business and made its first initial public offering of stock in 1968. In 1980, the Company went private and in 1987 again conducted an initial public offering.

Business Strategy

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

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

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

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

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

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

Merchandising

Merchandising

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

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

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

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

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 540 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2020, purchases from the Company's largest vendor accounted for approximately 10% of the Company's total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company sources a majority of its merchandise directly from manufacturers overseas, primarily in Southeast Asia. These manufacturers have a dependence on materials that are primarily sourced from China. The Company purchases its remaining merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments; however, these vendors are dependent on materials primarily sourced from China. The Company opened its own overseas sourcing operations in the fall of 2014, replacing the Company's former sourcing agent in 2015. Although a significant portion of the Company's merchandise is manufactured overseas, primarily in Southeast Asia, the Company does not expect that any economic, political, public health or social unrest in any one country would have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise. However, the Company can give no assurance that any changes or disruptions in its merchandise supply chain would not materially and adversely affect the Company. See "Risk Factors – Risks Relating To Our Business – Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations and risks that affect the prevailing social, economic, political, public health and other conditions in the areas from which we source merchandise; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition."

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

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

Advertising

The Company uses television, in-store signage, graphics, a Company website, two e-commerce websites and social media as its primary advertising media. The Company's total advertising expenditures were approximately 0.8%, 0.7% and 0.7% of retail sales for fiscal years 2020, 2019 and 2018, respectively.

Store Operations

The Company's store operations management team consists of three territorial managers, 12 regional managers and 110 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll and shrinkage control. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are typically staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the store and seasonal personnel needs. In general, store managers are paid a salary or on an hourly basis as are all other store personnel. Store managers, assistant managers and sales associates are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their respective store's sales increases and shrinkage control.

Store Locations

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

All of the Company's stores are leased. Approximately 93% are located in strip shopping centers and 7% in enclosed shopping malls. The Company typically locates stores in strip shopping centers anchored by a national discounter, primarily Walmart Supercenters, or market-dominant grocery stores. The Company's strip center locations provide ample parking and shopping convenience for its customers.

The Company's store development activities consist of opening new stores in new and existing markets, relocating selected existing stores to more desirable locations in the same market area and closing underperforming stores. The following table sets forth information with respect to the Company's development activities since fiscal 2016:

Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
2016	1,372	8	9	1,371
2017	1,371	6	26	1,351
2018	1,351	—	40	1,311
2019	1,311	5	35	1,281
2020	1,281	76	27	1,330

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

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 2.7%, 3.3% and 3.3% of retail sales in fiscal 2020, 2019 and 2018, respectively. The Company's net bad debt expense was 3.6%, 3.2% and 3.8% of credit sales in fiscal 2020, 2019 and 2018, respectively.

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

Layaway Plan

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

The Company defers recognition of layaway sales to the accounting period when the customer picks up and completely pays for layaway merchandise. Administrative fees are recognized in the period in which the layaway is initiated. Recognition of restocking fees occurs in the accounting period when the customer defaults on the layaway purchase. Layaway sales represented approximately 2.8%, 4.1% and 4.0% of retail sales in fiscal 2020, 2019 and 2018, respectively.

Information Technology Systems

The Company's information technology systems provide daily financial and merchandising information that is used by management to enhance the timeliness and effectiveness of purchasing and pricing decisions. Management uses a daily report comparing actual sales with planned sales and a weekly ranking report to monitor and control purchasing decisions. Weekly reports are also produced which reflect sales, weeks of supply of inventory and other critical data by product categories, by store and by various levels of responsibility reporting. Purchases are made based on projected sales, but can be modified to accommodate unexpected increases or decreases in demand for a particular item.

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

Competition

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

Seasonality

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

Regulation

The Company's business and operations subject it to a wide range of local, state, national and international laws and regulations in a variety of areas, including but not limited to, trade, licensing and permit requirements, import and export matters, privacy and data protection, credit regulation, environmental matters, recordkeeping and information management, tariffs, taxes, intellectual property and anti-corruption. Though compliance with these laws and regulations has not had a material effect on the capital expenditures, results of operations or competitive position of the Company in fiscal 2020, the Company faces ongoing risks related to its efforts to comply with these laws and regulations and risks related to noncompliance, as discussed generally below throughout the "Risk Factors" section and in particular under "Risk Factors – Risks Relating to Accounting and Legal Matters – Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition."

Human Capital

As of January 30, 2021, the Company employed approximately 7,400 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons. The Company's full-time team associates are engaged in various executive, operating, and administrative functions in the Home Office and distribution center and the remainder are engaged in store operations. The Company is not a party to any collective bargaining agreements and considers its associate relations to be good. The Company offers a broad range of Company paid benefits to its associates including medical and dental plans, paid vacation, a 401(k) plan, Employee Stock Purchase Plan, Employee Stock Ownership Plan, disability insurance, associate assistance programs, life insurance and an associate discount. The level of benefits and eligibility vary depending on the associate's full-time or part-time status, date of hire, length of service and level of pay. The Company promotes diversity, provides opportunities for advancement, and treats all of its associates with dignity and respect. The Company constantly strives to improve its training programs to develop associates. Over 80% of store and field management are promoted from within, allowing the Company to internally staff its store base. The Company has training programs at each level of store operations. The Company also performs ongoing reviews of its safety protocols, including extensive efforts undertaken during the COVID-19 pandemic to ensure the health and safety of its associates by performing frequent cleanings, ensuring social distancing and providing masks for all of its stores.

Item 1A. ***Risk Factors:***

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

Risks Relating to the COVID-19 Pandemic:

The outbreak and persistence of the COVID-19 pandemic has and will adversely affect our business, financial condition and results of operations.

The COVID-19 pandemic has adversely impacted the Company's business, financial condition and operating results through fiscal 2020, and we expect that it will continue to do so in fiscal 2021 and possibly beyond. Adverse financial impacts associated with the outbreak include, but are not limited to, (i) lower net sales in markets affected by the actual or potential outbreak, whether due to state and local orders to close stores, reductions in store traffic and customer demand, labor shortages, or all of these factors, (ii) lower net sales caused by the delay of inventory production and fulfillment, (iii) and incremental costs associated with efforts to mitigate the effects of the outbreak, including increased freight and logistics costs and other expenses.

The COVID-19 pandemic has caused state and local governments to issue orders mandating store closures and other measures to mitigate the spread of the virus. In addition, public health officials have issued precautions and guidance intended to reduce the spread of the virus, including particular cautions about congregating in large groups or heavily populated areas, such as malls and shopping centers. We temporarily closed all Cato, It's Fashion, It's Fashion Metro and Versona stores on March 19, 2020. Beginning on May 1, 2020, we began to re-open stores based on the pertinent state and local orders. As of June 15, 2020, all stores were re-opened, but our stores have been and continue to operate at reduced hours. Periodic increases in infection rates in communities where our stores are located may prompt further governmental measures or public health guidance to reduce public activity and gatherings in order to mitigate the spread of the virus, and may also continue to adversely affect consumer confidence. There continues to be significant uncertainty regarding the breadth, severity and duration of business disruptions related to COVID-19, as well as its impact on the global and U.S. economy, consumer willingness to visit malls and shopping centers, and its impact on appropriate associate staffing levels for our stores. The status and effects of national, state or local action, initiatives, legislation, guidelines or programs that attempt to mitigate the spread of COVID-19 or address its economic effects on our customers, suppliers or the Company also remain fluid.

While the Company currently anticipates that our results for fiscal 2021 and possibly beyond will be adversely impacted, the extent to which COVID-19 impacts the Company's results will depend on the course of future developments, which are highly uncertain, including the relative speed and success of, as well as public confidence in, mitigation measures such as the current effort to vaccinate substantial portions of the U.S. and global population, emerging information regarding variants of the virus or new viruses and their potential impact on current mitigation efforts, public attitudes toward continued compliance with containment and mitigation measures, and possible new information and understanding that could alter the course and duration of current measures to combat the spread of the virus.

It is also possible the COVID-19 pandemic may result in longer term behavioral changes by customers and others that could adversely affect our business, including but not limited to a consumer shift to greater reliance on online versus in-person shopping, which could reduce traffic to our stores and more broadly to the strip shopping centers and malls in which most of our stores are located and disadvantage us relative to competitors who are better established in e-commerce sales, and reductions in face-to-face work, travel and socializing occasions, which may lead customers to less frequently desire or perceive the need to update their wardrobes.

The far-reaching impacts of the COVID-19 pandemic may also intensify other risks we discuss in this report and other filings we make from time to time with the SEC.

Future outbreaks of disease or similar public health threats, or the fear of such an occurrence, may also have a material adverse effect on the Company's business, financial condition and operating results.

Risks Relating to Our Business:

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

Extreme changes in weather, natural disasters, public health threats or similar events can influence customer trends and shopping habits. For example, heavy rainfall or other extreme weather conditions, including but not limited to winter weather over a prolonged period, might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect our business. The occurrence or threat of extreme weather, natural disasters, power outages, terrorist acts, outbreaks of flu or other communicable diseases (such as the global COVID-19 pandemic) or other catastrophic events could reduce customer traffic in our stores and likewise disrupt our ability to conduct operations, which could materially and adversely affect us.

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

A significant amount of our merchandise is manufactured overseas, principally in Southeast Asia. We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. Further, our third-party vendors are dependent on materials primarily sourced from China. As a result, political unrest, labor disputes, terrorism, public health threats, including but not limited to communicable diseases (such as the global COVID-19 pandemic), financial or other forms of instability or other events resulting in the disruption of trade from countries affecting our supply chain, increased security requirements for imported merchandise, or the imposition of, or changes in, laws, regulations or changes in duties, quotas, tariffs, taxes or governmental policies regarding these matters or other factors affecting the availability or cost of imports, could cause significant delays or interruptions in the supply of our merchandise or increase our costs. We are also subject to supply chain disruptions affecting ocean freight, including lack of ocean container ship capacity, lack of equipment such as containers, port congestion and other conditions impacting ocean freight. We also are subject to domestic supply chain disruptions, including lack of domestic intermodal transportation (trucks and drivers), domestic port congestion and other conditions that may impact domestic supply chain. These supply chain risks may result in both higher costs to transport our merchandise and delayed merchandise arrivals to our stores, which may adversely affect our ability to sell this merchandise and increase markdowns of it. Our costs are also affected by currency fluctuations, and changes in the value of the dollar relative to foreign currencies may increase our cost of goods sold. Any of these factors could have a material adverse effect on our business and results of operations. In addition, increased energy and transportation costs have caused us significant cost increases from time to time, and future adverse changes in these costs or the disruption of the means by which merchandise is transported to us could cause additional cost increases or interruptions of our supply chain which could be significant. Further, we are subject to increased costs or potential disruptions impacting any port or trade route through which our products move or we may be subject to increased costs and delays if forced to route freight through different ports than the ones through which our products typically move. If we are forced to source merchandise from other countries or other domestic vendors with foreign sources in different countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell.

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

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

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

Our sales are dependent in part on the location of our stores in shopping centers and malls where we believe our consumers and potential consumers shop. In addition, our ability to grow our revenues has been substantially dependent on our ability to secure space for and open new stores in attractive locations. Shopping centers and malls where we currently operate existing stores or seek to open new stores may be adversely affected by, among other things, general economic downturns or those particularly affecting the commercial real estate industry, the closing of anchor stores, changes in tenant mix and changes in customer shopping preferences, including but not limited to an increase in preference for online versus in-person shopping. To take advantage of consumer traffic and the shopping preferences of our consumers, we need to maintain and acquire stores in desirable locations where competition for suitable store locations is intense. A decline in customer popularity of the strip shopping centers where we generally locate our stores or in availability of space in desirable centers and locations, or an increase in the cost of such desired space, could limit our ability to open new stores, adversely affect consumer traffic and reduce our sales and net earnings or increase our operating costs.

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

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

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

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

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

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

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

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

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

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

Consumer spending habits, including spending for our apparel and accessories, are affected by, among other things, prevailing social, economic, political and public health conditions and uncertainties (such as matters under debate in the U.S. from time to time regarding budgetary, spending and tax policies and the impact of the global COVID-19 pandemic), levels of employment, fuel, energy and food costs, salaries and wage rates and other sources of income, tax rates, home values, consumer net worth, the availability of consumer credit, consumer confidence and consumer perceptions of adverse changes in or trends affecting any of these conditions. Any perception that these conditions may be worsening or continuing to trend negatively may significantly weaken many of these drivers of consumer spending habits. Adverse perceptions of these conditions or uncertainties regarding them also generally cause consumers to defer purchases of discretionary items, such as our merchandise, or to purchase cheaper alternatives to our merchandise, all of which may also adversely affect our net sales and results of operations. In addition, numerous events, whether or not related to actual economic conditions, such as downturns in the stock markets, acts of war or terrorism, political unrest or natural disasters, outbreaks of disease or similar events, may also dampen consumer confidence, and accordingly, lead to reduced consumer spending. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

Risks Relating to Our Information Technology and Related Systems:

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

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

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

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

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

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

We are subject to payment-related risks.

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

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

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

Risks Relating to Accounting and Legal Matters:

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

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

For example, changes to lease accounting standards effective for the Company beginning in fiscal 2019 required the Company to capitalize operating leases in its financial statements. These changes required us to record a significant amount of lease-related assets and liabilities on our balance sheet, resulting in an increase of 40% to each of our total assets and total liabilities on our balance sheet, and required us to make other changes to the recording and classification of lease-related expenses on our statements of income and cash flows. These changes could lead to the perception by investors that we are highly leveraged and also change the calculation of numerous financial metrics and measures of our performance and financial condition. These and future changes to accounting rules or regulations may adversely affect our reported results of operations and financial position or perceptions of our performance and financial condition.

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

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

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

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

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

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

We believe that our "Cato", "It's Fashion", "It's Fashion Metro" and "Versona" trademarks are integral to our store designs, brand recognition and our ability to successfully build consumer loyalty. Although we have registered these trademarks with the U.S. Patent and Trademark Office ("PTO") and have also registered, or applied for registration of, additional trademarks with the PTO that we believe are important to our business, we cannot give assurance that these registrations will prevent imitation of our trademarks, merchandising concepts, store designs or private label merchandise or the infringement of our other intellectual property rights by others. Infringement of our names, concepts, store designs or merchandise generally, or particularly in a manner that projects lesser quality or carries a negative connotation of our image could adversely affect our business, financial condition and results of operations.

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

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

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

Risks Relating to Our Investments and Liquidity:

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

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

Our ability to access credit markets and our revolving line of credit, either generally or on favorable market terms, may be impacted by the factors discussed in the preceding paragraph, as well as continued compliance with covenants under our revolving credit agreement. The development or persistence of any of these adverse factors or failure to comply with covenants on which our borrowing is conditioned may adversely affect our financial condition, results of operations and our ability to execute our business strategy.

Risks Relating to the Market Value of Our Common Stock:

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

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

The interests of a principal shareholder may limit the ability of other shareholders to influence the direction of the Company and otherwise affect our corporate governance.

As of March 29, 2021, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 48.1% of the voting power of our common stock. As a result, Mr. Cato may be able to control or significantly influence substantially all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations or other significant Company transactions. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. In addition, the concentration of voting power held by Mr. Cato could have the effect of preventing, discouraging or deferring a change in control of the Company, which could depress the market price of our common stock. In the future, if Mr. Cato acquires beneficial control of more than 50% of the voting power of our common stock (including as a result of continued Company stock repurchases from time to time under our stock repurchase program that would reduce our outstanding shares), we would qualify for exemption as a "controlled company" from compliance with certain New York Stock Exchange corporate governance rules, including the requirements that we have a majority of independent directors on our Board, an independent compensation committee and an independent corporate governance and nominating committee. If we became eligible and elected to utilize these "controlled company" exceptions, our other shareholders could lose the benefit of these corporate governance requirements and the market value of our common stock could be adversely affected.

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

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

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

None.

Item 2. ***Properties:***

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

Item 3. ***Legal Proceedings:***

From time to time, claims are asserted against the Company arising out of operations in the ordinary course of business. The Company currently is not a party to any pending litigation that it believes is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. See Note 16, "Commitments and Contingencies," for more information.

Item 3A. ***Executive Officers of the Registrant:***

The executive officers of the Company and their ages as of March 29, 2021 are as follows:

Name	Age	Position
John P. D. Cato	70	Chairman, President and Chief Executive Officer
John R. Howe	58	Executive Vice President, Chief Financial Officer
Gordon Smith	65	Executive Vice President, Chief Real Estate and Store Development Officer

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

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

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

Item 4. ***Mine Safety Disclosures:***

No matters requiring disclosure.

PART II

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

Market & Dividend Information

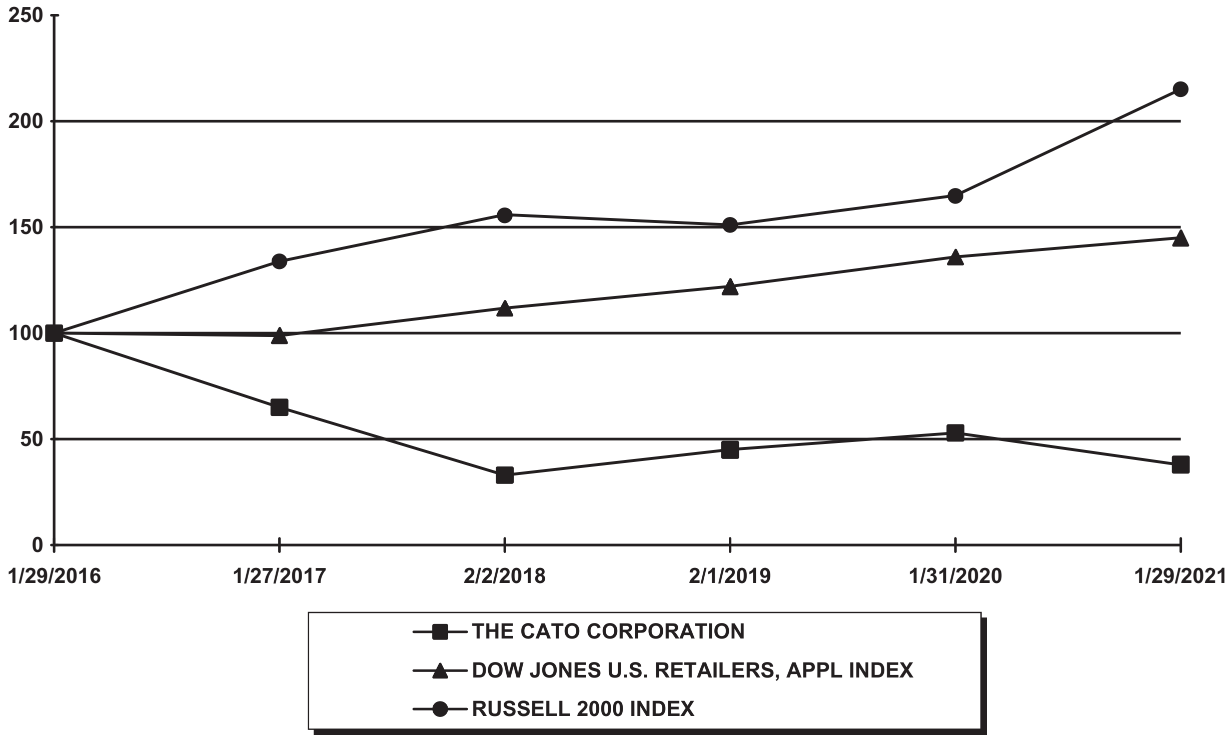
The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO.

As of March 29, 2021, the approximate number of record holders of the Company's Class A Common Stock was 5,000 and there were 2 record holders of the Company's Class B Common Stock.

Stock Performance Graph

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

The Cato Corporation
Stock Performance Graph



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

LAST TRADING DAY OF THE FISCAL YEAR	THE CATO CORPORATION	DOW JONES U.S. RETAILERS, APPL INDEX	RUSSELL 2000 INDEX
1/29/2016	100	100	100
1/27/2017	65	99	134
2/2/2018	33	112	156
2/1/2019	45	122	151
1/31/2020	53	136	165
1/29/2021	38	145	215

The graph assumes an initial investment of $100 on January 29, 2016, the last trading day prior to the commencement of the Company's 2016 fiscal year, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of its common stock for the three months ended January 30, 2021:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (2)
November 2020	320,707	$7.09	320,707	
December 2020	—	—	—	
January 2021	—	—	—	
Total	320,707	$7.09	320,707	1,871,149

(1) Prices include trading costs.

(2) During the fourth quarter ended January 30, 2021, the Company repurchased and retired 320,707 shares under this program for approximately $2,274,611 or an average market price of $7.09 per share. On November 19, 2020, the Board of Directors authorized an increase in the Company's share repurchase program of 1.5 million shares. As of the fourth quarter ended January 30, 2021, the Company had 1,871,149 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

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

Certain selected financial data for the five fiscal years ended January 30, 2021 have been derived from the Company's audited financial statements. The financial statements and Independent Registered Public Accounting Firm's integrated audit reports for the most recent fiscal years are contained elsewhere in this report. All data set forth below are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this annual report.

Fiscal Year (1)	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$567,516**	$816,184	$821,113	$841,997	$947,370
Other revenue	**7,595**	9,151	8,551	7,984	9,199
Total revenues	**575,111**	825,335	829,664	849,981	956,569
Cost of goods sold (exclusive of depreciation shown below)	**433,187**	508,906	522,535	553,058	601,985
Selling, general and administrative (exclusive of depreciation shown below)	**206,492**	263,773	262,510	266,304	289,619
Selling, general and administrative percent of retail sales	**36.4%**	32.3%	32.0%	31.6%	30.6%
Depreciation	**$ 14,681**	$ 15,485	$ 16,463	$ 19,643	$ 22,716
Interest expense	**187**	29	96	114	176
Interest and other income	**6,630**	6,065	4,991	5,111	7,041
Income (loss) before income taxes	**(72,806)**	43,207	33,051	15,973	49,114
Income tax expense (benefit)	**(25,323)**	7,310	2,590	7,433	1,902
Net income (loss)	**(47,483)**	35,897	30,461	8,540	47,212
Basic earnings (loss) per share	**(2.01)**	1.46	1.23	0.34	1.72
Diluted earnings (loss) per share	**(2.01)**	1.46	1.23	0.34	1.72
Cash dividends paid per share	**0.33**	1.32	1.32	1.32	1.29
SELECTED OPERATING DATA:					
Stores open at end of year	**1,330**	1,281	1,311	1,351	1,371
Average sales per store (2)	**$370,420**	$575,000	$596,000	$604,880	$681,000
Average sales per square foot of selling space	**89**	136	133	135	151
BALANCE SHEET DATA (at period end):					
Cash, cash equivalents, short-term investments and restricted cash	**$147,438**	$214,788	$207,920	$200,100	$252,158
Working capital (3)(4)	**108,616**	163,495	229,502	233,399	271,896
Total assets (4)	**591,452**	684,976	497,906	516,076	606,324
Total stockholders' equity	**246,498**	316,514	316,836	326,353	383,903

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

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

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

(4) In 2019, we adopted ASC 842, which required us to recognize lease assets and lease liabilities for most leases. Years before 2019 have not been adjusted for this new accounting standard.

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

The following information should be read in conjunction with the Consolidated Financial Statements, including the accompanying Notes appearing in Part II, Item 8 of this report on Form 10-K. This section of the Form 10-K generally discusses fiscal 2020 and fiscal 2019 and year-to-year comparisons between fiscal 2020 and fiscal 2019. Discussions of fiscal 2018 items and year-to-year comparisons between fiscal 2019 and fiscal 2018 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2020.

COVID-19 Update

The COVID-19 pandemic has adversely impacted the Company's business, financial condition and operating results through fiscal 2020, and we expect that it will continue to do so in fiscal 2021 and possibly beyond. Adverse financial impacts associated with the outbreak include, but are not limited to, (i) lower net sales in markets affected by the actual or potential outbreak, whether due to state and local orders to close stores, reductions in store traffic and customer demand, labor shortages, or all of these factors, (ii) lower net sales caused by the delay of inventory production and fulfillment, (iii) and incremental costs associated with efforts to mitigate the effects of the outbreak, including increased freight and logistics costs and other expenses.

Responses to the pandemic by customers, government and the private sector have and will likely continue to adversely impact our business operations. In the first quarter of fiscal 2020, the pandemic resulted in state and local orders mandating store closures and other measures to mitigate the spread of the virus. Though the Company's stores were reopened in the second quarter of fiscal 2020, they continue to operate at reduced hours. Periodic increases in infection rates in communities where our stores are located may prompt further governmental measures or public health guidance to reduce public activity and gatherings in order to mitigate the spread of the virus, and may also continue to adversely affect consumer confidence. There continues to be significant uncertainty regarding the breadth, severity and duration of business disruptions related to COVID-19, as well as its impact on the global and U.S. economy, consumer willingness to visit malls and shopping centers, and its impact on appropriate associate staffing levels for our stores.

The Company's pre-pandemic liquidity position has enabled it to offset the downturn in operating cash flows since the onset of the pandemic by liquidating short-term investments and drawing and repaying under its revolving credit facility. The Company has also implemented various cost-cutting measures to conserve cash, such as suspending dividend payments, reducing non-committed capital expenditures (only half of planned new stores were opened during 2020) and reducing corporate field and store overhead.

The Company is grateful for the efforts of its associates in helping to address the considerable challenges created by the pandemic. In recognition of these efforts and to aid with retention, on March 24, 2021 the Compensation Committee approved a discretionary bonus of $1.6 million ($1.3 million net of taxes) to key associates as discussed in more detail in "Other Information" in Part II, Item 9B.

The extent to which the COVID-19 pandemic ultimately impacts the Company's business, financial condition, results of operations, cash flows, and liquidity may differ from management's current estimates due to inherent uncertainties regarding the duration and further spread of the outbreak, its severity, actions taken to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

While the Company currently anticipates a continuation of the adverse impacts of COVID-19 during 2021 and possibly beyond, the duration and severity of these effects will depend on the course of future developments, which are highly uncertain, including the relative speed and success of, as well as public confidence in, mitigation measures such as the current effort to vaccinate substantial portions of the U.S. and global population, emerging information regarding variants of the virus or new viruses and their potential impact on current mitigation efforts, public attitudes toward continued compliance with containment and mitigation measures, and possible new information and understanding that could alter the course and duration of current measures to combat the spread of the virus.

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 30, 2021	February 1, 2020	February 2, 2019
Retail sales	**100.0%**	100.0%	100.0%
Other revenue	**1.3**	1.1	1.0
Total revenues	**101.3**	101.1	101.0
Cost of goods sold	**76.3**	62.4	63.6
Selling, general and administrative	**36.4**	32.3	32.0
Depreciation	**2.6**	1.9	2.0
Interest and other income	**1.2**	0.7	0.6
Income (loss) before income taxes	**(12.8)**	5.3	4.0
Net income (loss)	**(8.4)%**	4.4%	3.7%

Fiscal 2020 Compared to Fiscal 2019

Retail sales decreased by 30.5% to $567.5 million in fiscal 2020 compared to $816.2 million in fiscal 2019. The decrease in retail sales in fiscal 2020 was primarily due to a 32% decrease in same-store sales, partially offset by sales from new store openings. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. In fiscal 2020 and fiscal 2019, e-commerce sales were less than 5% of total sales and same-store sales. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, gift card breakage, shipping charges for e-commerce purchases and layaway fees), decreased by 30.3% to $575.1 million in fiscal 2020 compared to $825.3 million in fiscal 2019. The Company operated 1,330 stores at January 30, 2021 compared to 1,281 stores operated at February 1, 2020.

In fiscal 2020, the Company opened 76 new stores and closed 27 stores.

Other revenue in total decreased to $7.6 million in fiscal 2020 from $9.2 million in fiscal 2019. The decrease resulted primarily due to decreases in finance and layaway charges, partially offset by an increase in e-commerce shipping revenues.

Credit revenue of $2.7 million represented 0.5% of total revenue in fiscal 2020, a $0.9 million decrease compared to fiscal 2019 credit revenue of $3.6 million or 0.4% of total revenue. The decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally payroll, postage and other administrative expenses and totaled $1.5 million in fiscal 2020 compared to $1.8 million in fiscal 2019. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased $0.6 million to $1.2 million in fiscal 2020 from $1.8 million in fiscal 2019.

Cost of goods sold was $433.2 million, or 76.3% of retail sales, in fiscal 2020 compared to $508.9 million, or 62.4% of retail sales, in fiscal 2019. The increase in cost of goods sold as a percentage of sales resulted primarily from an increase in markdown sales due to liquidating spring and summer merchandise, goods marked out of stock, and deleveraging occupancy, distribution and buying costs. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold and excluding depreciation) decreased by 56.3% to $134.3 million in fiscal 2020 from $307.3 million in fiscal 2019. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses ("SG&A"), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees were $206.7 million in fiscal 2020 compared to $263.8 million in fiscal 2019, a decrease of 21.7%. As a percent of retail sales, SG&A was 36.4% compared to 32.3% in the prior year. The dollar decrease in SG&A expense was primarily attributable to lower store expenses due to stores being closed, phased store re-opening in the second quarter, reduced store operating hours, lower corporate expenses and the elimination of incentive compensation, resulting from the failure to meet targets under the Company's annual incentive compensation plan, partially offset by higher store impairment charges.

Depreciation expense was $14.7 million in fiscal 2020 compared to $15.5 million in fiscal 2019. Depreciation expense decreased from fiscal 2019 due to fully depreciated older stores and previous impairments of leasehold improvements and fixtures, partially offset by store development and information technology expenditures.

Interest and other income increased to $6.6 million in fiscal 2020 compared to $6.1 million in fiscal 2019. The increase is primarily due to a gain on the sale of land held for investment, partially offset by a decrease in short-term investments.

Income tax benefit was $25.3 million, or 4.5% of retail sales in fiscal 2020 compared to income tax expense of $7.3 million, or 0.9% of retail sales in fiscal 2019. The income tax benefit was primarily due to the federal net operating loss carryback provisions of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and release of reserves for uncertain tax positions due to expiration of statute of limitations, partially offset by valuation allowances against state net operating tax losses, less income tax credits and an upward adjustment in the reserves for uncertain tax positions specific to state income taxes in the first quarter of 2020. The effective tax rate was 34.8% (Benefit) in fiscal 2020 compared to 16.9% (Expense) in fiscal 2019. See Note 12 to the Consolidated Financial Statements, "Income Taxes," for further details.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in Note 1 to Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company's financial statements include the allowance for customer credit losses, inventory shrinkage, the calculation of potential asset impairment, workers' compensation, general and auto insurance liabilities, reserves relating to self-insured health insurance, and uncertain tax positions.

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

Allowance for Customer Credit Losses

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

Merchandise Inventories

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

Lease Accounting

In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Codification ("ASC") 842 - *Leases*, with amendments issued in 2018. The guidance requires lessees to recognize most leases on the balance sheet but does not change the manner in which expenses are recorded in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases.

As of February 3, 2019, the Company adopted ASC 842 utilizing the modified retrospective approach. The modified retrospective approach the Company selected provides a method of transition allowing recognition of existing leases as of the beginning of the period of adoption (i.e., February 3, 2019), and which does not require the adjustment of comparative periods. See Note 11 for further information.

The Company elected the transition package of practical expedients that is permitted by the standard. The package of practical expedients allows the Company to not reassess previous accounting conclusions regarding whether existing arrangements are or contain leases, the classification of existing leases, and the treatment of initial direct costs. The Company did not elect the hindsight transition practical expedient allowed for by the new standard, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets.

Impairment of Long-Lived Assets

The Company invests in leaseholds, right-of use assets and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to Fixtures and equipment, Leasehold improvements, Right-of-use assets net of Lease liabilities and Information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when the Company determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and projected cash flows, which include future sales growth rates, margin rates and expense projections. The Company assesses the fair value of each lease by considering market rents and any lease terms that may adjust market rents under certain conditions, such as the loss of an anchor tenant or a leased space in a shopping center not meeting certain criteria. Further, in determining when to close a store, the Company considers real estate development in the area and perceived local market conditions, which can be difficult to predict and may be subject to change.

Insurance Liabilities

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

Uncertain Tax Positions

The Company records liabilities for uncertain tax positions primarily related to state income taxes as of the balance sheet date. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax codes, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant judgments regarding the application of complex tax regulations across many jurisdictions. Despite the Company's belief that the estimates and judgments are reasonable, differences between the estimated and actual tax liabilities can and do exist from time to time. These differences may arise from settlements of tax audits, expiration of the statute of limitations, or the evolution and application of the various jurisdictional tax codes and regulations. Any differences will be recorded in the period in which they become known and could have a material effect on the results of operations in the period the adjustment is recorded.

Liquidity, Capital Resources and Market Risk

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's regular operating requirements and capital expenditures for fiscal 2021 and for the foreseeable future.

In order to preserve liquidity during the COVID-19 pandemic and in light of the uncertainties as to its duration and economic impact, the Company suspended its quarterly dividend, significantly reduced planned capital expenditures and decreased its store hours, reduced non-payroll expenses, as well as, furloughed associates and in certain instances eliminated positions primarily at the corporate office. The Company's pre-pandemic liquidity position has enabled it to offset the downturn in operating cash flows since the onset of the pandemic by liquidating short-term investments and drawing and repaying under its revolving credit facility. The Company will continue to focus on preserving liquidity while minimizing capital expenditures in 2021. Additionally, the Company's $35.0 million revolving facility allows the Company flexibility in managing its short-term investments, as was the case in the first quarter of 2020 when the credit markets seized during the early phases of the COVID-19 pandemic.

Cash used by operating activities during fiscal 2020 was $30.7 million as compared to $53.4 million provided in fiscal 2019 and $60.2 provided in fiscal 2018. Cash used by operating activities during 2020 was primarily attributable to a net loss adjusted for depreciation, share-based compensation, impairment and changes in working capital. The decrease of $84.1 million for fiscal 2020 compared to fiscal 2019 is primarily due to a net operating loss versus net operating income, an increase in accounts receivable primarily related to income taxes and an increase in prepaid expenses, partially offset by lower merchandise inventories and store impairment charges.

At January 30, 2021, the Company had working capital of $108.6 million compared to $163.5 million and $229.5 million at February 1, 2020 and February 2, 2019, respectively. The decrease in working capital is primarily due to reduction in short-term investments and lower inventories, partially offset by higher accounts receivables and lower accrued liabilities.

At January 30, 2021, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to $35.0 million less the balance of any revocable letters of credit discussed below. The revolving credit agreement is committed until May 2023. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of January 30, 2021. There were no borrowings outstanding under this credit facility as of the fiscal year ended January 30, 2021 or the fiscal year ended February 1, 2020.

The Company had no outstanding revocable letters of credit relating to purchase commitments at January 30, 2021, February 1, 2020 and February 2, 2019.

Expenditures for property and equipment totaled $14.0 million, $8.3 million and $4.4 million in fiscal 2020, 2019 and 2018, respectively. The expenditures for fiscal 2020 were primarily for additional investments in 76 new stores, distribution center and information technology. In fiscal 2021, the Company is planning to invest approximately $3.0 million in capital expenditures.

Net cash provided by investing activities totaled $64.5 million for fiscal 2020 compared to $22.6 million used for fiscal 2019 and $71.1 million used in fiscal 2018. In fiscal 2020, the cash provided was primarily attributable to the increase in net sales of short-term investments, partially offset by expenditures for property and equipment.

Net cash used by financing activities totaled $27.2 million in fiscal 2020 compared to net cash used of $41.6 million for fiscal 2019 and $45.2 million for fiscal 2018. The decrease was primarily due to lower dividend payments, partially offset by higher share repurchase amounts.

The Company does not use derivative financial instruments.

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

The Company’s investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at January 30, 2021. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from two days to 7.5 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from three months to 2.5 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash, Restricted short-term investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at January 30, 2021, the Company had $0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At February 1, 2020, the Company had $0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets.

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

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

The following table shows the Company's obligations and commitments as of January 30, 2021, to make future payments under noncancellable contractual obligations (in thousands):

	Payments Due During One Year Fiscal Period Ending						
Contractual Obligations (1)	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**
Operating leases	$227,525	$70,007	$48,639	$35,717	$22,542	$13,815	$36,805
Total Contractual Obligations	$227,525	$70,007	$48,639	$35,717	$22,542	$13,815	$36,805

(1) In addition to the amounts shown in the table above, $5.9 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC 740 and we are uncertain if or when such amounts may be settled. See Note 12, Income Taxes, of the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

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

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

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

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

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
The Cato Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Cato Corporation and its subsidiaries (the "Company") as of January 30, 2021 and February 1, 2020 and the related consolidated statements of income (loss) and comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended January 30, 2021, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 30, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 30, 2021 and February 1, 2020, and the results of its operations and its cash flows for each of the three years in the period ended January 30, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of February 3, 2019.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of Long-Lived Assets - Store Location Asset Groupings

As described in Notes 1 and 6 to the consolidated financial statements, the Company's consolidated property and equipment, net balance was $72.6 million, of which the store locations were a portion, and consolidated operating lease right-of-use assets, net balance was $199.8 million as of January 30, 2021. The Company invests in leaseholds, right-of-use assets and equipment, primarily in connection with the opening and remodeling of stores, and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to fixtures and equipment, leasehold improvements, right-of-use assets net of lease liabilities, and information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when management determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and projected cash flows, which include future sales growth rates, margin rates, and expense projections. The Company assesses the fair value of each lease by considering market rents and any lease terms that may adjust market rents under certain conditions such as the loss of an anchor tenant or a leased space in a shopping center not meeting certain criteria. An impairment charge for store assets of $11.4 million was recorded during the year ended January 30, 2021.

The principal considerations for our determination that performing procedures relating to the impairment of long-lived assets – store location asset groupings is a critical audit matter are (i) the significant judgment by management when determining the fair value measurement of the store location asset groupings, which led to (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's projected cash flow assumptions related to future sales growth rates, margin rates, and expense projections.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's long-lived assets – store location recoverability test and determination of the fair value of the asset group. These procedures also included, among others (i) testing the completeness and accuracy of underlying data used in the projected cash flows and store location asset groupings, (ii) evaluating the reasonableness of management's assumptions related to future sales growth rates, margin rates, and expense projections by considering current and historical performance of the store location asset groupings and whether the assumptions were consistent with evidence obtained in other areas of the audit, (iii) evaluating the appropriateness of the projected cash flow model, and (iv) evaluating management's assessment of the fair value of the leased assets included in the store location asset groupings.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 29, 2021

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

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Fiscal Year Ended		
	January 30, 2021	**February 1, 2020**	**February 2, 2019**
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	**$567,516**	$816,184	$821,113
Other revenue (principally finance charges, late fees and layaway charges)	**7,595**	9,151	8,551
Total revenues	**575,111**	825,335	829,664
COSTS AND EXPENSES, NET			
Cost of goods sold (exclusive of depreciation shown below)	**433,187**	508,906	522,535
Selling, general and administrative (exclusive of depreciation shown below)	**206,492**	263,773	262,510
Depreciation	**14,681**	15,485	16,463
Interest expense	**187**	29	96
Interest and other income	**(6,630)**	(6,065)	(4,991)
Cost and expenses, net	**647,917**	782,128	796,613
Income (loss) before income taxes	**(72,806)**	43,207	33,051
Income tax expense (benefit)	**(25,323)**	7,310	2,590
Net income (loss)	**$ (47,483)**	$ 35,897	$ 30,461
Basic earnings (loss) per share	**$ (2.01)**	$ 1.46	$ 1.23
Diluted earnings (loss) per share	**$ (2.01)**	$ 1.46	$ 1.23
Dividends per share	**$ 0.33**	$ 1.32	$ 1.32
Comprehensive income:			
Net income (loss)	**$ (47,483)**	$ 35,897	$ 30,461
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of ($79), $453, and $77 for fiscal 2020, 2019 and 2018, respectively	**(268)**	1,500	244
Comprehensive income (loss)	**$ (47,751)**	$ 37,397	$ 30,705

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 30, 2021	February 1, 2020
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 17,510**	$ 11,824
Short-term investments	**126,416**	200,387
Restricted cash	**3,512**	2,577
Restricted short-term investments	**406**	1,319
Accounts receivable, net of allowance for customer credit losses of $605 at January 30, 2021 and $726 at February 1, 2020	**52,743**	26,088
Merchandise inventories	**84,123**	115,365
Prepaid expenses and other current assets	**5,840**	5,237
Total Current Assets	**290,550**	362,797
Property and equipment – net	**72,550**	88,667
Deferred income taxes	**5,685**	8,636
Other assets	**22,850**	24,073
Right-of-Use assets – net	**199,817**	200,803
Total Assets	**$591,452**	$684,976
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 73,769**	$ 68,438
Accrued expenses	**40,790**	47,099
Accrued bonus and benefits	**1,916**	18,913
Accrued income taxes	**2,038**	1,703
Current lease liability	**63,421**	63,149
Total Current Liabilities	**181,934**	199,302
Other noncurrent liabilities	**19,705**	21,976
Lease liability	**143,315**	147,184
Commitments and contingencies	**—**	—
Stockholders' Equity:		
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**—**	—
Class A common stock, $0.033 par value per share, 50,000,000 shares authorized; 20,839,795 and 22,535,779 shares issued at January 30, 2021 and February 1, 2020, respectively	**703**	761
Convertible Class B common stock, $0.033 par value per share, 15,000,000 shares authorized; 1,763,652 and 1,763,652 shares issued at January 30, 2021 and February 1, 2020, respectively	**59**	59
Additional paid-in capital	**115,278**	110,813
Retained earnings	**129,303**	203,458
Accumulated other comprehensive income	**1,155**	1,423
Total Stockholders' Equity	**246,498**	316,514
Total Liabilities and Stockholders' Equity	**$591,452**	$684,976

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 30, 2021	February 1, 2020	February 2, 2019
	(Dollars in thousands)		
Operating Activities:			
Net income (loss)	**$ (47,483)**	$ 35,897	$ 30,461
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	**14,681**	15,485	16,463
Provision for customer credit losses	**306**	524	470
Purchase premium and premium amortization of investments	**(691)**	(694)	576
Gain on sale of assets held for investment	**(2,298)**	—	—
Share based compensation	**4,092**	4,669	4,939
Deferred income taxes	**3,030**	2,120	1,285
Loss on disposal of property and equipment	**461**	837	1,089
Impairment of assets	**13,702**	470	1,548
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(26,935)**	1,525	(579)
Merchandise inventories	**31,242**	4,220	1,950
Prepaid and other assets	**(1,596)**	5,072	10,384
Operating lease right-of-use assets and liabilities	**(2,611)**	(9,803)	—
Accrued income taxes	**335**	1,703	(680)
Accounts payable, accrued expenses and other liabilities	**(16,945)**	(8,629)	(7,662)
Net cash provided by (used in) operating activities	**(30,710)**	53,396	60,244
Investing Activities:			
Expenditures for property and equipment	**(13,956)**	(8,306)	(4,354)
Purchase of short-term investments	**(74,041)**	(218,345)	(157,515)
Sales of short-term investments	**149,298**	205,375	91,023
Purchase of other assets	**—**	(1,353)	(298)
Sales of other assets	**3,205**	(4)	7
Net cash provided by (used in) investing activities	**64,506**	(22,633)	(71,137)
Financing Activities:			
Dividends paid	**(7,912)**	(32,592)	(32,577)
Repurchase of common stock	**(19,654)**	(9,605)	(13,344)
Proceeds from line of credit	**34,000**	—	—
Payments to line of credit	**(34,000)**	—	—
Proceeds from employee stock purchase plan	**391**	626	570
Proceeds from stock options exercised	**—**	—	189
Net cash used in financing activities	**(27,175)**	(41,571)	(45,162)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**6,621**	(10,808)	(56,055)
Cash, cash equivalents, and restricted cash at beginning of period	**14,401**	25,209	81,264
Cash, cash equivalents, and restricted cash at end of period	**$ 21,022**	$ 14,401	$ 25,209
Non-cash activity:			
Accrued plant and equipment	**$ 343**	$ 2,828	$ 326
Accrued treasury stock	**—**	818	—

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
			(Dollars in thousands)			
Balance — February 3, 2018	$774	$58	$ 99,948	$225,894	$ (321)	$326,353
Comprehensive income:						
Net income (loss)	—	—	—	30,461	—	30,461
Unrealized gains (loss) on available-for-sale securities, net of deferred income tax liability of $77	—	—	—	—	244	244
Dividends paid ($1.32 per share)	—	—	—	(32,577)	—	(32,577)
Class A common stock sold through employee stock purchase plan — 44,770 shares	2	—	669	—	—	671
Class B common stock sold through stock option plans — 8,051 shares	—	1	194	—	—	195
Class A common stock issued through restricted stock grant plans — 341,744 shares	11	—	4,769	54	—	4,834
Repurchase and retirement of treasury shares – 593,404 shares	(20)	—	—	(13,325)	—	(13,345)
Balance — February 2, 2019	$767	$59	$105,580	$210,507	$ (77)	$316,836
Comprehensive income:						
Net income (loss)	—	—	—	35,897	—	35,897
Unrealized gains (loss) on available-for-sale securities, net of deferred income tax liability of $453	—	—	—	—	1,500	1,500
Dividends paid ($1.32 per share)	—	—	—	(32,592)	—	(32,592)
Class A common stock sold through employee stock purchase plan — 48,626 shares	1	—	735	—	—	736
Class B common stock sold through stock option plans — 0 shares	—	—	—	—	—	—
Class A common stock issued through restricted stock grant plans — 321,484 shares	14	—	4,498	48	—	4,560
Repurchase and retirement of treasury shares – 622,480 shares	(21)	—	—	(10,402)	—	(10,423)
Balance — February 1, 2020	$761	$59	$110,813	$203,458	$1,423	$316,514
Comprehensive income:						
Net income (loss)	—	—	—	(47,483)	—	(47,483)
Unrealized gains (loss) on available-for-sale securities, net of deferred income tax benefit of ($79)	—	—	—	—	(268)	(268)
Dividends paid ($0.33 per share)	—	—	—	(7,912)	—	(7,912)
Class A common stock sold through employee stock purchase plan — 48,191 shares	1	—	459	—	—	460
Class B common stock sold through stock option plans — 0 shares	—	—	—	—	—	—
Class A common stock issued through restricted stock grant plans — 231,194 shares	8	—	4,006	8	—	4,022
Repurchase and retirement of treasury shares – 1,975,373 shares	(67)	—	—	(18,768)	—	(18,835)
Balance — January 30, 2021	$703	$59	$115,278	$129,303	$1,155	$246,498

See notes to consolidated financial statements.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

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

Description of Business and Fiscal Year: The Company has two reportable segments — the operation of a fashion specialty stores segment ("Retail Segment") and a credit card segment ("Credit Segment"). The apparel specialty stores operate under the names "Cato," "Cato Fashions," "Cato Plus," "It's Fashion," "It's Fashion Metro" and "Versona," including e-commerce websites. The stores are located primarily in strip shopping centers principally in the southeastern United States. The Company's fiscal year ends on the Saturday nearest January 31 of the subsequent year.

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

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

Short-Term Investments: Investments with original maturities beyond three months are classified as short-term investments. See Note 3 for the Company's estimated fair value of, and other information regarding, its short-term investments. The Company's short-term investments are all classified as available-for-sale. As they are available for current operations, they are classified on the Consolidated Balance Sheets as Current Assets. Available-for-sale securities are carried at fair value, with unrealized gains and temporary losses, net of income taxes, reported as a component of Accumulated other comprehensive income. Other than temporary declines in the fair value of investments are recorded as a reduction in the cost of the investments in the accompanying Consolidated Balance Sheets and a reduction of Interest and other income in the accompanying Consolidated Statements of Income and Comprehensive Income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in Interest and other income.

Restricted Cash and Restricted Short-term Investments: The Company had \$3.9 million and \$3.9 million in escrow at January 30, 2021 and February 1, 2020, respectively, as security and collateral for administration of the Company's self-insured workers' compensation and general liability coverage, which is reported as Restricted cash and Restricted short-term investments on the Consolidated Balance Sheets.

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019 were a payment of \$6,825,000, a payment of \$4,681,000 and a refund of \$407,000, respectively.

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

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

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

Impairment of Long-Lived Assets: The Company invests in leaseholds, right-of-use assets and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to Fixtures and equipment, Leasehold improvements, Right-of-use assets net of Lease liabilities and Information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when the Company determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and future projected cash flows, which include future sales growth rates, margin rates and expense projections. The Company assesses the fair value of each lease by considering market rents and any lease terms that may adjust market rents under certain conditions, such as the loss of an anchor tenant or a leased space in a shopping center not meeting certain criteria. Further, in determining when to close a store, the Company considers real estate development in the area and perceived local market conditions, which can be difficult to predict and may be subject to change. Asset impairment charges of $13,702,000, $146,000 and $1,548,000 were incurred in fiscal 2020, fiscal 2019 and fiscal 2018, respectively. The 2020 asset impairment charges included $11.4 million of store asset impairments and $2.3 million worth of fixtures planned for new stores.

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

	Fiscal Year Ended	
	January 30, 2021	February 1, 2020
	(Dollars in thousands)	
Other Assets		
Deferred Compensation Investments	**$11,264**	$10,517
Miscellaneous Investments	**1,264**	1,301
Other Deposits	**522**	1,555
Land Held for Investment	**9,334**	10,234
Other	**466**	466
Total Other Assets	**$22,850**	$24,073

Leases: In 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Codification (“ASC”) 842—*Leases*, with amendments issued in 2018. The guidance requires lessees to recognize most leases on the balance sheet but does not change the manner in which expenses are recorded in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases.

The Company utilized a comprehensive approach to assess the impact of this guidance on its financial statements and related disclosures, including the increase in the assets and liabilities on its balance sheet and the impact on its current lease portfolio from a lessee perspective. The Company completed its comprehensive review of its lease portfolio, which includes mostly store leases impacted by the new guidance. The Company reviewed its internal controls over leases and, as a result, the Company enhanced these controls; however, these changes are not considered material. In addition, the Company implemented a new software platform, and corresponding controls, for administering its leases and facilitating compliance with the new guidance.

The Company elected the transition package of practical expedients that is permitted by the standard. The package of practical expedients allows the Company to not reassess previous accounting conclusions regarding whether existing arrangements are or contain leases, the classification of existing leases, and the treatment of initial direct costs. The Company did not elect the hindsight transition practical expedient allowed for by the new standard, which allows entities to use hindsight when determining lease term and impairment of right-of-use assets.

The Company adopted ASC 842 utilizing the modified retrospective approach as of February 3, 2019. The modified retrospective approach the Company selected provides a method of transition allowing recognition of existing leases as of the beginning of the period of adoption (i.e., February 3, 2019), and which does not require the adjustment of comparative periods. See Note 11 for further information.

The Company determined the classification of leases consistent with ASC 840 – *Leases* for fiscal year 2018. The Company leases all of its retail stores. Most lease agreements contain construction allowances and rent escalations. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, including renewal periods considered reasonably assured, the Company begins amortization as of the initial possession date which is when the Company enters the space and begins to make improvements in preparation for intended use.

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

In accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“Topic 606”), in fiscal 2020, 2019 and 2018, the Company recognized $891,000, $921,000 and $591,000, respectively, of income on unredeemed gift cards (“gift card breakage”) as a component of Other Revenue on the Consolidated

Statements of Income (Loss) and Comprehensive Income (Loss). Under Topic 606, the Company recognizes gift card breakage using an expected breakage percentage based on redeemed gift cards. See Note 2 for further information on miscellaneous income.

The Company offers its own proprietary credit card to customers. All credit activity is performed by the Company's wholly-owned subsidiaries. None of the credit card receivables are secured. The Company estimated customer credit losses of $435,000 and $700,000 for the twelve months ended January 30, 2021 and February 1, 2020, respectively, on sales purchased on the Company's proprietary credit card of $15.2 million and $26.6 million for the twelve months ended January 30, 2021 and February 1, 2020, respectively.

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

	Balance as of	
	January 30, 2021	February 1, 2020
Proprietary Credit Card Receivables, net	**$9,606**	$15,241
Gift Card Liability	**$8,155**	$ 7,658

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

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately $4,385,000, $5,600,000 and $5,546,000 for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019, respectively.

Stock Repurchase Program: For the fiscal year ended January 30, 2021, the Company had 1,871,149 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program. Share repurchases are recorded in Retained earnings, net of par value. Through March 29, 2021, the Company repurchased 83,256 shares for $971,866, to offset dilution from its equity compensation plan.

Earnings Per Share: ASC 260 - *Earnings Per Share* requires dual presentation of basic EPS and diluted EPS on the face of all income statements for all entities with complex capital structures. The Company has presented one basic EPS and one diluted EPS amount for all common shares in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). While the Company's certificate of incorporation provides the right for the Board of Directors to declare dividends on Class A shares without declaration of commensurate dividends on Class B shares, the Company has historically paid the same dividends to both Class A and Class B shareholders and the Board of Directors has resolved to continue this practice. Accordingly, the Company's allocation of income for purposes of EPS computation is the same for Class A and Class B shares and the EPS amounts reported herein are applicable to both Class A and Class B shares.

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

The following table reflects the basic and diluted EPS calculations for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019:

	Fiscal Year Ended		
	January 30, 2021	February 1, 2020	February 2, 2019
	(Dollars in thousands)		
Numerator			
Net earnings (loss)	**$ (47,483)**	$ 35,897	$ 30,461
(Earnings) loss allocated to non-vested equity awards	**2,096**	(1,280)	(862)
Net earnings (loss) available to common stockholders	**$ (45,387)**	$ 34,617	$ 29,599
Denominator			
Basic weighted average common shares outstanding	**22,536,090**	23,738,443	23,995,170
Diluted weighted average common shares outstanding	**22,536,090**	23,738,443	23,995,170
Net income (loss) per common share			
Basic earnings (loss) per share	**$ (2.01)**	$ 1.46	$ 1.23
Diluted earnings (loss) per share	**$ (2.01)**	$ 1.46	$ 1.23

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

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

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

The Company assesses the likelihood that deferred tax assets will be able to be realized, and based on that assessment, the Company will determine if a valuation allowance should be recorded.

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

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

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

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

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

Recently Adopted Accounting Policies

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires companies to measure and recognize expected credit losses for financial assets held at amortized costs based on expected losses rather than incurred losses. The new accounting rules were effective for the Company in the first quarter of 2020 and had a minimal impact on the financial statements.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new accounting rules reduce complexity by removing specific exceptions to general principles related to intraperiod tax allocations, ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The new accounting rules also simplify accounting for franchise taxes that are partially based on income, transactions with a government that result in a step-up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The new accounting rules will be effective for the Company in the first quarter of 2021. The Company is currently in the process of evaluating the impact of adoption of the new accounting rules on the Company's financial position, results of operations, cash flows and disclosures.

2. Interest and Other Income:

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

	January 30, 2021	February 1, 2020	February 2, 2019
Dividend income	**$ (5)**	$ (42)	$ (34)
Interest income	**(2,697)**	(4,954)	(3,893)
Miscellaneous income	**(627)**	(709)	(1,109)
Net loss (gain) on investment sales	**(3,301)**	(360)	45
Interest and other income	**$(6,630)**	$(6,065)	$(4,991)

During 2020, the Company recorded a gain on the sale of land held for investment of $2.3 million within Interest and other income on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

3. Short-Term Investments:

At January 30, 2021, the Company's investment portfolio was primarily invested in corporate and governmental debt securities held in managed accounts. These securities are classified as available-for-sale as they are highly liquid and are recorded on the Consolidated Balance Sheets at estimated fair value, with unrealized gains and temporary losses reported net of taxes in Accumulated other comprehensive income.

The table below reflects gross accumulated unrealized gains (losses) in short-term investments at January 30, 2021 and February 1, 2020 (in thousands):

	January 30, 2021			February 1, 2020		
	Debt securities issued by the U.S Government, its various States, municipalities and agencies of each	**Corporate debt securities**	**Total**	Debt securities issued by the U.S Government, its various States, municipalities and agencies of each	Corporate debt securities	Total
Cost basis	$40,701	$85,045	$125,746	$73,116	$127,096	$200,212
Unrealized gains	422	654	1,076	308	1,086	1,394
Unrealized (loss)	—	—	—	—	—	—
Estimated fair value	$41,123	$85,699	$126,822	$73,424	$128,182	$201,606

Accumulated other comprehensive income on the Consolidated Balance Sheets reflects the accumulated unrealized net gains in short-term investments in addition to unrealized gains from equity investments and restricted cash investments. The table below reflects gross accumulated unrealized gains in these investments at January 30, 2021 and February 1, 2020 (in thousands):

	January 30, 2021			February 1, 2020		
Security Type	**Unrealized Gain/(Loss)**	**Deferred Tax Benefit/ (Expense)**	**Unrealized Net Gain/ (Loss)**	Unrealized Gain/ (Loss)	Deferred Tax Benefit/ (Expense)	Unrealized Net Gain/ (Loss)
Short-Term Investments	$1,076	$(250)	$ 826	$1,394	$(323)	$1,071
Equity Investments	429	(100)	329	458	(106)	352
Total	$1,505	$(350)	$1,155	$1,852	$(429)	$1,423

4. Fair Value Measurements:

The following tables set forth information regarding the Company's financial assets that are measured at fair value as of January 30, 2021 and February 1, 2020 (in thousands):

Description	January 30, 2021	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	$ 23,254	$ —	$ 23,254	$ —
Corporate Bonds	67,566	—	67,566	—
U.S. Treasury/Agencies Notes and Bonds	17,869	—	17,869	—
Cash Surrender Value of Life Insurance	11,263	—	—	11,263
Asset-backed Securities (ABS)	16,064	—	16,064	—
Corporate Equities	703	703	—	—
Commercial Paper	2,069	—	2,069	—
Total Assets	$138,788	$703	$126,822	$ 11,263
Liabilities:				
Deferred Compensation	(10,316)	—	—	(10,316)
Total Liabilities	$ (10,316)	$ —	$ —	$(10,316)

Description	February 1, 2020	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	$ 36,014	$ —	$ 36,014	$ —
Corporate Bonds	90,798	—	90,798	—
U.S. Treasury/Agencies Notes and Bonds	37,410	—	37,410	—
Cash Surrender Value of Life Insurance	10,517	—	—	10,517
Asset-backed Securities (ABS)	37,384	—	37,384	—
Corporate Equities	732	732	—	—
Certificates of Deposit	100	100	—	—
Total Assets	$212,955	$832	$201,606	$ 10,517
Liabilities:				
Deferred Compensation	(10,391)	—	—	(10,391)
Total Liabilities	$ (10,391)	$ —	$ —	$(10,391)

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at January 30, 2021. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from two days to 7.5 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from three months to 2.5 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash, Restricted short-term investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at January 30, 2021, the Company had $0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At February 1, 2020, the Company had $0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets.

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

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

The following tables summarize the change in fair value of the Company's financial assets and liabilities measured using Level 3 inputs as of January 30, 2021 and February 1, 2020 (in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)
	Cash Surrender Value
Beginning Balance at February 1, 2020	$ 10,517
Total gains or (losses)	
Included in interest and other income (or changes in net assets)	746
Ending Balance at January 30, 2021	$ 11,263

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)
	Deferred Compensation
Beginning Balance at February 1, 2020	$(10,391)
Additions	1,062
Total (gains) or losses	
Included in interest and other income (or changes in net assets)	(987)
Ending Balance at January 30, 2021	$(10,316)

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)
	Cash Surrender Value
Beginning Balance at February 2, 2019	$ 9,093
Additions	748
Total gains or (losses)	
Included in interest and other income (or changes in net assets)	676
Ending Balance at February 1, 2020	$ 10,517

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)
	Deferred Compensation
Beginning Balance at February 2, 2019	$ (8,908)
Additions	(554)
Total (gains) or losses	
Included in interest and other income (or changes in net assets)	(929)
Ending Balance at February 1, 2020	$(10,391)

5. Accounts Receivable:

Accounts receivable consist of the following (in thousands):

	January 30, 2021	February 1, 2020
Customer accounts — principally deferred payment accounts	**$10,210**	$15,966
Income tax receivable	**33,898**	580
Miscellaneous receivables	**4,596**	4,338
Bank card receivables	**4,644**	5,930
Total	**53,348**	26,814
Less allowance for customer credit losses	**605**	726
Accounts receivable — net	**$52,743**	$26,088

Finance charge and late charge revenue on customer deferred payment accounts totaled $2,658,000, $3,605,000 and $3,814,000 for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019, respectively, and charges against the allowance for customer credit losses were approximately $306,000, $524,000 and $470,000 for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019, respectively. Expenses relating to the allowance for customer credit losses are classified as a component of Selling, general and administrative expense in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

6. Property and Equipment:

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

	January 30, 2021	February 1, 2020
Land and improvements	**$ 13,595**	$ 13,548
Buildings	**35,335**	35,814
Leasehold improvements	**80,874**	89,349
Fixtures and equipment	**198,513**	205,789
Information technology equipment and software	**35,303**	59,202
Construction in progress	**—**	2,334
Total	**363,620**	406,036
Less accumulated depreciation	**291,070**	317,369
Property and equipment — net	**$ 72,550**	$ 88,667

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

7. Accrued Expenses:

Accrued expenses consist of the following (in thousands):

	January 30, 2021	February 1, 2020
Accrued employment and related items	**$ 6,122**	$ 7,756
Property and other taxes	**16,574**	18,515
Accrued self-insurance	**10,994**	10,551
Fixed assets	**343**	2,828
Other	**6,757**	7,449
Total	**$40,790**	$47,099

8. Financing Arrangements:

As of January 30, 2021, the Company had an unsecured revolving credit agreement to borrow $35.0 million less the balance of any revocable credits discussed below. The revolving credit agreement is committed until May 2023. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of January 30, 2021. There were no borrowings outstanding under this credit facility as of January 30, 2021, February 1, 2020 or February 2, 2019. At January 30, 2021, the weighted average interest rate under the credit facility was zero due to no borrowings outstanding at the end of the year.

At January 30, 2021, February 1, 2020 and February 2, 2019, the Company had no outstanding revocable letters of credit relating to purchase commitments.

9. Stockholders' Equity:

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

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

10. Employee Benefit Plans:

The Company has a defined contribution retirement savings plan ("401(k) plan") which covers all associates who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 75% of their annual compensation up to the maximum elective deferral, designated by the IRS. The Company is obligated to make a minimum contribution to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended January 30, 2021, February 1, 2020 and February 2, 2019 were approximately $0, $1,499,000 and $1,442,000, respectively.

The Company has a trusteed, non-contributory Employee Stock Ownership Plan ("ESOP"), which covers substantially all associates who meet minimum age and service requirements. The amount of the Company's discretionary contribution to the ESOP is determined annually by the Compensation Committee of the Board of Directors and can be made in Company Class A Common stock or cash. During fiscal 2020, the Company contributed cash and the plan purchased stock on the open market for the ESOP award earned for fiscal 2019. Due to a net operating loss in fiscal 2020, the Committee did not approve a contribution to the ESOP for the year ended January 30, 2021. The Company's contribution was $7,198,000 and $1,229,000 for the years ended February 1, 2020 and February 2, 2019, respectively.

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

11. Leases:

The Company determines whether an arrangement is a lease at inception. The Company has operating leases for stores, offices and equipment. Its leases have remaining lease terms of one year to 10 years, some of which include options to extend the lease term for up to five years, and some of which include options to terminate the lease within one year. The Company considers these options in determining the lease term used to establish its right-of-use assets and lease liabilities. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As most of the Company's leases do not provide an implicit rate, the Company uses its estimated incremental borrowing rate based on the information available at commencement date of the lease in determining the present value of lease payments.

The components of lease cost are shown below (in thousands):

	Twelve Months Ended	
	January 30, 2021	February 1, 2020
Operating lease cost (a)	**$69,601**	$59,987
Variable lease cost (b)	**$ 1,555**	$ 2,088
ASC 840 prepaid rent expense (c)	**$ —**	$ 6,093

(a) Includes right-of-use asset amortization of ($4.6) million and ($4.9) million for the twelve months ended January 30, 2021 and February 1, 2020, respectively.

(b) Primarily related to monthly percentage rent for stores not presented on the balance sheet.

(c) Related to ASC 840 rent expense due to prepaid rent on the balance sheet as of February 3, 2019.

Supplemental cash flow information and non-cash activity related to the Company's operating leases are as follows (in thousands):

Operating cash flow information:

	Twelve Months Ended	
	January 30, 2021	February 1, 2020
Cash paid for amounts included in the measurement of lease liabilities	**$62,559**	$55,544
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations, net of rent violations	**$58,978**	$63,847

Weighted-average remaining lease term and discount rate for the Company's operating leases are as follows:

	As of	
	January 30, 2021	February 1, 2020
Weighted-average remaining lease term	**2.9 years**	3.2 years
Weighted-average discount rate	**4.06%**	4.47%

Maturities of lease liabilities by fiscal year for the Company's operating leases are as follows (in thousands):

Fiscal Year	
2021	**$ 70,007**
2022	**48,639**
2023	**35,717**
2024	**22,542**
2025	**13,815**
Thereafter	**36,805**
Total lease payments	**227,525**
Less: Imputed interest	**20,789**
Present value of lease liabilities	**$206,736**

12. Income Taxes:

Unrecognized tax benefits for uncertain tax positions, primarily recorded in Other noncurrent liabilities, are established in accordance with ASC 740 when, despite the fact that the tax return positions are supportable, the Company believes these positions may be challenged and the results are uncertain. The Company adjusts these liabilities in light of changing facts and circumstances. As of January 30, 2021, the Company had gross unrecognized tax benefits totaling approximately $5.9 million, of which approximately $7.7 million (inclusive of interest) would affect the effective tax rate if recognized. The Company had approximately $2.8 million, $3.3 million and $3.2 million of interest and penalties accrued related to uncertain tax positions as of January 30, 2021, February 1, 2020 and February 2, 2019, respectively. The Company recognizes interest and penalties related to the resolution of uncertain tax positions as a component of income tax expense. The Company recognized $424,000, $574,000 and $1,023,000 of interest and penalties in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the years ended January 30, 2021, February 1, 2020 and February 2, 2019, respectively. The Company is no longer subject to U.S. federal income tax examinations for years before 2017. In state and local tax jurisdictions, the Company has limited exposure before 2010. During the next 12 months, various state and local taxing authorities' statutes of limitations will expire and certain state examinations may close, which could result in a potential reduction of unrecognized tax benefits for which a range cannot be determined.

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

Fiscal Year Ended	January 30, 2021	February 1, 2020	February 2, 2019
Balances, beginning	**$ 7,942**	$8,485	$ 9,531
Additions for tax positions of the current year	**286**	375	420
Reduction for tax positions of prior years for:			
Settlements during the period	**614**	2	(419)
Lapses of applicable statutes of limitations	**(2,896)**	(920)	(1,047)
Balances, ending	**$ 5,946**	$7,942	$ 8,485

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

Fiscal Year Ended	January 30, 2021	February 1, 2020	February 2, 2019
Current income taxes:			
Federal	**$(31,927)**	$3,321	$ 281
State	**1,842**	96	(359)
Foreign	**1,731**	1,763	1,371
Total	**(28,354)**	5,180	1,293
Deferred income taxes:			
Federal	**1,905**	574	2,064
State	**1,129**	1,556	(767)
Foreign	**(3)**	—	—
Total	**3,031**	2,130	1,297
Total income tax expense (benefit)	**$(25,323)**	$7,310	$2,590

Significant components of the Company's deferred tax assets and liabilities as of January 30, 2021 and February 1, 2020 are as follows (in thousands):

	January 30, 2021	February 1, 2020
Deferred tax assets:		
Allowance for customer credit losses	**$ 131**	$ 156
Inventory valuation	**1,004**	1,105
Non-deductible accrued liabilities	**1,613**	1,286
Other taxes	**1,184**	1,126
Federal benefit of uncertain tax positions	**1,001**	1,065
Equity compensation expense	**4,097**	4,322
Net operating losses	**4,531**	1,574
Charitable contribution carryover	**394**	774
State tax credits	**1,115**	1,160
Lease liabilities	**47,428**	44,170
Other	**2,204**	1,324
Total deferred tax assets before valuation allowance	**64,702**	58,062
Valuation allowance	**(5,256)**	(1,124)
Total deferred tax assets after valuation allowance	**59,446**	56,938
Deferred tax liabilities:		
Property and equipment	**1,480**	545
Accrued self-insurance reserves	**466**	492
Right-of-Use assets	**51,350**	46,724
Other	**465**	541
Total deferred tax liabilities	**53,761**	48,302
Net deferred tax assets	**$ 5,685**	$ 8,636

As of January 30, 2021, the Company had $1.1 million of state tax credits to offset future state income tax expense, which are set to expire by fiscal 2023. Based on the available evidence, the Company has recorded a valuation allowance of $1.1 million.

As of January 30, 2021, the Company had $4.5 million of state net operating loss carryforwards. The Company assessed the likelihood that deferred tax assets related to state net operating loss carryforwards will be realized in light of the adverse impact on the Company's financial statements and operations due to COVID-19. Based on this assessment, the Company concluded that it is more likely than not the Company will not be able to realize net operating losses and, accordingly, has recorded a valuation allowance of $4.2 million for the portion it expects to not be realized.

As of February 1, 2020, the Company's position is that its overseas subsidiaries will not invest undistributed earnings indefinitely. Future unremitted earnings when distributed are expected to be either distributions of GILTI-previously taxed income or eligible for a 100% dividends received deduction. The withholding tax rate on any unremitted earnings is zero and state income taxes on such earnings are considered immaterial. Therefore, the Company has not provided deferred U.S. income taxes on approximately $22.5 million of earnings from non-U.S. subsidiaries.

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

Fiscal Year Ended	January 30, 2021	February 1, 2020	February 2, 2019
Federal income tax rate	**21.0%**	21.0%	21.0%
State income taxes	**4.0**	1.7	1.1
CARES ACT - Carryback differential	**18.3**	—	—
Global intangible low-taxed income	**(5.3)**	5.9	6.2
Foreign tax credit	**—**	(3.7)	(4.0)
Foreign rate differential	**1.2**	(2.5)	(2.6)
Offshore claim	**2.5**	(5.2)	(5.7)
Work opportunity credit	**0.2**	(3.2)	(3.4)
Addback on wage related credits	**—**	0.7	0.7
Tax exempt interest	**—**	(0.2)	(2.4)
Charitable contribution of inventory	**(0.2)**	—	—
Uncertain tax positions	**3.3**	(1.0)	(1.5)
Deferred rate change	**(0.1)**	—	(2.0)
Valuation allowance	**(5.7)**	2.6	—
Other	**(4.4)**	0.8	0.4
Effective income tax rate (1)	**34.8%**	16.9%	7.8%

(1) The income tax rate for year ended January 30, 2021 represents an income tax benefit, while the rate for the years ended February 1, 2020 and February 2, 2019 represent income tax expenses.

The annual effective tax rate for the current fiscal year is impacted by the ability to carryback federal net operating losses due to the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), partially offset by changes in management's judgment regarding the ability to realize deferred tax assets, primarily state income net operating losses generated in the current fiscal year. The Company has factored the realizability of these deferred tax assets generated as a result of projected current year losses into its estimated annual effective rate for the current year. To the extent that actual results and/or events differ from the predicted results, the Company may continue to see effects on the estimated annual effective tax rate in future periods.

Further, the CARES Act allows the Company to carryback losses to 2015; therefore, the Company has recorded $32.6 million of estimated refunds calculated through the fourth quarter of 2020 in Accounts receivable in the Consolidated Balance Sheets.

13. Quarterly Financial Data (Unaudited):

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

Fiscal 2020	First	Second	Third	Fourth
Total revenues	$100,732	$168,170	$150,791	$155,418
Gross profit (exclusive of depreciation)	17,135	35,434	41,387	47,968
Net income (loss)	(28,417)	(7,170)	(3,622)	(8,274)
Basic earnings (loss) per share	$ (1.19)	$ (0.30)	$ (0.15)	$ (0.37)
Diluted earnings (loss) per share	$ (1.19)	$ (0.30)	$ (0.15)	$ (0.37)

Fiscal 2019	First	Second	Third	Fourth
Total revenues	$230,351	$212,581	$191,523	$190,880
Gross profit (exclusive of depreciation)	94,268	82,209	72,899	67,053
Net income (loss)	21,255	11,866	5,985	(3,209)
Basic earnings (loss) per share	$ 0.87	$ 0.48	$ 0.24	$ (0.13)
Diluted earnings (loss) per share	$ 0.87	$ 0.48	$ 0.24	$ (0.13)

14. Reportable Segment Information:

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

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

The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

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

Fiscal 2020	Retail	Credit	Total
Revenues	$572,453	$ 2,658	$575,111
Depreciation	14,680	1	14,681
Interest and other income	6,630	—	6,630
Income (loss) before taxes	(73,972)	1,166	(72,806)
Capital expenditures	13,955	1	13,956
Fiscal 2019	**Retail**	**Credit**	**Total**
Revenues	$821,730	$ 3,605	$825,335
Depreciation	15,484	1	15,485
Interest and other income	6,065	—	6,065
Income (loss) before taxes	41,386	1,821	43,207
Capital expenditures	8,287	19	8,306
Fiscal 2018	**Retail**	**Credit**	**Total**
Revenues	$825,850	$ 3,814	$829,664
Depreciation	16,441	22	16,463
Interest and other income	4,991	—	4,991
Income (loss) before taxes	31,149	1,902	33,051
Capital expenditures	4,315	39	4,354

	Retail	Credit	Total
Total assets as of January 30, 2021	$549,349	$42,103	$591,452
Total assets as of February 1, 2020	636,503	48,473	684,976

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

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

	January 30, 2021	February 1, 2020	February 2, 2019
Payroll	**$ 541**	$ 644	$ 749
Postage	**360**	488	506
Other expenses	**590**	651	635
Total expenses	**$1,491**	$1,783	$1,890

15. Stock Based Compensation:

As of January 30, 2021, the Company had two long-term compensation plans pursuant to which stock-based compensation was outstanding. The 2018 Incentive Compensation Plan and 2013 Incentive Compensation Plan are for the granting of various forms of equity-based awards, including restricted stock and stock options for grant, to officers, directors and key employees. Effective May 24, 2018, shares for grant were no longer available under the 2013 Incentive Compensation Plan.

The following table presents the number of options and shares of restricted stock initially authorized and available for grant under each of the plans as of January 30, 2021:

	2013 Plan	2018 Plan	Total
Options and/or restricted stock initially authorized	1,500,000	4,725,000	6,225,000
Options and/or restricted stock available for grant:			
February 1, 2020	—	4,192,667	4,192,667
January 30, 2021	—	3,961,473	3,961,473

In accordance with ASC 718, the fair value of current restricted stock awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to compensation expense on a straight-line basis over a five-year vesting period. As of January 30, 2021, there was $10,550,000 of total unrecognized compensation expense related to unvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.1 years. The total grant date fair value of the shares recognized as compensation expense during the twelve months ended January 30, 2021, February 1, 2020 and February 2, 2019 was $4,023,000, $4,559,000 and $4,833,000, respectively. The expenses are classified as a component of Selling, general and administrative expenses in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The following summary shows the changes in the shares of unvested restricted stock outstanding during the years ended January 30, 2021, February 1, 2020 and February 2, 2019:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at February 3, 2018	595,179	$30.33
Granted	354,385	16.20
Vested	(139,669)	29.87
Forfeited or expired	(38,044)	24.34
Restricted stock awards at February 2, 2019	771,851	$24.22
Granted	361,170	14.89
Vested	(129,108)	34.44
Forfeited or expired	(61,351)	19.61
Restricted stock awards at February 1, 2020	942,562	$19.55
Granted	335,317	11.11
Vested	(129,682)	34.01
Forfeited or expired	(124,241)	16.37
Restricted stock awards at January 30, 2021	1,023,956	$15.33

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a 15% discount through payroll deductions. During the twelve month period ended January 30, 2021, the Company sold 48,191 shares to employees at an average discount of $1.43 per share under the Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately $69,000, $111,000 and $101,000 for fiscal years 2020, 2019 and 2018, respectively. These expenses are classified as a component of Selling, general and administrative expenses.

16. Commitments and Contingencies:

The Company is, from time to time, involved in routine litigation incidental to the conduct of our business, including litigation regarding the merchandise that we sell, litigation regarding intellectual property, litigation instituted by persons injured upon premises under our control, litigation with respect to various employment matters, including alleged discrimination and wage and hour litigation, and litigation with present or former employees.

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

17. Accumulated Other Comprehensive Income:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of January 30, 2021:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at February 1, 2020	$ 1,423
Other comprehensive income (loss) before reclassification	(1,038)
Amounts reclassified from accumulated other comprehensive income (b)	770
Net current-period other comprehensive income (loss)	(268)
Ending Balance at January 30, 2021	$ 1,155

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

(b) Includes $1,003 impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $233. Amounts in parentheses indicate a debit/reduction to OCI.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of February 1, 2020:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at February 2, 2019	$ (77)
Other comprehensive income (loss) before reclassification	1,224
Amounts reclassified from accumulated other comprehensive income (b)	276
Net current-period other comprehensive income (loss)	1,500
Ending Balance at February 1, 2020	$1,423

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

(b) Includes $359 impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $83. Amounts in parentheses indicate a debit/reduction to OCI.

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

None.

Item 9A. Controls and Procedures:

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of January 30, 2021. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of January 30, 2021, our disclosure controls and procedures, as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934 (the "Exchange Act"), were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of January 30, 2021 based on the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of January 30, 2021.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 30, 2021, as stated in its report which is included herein.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company's fiscal quarter ended January 30, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. ***Other Information:***

On March 24, 2021, the Compensation Committee of the Company approved a discretionary bonus to all associates eligible under the Company's 2018 Incentive Compensation Plan, including the Company's named executive officers. The Committee granted the discretionary bonus to help retain key associates and in recognition of their hard work throughout the unprecedented events of fiscal 2020. The discretionary bonus will equal 20% of the bonus target previously established under the 2018 Incentive Compensation Plan for eligible associates and the named executive officers. The amount of the bonus for the named executive officers is shown below:

Name	Title	Discretionary Bonus
John P. D. Cato	Chairman, President and Chief Executive Officer	$391,839
John R. Howe	Executive Vice President, Chief Financial Officer	$ 69,783
Gordon D. Smith	Executive Vice President, Chief Real Estate and Store Development Officer	$ 54,921

PART III

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

Information contained under the captions "Election of Directors," "Meetings and Committees" and "Corporate Governance Matters" in the Registrant's Proxy Statement for its 2021 annual stockholders' meeting (the "2021 Proxy Statement") is incorporated by reference in response to this Item 10. The information in response to this Item 10 regarding executive officers of the Company is contained in Item 3A, Part I hereof under the caption "Executive Officers of the Registrant."

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

Information contained under the captions "2020 Executive Compensation," "Fiscal Year 2020 Director Compensation," "Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation" in the Company's 2021 Proxy Statement is incorporated by reference in response to this Item.

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

Equity Compensation Plan Information

The following table provides information about stock options outstanding and shares available for future awards under all of the Company's equity compensation plans. The information is as of January 30, 2021.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (1)	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (2)
Equity compensation plans approved by security holders	—	—	3,979,491
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	3,979,491

(1) There are no outstanding stocking options, warrants or stock appreciation rights.

(2) Includes the following:

Under the Company's stock incentive plan, referred to as the 2018 Incentive Compensation Plan, 3,961,473 shares are available for grant. Under this plan, non-qualified stock options may be granted to key associates.

Under the 2013 Employee Stock Purchase Plan, 18,018 shares are available. Eligible associates may participate in the purchase of designated shares of the Company's common stock. The purchase price of this stock is equal to 85% of the lower of the closing price at the beginning or the end of each semi-annual stock purchase period.

Information contained under "Security Ownership of Certain Beneficial Owners and Management" in the 2021 Proxy Statement is incorporated by reference in response to this Item.

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

Information contained under the caption “Certain Relationships and Related Person Transactions,” “Corporate Governance Matters-Director Independence” and “Meetings and Committees” in the 2021 Proxy Statement is incorporated by reference in response to this Item.

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

Information contained under the captions “Ratification of Independent Registered Public Accounting Firm-Audit Fees” and “-Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Service by the Independent Registered Public Accounting Firm” in the 2021 Proxy Statement is incorporated by reference in response to this Item.

PART IV

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

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

(1) Financial Statements:

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

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

Exhibit Number	Description of Exhibit
3.1	Registrant's Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q of the Registrant for the quarter ended May 2, 2020.
3.2	Registrant's Amended and Restated By Laws, incorporated by reference to Exhibit 3.2 to Form 10-Q of the Registrant for the quarter ended May 2, 2020.
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, incorporated by reference to Exhibit 4.1 to Form 10-K of the Registrant for the year ended February 1, 2020.
10.2*	2013 Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed May 31, 2013 (SEC file No. 333-188990).
10.3*	2013 Incentive Compensation Plan, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed May 31, 2013 (SEC file No. 333-188993).
10.4*	2018 Incentive Compensation Plan, incorporated by reference to Exhibit 99.1 to Form S-8 of the Registrant filed June 1, 2018 (SEC file No. 333-225350).
10.5*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Wayland H. Cato, Jr., incorporated by reference to Exhibit 99(c) to Form 8-K of the Registrant filed on July 22, 2003.

Exhibit Number	Description of Exhibit
10.6*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Edgar T. Cato, incorporated by reference to Exhibit 99(d) to Form 8-K of the Registrant filed on July 22, 2003.
10.7*	Retirement Agreement between Registrant and Wayland H. Cato, Jr. dated August 29, 2003 incorporated by reference to Exhibit 10.1 to Form 10-Q of the Registrant for quarter ended August 2, 2003.
10.8*	Retirement Agreement between Registrant and Edgar T. Cato dated August 29, 2003, incorporated by reference to Exhibit 10.2 to Form 10-Q of the Registrant for the quarter ended August 2, 2003.
10.9*	Letter Agreement between the Registrant and John R. Howe dated as of August 28, 2008, incorporated by Reference to Exhibit 99.1 to Form 8-K of the Registrant filed September 3, 2008.
10.10*	Deferred Compensation Plan effective July 28, 2011, incorporated by reference to Exhibit 10.1 to Form 8-K of the Registrant filed on July 19, 2011.
10.11	Credit Agreement, dated as of August 22, 2003, among the Registrant, the guarantors party thereto, the banks party thereto and Branch Banking and Trust Company, as Agent, as amended through and including the Eighth Amendment dated May 24, 2019, incorporated by reference to Exhibit 10.11 to Form 10-K of the Registrant for the year ended February 1, 2020.
10.12	Ninth Amendment dated June 2, 2020, of Credit Agreement, dated as of August 22, 2003, among the Registrant the guarantors party thereto, the banks party thereto and Branch Banking and Trust Company, as Agent, incorporated by reference to Exhibit 10.11 to Form 10-Q of the Registrant for the quarter ended May 2, 2020.
21.1**	Subsidiaries of Registrant.
23.1**	Consent of Independent Registered Public Accounting Firm.
31.1**	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2**	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1**	Section 1350 Certification of Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101.1**	The following materials from Registrant's Annual Report on form 10-K for the fiscal year ended January 30, 2021, formatted in Inline XBRL: (i) Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019; (ii) Consolidated Balance Sheets at January 30, 2021 and February 1, 2020; (iii) Consolidated Statements of Cash Flows for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019; (iv) Consolidated Statements of Stockholders' Equity for the fiscal years ended January 30, 2021, February 1, 2020 and February 2, 2019; and (v) Notes to Consolidated Financial Statements.
104.1	Cover Page Interactive Data File (Formatted in Inline XBRL and contained in the Interactive Data Files submitted as Exhibit 101.1**).

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

** Filed or submitted electronically herewith.

Item 16. ***Form 10-K Summary:***

None.

SIGNATURES

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

The Cato Corporation

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

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

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

Date: March 29, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 29, 2021 by the following persons on behalf of the Registrant and in the capacities indicated:

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

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

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

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

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

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

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

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

/s/ THERESA J. DREW
Theresa J. Drew
(Director)

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

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-230843, 333-225350, 333-188993, 333-188990, and 333-176511) of The Cato Corporation of our report dated March 29, 2021 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 29, 2021

EXHIBIT 31.1

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

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

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

Date: March 29, 2021

/s/ John P. D. Cato

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

EXHIBIT 31.2

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

I, John R. Howe, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Cato Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2021

/s/ John R. Howe

John R. Howe
Executive Vice President
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PERIODIC REPORT

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

1. the Annual Report on Form 10-K of the Company for the annual period ended January 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2021

/s/ John P. D. Cato

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

EXHIBIT 32.2

CERTIFICATION OF PERIODIC REPORT

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

1. the Annual Report on Form 10-K of the Company for the annual period ended January 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2021

/s/ John R. Howe

John R. Howe
Executive Vice President
Chief Financial Officer

Schedule II

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Allowance for Customer Credit Losses(a)	Self Insurance Reserves(b)
Balance at February 3, 2018	$ 1,148	$ 11,623
Additions charged to costs and expenses	897	17,932
Additions (reductions) charged to other accounts	210(c)	214
Deductions	(1,413)(d)	(18,803)
Balance at February 2, 2019	$ 842	$ 10,966
Additions charged to costs and expenses	700	16,687
Additions (reductions) charged to other accounts	188(c)	(635)
Deductions	(1,004)(d)	(16,483)
Balance at February 1, 2020	$ 726	$ 10,535
Additions charged to costs and expenses	435	15,500
Additions (reductions) charged to other accounts	171(c)	(205)
Deductions	(727)(d)	(14,855)
Balance at January 30, 2021	$ 605	$ 10,975

(a) Deducted from trade accounts receivable.

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

(c) Recoveries of amounts previously written off.

(d) Uncollectible accounts written off.