CATO

2011 Annual Report

John P. D. Cato

A Message to Our Shareholders

Cato produced a 10% increase in net income in 2011 to a record level of almost $65 million. It was the Company's second consecutive year with record net income and the fourth consecutive year of strong earnings performance. Throughout this period, our performance has been the result of delivering value to our customers, executing our core strategies and focusing on profitable growth. Although we believe our customers face an uncertain economic road, as we look forward we will continue to grow Cato through our existing concepts and are prepared to accelerate that growth as the economy improves and conditions allow.

In addition to our record net income, the year was marked by the launch of our newest concept – Versona Accessories and other accomplishments such as additional technology investments including a new Merchandise Allocation system and upgrades of various support systems and improvements in our distribution infrastructure to increase efficiency.

Turning to our operating results, the Company's total sales increased 1% to $920.6 million while same-store sales fell 1%. Our net income increased to $64.8 million from $58.9 million in 2010 and earnings per diluted share increased 11% to $2.21 from $2.00. The increases in net income and earnings per diluted share followed a 26% increase in the prior year. The second half of 2011 was very difficult as we dealt with higher merchandise prices due to increased labor and material costs as well as lower demand.

For the year, we opened 38 stores including eight Cato, 20 It's Fashion Metro and our first 10 Versona stores. We relocated four stores and closed 32 stores including the conversion of 13 It's Fashion stores to open an It's Fashion Metro store in the same market.

Our strong performance over the past several years has allowed us to remain debt free with a strong financial base including approximately $245 million in cash and investments. As has long been our practice, we utilize our cash to internally fund new concepts and store development, meet infrastructure needs and provide additional value to long-term shareholders through dividends and share repurchases.

In regard to our infrastructure, we are adding office space to our existing building to support our growth. We are also in the process of reviewing changes to our distribution facilities to allow us to meet our growth plans and distribute goods more efficiently. And, it will help provide the means and space to implement online sales as we develop our e-commerce strategy going forward.

During the year, we increased our dividend 24% to an annualized rate of $.92 per share, one of the highest yields in the retail industry, and repurchased more than 440,000 shares. Between our dividend and share repurchases, we returned more than $36 million to shareholders in 2011.

As I noted, we have used our cash position to internally fund store development and we will continue to do so in 2012. We plan to open 45 new stores for the year and close up to 13 stores including three It's Fashion store conversions in existing markets.

We are working hard to develop opportunities for growth in our Cato concept even with the lack of shopping center development still hindering our typical store growth. We expect to open 15 Cato stores this year and are continuing to test alternative real estate strategies to accelerate growth in our core concept.

We ended the year with 111 It's Fashion Metro stores and we expect 10 of this year's projected openings to be Metro stores including the three conversions. This concept's customer base has been hit hard economically and that negatively impacted sales in 2011. As a result, we have slowed the growth in this concept to a more measured pace until the economy improves. However, we continue to enhance and expand the fashion we offer our customers including further development of exclusive merchandise and identifying additional national brands to differentiate It's Fashion Metro from its competitors and broaden its customer base.

As I mentioned, our first Versona stores opened in 2011. At year end, 10 stores were open and we plan to open an additional 20 stores in 2012. Versona is for every woman that enjoys exclusive fashion jewelry and accessories and a luxury experience at an incredible value. The concept's target customers include higher income levels than the primary customers of our other stores. This allows us to diversify and expand our overall customer base and real estate markets.

Although we have read stories and have seen glimpses of improvement in overall economic conditions and in certain segments of the retail industry, many of our customers remain in a difficult and uncertain situation with slow job growth and the price of gas and food taking an even larger piece of their disposable income. We experienced the impact of this scenario in the second half of 2011 as customers spent less in our stores. We see this trend continuing into 2012. As a Cato shareholder, you can rest assured that, even with these conditions, we will move forward to grow our business, deliver value to customers, operate profitably and generate value for you.

John P. D. Cato

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

The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating three concepts, "Cato", "It's Fashion" and "Versona Accessories". The Company currently operates over 1,288 specialty stores throughout the United States. Cato stores offer exclusive merchandise with updated fashion and quality comparable to mall specialty stores at low prices every day. Cato stores average approximately 4,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market dominant grocery stores. The It's Fashion concept includes both It's Fashion and It's Fashion Metro stores. It's Fashion stores provide junior-inspired fashion apparel and accessories at low prices every day with stores averaging approximately 3,400 square feet. It's Fashion Metro stores are an expanded version of the It's Fashion store with the latest styles for the entire family including urban-inspired, nationally recognized brands at low prices every day. It's Fashion Metro stores average approximately 10,000 square feet. In 2011, the Company introduced the Versona Accessories concept. These stores offer quality fashion jewelry and accessories accented by key apparel items at exceptional values every day. The Company is headquartered in Charlotte, North Carolina.

Financial Highlights

Fiscal Year (Dollars in thousands, except per share data and selected operating data)	**2011**	2010	2009	2008	2007
FOR THE YEAR ENDED					
Retail sales	**$ 920,622**	$ 913,079	$ 872,138	$ 845,676	$ 834,341
Total revenue	**931,458**	924,685	884,001	857,718	846,437
Comparable store sales increase (decrease)	**(1)%**	3%	1%	(1)%	(4)%
Income before income taxes	**100,271**	92,772	66,920	52,610	49,233
Income tax expense	**35,437**	33,921	21,935	18,976	16,914
Net income	**$ 64,834**	$ 58,851	$ 44,985	$ 33,634	$ 32,319
Net income as a percentage of retail sales	**7.0%**	6.4%	5.2%	4.0%	3.9%
Cash dividends paid per share	**$ .875**	$ .720	$ .660	$ .660	$ .645
Basic earnings per share	**$ 2.21**	$ 2.00	$ 1.53	$ 1.14	$ 1.02
Diluted earnings per share	**$ 2.21**	$ 2.00	$ 1.53	$ 1.14	$ 1.02
Stores open at end of year	**1,288**	1,282	1,271	1,281	1,318
Number of stores opened	**38**	37	35	65	62
Number of stores closed	**32**	26	45	102	20
Net increase (decrease) in number of stores	**6**	11	(10)	(37)	42
AT YEAR END					
Cash, cash equivalents, short-term investments and restricted cash	**$ 245,989**	$ 234,851	$ 200,915	$ 144,803	$ 114,578
Working capital	**272,139**	251,523	214,024	164,639	144,114
Current ratio	**2.7**	2.5	2.3	2.1	2.0
Total assets	**551,089**	532,759	492,063	435,353	420,792
Total Stockholders' equity	**366,679**	334,014	298,649	261,813	247,370

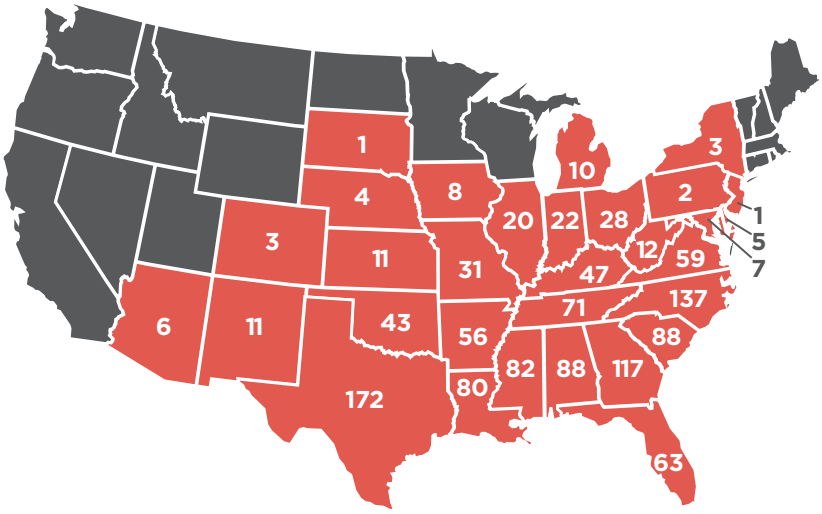
Delivering Fashion and Value to Customers

Cato currently operates three different concepts with almost 1,070 Cato stores, approximately 210 It's Fashion and It's Fashion Metro stores and 10 Versona Accessories stores as of the end of 2011. Each concept targets a different customer base, occupies a unique niche and provides growth opportunities. Across all concepts, the Company focuses on providing fashion and accessories at exceptional values.

The Cato concept provides fashion with great styling, quality and fit at low prices every day. The concept offers a broad assortment of exclusive merchandise under its Cato label. Cato stores average approximately 4,000 square feet.

It's Fashion serves a younger customer with great fashions at low prices every day. It's Fashion Metro is an expanded version of It's Fashion. The larger easy-to-shop stores offer trendy fashions and brands for the entire family at low prices every day. It's Fashion stores average approximately 3,400 square feet while It's Fashion Metro stores are generally 8,000 to 10,000 square feet.

Versona carries fashion jewelry, shoes, handbags, scarves, belts, key apparel items and gifts in 6,000 to 10,000 square feet. Most are our private label products developed both in-house and with outside designers. We have leveraged our product development and sourcing teams to manufacture the merchandise around the world. Versona provides all women a place where they can create their own style, a place for guilt free indulgence.



Total number of stores per state
(at year end)

MANAGEMENT EXECUTIVE GROUP

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

John R. Howe
Executive Vice President,
Chief Financial Officer

Sally J. Almason
Executive Vice President, Merchandising –
Cato and Versona Concepts

Michael T. Greer
Executive Vice President,
Director of Stores

Gordon D. Smith
Executive Vice President,
Chief Real Estate and
Store Development Officer

BOARD OF DIRECTORS

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

Thomas B. Henson [1, 3]
Chief Executive Officer
American Spirit Media, LLC

Bryan F. Kennedy, III [1, 3]
President
Park Sterling Bank

Thomas E. Meckley [3]
Consultant
Agility Recovery Solutions
Retired Partner
Ernst & Young LLP

Bailey W. Patrick [1, 2]
General Manager
Merrifield Patrick Vermillion LLC

D. Harding Stowe [1, 2]
Chairman and
Chief Executive Officer
New South Pizza

Edward I. Weisiger, Jr. [1, 2]
President and
Chief Executive Officer
Carolina Tractor & Equipment Company

1 Member of the Corporate Governance and Nominating Committee
2 Member of the Compensation Committee
3 Member of the Audit Committee

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 28, 2012

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 Class	Name of Exchange on Which Registered
Class A Common Stock	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☑ No ☐

Indicate by check mark, if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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 July 30, 2011, the last business day of the Company's most recent second quarter, was $771,757,291 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of March 27, 2012, there were 27,420,237 shares of Class A Common Stock and 1,743,525 shares of Convertible Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2012 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

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	3 – 7
Item 1A.	Risk Factors	7 – 13
Item 1B.	Unresolved Staff Comments	13
Item 2.	Properties	14
Item 3.	Legal Proceedings	14
Item 3A.	Executive Officers of the Registrant	15
Item 4.	Mine Safety Disclosures	15
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16 – 18
Item 6.	Selected Financial Data	19
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20 – 27
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	27
Item 8.	Financial Statements and Supplementary Data	28 – 55
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	56
Item 9A.	Controls and Procedures	56
Item 9B.	Other Information	56
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	56
Item 11.	Executive Compensation	56
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	57
Item 13.	Certain Relationships and Related Transactions, and Director Independence	57
Item 14.	Principal Accountant Fees and Services	57
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	58 – 66

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 Annual Report on Form 10-K that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Business," "Properties," "Legal Proceedings," "Controls and Procedures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for our fiscal year ending February 2, 2013 ("fiscal 2012") and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "should" and variations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: general economic conditions including, but not limited to, the continuation or worsening of (i) the current adverse or recessionary conditions affecting the U.S. and global economies and consumer spending and (ii) the adverse conditions in the U.S. and global credit and sovereign debt markets; uncertainties regarding the impact of any governmental responses to the foregoing adverse conditions; competitive factors and pricing pressures; our ability to predict fashion trends; consumer apparel and accessory buying patterns; adverse weather conditions; inventory risks due to shifts in market demand; and other factors discussed under "Risk Factors" in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended January 28, 2012 ("fiscal 2011"), 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" (or similar terms), the "Company" or "Cato" include The Cato Corporation and its subsidiaries, except that when used with reference to common stock or other securities described herein and in describing the positions held by management of the Company, such terms include only The Cato Corporation. Our website is located at www.catocorp.com where we make available free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports (including amendments to these reports) filed or furnished pursuant to Section 13(a) or 15(d) under the Securities Exchange Act of 1934. These reports are available as soon as reasonably practicable after we electronically file 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 any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC or New York Stock Exchange regulations. The information contained on our website, www.catocorp.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 the SEC.

PART I

Item 1. *Business:*

General

The Company, founded in 1946, operated 1,288 fashion specialty stores at January 28, 2012, in 31 states, principally in the southeastern United States, under the names "Cato," "Cato Fashions," "Cato Plus," "It's Fashion," "It's Fashion Metro" and "Versona Accessories". The Cato concept seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy, plus sizes and girls sizes 7 to 16. The Cato concept's stores feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the 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 and nationally recognized urban brands for the entire family at low prices every day. In fiscal 2011, the Company introduced the Versona Accessories concept. These stores offer quality fashion jewelry and accessories accented by key apparel items at exceptional values every day. Most of the Company's stores range in size from 4,500 to 10,000 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 10% of retail sales in fiscal 2011. See Note 16 to the Consolidated Financial Statements, "Reportable Segment Information" for a discussion of information regarding the Company's two reportable segments: retail and credit.

Business

The Company's primary objective is to be the leading fashion specialty retailer for fashion and value 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, girls sizes 7 to 16, mens and kids sizes newborn to 7 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 newborns. The Company primarily offers exclusive merchandise with fashion and quality comparable to mall specialty stores at low prices, every day.

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

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

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 1,500 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2011, purchases from the Company's largest vendor accounted for approximately 3% of the Company's total purchases. No other vendor accounted for more than 3% of total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company purchases most of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments. This enables the Company to react to merchandise trends in a more timely fashion. Although a significant portion of the Company's merchandise is manufactured overseas, the Company does not expect that any economic, political 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 — We source a significant portion of our merchandise directly and indirectly from overseas, and 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 generally. See "Risk Factors — Risks Relating To Our Business — 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 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 2011, 2010 and 2009, respectively.

Store Operations

The Company's store operations management team consists of one director of stores, five territorial managers, 17 regional managers and 143 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. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers, assistant managers and sales associates are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

The Company constantly strives to improve its training programs to develop associates. Over 80% of store and field management are promoted from within, allowing the Company to internally staff an expanding store base. The Company has training programs at each level of store operations. New store managers are trained in training stores managed by experienced associates who have achieved superior results in meeting the Company's goals for store sales, payroll expense and shrinkage control. The type and extent of district manager training varies depending on whether the district manager is promoted from within or recruited from outside the Company.

Store Locations

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

All of the Company's stores are leased. Approximately 97% are located in strip shopping centers and 3% in enclosed shopping malls. The Company typically locates stores in strip shopping centers anchored by a national discounter, primarily Wal-Mart Supercenters, or market-dominant grocery stores. The Company's strip center locations provide ample parking and shopping convenience for its customers.

The Company's store development activities consist of opening new stores in new and existing markets and relocating selected existing stores to more desirable locations in the same market area. The following table sets forth information with respect to the Company's development activities since fiscal 2007.

Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
2007	1,276	62	20	1,318
2008	1,318	65	102	1,281
2009	1,281	35	45	1,271
2010	1,271	37	26	1,282
2011	1,282	38	32	1,288

In fiscal 2011 the Company relocated four stores.

The Company expects to open 45 new stores during fiscal 2012. The expected new store openings include 15 Cato stores, 10 It's Fashion Metro stores (including the conversion of approximately 3 existing It's Fashion stores) and 20 Versona Accessories stores. The Company anticipates closing up to 13 stores by year end, including the 3 conversions. In addition, the Company also expects to relocate 15 stores and remodel 10 stores.

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

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 4.8%, 5.2%, and 6.4% of retail sales in fiscal 2011, 2010 and 2009, respectively. The Company's net bad debt expense was 5.3%, 6.6% and 7.4% of credit sales in fiscal 2011, 2010 and 2009, 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 for four weeks, the customer is considered to have defaulted, and the merchandise is returned to the selling floor and again offered for sale, often at a reduced price. All payments made by customers who subsequently default on their layaway purchase are returned to the customer upon request, less the administrative fee and a restocking fee. The Company defers recognition of layaway sales and its related fees to the accounting period when the customer picks up and completely pays for layaway merchandise. Layaway sales represented approximately 4.7% of retail sales in each of the three fiscal years 2011, 2010 and 2009.

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 15 of the Consolidated Financial Statements for information regarding our quarterly results of operations for the last two fiscal years.

Regulation

A variety of laws affect the revolving credit card program offered by the Company. The Credit Card Accountability Responsibility and Disclosure Act of 2009 ("The Act") amended the Truth in Lending Act to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan. The Act contained provisions addressing matters such as change in terms, notices, limits on fees, rate increases, payment allocation and account disclosures. The Act requires creditors to provide consumers with account disclosures that are timely and in a form that is readily understandable. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit lenders from discrimination against any credit applicants, establish guidelines for gathering and evaluating credit information and require written notification when credit is denied. Regulation AA, Unfair or Deceptive Acts or Practices, establishes consumer complaint procedures and defines unfair or deceptive practices in extending credit to consumers. The Federal Trade Commission has adopted or proposed various trade regulation rules dealing with unfair credit and collection practices and the preservation of consumers' claims and defenses. The Company is also subject to the U.S. Patriot Act and the Bank Secrecy Act, which require the Company to monitor account holders and account transactions, respectively. Additionally, the Gramm-Leach-Bliley Act requires the Company to disclose, initially and annually, to its customers, the Company's privacy policy as it relates to a customer's non-public personal information.

Associates

As of January 28, 2012, the Company employed approximately 9,500 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers its associate relations to be good.

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

An investment in our common stock involves numerous types of risks. You should carefully consider the following risk factors, in addition to the other information contained in this report, including the disclosures

under "Forward-looking Information" above in evaluating our Company and any potential investment in our common stock. If any of the following risks or uncertainties occur, our business, financial condition and operating results could be materially and adversely affected, the trading price of our common stock could decline and you could lose all or a part of your investment in our common stock. The risks and uncertainties described in this section are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business operating results and financial condition.

Risks Relating To Our Business:

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

Customer tastes and fashion trends, particularly for women's apparel, are volatile and tend to change rapidly. Our success depends in part upon our ability to consistently anticipate and respond to changing merchandise trends and consumer preferences in a timely manner. Accordingly, any failure by us to anticipate, identify and respond to changing fashion trends could adversely affect consumer acceptance of our merchandise, which in turn could adversely affect our business and our image with our customers. If we miscalculate either the market for our merchandise or our customers' tastes or purchasing habits, we may be required to sell a significant amount of unsold inventory at below average markups over cost, or below cost, which would adversely affect our margins and results of operations.

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. As a result of this competition, including close-out sales and going-out-of-business sales by other women's apparel retailers, we may experience pricing pressures, increased marketing expenditures, as well as loss of market share, which could materially and adversely affect our business, results of operations and financial condition.

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

Extreme changes in weather patterns or natural disasters can influence customer trends and shopping habits. For example, heavy rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect our business. The occurrence or threat of extreme weather patterns, natural disasters, power outages, terrorist acts or other catastrophic events could reduce customer traffic in our stores and likewise disrupt our ability to conduct operations, which could materially and adversely affect us

We source a significant portion of our merchandise directly and indirectly from overseas, and 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. We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. As a result, political instability or other events resulting in the disruption of

trade from other countries, increased security requirements for imported merchandise, or the imposition of additional regulations or changes in duties, quotas, taxes 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. Any of these factors could have a material adverse effect on our business. In addition, increased energy and transportation costs have caused us significant cost increases, and continued increases in these costs or the disruption of the means by which merchandise is transported to us could cause us additional cost increases or interruptions of our supply chain which could be significant. 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. Furthermore, 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 could expose us to operational, quality, competitive, reputational and legal risks. If we were 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.

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 the 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, as well as other factors. Additionally, manufacturers are experiencing 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.

Our costs are affected by foreign currency fluctuations.

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

A continuation or worsening of adverse conditions in the general economic environment or outlook and its related impact on consumer confidence and spending may materially and adversely affect consumer demand for our apparel and accessories and our results of operations.

Consumer spending habits, including spending for our apparel and accessories, are affected by, among other things, prevailing economic conditions, levels of employment, fuel and energy costs, salaries and wage rates and other sources of income, tax rates, home values, consumer net worth, the availability of consumer credit, consumer confidence or consumer perceptions of economic and political conditions or trends. Any perception that adverse conditions in the general economy or credit markets are continuing or worsening may significantly weaken many of these drivers of consumer spending habits. Adverse economic conditions or uncertainties 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, 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.

The failure, disruption or security breach 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. Any disruption in the operation of our information technology systems, or our failure to continue to upgrade or improve such systems could adversely affect our business. Modifications and/or upgrades to our current information technology systems may also disrupt our operations. In addition, any security breach or other problem that results in the unauthorized disclosure of confidential customer information, such as personally identifiable information and payment information, or other confidential information regarding our associates, vendors or other third parties with whom we do business, could adversely affect our standing with these constituents and expose us to the risk of litigation and liability. Any such occurrences could result in reputational damage or loss of business or goodwill and could adversely affect our business, results of operations and financial condition.

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 shutdown or lose significant capacity for any reason, our operations would likely be seriously disrupted. Such problems could occur as the result of any loss, destruction or impairment of our ability to use our distribution center, as well as any broader problem generally affecting the ability to ship goods into 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.

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 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. Centers 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. 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 or cost of space in desirable centers and locations could 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, 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.

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, results, and financial condition.

Our business operations subject us to legal compliance and litigation risks that could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business.

Our operations are subject to federal, state and local laws, rules and regulations and litigation risk. Compliance risks and litigation claims have or may arise in the ordinary course of our business and may include, among other issues, employment issues, commercial disputes, intellectual property issues, product-oriented matters, tax, customer relations and personal injury claims. These matters frequently raise complex factual and legal issues, which are subject to risks and uncertainties and could divert significant management time. 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 affect on our operations and our reputation.

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 assure 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 assure 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 effect our business, financial condition and results of operations.

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

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 impacted by factors beyond our control, such as changes to credit ratings, rates of default, collateral value, discount rates, and strength and quality of market credit and liquidity. 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 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.

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 will 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, and may continue to, increase our compliance costs and place significant strain on our personnel, systems and resources. To satisfy 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 requirements, particularly with new requirements under the Dodd-Frank Act that have yet to be implemented, could significantly increase our compliance costs.

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 are entering into collaborative efforts to converge U.S. Generally Accepted Accounting Principles with International Financial Reporting Standards. These changes in accounting rules or regulations may 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.

Proposed changes to lease accounting standards may require lessees to capitalize operating leases in their financial statements in the future. If adopted, this change will have a major impact on the Company as a retailer with numerous leased locations. Such a change would require Cato to record a significant amount of lease-related assets and liabilities on our balance sheet and make other changes to the recording and classification of lease-related expenses on our statements of income and cash flows. This change could lead to the perception by investors that we are highly leveraged and would change the calculation of numerous financial metrics and measures of our performance and financial condition. This and other future changes to accounting rules or regulations may adversely affect our reported results of operations and financial position.

The Company's ability to successfully integrate new businesses into its existing business, to the extent it enters new lines of business in the future, will affect the Company's financial condition and results of operations.

The Company's long-term business strategy includes 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.

Risks Relating To Our Common Stock:

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

Our business varies with general seasonal trends that are characteristic of the retail apparel industry. As a result, our stores typically generate a higher percentage of our annual net sales and profitability in the first 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.

As of March 27, 2012, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 39% of the voting power of our common stock. As a result, Mr. Cato may be able to control or significantly influence substantially all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. In addition, the concentration of voting power held by Mr. Cato could have the effect of preventing, discouraging or deferring a change in control of the Company, which could depress the market price of our common stock.

Conditions in the stock market, generally or particularly relating to our 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 the common stock to fluctuate, perhaps substantially, including, but not limited to: 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 in the fashion and retail industry; conditions in 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 492,000 square feet located on a 15-acre tract in Charlotte, North Carolina. The Company's automated merchandise handling and distribution activities occupy approximately 418,000 square feet of this building and its general offices and corporate training center are located in the remaining 74,000 square feet. A 60,000 square foot addition to the general offices is to be completed in the fall of 2012. 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.

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.

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

The executive officers of the Company and their ages as of March 27, 2012 are as follows:

Name	Age	Position
John P. D. Cato	61	Chairman, President and Chief Executive Officer
John R. Howe	49	Executive Vice President, Chief Financial Officer
Sally Almason	58	Executive Vice President, General Merchandising Manager — Cato concept
Michael T. Greer	49	Executive Vice President, Director of Stores
Gordon Smith	56	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 currently a director of 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.

Sally Almason has been employed by the Company since 1995. Since November 2010, she has served as Executive Vice President, Merchandising Cato and Versona concepts. From 2009 to 2010, she has served as Executive Vice President, General Merchandise Manager for the Cato concept. From 2004 to 2009, she served as Senior Vice President, General Merchandise Manager for the Cato concept. From 1995 to 2004, she served as Vice President, Divisional Merchandise Manager for the Cato concept.

Michael T. Greer has been employed by the Company since 1985. Since May 2006, he has served as Executive Vice President, Director of Stores of the Company. From November 2004 until May 2006, he served as Senior Vice President, Director of Stores of the Company. From February 2004 until November 2004, he served as Senior Vice President, Director of Stores of the Cato concept. From 2002 to 2003 Mr. Greer served as Vice President, Director of Stores of the It's Fashion concept. From 1999 to 2001 he served as Territorial Vice President of Stores of the Cato concept and from 1996 to 1999 he served as Regional Vice President of Stores of the Cato concept. From 1985 to 1995, Mr. Greer held various store operational positions in the Cato concept.

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. Below is the market range and dividend information for the four quarters of fiscal 2011 and 2010.

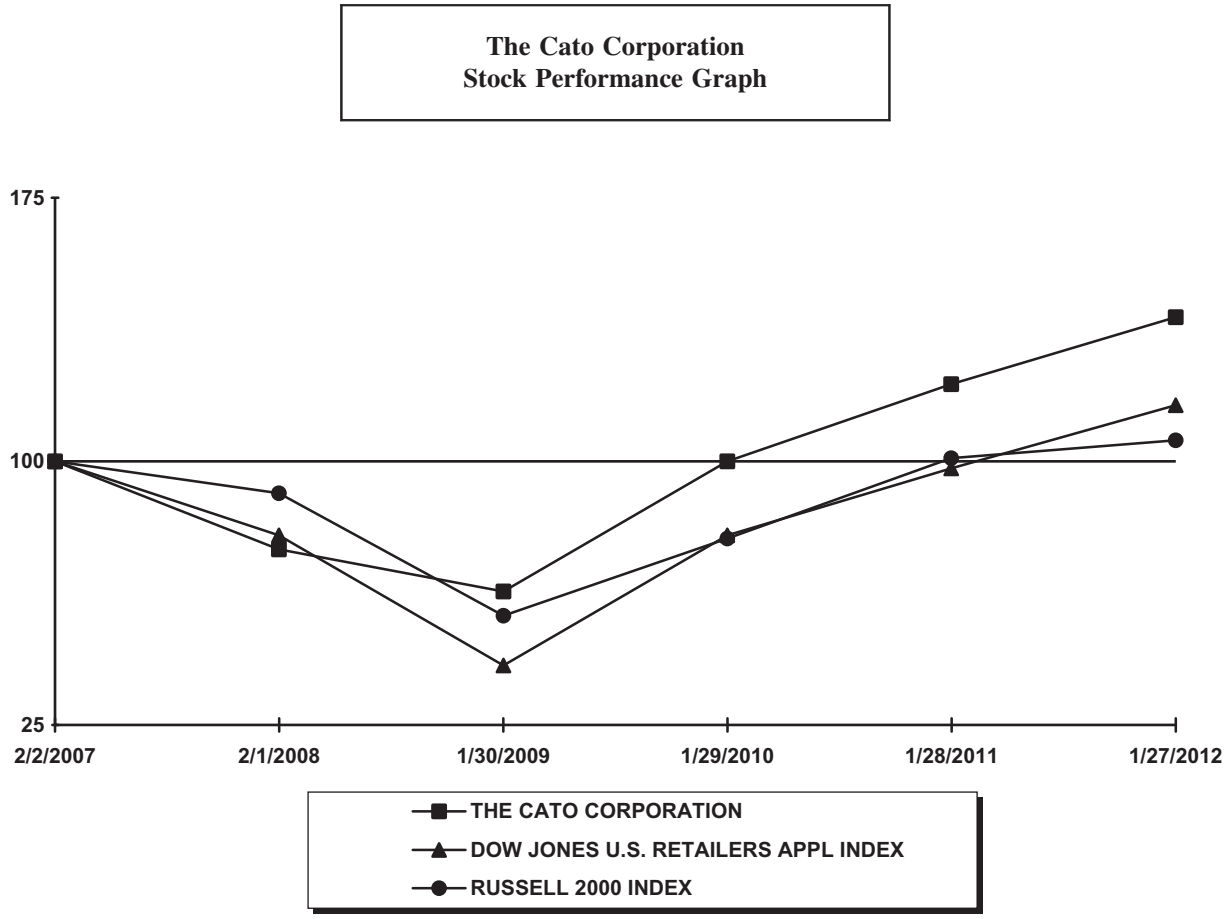
	Price		
2011	**High**	**Low**	**Dividend**
First quarter	$25.64	$23.03	$0.185
Second quarter	30.74	25.11	0.23
Third quarter	28.19	21.98	0.23
Fourth quarter	26.95	22.83	0.23

	Price		
2010	**High**	**Low**	**Dividend**
First quarter	$25.11	$18.70	$ .165
Second quarter	25.21	21.49	.185
Third quarter	28.47	22.27	.185
Fourth quarter	29.60	24.23	.185

As of March 27, 2012 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 PERFOMANCE 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
2/2/2007	100	100	100
2/1/2008	75	79	91
1/30/2009	63	42	56
1/29/2010	100	79	78
1/28/2011	122	98	101
1/27/2012	141	116	106

The graph assumes an initial investment of $100 on February 2, 2007, the last trading day prior to the commencement of the Company's 2007 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 28, 2012:

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 2011	—	$ —	—	
December 2011	877	25.60	877	
January 2012	—	—	—	
Total	877	$25.60	877	1,989,287

(1) Prices include trading costs.

(2) On January 29, 2011, the Company's share repurchase program had 442,942 shares remaining in open authorizations. On August 25, 2011, the Board of Directors authorized an increase in the Company's share repurchase program of two million shares. At fiscal year ending January 28, 2012, the Company had 1,989,287 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 28, 2012 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 three most recent fiscal years are contained elsewhere in this report. All data set forth below are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this annual report.

Fiscal Year(1)	2011	2010	2009	2008	2007
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$920,622**	$913,079	$872,138	$845,676	$834,341
Other income	**10,836**	11,606	11,863	12,042	12,096
Total revenues	**931,458**	924,685	884,001	857,718	846,437
Cost of goods sold (exclusive of depreciation shown below)	**574,176**	563,262	554,055	562,056	572,309
Selling, general and administrative (exclusive of depreciation shown below)	**238,982**	250,763	245,444	227,645	210,892
Selling, general and administrative percent of retail sales	**26.0%**	27.5%	28.1%	26.9%	25.3%
Depreciation	**21,825**	21,822	21,829	22,572	22,212
Interest expense	**21**	37	66	53	9
Interest and other income	**(3,817)**	(3,971)	(4,313)	(7,218)	(8,218)
Income before income taxes	**100,271**	92,772	66,920	52,610	49,233
Income tax expense	**35,437**	33,921	21,935	18,976	16,914
Net income	**$ 64,834**	$ 58,851	$ 44,985	$ 33,634	$ 32,319
Basic earnings per share	**$ 2.21**	$ 2.00	$ 1.53	$ 1.14	$ 1.02
Diluted earnings per share	**$ 2.21**	$ 2.00	$ 1.53	$ 1.14	$ 1.02
Cash dividends paid per share	**$ 0.875**	$ 0.720	$ 0.660	$ 0.660	$ 0.645
SELECTED OPERATING DATA:					
Stores open at end of year	**1,288**	1,282	1,271	1,281	1,318
Average sales per store(2)	**$716,000**	$716,000	$678,000	$640,000	$640,000
Average sales per square foot of selling space	**$ 162**	$ 168	$ 165	$ 162	$ 165
BALANCE SHEET DATA (at period end):					
Cash, cash equivalents, short-term investments and restricted cash	**$245,989**	$234,851	$200,915	$144,803	$114,578
Working capital	**272,139**	251,523	214,024	164,639	144,114
Total assets	**551,089**	532,759	492,063	435,353	420,792
Total stockholders' equity	**366,679**	334,014	298,649	261,813	247,370

(1) Reported results for periods prior to fiscal 2009 have not been restated due to the change in accounting principle. See Note 2 to the Consolidated Financial Statements. The change is not determinable because the information necessary to determine the weighted-average cost using the cost method as of the beginning of that year is no longer available.

(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.

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

Effective January 30, 2011, the Company elected to change its method of accounting for inventory to the weighted average cost method from the retail method. All periods have been retrospectively adjusted to reflect the change. Refer to Note 2, "Change in Accounting Principle" for additional information.

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 28, 2012	As Restated January 29, 2011	As Restated January 30, 2010
Retail sales	**100.0%**	100.0%	100.0%
Other income	**1.2**	1.3	1.4
Total revenues	**101.2**	101.3	101.4
Cost of goods sold	**62.4**	61.7	63.5
Selling, general and administrative	**26.0**	27.5	28.1
Depreciation	**2.4**	2.4	2.5
Interest and other income	**(0.4)**	(0.4)	(0.5)
Income before income taxes	**10.9**	10.2	7.7
Net income	**7.0%**	6.4%	5.2%

Fiscal 2011 Compared to Fiscal 2010

Retail sales increased by 0.8% to $920.6 million in fiscal 2011 compared to $913.1 million in fiscal 2010. The increase in retail sales in fiscal 2011 was largely attributable to sales from store development offset by same store sales decline. Same store sales decreased 1% from fiscal 2010. 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. 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 income (principally finance charges and late fees on customer accounts receivable and layaway fees), increased by 0.7% to $931.5 million in fiscal 2011 compared to $924.7 million in fiscal 2010. The Company operated 1,288 stores at January 28, 2012 compared to 1,282 stores operated at January 29, 2011.

In fiscal 2011, the Company opened 38 new stores, relocated four stores and closed 32 stores.

Other income in total, as included in total revenues in fiscal 2011, decreased to $10.8 million from $11.6 million in fiscal 2010. The decrease resulted primarily from lower credit revenue and finance charges and layaway charges.

Credit revenue of $7.7 million represented 0.8% of total revenue in fiscal 2011, a decrease compared to 2010 credit revenue of $8.5 million or 0.9% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances and regulatory changes. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled $4.4 million in fiscal 2011 compared to $5.4 million in fiscal 2010. The decrease in these expenses was principally due to a reduction in postage expense and bad debt expense of $1.2 million. See Note 16 of the Consolidated Financial Statements for a schedule of credit-related expenses. Total segment credit income before taxes increased $0.1 million from $3.1 million in 2010 to $3.2 million in 2011 due to a decrease in related operating expenses. Total credit income of $3.2 million in 2011 represented 3.2% of total income before taxes of $100.3 million compared to total credit income of $3.1 million in 2010 which represented 3.3% of 2010 total income before taxes.

Cost of goods sold was $574.2 million, or 62.4% of retail sales, in fiscal 2011 compared to $563.3 million, or 61.7% of retail sales, in fiscal 2010. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher procurement costs and store occupancy 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 1.0% to $346.4 million in fiscal 2011 from $349.8 million in fiscal 2010. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses ("SG&A"), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were $239.0 million in fiscal 2011 compared to $250.8 million in fiscal 2010, a decrease of 4.7%. As a percent of retail sales, SG&A was 26.0% compared to 27.5% in the prior year. The overall dollar decrease in SG&A resulted primarily from a decrease in accrued incentive compensation costs and insurance costs partially offset by an increase in payroll costs.

Depreciation expense was $21.8 million in both fiscal 2011 and fiscal 2010. Depreciation expense was flat from period to period because the Company's store count and related investments in store development, as well as its information technology investments, were both relatively stable.

Interest and other income was $3.8 million in fiscal 2011 compared to $4.0 million in fiscal 2010. The decrease was due to lower miscellaneous income, partially offset by increased interest income and gift card breakage income. See Note 3 to the Consolidated Financial Statements for further details.

Income tax expense was $35.4 million, or 3.8% of retail sales in fiscal 2011 compared to $33.9 million, or 3.7% of retail sales in fiscal 2010. The increase resulted from higher pre-tax income partially offset by a reduction in the effective tax rate. The effective tax rate was 35.3% in fiscal 2011 compared to 36.6% in fiscal 2010 primarily as a result of a reduction of a reserve for unrecognized tax benefits from the closing of state income tax audits.

Fiscal 2010 Compared to Fiscal 2009

Retail sales increased by 4.7% to $913.1 million in fiscal 2010 compared to $872.1 million in fiscal 2009. The increase in retail sales in fiscal 2010 was largely attributable to sales from store development and same store sales improvement. Same store sales increased 3% from fiscal 2009. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable and layaway fees), increased by 4.6% to $924.7 million in fiscal 2010 compared to $884.0 million in fiscal 2009. The Company operated 1,282 stores at January 29, 2011 compared to 1,271 stores operated at January 30, 2010.

In fiscal 2010, the Company opened 37 new stores, relocated five stores and closed 26 stores.

Other income in total, as included in total revenues in fiscal 2010, decreased slightly to $11.6 million from $11.9 million in fiscal 2009. The decrease resulted primarily from lower credit revenue and finance charges, partially offset by an increase in layaway charges.

Credit revenue of $8.5 million represented 0.9% of total revenue in fiscal 2010, a decrease compared to 2009 credit revenue of $9.4 million or 1.1% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances and regulatory changes. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled $5.4 million in fiscal 2010 compared to $6.6 million in fiscal 2009. The

decrease in these expenses was principally due to a reduction in postage expense and bad debt expense of $906,000. See Note 16 of the Consolidated Financial Statements for a schedule of credit-related expenses. Total segment credit income before taxes increased $0.2 million from $2.9 million in 2009 to $3.1 million in 2010 due to a decrease in related operating expenses. Total credit income of $3.1 million in 2010 represented 3.3% of total income before taxes of $92.8 million compared to total credit income of $2.9 million in 2009 which represented 4.3% of 2009 total income before taxes.

Cost of goods sold was $563.3 million, or 61.7% of retail sales, in fiscal 2010 compared to $554.1 million, or 63.5% of retail sales, in fiscal 2009. The decrease in cost of goods sold as a percent of retail sales resulted primarily from lower procurement costs and reduced markdowns. Total gross margin dollars (retail sales less cost of goods sold) increased by 10.0% to $349.8 million in fiscal 2010 from $318.0 million in fiscal 2009. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses (SG&A), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were $250.8 million in fiscal 2010 compared to $245.4 million in fiscal 2009, an increase of 2.2%. As a percent of retail sales, SG&A was 27.5% compared to 28.1% in the prior year. The overall dollar increase in SG&A resulted primarily from an increase in salary expenses driven by store development and workers' compensation expense, partially offset by a reduction in store closing costs.

Depreciation expense was $21.8 million in both fiscal 2010 and fiscal 2009. Depreciation expense was flat from period to period because the Company's store count and related investments in store development, as well as its information technology investments, were both relatively stable.

Interest and other income was $4.0 million in fiscal 2010 compared to $4.3 million in fiscal 2009. The decrease was due to lower interest income due to reduced interest rates. See Note 3 to the Consolidated Financial Statements for further details.

Income tax expense was $33.9 million, or 3.7% of retail sales in fiscal 2010 compared to $21.9 million, or 2.5% of retail sales in fiscal 2009. The increase resulted from higher pre-tax income in conjunction with an increase in the effective tax rate. The effective tax rate was 36.6% in fiscal 2010 compared to 32.8% in fiscal 2009 primarily as a result of the favorable resolution of various state income tax matters in the prior year.

Off-Balance Sheet Arrangements

Other than operating leases in the ordinary course of business, the Company is not a party to any off-balance sheet arrangements.

Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company's financial statements in conformity with generally accepted accounting principles 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 doubtful accounts receivable, reserves relating to self-insured health insurance, workers' compensation, general and auto insurance liabilities, inventory shrinkage, uncertain tax positions, and the calculation of potential asset impairment.

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

Allowance for Doubtful Accounts

The Company evaluates the collectibility of accounts receivable and records an allowance for doubtful accounts based on 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 significantly impacted by changes in bad debt write-off experience and the aging of the accounts receivable portfolio.

Merchandise Inventories

The Company's inventory is valued using the weighted-average cost method and is stated at the lower of cost or market. 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.

Effective with the first quarter of fiscal 2011, the Company elected to change its inventory valuation method from the retail method to the weighted-average cost method. Refer to Note 2, "Change in Accounting Principle" for additional information.

Lease Accounting

The Company recognizes rent expense on a straight-line basis over the lease term as defined in ASC 840—*Leases.* Our lease agreements generally provide for scheduled rent increases during the lease term or rent holidays, including rental payments commencing at a date other than the date of initial occupancy. We include any rent escalation and rent holidays in our straight-line rent expense. In addition, we record landlord allowances for normal tenant improvements as deferred rent, which is included in other noncurrent liabilities in the consolidated balance sheets. This deferred rent is amortized over the lease term as a reduction of rent expense. Also, leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related lease term. See Note 1 to the Consolidated Financial Statements for further information on the Company's accounting for its leases.

Impairment of Long-Lived Assets

The Company primarily invests in property and equipment in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its assets, recording an impairment charge, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. In addition, the Company regularly evaluates its computer-related and other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Insurance Liabilities

The Company is primarily self-insured for health care, workers' compensation and general liability costs. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management

reviews current and historical claims data in developing its estimates. The Company also uses information provided by outside actuaries with respect to health care, workers' compensation and general liability claims. If the underlying facts and circumstances of the claims change or the historical experience upon which insurance provisions are recorded is not indicative of future trends, then the Company may be required to make adjustments to the provision for insurance costs that could be material to the Company's reported financial condition and results of operations. Historically, actual results have not significantly deviated from estimates.

Uncertain Tax Positions

The Company records liabilities for uncertain tax positions principally related to state income taxes as of the balance sheet date. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax codes, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant 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.

Revenue Recognition

While the Company's recognition of revenue is predominantly derived from routine retail transactions and does not involve significant judgment, revenue recognition represents an important accounting policy of the Company. As discussed in Note 1 to the Consolidated Financial Statements, the Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales are also recorded when the customer takes possession of the merchandise. Gift cards 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 product returns based on sales volumes and the Company's experience; actual returns have not varied materially from amounts provided historically.

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

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

Liquidity, Capital Resources and Market Risk

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during fiscal 2011 was $81.3 million as compared to $79.5 million in fiscal 2010. These amounts have enabled the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and selective repurchases of the Company's common stock. In addition, the Company maintains $35.0 million of unsecured revolving credit facilities for short-term financing of seasonal cash needs, none of which was outstanding at January 28, 2012.

Cash provided by operating activities for these periods was primarily generated by earnings adjusted for depreciation, deferred taxes, and changes in working capital. The increase of $1.8 million for fiscal 2011 over fiscal 2010 is primarily due to an increase in net income and a decrease in merchandise inventories, partially offset by a decrease in accounts payable, accrued bonus and benefits and deferred income tax expense.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures, dividends and other operating requirements for fiscal 2012 and for the foreseeable future.

At January 28, 2012, the Company had working capital of $272.1 million compared to $251.5 million at January 29, 2011. Additionally, the Company had $2.0 million and $2.4 million invested in privately managed investment funds and other miscellaneous equities for fiscal years 2011 and 2010, respectively, which are reported under Other assets in the Consolidated Balance Sheets.

At January 28, 2012, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to $35.0 million. The revolving credit agreement is committed until August 2013. 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 28, 2012. There were no borrowings outstanding under this credit facility during the fiscal year ended January 28, 2012 or the fiscal year ended January 29, 2011.

The Company had approximately $2.3 million and $7.2 million at January 28, 2012 and January 29, 2011, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled $35.9 million, $19.6 million and $10.0 million in fiscal 2011, 2010 and 2009, respectively. The expenditures for fiscal 2011 were primarily for store development, investments in new technology and the general office expansion. In fiscal 2012, the Company is planning to invest approximately $58.9 million in capital expenditures. This includes expenditures to open 15 new Cato stores, 10 new It's Fashion Metro stores including the conversion of up to 3 It's Fashion stores to It's Fashion Metro stores, 20 new Versona Accessories stores, the relocation of 15 Cato stores and the remodeling of 10 Cato stores. In addition, the Company has planned for additional investments in technology, the completion of the general office addition, the renovation of the current office space and the proposed distribution center expansion all to be implemented or begun over the next 12 months.

Net cash used in investing activities totaled $59.7 million for fiscal 2011 compared to $55.7 million used for the comparable period of 2010. The increase was due primarily to an increase in expenditures for property and equipment partially offset by a reduction in cash outflows related to short-term investments.

On May 26, 2011, the Board of Directors increased the quarterly dividend by 24% from $.185 per share to $.23 per share.

The Company does not use derivative financial instruments.

See Note 5, "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 tax exempt variable rate demand notes ("VRDN"), corporate bonds and governmental debt securities held in managed funds with underlying ratings of A or better at both January 28, 2012 and January 29, 2011. The underlying securities have contractual maturities which generally range from 4 days to 29 years. Although the Company's investments in VRDN's have underlying securities with contractual maturities longer than one year, the VRDN's themselves have interest rate resets of 7 days and are considered short-term investments. These securities are classified as available-for-sale and are recorded as short-term investments in the accompanying Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in accumulated other comprehensive income.

Additionally, at January 28, 2012, the Company had $1.6 million of privately managed funds, $0.4 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction. All of these assets are recorded within Other assets in the Consolidated Balance Sheets. At January 29, 2011, the Company had $1.9 million of privately managed funds, $0.5 million of corporate equities, and a single ARS of $3.5 million, all of 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.

The Company's failed ARS is recorded at par value which approximates fair value using Level 3 inputs. Because there is no active market for this particular ARS, its fair value was determined through the use of a discounted cash flow analysis. The terms used in the analysis were based on management's estimate of the timing of future liquidity, which assumes that the security will be called or refinanced by the issuer or settled with a broker dealer prior to maturity. The discount rates used in the discounted cash flow analysis were based on market rates for similar liquid tax exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the Company also considered a liquidity/risk value reduction. In estimating the fair value of this ARS, the Company also considered the financial condition and near-term prospects of the issuer, the probability that the Company will be unable to collect all amounts due according to the contractual terms of the security and whether the security has been downgraded by a rating agency. The Company's valuation is sensitive to market conditions and management's judgment and can change significantly based on the assumptions used.

The Company's privately managed funds consist of two types of funds. The privately managed funds cannot be redeemed at net asset value at a specific date without advance notice. As a result, the Company has classified the investments as Level 3.

The following table shows the Company's obligations and commitments as of January 28, 2012, to make future payments under noncalcellable contractual obligations (in thousands):

	Payments Due During One Year Fiscal Period Ending						
Contractual Obligations	**Total**	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Merchandise letters of credit	$ 2,302	$ 2,302	$ —	$ —	$ —	$ —	$ —
Operating leases	159,578	60,634	42,804	26,777	18,202	9,977	1,184
Total Contractual Obligations	$161,880	$62,936	$42,804	$26,777	$18,202	$9,977	$1,184

(1) In addition to the amounts shown in the table above, $8.7 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 14, Income Taxes, of the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

In January 2011, the Company adopted accounting guidance regarding changes to disclosure requirements for fair value measurements. For fair value measurements using significant unobservable inputs (Level 3), the guidance requires a reporting entity to present separate information about gross purchases, sales, issuances and settlements. The adoption of this guidance did not have a significant impact on the consolidated financial statement disclosures.

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In December 2011, the FASB issued a deferral of a portion of this new guidance, specifically, the requirement to present

reclassifications of other comprehensive income on the face of the income statement. The provisions of this new guidance are effective for the Company the first quarter of fiscal 2012. The adoption of this guidance is not expected to have any effect on operating results or financial position.

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

The Company is subject to market rate risk from exposure to changes in interest rates based on its financing, investing and cash management.

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

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

	Page
Report of Independent Registered Public Accounting Firm	29
Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	30
Consolidated Balance Sheets at January 28, 2012 and January 29, 2011	31
Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	32
Consolidated Statements of Stockholders' Equity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	33
Notes to Consolidated Financial Statements	34
Schedule II — Valuation and Qualifying Accounts for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	67

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of The Cato Corporation and its subsidiaries at January 28, 2012 and January 29, 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index and appearing on page S-2 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2011, the Company changed its method of accounting for merchandise inventories.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Charlotte, North Carolina
March 27, 2012

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Fiscal Year Ended		
		As Restated (Note 2)	
	January 28, 2012	January 29, 2011	January 30, 2010
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	**$920,622**	$913,079	$872,138
Other income (principally finance charges, late fees and layaway charges)	**10,836**	11,606	11,863
Total revenues	**931,458**	924,685	884,001
COSTS AND EXPENSES, NET			
Cost of goods sold (exclusive of depreciation shown below)	**574,176**	563,262	554,055
Selling, general and administrative (exclusive of depreciation shown below)	**238,982**	250,763	245,444
Depreciation	**21,825**	21,822	21,829
Interest expense	**21**	37	66
Interest and other income	**(3,817)**	(3,971)	(4,313)
	831,187	831,913	817,081
Income before income taxes	**100,271**	92,772	66,920
Income tax expense	**35,437**	33,921	21,935
Net income	**$ 64,834**	$ 58,851	$ 44,985
Basic earnings per share	**$ 2.21**	$ 2.00	$ 1.53
Diluted earnings per share	**$ 2.21**	$ 2.00	$ 1.53
Dividends per share	**$ 0.875**	$ 0.720	$ 0.660
Comprehensive income:			
Net income	**$ 64,834**	$ 58,851	$ 44,985
Unrealized gains (losses) on available-for-sale securities, net of deferred income tax liability or benefit	**660**	(258)	121
Comprehensive income	**$ 65,494**	$ 58,593	$ 45,106

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 28, 2012	As Restated (Note 2) January 29, 2011
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 34,893**	$ 48,630
Short-term investments	**205,771**	181,395
Restricted cash and short-term investments	**5,325**	4,826
Accounts receivable, net of allowance for doubtful accounts of $2,362 at January 28, 2012 and $2,985 at January 29, 2011	**43,024**	39,703
Merchandise inventories	**130,382**	144,028
Deferred income taxes	**3,579**	3,660
Prepaid expenses	**6,158**	3,199
Total Current Assets	**429,132**	425,441
Property and equipment — net	**115,445**	99,773
Other assets	**6,512**	7,545
Total Assets	**$551,089**	$532,759
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 94,073**	$103,898
Accrued expenses	**37,584**	35,318
Accrued bonus and benefits	**10,192**	22,841
Accrued income taxes	**15,144**	11,861
Total Current Liabilities	**156,993**	173,918
Deferred income taxes	**7,887**	9,540
Other noncurrent liabilities (primarily deferred rent)	**19,530**	15,287
Commitments and contingencies	**—**	—
Stockholders' Equity:		
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**—**	—
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; 27,418,884 and 27,758,123 shares issued at January 28, 2012 and January 29, 2011, respectively	**914**	925
Convertible Class B common stock, $.33 par value per share, 15,000,000 shares authorized; 1,743,525 shares issued at January 28, 2012 and January 29, 2011	**58**	58
Additional paid-in capital	**72,030**	68,537
Retained earnings	**292,741**	264,218
Accumulated other comprehensive income	**936**	276
Total Stockholders' Equity	**366,679**	334,014
Total Liabilities and Stockholders' Equity	**$551,089**	$532,759

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

		As Restated (Note 2)	
	January 28, 2012	January 29, 2011	January 30, 2010
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	**$ 64,834**	$ 58,851	$ 44,985
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**21,825**	21,822	21,829
Provision for doubtful accounts	**1,723**	2,827	3,643
Share-based compensation	**2,559**	2,341	2,063
Excess tax benefits from share-based compensation	**(417)**	(468)	(201)
Deferred income taxes	**(1,944)**	4,531	113
Loss on disposal of property and equipment	**743**	733	1,624
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**(5,044)**	(2,376)	339
Merchandise inventories	**13,646**	(14,380)	(4,304)
Prepaid and other assets	**(1,968)**	10	1,072
Accrued income taxes	**3,700**	1,389	(365)
Accounts payable, accrued expenses and other liabilities	**(18,316)**	4,196	13,891
Net cash provided by operating activities	**81,341**	79,476	84,689
INVESTING ACTIVITIES			
Expenditures for property and equipment	**(35,890)**	(19,559)	(9,960)
Purchases of short-term investments	**(109,098)**	(144,630)	(162,957)
Sales of short-term investments	**85,796**	110,778	108,287
Change in restricted cash and short-term investments	**(499)**	(2,251)	6,514
Net cash used in investing activities	**(59,691)**	(55,662)	(58,116)
FINANCING ACTIVITIES			
Dividends paid	**(25,715)**	(21,216)	(19,481)
Repurchase of stock	**(10,622)**	(5,863)	(49)
Proceeds from employee stock purchase plan	**488**	436	412
Excess tax benefits from share-based compensation	**417**	468	201
Proceeds from stock options exercised	**45**	606	467
Net cash used in financing activities	**(35,387)**	(25,569)	(18,450)
Net increase (decrease) in cash and cash equivalents	**(13,737)**	(1,755)	8,123
Cash and cash equivalents at beginning of year	**48,630**	50,385	42,262
Cash and cash equivalents at end of year	**$ 34,893**	$ 48,630	$ 50,385

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	Treasury Stock	Total Stockholders' Equity
	(Dollars in thousands)						
Balance — January 31, 2009	$1,210	$58	$61,608	$ 354,333	$ 413	$(155,809)	$261,813
Restatement for accounting principle (Note 2)	—	—	—	8,117	—	—	8,117
Comprehensive income:							
Net income (As Restated)	—	—	—	44,985	—	—	44,985
Unrealized gains on available-for-sale securities, net of)deferred income tax liability of $37	—	—	—	—	121	—	121
Dividends paid ($.66 per share)	—	—	—	(19,481)	—	—	(19,481)
Class A common stock sold through employee stock purchase plan — 27,051 shares	1	—	483	—	—	—	484
Class A common stock sold through stock option plans — 43,600 shares	2	—	535	—	—	—	537
Class A common stock issued through restricted stock grant plans 130,916 shares	4	—	1,879	38	—	—	1,921
Windfall tax benefit from equity compensation plans		—	201		—	—	201
Repurchase of treasury shares — 2,569 shares		—	—		—	(49)	(49)
Retirement of treasury shares — 8,662,902 shares	(289)	—	—	(155,569)	—	155,858	—
Balance — January 30, 2010	928	58	64,706	232,423	534	—	298,649
Comprehensive income:							
Net income (As Restated)	—	—	—	58,851	—	—	58,851
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of ($112)	—	—	—		(258)	—	(258)
Dividends paid ($.72 per share)	—	—	—	(21,216)	—	—	(21,216)
Class A common stock sold through employee stock purchase plan — 23,849 shares	1	—	512	—	—	—	513
Class A common stock sold through stock option plans — 42,675 shares	1	—	739	—	—	—	740
Class A common stock issued through restricted stock grant plans 109,291 shares	4	—	2,299	13	—	—	2,316
Windfall tax benefit from equity compensation plans		—	281	—	—	—	281
Repurchase of treasury shares — 260,277 shares	(9)	—	—	(5,854)	—	—	(5,863)
Balance — January 29, 2011	925	58	68,537	264,217	276	—	334,013
Comprehensive income:							
Net income	—	—	—	64,834	—	—	64,834
Unrealized gains on available-for-sale securities, net of deferred income tax liability of $406	—	—	—	—	660	—	660
Dividends paid ($.875 per share)	—	—	—	(25,715)	—	—	(25,715)
Class A common stock sold through employee stock purchase plan — 23,975 shares	1	—	571	—	—	—	572
Class A common stock sold through stock option plans — 4,875 shares	—	—	290	—	—	—	290
Class A common stock issued through restricted stock grant plans 85,556 shares	3	—	2,459	12	—	—	2,474
Windfall tax benefit from equity compensation plans	—	—	173		—	—	173
Repurchase of treasury shares — 453,655 shares	(15)	—	—	(10,607)	—	—	(10,622)
Balance — January 28, 2012	$ 914	$58	$72,030	$ 292,741	$ 936	$ —	$366,679

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 Accessories" and are located primarily in strip shopping centers principally in the southeastern United States. The Company's fiscal year ends on the Saturday nearest January 31.

Change in Accounting Principle: The Company elected to change its method of accounting for inventory to the weighted average cost method from the retail method. Refer to Note 2, "Change in Accounting Principle" for additional information.

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 doubtful accounts receivable, reserves relating to self-insured health insurance, workers' compensation liabilities, general and auto insurance liabilities, inventory shrinkage, uncertain tax positions, and the calculation of asset impairment.

Cash and Cash Equivalents and Short-Term Investments: Cash equivalents consist of highly liquid investments with original maturities of three months or less. Investments with original maturities beyond three months are classified as short-term investments. See Note 5 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. 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.

In addition, the Company has $5.3 million in escrow at January 28, 2012 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 short-term investments on the Consolidated Balance Sheets.

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

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 were approximately $34,290,000, $27,615,000 and $23,753,000, respectively.

Inventories: Merchandise inventories are stated at the lower of cost or market as determined by the weighted-average cost method. The Company changed its method of accounting for inventory effective January 30, 2011. Refer to Note 2, "Change in Accounting Principle" for additional information.

Property and Equipment: Property and equipment are recorded at cost. 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

Impairment of Long-Lived Assets

The Company invests in property 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 assets, recording an impairment charge, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. Store asset impairment charges incurred in fiscal 2011, 2010 and 2009 were $254,000, $351,000 and $689,000, respectively. In addition, the Company regularly evaluates its computer-related and other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Leases

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

For construction allowances, the Company records a deferred rent liability in Other noncurrent liabilities on the Consolidated Balance Sheets and amortizes the deferred rent over the term of the respective lease as a reduction to Cost of goods sold on the Consolidated Statements of Income and Comprehensive Income.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases.

Revenue Recognition

The Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales are also recorded when the customer takes possession of the merchandise. Gift cards 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 amounts provided historically.

In fiscal 2011, 2010 and 2009, the Company recognized $470,000, $391,000 and $302,000, respectively, of income on unredeemed gift cards ("gift card breakage") as a component of Other income on the Consolidated Statements of Income and Comprehensive Income. Gift card breakage is determined after 60 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions.

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

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

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

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately $7,056,000, $6,663,000 and $6,406,000 for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively.

Stock Repurchase Program: In September 2009, the Company retired all of its shares of treasury stock. The excess of the purchase price over par value of common stock of approximately $155.6 million was charged to retained earnings upon retirement of the treasury stock. Prior to this retirement, the Company repurchased

2,569 shares at a cost of $48,811 for fiscal 2009. For fiscal 2010, the Company purchased and retired 260,000 shares at a cost of $5.9 million. The Company purchased and retired 453,655 shares for approximately $10.6 million or an average cost of $23.41 per share in fiscal 2011. On August 25, 2011, the Board of Directors authorized an increase in the Company's share repurchase program of 2,000,000 shares. As of January 28, 2012, 1,989,287 shares remain in open repurchase authorizations.

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. 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.

	Fiscal Year Ended		
		As Restated	
	January 28, 2012	January 29, 2011	January 30, 2010
Basic earnings per share:			
Net earnings	**$ 64,834**	$ 58,851	$ 44,985
Earnings allocated to non-vested equity awards	**(1,016)**	(989)	(643)
Net earnings available to common stockholders	**$ 63,818**	$ 57,862	$ 44,342
Basic weighted average common shares outstanding	**28,896,355**	28,985,627	29,036,549
Basic earnings per share	**$ 2.21**	$ 2.00	$ 1.53
Diluted earnings per share:			
Net earnings	**$ 64,834**	$ 58,851	$ 44,985
Earnings allocated to non-vested equity awards	**(1,016)**	(989)	(642)
Net earnings available to common stockholders	**$ 63,818**	$ 57,862	$ 44,343
Basic weighted average common shares outstanding	**28,896,355**	28,985,627	29,036,549
Dilutive effect of stock options and restricted stock	**4,930**	6,692	18,203
Diluted weighted average common shares outstanding	**28,901,285**	28,992,319	29,054,752
Diluted earnings per share	**$ 2.21**	$ 2.00	$ 1.53

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 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 earnings before 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.

Closed Store Lease Obligations: At the time stores are closed, provisions are made for the rentals required to be paid over the remaining lease terms on a discounted cash flow basis, reduced by any expected sublease rentals.

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 $300,000 for employee healthcare, $350,000 for workers' compensation and $250,000 for general liability.

The Company directly funds employee health claims to a disbursement account maintained by a third party provider. Contributions to the third party provider account in fiscal 2011 and 2010 were $14,248,000 and $14,968,000, respectively. The health care liability (a component of Accrued expenses on the Consolidated Balance Sheets) was $1,393,000 and $1,488,000, at January 28, 2012 and January 29, 2011, respectively.

The Company paid workers' compensation and general liability claims of $4,204,000, $4,069,000 and $3,049,000 in fiscal years 2011, 2010 and 2009, respectively. Including claims incurred, but not yet paid, the Company recognized an expense of $5,062,000, $6,607,000 and $4,003,000 in fiscal 2011, 2010 and 2009, respectively. Accrued workers' compensation and general liabilities (a component of Accrued expenses on the Consolidated Balance Sheets) were $6,332,000 and $6,519,000 at January 28, 2012 and January 29, 2011, respectively. At January 28, 2012 and January 29, 2011, the Company had no standby letters of credit for the benefit of its current workers' compensation and general liability insurance carrier relating to claims incurred during 2011 and 2010.

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.

Recent Accounting Pronouncements

In January 2011, the Company adopted accounting guidance regarding changes to disclosure requirements for fair value measurements. For fair value measurements using significant unobservable inputs (Level 3), the guidance requires a reporting entity to present separate information about gross purchases, sales, issuances and settlements. The adoption of this guidance did not have a significant impact on the consolidated financial statement disclosures.

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in other comprehensive income. The new accounting guidance requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In December 2011, the FASB issued a deferral of a portion of this new guidance, specifically, the requirement to present reclassifications of other comprehensive income on the face of the income statement. The provisions of this new guidance are effective for the Company the first quarter of fiscal 2012. The adoption of this guidance is not expected to have any effect on operating results or financial position.

2. Change in Accounting Principle

The Company elected to change its method of accounting for inventory to the weighted average cost method from the retail method effective January 30, 2011. In accordance with ASC 250 *Accounting Changes and Error Correction,* all periods have been retrospectively adjusted to reflect the period-specific effects of the change to the weighted average cost method. The Company believes that the weighted average cost method better matches cost of sales with related sales, as well as having an inventory valuation that more closely reflects the acquisition cost of inventory by valuing inventory on a unit basis versus the product department level under the retail method. The cumulative adjustment as of February 1, 2009, was an increase in inventory of $13,667,000 and an increase in retained earnings of $8,117,000.

Additionally, the Company changed the classification for certain balance sheet items to conform to the 2011 presentation. This change in classification reduced accounts payable and inventory by $1,628,000 as of January 29, 2011 and $653,000 as of January 30, 2010.

In addition, the Company changed the classification of certain prior year income statement items to conform to the 2011 presentation. The change had no effect on net income; however, it did decrease retail sales by $288,000, cost of goods sold by $245,000 and selling, general and administrative expense by $43,000 for the three months ended January 29, 2011. The change also reduced retail sales by $843,000, cost of goods sold by $485,000 and selling, general and administrative expense by $358,000 for the twelve months ended January 29, 2011 Additionally, the change increased retail sales by $6,000 and cost of goods sold by $45,000 and decreased selling general and administrative costs by $39,000 for the twelve months ended January 30, 2010.

As a result of this retrospective application of the change in accounting principle and the change in the classification of the Balance Sheet, the following items in the Company's Consolidated Balance Sheets have been adjusted:

	January 29, 2011 (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Merchandise inventories	$132,020	$12,008	$144,028
Deferred income taxes	5,001	(1,341)	3,660
Total Current Assets	414,774	10,667	425,441
Total Assets	522,092	10,667	532,759
Accounts payable	105,526	(1,628)	103,898
Total Current Liabilities	175,546	(1,628)	173,918
Deferred income taxes	5,695	3,845	9,540
Retained earnings	255,768	8,450	264,218
Total Stockholders' Equity	325,564	8,450	334,014
Total Liabilities and Stockholders' Equity	$522,092	$10,667	$532,759

	January 30, 2010 (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Merchandise inventories	$118,628	$11,019	$129,647
Deferred income taxes	7,812	54	7,866
Total Current Assets	370,767	11,073	381,840
Total Assets	480,990	11,073	492,063
Accounts payable	103,627	(653)	102,974
Total Current Liabilities	168,468	(653)	167,816
Deferred income taxes	4,087	4,389	8,476
Retained earnings	225,086	7,337	232,423
Total Stockholders' Equity	291,312	7,337	298,649
Total Liabilities and Stockholders' Equity	$480,990	$11,073	$492,063

As a result of this retrospective application of the change in accounting principle and the change in classification of the Income Statement, the following items in the Company's Consolidated Statements of Income and Consolidated Statement of Cash Flows have been adjusted:

	Fiscal Year Ended January 29, 2011 (Dollars in thousands, except per share data)		
	As Previously Reported	Total Changes	As Adjusted
Retail Sales	$913,922	$ (843)	$913,079
Total Revenues	925,528	(843)	924,685
Cost of goods sold	565,710	(2,448)	563,262
Selling, general and administrative	251,121	(358)	250,763
Cost and expenses, net	834,719	(2,806)	831,913
Income before income taxes	90,809	1,963	92,772
Income tax expense	33,070	851	33,921
Net income	57,739	1,112	58,851
Basic earnings per share	$ 1.96	$ 0.04	$ 2.00
Diluted earnings per share	$ 1.96	$ 0.04	$ 2.00

	Fiscal Year Ended January 30, 2010 (Dollars in thousands, except per share data)		
	As Previously Reported	Total Changes	As Adjusted
Retail Sales	$872,132	$ 6	$872,138
Total Revenues	883,995	6	884,001
Cost of goods sold	552,016	2,039	554,055
Selling, general and administrative	245,483	(39)	245,444
Cost and expenses, net	815,081	2,000	817,081
Income before income taxes	68,914	(1,994)	66,920
Income tax expense	23,149	(1,214)	21,935
Net income	45,765	(780)	44,985
Basic earnings per share	$ 1.55	$ (0.02)	$ 1.53
Diluted earnings per share	$ 1.55	$ (0.02)	$ 1.53

	(Unaudited) Three Months Ended January 29, 2011 (Dollars in thousands, except per share data)		
	As Previously Reported	Total Changes	As Adjusted
Retail Sales	$224,312	$ (288)	$224,024
Total Revenues	227,334	(288)	227,046
Cost of goods sold	150,123	(5,261)	144,862
Selling, general and administrative	59,821	(43)	59,778
Cost and expenses, net	214,527	(5,304)	209,223
Income before income taxes	12,807	5,016	17,823
Income tax expense	4,883	1,999	6,882
Net income	7,924	3,017	10,941
Basic earnings per share	$ 0.27	$ 0.10	$ 0.37
Diluted earnings per share	$ 0.27	$ 0.10	$ 0.37

	Fiscal Year Ended January 29, 2011 (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Cash flow from operating activities:			
Net income	$ 57,739	$ 1,112	$ 58,851
Merchandise inventories	(13,392)	(988)	(14,380)
Accounts payable, accrued expenses and other	4,320	(124)	4,196

	January 30, 2010 (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Cash flow from operating activities:			
Net income	$ 45,765	$ (780)	$ 44,985
Merchandise inventories	(6,338)	2,034	(4,304)
Accounts payable, accrued expenses and other	15,145	(1,254)	13,891

3. Interest and Other Income:

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

	January 28, 2012	January 29, 2011	January 30, 2010
Dividend income	**$ (16)**	$ (15)	$ (15)
Interest income	**(1,618)**	(1,544)	(1,426)
Visa/Mastercard claims settlement	**—**	(26)	(414)
Miscellaneous income	**(1,943)**	(2,308)	(2,445)
Net (Gain) on investment sales	**(240)**	(78)	(13)
Interest and other income	**$(3,817)**	$(3,971)	$(4,313)

4. Short-Term and Other Investments:

At January 28, 2012, the Company's investment portfolio was primarily invested in variable rate demand notes and governmental debt securities held in managed funds. These securities are classified as available-for-sale as they are highly liquid and are recorded on the 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 28, 2012 and January 29, 2011.

	January 28, 2012			January 29, 2011		
Security Type:	Cost	Unrealized Gain/(Loss)	Estimated Fair Value	Cost	Unrealized Gain/(Loss)	Estimated Fair Value
Debt securities issued by various states of the United States and political subdivisions of the states:						
With unrealized gain	$166,725	$1,032	$167,757	$ 79,461	$ 309	$ 79,770
With unrealized (loss)	10,294	(12)	10,282	67,822	(484)	67,338
Corporate debt securities:						
With unrealized gain	25,968	187	26,155	29,996	274	30,270
With unrealized loss	1,584	(7)	1,577	4,027	(10)	4,017
Total	$204,571	$1,200	$205,771	$181,306	$ 89	$181,395

Additionally, the Company had $2.0 and $2.4 million invested in privately managed investment funds and other miscellaneous equities at January 28, 2012 and January 29, 2011, respectively, which are reported within other noncurrent assets in the Consolidated Balance Sheets.

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 28, 2012 and January 29, 2011.

	January 28, 2012			January 29, 2011		
Security Type	Unrealized Gain/(Loss)	Deferred Tax Benefit	Unrealized Net Gain/ (Loss)	Unrealized Gain/(Loss)	Deferred Tax Benefit	Unrealized Net Gain/ (Loss)
Short-Term Investments	$1,200	$(451)	$749	$ 89	$ (32)	$ 57
Equity Investments	300	(113)	187	344	(125)	219
Total	$1,500	$(564)	$936	$433	$(157)	$276

As disclosed in Note 3, the Company had realized gains of $240,000 in fiscal 2011, realized gains of $78,000 in fiscal 2010 and realized gains of $13,000 in fiscal 2009 relating to sales of debt and equity securities.

5. Fair Value Measurements:

The following tables set forth information regarding the Company's financial assets that are measured at fair value (in thousands) as of January 28, 2012 and January 29, 2011.

Description	January 28, 2012	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
State/Municipal Bonds	$152,650	$ —	152,650	—
Corporate Bonds	27,732	—	27,732	—
Auction Rate Securities (ARS)	3,450	—	—	3,450
Variable Rate Demand Notes (VRDN)	26,472	26,472	—	—
U.S. Treasury Notes	3,174	3,174	—	—
Privately Managed Funds	1,604	—	—	1,604
Corporate Equities	443	443	—	—
Certificates of Deposit	100	100	—	—
Total	$215,625	$30,189	$180,382	$5,054

Description	January 29, 2011	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
State/Municipal Bonds	$129,678	$ —	$129,678	—
Corporate Bonds	34,288	—	34,288	—
Auction Rate Securities (ARS)	3,450	—	—	3,450
Variable Rate Demand Notes (VRDN)	19,308	19,308	—	—
Privately Managed Funds	1,925	—	—	1,925
Corporate Equities	480	480	—	—
Total	$189,129	$19,788	$163,966	$5,375

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes ("VRDN"), corporate bonds and governmental debt securities held in managed funds with underlying ratings of A or better at both January 28, 2012 and January 29, 2011. The underlying securities have contractual maturities which generally range from 4 days to 29 years. Although the Company's investments in VRDN's have underlying securities with contractual maturities longer than one year, the VRDN's themselves have interest rate resets of 7 days and are considered short-term investments. These securities are classified as available-for-sale and are recorded as Short-term investments on the accompanying Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at January 28, 2012, the Company had $1.6 million of privately managed funds, $0.4 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction. All of these assets are recorded within Other assets in the Consolidated Balance Sheets. At January 29, 2011, the Company had $1.9 million of privately managed funds, $0.5 million of corporate equities, and a single ARS of $3.5 million, all of 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.

The Company's failed ARS is recorded at par value which approximates fair value using Level 3 inputs at each reporting period. Because there is no active market for this particular ARS, its fair value was determined through the use of a discounted cash flow analysis. The terms used in the analysis were based on management's estimate of the timing of future liquidity, which assumes that the security will be called or refinanced by the issuer or settled with a broker dealer prior to maturity. The discount rates used in the discounted cash flow analysis were based on market rates for similar liquid tax exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the Company also considered a liquidity/risk value reduction. In estimating the fair value of this ARS, the Company also considered the financial condition and near-term prospects of the issuer, the probability that the Company will be unable to collect all amounts due according to the contractual terms of the security and whether the security has been downgraded by a rating agency. The Company's valuation is sensitive to market conditions and management's judgment and can change significantly based on the assumptions used.

The Company's privately managed funds consist of two types of funds. The privately managed funds cannot be redeemed at net asset value at a specific date without advance notice. As a result, the Company has classified the investments as Level 3.

The following tables summarize the change in the fair value of the Company's financial assets measured using Level 3 inputs during fiscal 2011 and fiscal 2010 ($ in thousands).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Available-For-Sale Debt Securities ARS	Other Investments Private Equity	Total
Beginning Balance at January 29, 2011	$3,450	$1,925	$5,375
Total gains or (losses)			
Included in earnings (or changes in net assets)	—	(321)	(321)
Included in other comprehensive income	—	—	—
Ending Balance at January 28, 2012	$3,450	$1,604	$5,054

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Available-For-Sale Debt Securities ARS	Other Investments Private Equity	Total
Beginning Balance at January 30, 2010	$3,450	$1,940	$5,390
Total gains or (losses)			
Included in earnings (or changes in net assets)	—	(15)	(15)
Included in other comprehensive income	—	—	—
Ending Balance at January 29, 2011	$3,450	$1,925	$5,375

6. Accounts Receivable:

Accounts receivable consist of the following (in thousands):

	January 28, 2012	January 29, 2011
Customer accounts — principally deferred payment accounts	$32,963	$35,385
Miscellaneous trade receivables	12,423	7,303
Total	45,386	42,688
Less allowance for doubtful accounts	2,362	2,985
Accounts receivable — net	$43,024	$39,703

Finance charge and late charge revenue on customer deferred payment accounts totaled $7,716,000, $8,535,000 and $9,440,000 for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively, and charges against the allowance for doubtful accounts were approximately $1,723,000, $2,827,000 and $3,643,000 for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively. Expenses relating to the allowance for doubtful accounts are classified as a component of Selling, general and administrative expense in the accompanying Consolidated Statements of Income and Comprehensive Income.

7. Property and Equipment:

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

	January 28, 2012	January 29, 2011
Land and improvements	**$ 6,874**	$ 4,023
Buildings	**19,982**	19,831
Leasehold improvements	**75,378**	61,729
Fixtures and equipment	**184,476**	173,259
Information technology equipment and software	**54,153**	52,851
Construction in progress	**6,892**	1,631
Total	**347,755**	313,324
Less accumulated depreciation	**232,310**	213,551
Property and equipment — net	**$115,445**	$ 99,773

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

8. Accrued Expenses:

Accrued expenses consist of the following (in thousands):

	January 28, 2012	January 29, 2011
Accrued payroll and related items	**$ 7,642**	$ 7,138
Property and other taxes	**12,599**	12,063
Accrued insurance	**7,797**	8,047
Other	**9,546**	8,070
Total	**$37,584**	$35,318

9. Financing Arrangements:

At January 28, 2012, the Company had an unsecured revolving credit agreement of $35.0 million. The revolving credit agreement is committed until August 2013. 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 28, 2012. There were no borrowings outstanding under this facility during the fiscal years ended January 28, 2012 or January 29, 2011. Interest is based on LIBOR, which was 0.27% on January 28, 2012.

The Company had approximately $2.3 million and $7.2 million at January 28, 2012 and January 29, 2011, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

10. Stockholders' Equity:

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

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

On May 26, 2011 the Board of Directors increased the quarterly dividend by 24% from $.185 per share to $.23 per share.

11. 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 60% of their annual compensation up to the maximum elective deferral, designated by the IRS. The Company is obligated to make a minimum contribution to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended January 28, 2012, January 29, 2011 and January 30, 2010 were approximately $1,200,000, $1,181,000 and $1,677,000, 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. The Company has chosen to contribute cash and the plan purchases stock on the open market consistent with prior years. The Committee approved a contribution of approximately $514,000 for year ended January 28, 2012. The Company's contribution for the year ended January 29, 2011 was $12,583,000 and year ended January 30, 2010 was $11,765,000.

The Company is primarily self-insured for health care. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims. Management reviews current and historical claims data in developing its estimates. If the underlying facts and circumstances of the claims change or the historical trend is not indicative of future trends, then the Company may be required to record additional expense or a reduction to expense which could be material to the Company's reported financial condition and results of operations. The Company has stop-loss insurance coverage for individual claims in excess of $300,000. The Company funds health care contributions to a third party provider.

12. Leases:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are at a fixed rate for periods of five years with renewal options. For leases with landlord capital improvement funding, the funded amount is recorded as a deferred liability and amortized over the term of the lease as a reduction to rent expense on the Consolidated Statements of Income. Equipment leases are generally for one to three year periods.

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

Fiscal Year	
2012	$ 60,634
2013	42,804
2014	26,777
2015	18,202
2016	9,977
Thereafter	1,184
Total minimum lease payments	$159,578

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

Fiscal Year Ended	January 28, 2012	January 29, 2011	January 30, 2010
Minimum rentals	**$56,671**	$53,680	$51,978
Contingent rent	**28**	30	25
Total rental expense	**$56,699**	$53,710	$52,003

13. Related Party Transactions:

For fiscal 2011, the Company did not have any related party transactions. However, prior to fiscal 2011, the Company leased certain stores from entities in which Mr. George S. Currin, a former director of the Company, had a controlling or non-controlling ownership interest. Mr. Currin retired from the Board of Directors prior to the May 27, 2010 annual meeting. Rent expense and related charges totaling $144,000 and $432,000 were paid to entities controlled by Mr. Currin or his family in fiscal 2010 and 2009, respectively, under these leases. Rent expense and related charges totaling $366,000 and $1,101,000 were paid to entities in which Mr. Currin or his family had a non-controlling ownership interest in fiscal 2010 and 2009, respectively, under these leases.

14. Income Taxes:

Unrecognized tax benefits for uncertain tax positions 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 28, 2012, the Company had gross unrecognized tax benefits totaling approximately $8.7 million, of which approximately $6.0 million would affect the effective tax rate if recognized. The Company had approximately $4.7 million, $5.0 million and $4.9 million of interest and penalties accrued related to uncertain tax positions as of January 28, 2012, January 29, 2011 and January 30, 2010, 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 $956,000, $760,000 and $390,000 of interest and penalties in the Consolidated Statement of Income and Comprehensive Income for the years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively. The Company is no longer subject to U.S. federal income tax examinations for years before 2008. In state and local tax jurisdictions, the Company has limited exposure before 2004. During the next 12 months, various state and local taxing authorities' statues of limitations will expire and certain state examinations may close which could result in a potential reduction of unrecognized tax benefits.

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

Fiscal Year Ended	January 28, 2012	January 29, 2011	January 30, 2010
Balances, beginning	**$8,343**	$10,331	$ 9,522
Additions for tax positions of the current year	**1,118**	1,124	3,901
Additions for tax positions prior years	**250**	114	—
Reduction for tax positions of prior years for:			
Changes in judgment	**—**	(2,779)	(200)
Settlements during the period	**(685)**	(122)	(2,561)
Lapses of applicable statue of limitations	**(337)**	(325)	(331)
Balance, ending	**$8,689**	$ 8,343	$10,331

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

Fiscal Year Ended	January 28, 2012	As Restated (Note 2) January 29, 2011	As Restated (Note 2) January 30, 2010
Current income taxes:			
Federal	**$29,048**	$24,916	$20,603
State	**3,181**	3,166	2,667
Total	**32,229**	28,082	23,270
Deferred income taxes:			
Federal	**2,867**	5,217	(1,218)
State	**341**	622	(117)
Total	**3,208**	5,839	(1,335)
Total income tax expense	**$35,437**	$33,921	$21,935

Significant components of the Company's deferred tax assets and liabilities as of January 28, 2012 and January 29, 2011 are as follows (in thousands):

	January 28, 2012	As Restated (Note 2) January 29, 2011
Deferred tax assets:		
Allowance for doubtful accounts	**$ 888**	$ 1,122
Inventory valuation	**—**	1,014
Capital loss carryforward	**40**	41
Deferred lease liability	**5,145**	5,915
Non-deductible accrued liabilities	**1,232**	1,939
Other taxes	**1,420**	799
Federal benefit of uncertain tax positions	**3,803**	4,045
Equity compensation expense	**1,774**	1,931
Other	**1,411**	1,575
Total deferred tax assets	**15,713**	18,381
Deferred tax liabilities		
Property and equipment	**15,253**	17,071
Unrealized gains on short-term investments	**564**	158
Health care expense	**1,403**	1,151
Inventory valuation	**617**	—
Other	**2,184**	5,881
Total deferred tax liabilities	**20,021**	24,261
Net deferred tax liabilities (assets)	**$ 4,308**	$ 5,880

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

Fiscal Year Ended	January 28, 2012	As Restated (Note 2) January 29, 2011	As Restated (Note 2) January 30, 2010
Federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**1.7**	2.7	0.3
Tax credits	**(1.0)**	(1.4)	(2.2)
Tax exempt interest	**(0.5)**	(0.4)	(0.7)
Effects of permanent differences	**(0.1)**	0.4	0.6
Other	**0.2**	0.3	(0.2)
Effective income tax rate	**35.3%**	36.6%	32.8%

15. Quarterly Financial Data (Unaudited):

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

Fiscal 2011	First	Second	Third	Fourth
Retail sales	$270,933	$234,077	$194,094	$221,518
Total revenues	273,660	236,806	196,685	224,307
Cost of goods sold (exclusive of depreciation)	158,405	145,156	125,818	144,797
Income before income taxes	47,492	28,273	8,902	15,604
Net income	30,521	18,103	6,105	10,105
Basic earnings per share	$ 1.04	$ 0.61	$ 0.21	$ 0.35
Diluted earnings per share	$ 1.04	$ 0.61	$ 0.21	$ 0.35

Fiscal 2010 (As Restated — Note 2)	First	Second	Third	Fourth
Retail sales	$259,040	$231,839	$198,176	$224,024
Total revenues	261,963	234,701	200,975	227,046
Cost of goods sold (exclusive of depreciation)	149,860	141,404	127,136	144,862
Income before income taxes	39,644	26,637	8,668	17,823
Net income	25,034	16,978	5,898	10,941
Basic earnings per share	$ 0.85	$ 0.58	$ 0.20	$ 0.37
Diluted earnings per share	$ 0.85	$ 0.58	$ 0.20	$ 0.37

16. 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 Accessories and credit. As outlined in ASC 280-10, the Company has two reportable segments: retail and credit. The Company has aggregated its retail operating segments based on the aggregation criteria outlined in ASC 280-10, which states that two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the objective and basic principles of the Statement, if the segments have similar economic characteristics, similar product, similar production processes, similar clients and similar methods of distribution.

The Company's retail operating segments have similar economic characteristics and similar operating, financial and competitive risks. They are similar in nature of product, as they all offer women's apparel, shoes and accessories. Merchandise inventory of the Company's operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Clients of the Company's operating segments have similar characteristics. Merchandise for the Company's 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, through its retail stores.

The Company operates its women's fashion specialty retail stores in 31 states as of January 28, 2012, principally in the southeastern United States. The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

The following schedule summarizes certain segment information as of and for the year then ended (in thousands):

Fiscal 2011	Retail	Credit	Total
Revenues	$923,742	$ 7,716	$931,458
Depreciation	21,785	40	21,825
Interest and other income	(3,817)	—	(3,817)
Income before taxes	97,037	3,234	100,271
Total assets	471,397	79,692	551,089
Capital expenditures	35,804	86	35,890
Fiscal 2010 (As Restated — Note 2)			
Revenues	$916,150	$ 8,535	$924,685
Depreciation	21,801	21	21,822
Interest and other income	(3,971)	—	(3,971)
Income before taxes	89,703	3,069	92,772
Total assets	457,182	75,577	532,759
Capital expenditures	19,559	—	19,559
Fiscal 2009 (As Restated — Note 2)			
Revenues	$874,561	$ 9,440	$884,001
Depreciation	21,799	30	21,829
Interest and other income	(4,313)	—	(4,313)
Income before taxes	64,070	2,850	66,920
Total assets	419,915	72,148	492,063
Capital expenditures	9,957	3	9,960

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 credit segment and related direct expenses which are reflected in selling, general and administrative expenses (in thousands):

	January 28, 2012	January 29, 2011	January 30, 2010
Bad debt expense	**$1,723**	$2,827	$3,643
Payroll	**954**	954	969
Postage	**757**	811	901
Other expenses	**1,008**	853	1,047
Total expenses	**$4,442**	$5,445	$6,560

17. Stock Based Compensation:

The Company recognizes share-based compensation expense over the vesting period, net of estimated forfeitures. During the twelve month periods ended January 28, 2012, January 29, 2011 and January 30, 2010, the Company recognized share-based compensation expense of $2,559,000, $2,341,000 and $2,063,000, respectively, which is classified as a component of selling, general and administrative expense.

In accordance with U.S. GAAP, the fair value of current restricted stock awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. As of January 28, 2012, there was $5,991,000 of total unrecognized compensation cost related to nonvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.2 years. Restricted stock compensation expense during the twelve months ended January 28, 2012, January 29, 2011 and January 30, 2010 was $2,475,000, $2,316,000 and $1,921,000, respectively. These amounts are classified as a component of selling, general and administrative expenses.

In May 2003, the shareholders approved the 2003 Employee Stock Purchase Plan with 250,000 Class A shares of Common Stock authorized. Under the terms of the Plan, substantially all associates may purchase Class A Common Stock through payroll deductions. The Class A Common Stock is purchased at the lower of 85% of market value on the first or last business day of a six-month payment period. Additionally, each April 15, associates are given the opportunity to make a lump sum purchase of up to $10,000 of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 23,975 shares, 23,849 shares and 27,051 shares for the years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively.

During the twelve months ended January 28, 2012, the Company sold 23,975 shares to associates at an average discount of $3.50 per share under the 2003 Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately $84,000, $77,000 and $73,000 for fiscal years 2011, 2010 and 2009, respectively.

During Fiscal 2010, the Company completed amortizing its nonvested options. In accordance with ASC 718, the Company adjusted its related forfeiture assumptions. As a result, the Company recognized zero compensation expense for the year ended January 28, 2012, a reduction in share-based compensation expense of $52,000 for the year ended January 29, 2011 and $69,000 for the twelve months ended January 30, 2010. These amounts are classified as a component of selling, general and administrative expenses.

In April 2004, the Board of Directors adopted the 2004 Incentive Compensation Plan, of which 1,350,000 shares are issuable. As of January 28, 2012, 807,691 shares had been granted from this Plan.

The Company adopted in 1987 an Incentive Compensation Plan and a Non-Qualified Stock Option Plan for key associates of the Company. Total shares issuable under the plans are 5,850,000, of which 1,237,500 shares were issuable under the Incentive Compensation Plan and 4,612,500 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of the shares under an option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant. Options granted under these plans vest over a 5-year period and expire 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors. As of January 28, 2012, 5,829,873 shares had been granted under the plans.

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

The following table presents the number of options and shares of restricted stock initially authorized and available to grant under each of the plans as of January 29, 2011:

	1987 Plan	1999 Plan	2004 Plan	Total
Options and/or restricted stock initially authorized	5,850,000	1,500,000	1,350,000	8,700,000
Options and/or restricted stock available for grant:				
January 29, 2011	18,627	—	627,872	646,499
January 28, 2012	20,127	—	542,309	562,436

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

The following summary shows the changes in shares of restricted stock outstanding during the three fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at January 31, 2009	439,921	$20.46
Granted	158,225	18.91
Vested	(61,781)	22.34
Forfeited	(39,937)	20.35
Restricted stock awards at January 30, 2010	496,428	19.74
Granted	119,120	24.54
Vested	(88,901)	22.79
Forfeited	(17,191)	20.05
Restricted stock awards at January 29, 2011	509,456	20.32
Granted	102,449	25.41
Vested	(128,103)	20.53
Forfeited	(22,461)	21.33
Restricted stock awards at January 28, 2012	461,341	$21.44

Option plan activity for the three fiscal years ended January 28, 2012 is set forth below:

	Options	Range of Option Prices	Weighted Average Price
Outstanding options,			
January 31, 2009	107,950	$ 6.39 - 19.99	$12.72
Granted	—	—	—
Exercised	(43,600)	6.39 - 15.08	10.71
Forfeited or expired	—	—	—
Outstanding options,			
January 30, 2010	64,350	11.10 - 19.99	14.08
Granted	—	—	—
Exercised	(42,675)	11.33 - 19.99	14.19
Forfeited or expired	—	—	—
Outstanding options,			
January 29, 2011	21,675	11.10 - 18.96	13.86
Granted	—	—	—
Exercised	(4,875)	13.47 - 14.01	13.55
Forfeited or expired	(1,500)	12.00 - 12.17	12.05
Outstanding options,			
January 28, 2012	15,300	$11.10 - 18.96	$14.14

The following is a summary of changes in stock options outstanding during the twelve months ended January 28, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value(a)
Options outstanding at January 29, 2011	21,675	$13.86	2.78 years	$228,434
Granted	—	—	—	—
Forfeited or expired	(1,500)			
Exercised	(4,875)			
Outstanding at January 28, 2012	15,300	$14.14	2.24 years	$167,089
Vested and exercisable at January 28, 2012	15,300	$14.14	2.24 years	$167,089

(a) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

The following tables summarize stock option information at January 28, 2012:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$11.10 – $14.17	12,000	2.07 years	$12.91
15.08 – 18.96	3,300	2.89 years	18.61
$11.10 – $18.96	15,300	2.24 years	$14.14

Outstanding options at January 28, 2012 covered 15,300 shares of Class A Common Stock and no shares of Class B Common Stock. Outstanding options at January 29, 2011 covered 21,675 shares of Class A Common Stock and no shares of Class B Common Stock.

No options were granted in fiscal 2011 and no options were granted in fiscal 2010 or 2009. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

18. Commitments and Contingencies:

Workers' compensation and general liability claims are settled through a claims administrator and are limited by stop-loss insurance coverage for individual claims in excess of $350,000 and $250,000, respectively. The Company paid claims of $4,204,000, $4,069,000 and $3,049,000 in fiscal 2011, 2010 and 2009, respectively. Including claims incurred, but not yet paid, the Company recognized an expense of $5,062,000, $6,607,000 and $4,003,000 in fiscal 2011, 2010 and 2009, respectively. Accrued workers' compensation and general liabilities were $6,332,000 and $6,519,000 at January 28, 2012 and January 29, 2011, respectively. See Note 9 for a discussion of letters of credit related to purchase commitments and Note 12 for lease commitments.

The Company does not have any guarantees with third parties.

In addition, the Company has $5.3 million in escrow at January 28, 2012 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 short-term investments on the Consolidated Balance Sheets.

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

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

None.

Item 9A. ***Controls and Procedures:***

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of January 28, 2012. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of January 28, 2012, 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 28, 2012 based on the *Internal Control — Integrated Framework* 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 28, 2012.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 28, 2012, 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 28, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

None.

PART III

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

Information contained under the captions "Election of Directors," "Meetings and Committees," "Corporate Governance Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's Proxy Statement for its 2012 annual stockholders' meeting (the "2012 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 "2011 Executive Compensation," "Director Compensation," "Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation" in the Company's 2012 Proxy Statement is incorporated by reference in response to this Item.

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

Equity Compensation Plan Information

The following table provides information about stock options outstanding and shares available for future awards under all of Cato's equity compensation plans. The information is as of January 28, 2012.

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	15,300	$14.14	708,644
Equity compensation plans not approved by security holders	—	—	—
Total	15,300	$14.14	708,644

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

(2) Includes the following:

542,310 shares available for grant under the Company's stock incentive plan, referred to as the 2004 Incentive Compensation Plan. Under this plan, non-qualified stock options may be granted to key associates.

20,127 shares available for grant under the Company's stock incentive plan, referred to as the "1987 Non-qualified Stock Option Plan." Stock options have terms of 10 years, vest evenly over 5 years, and are assigned an exercise price of not less than the fair market value of the Company's stock on the date of grant; and

146,207 shares available under the 2003 Employee Stock Purchase Plan. Eligible associates may participate in the purchase of designated shares of the Company's common stock. The purchase price of this stock is equal to 85% of the lower of the closing price at the beginning or the end of each semi-annual stock purchase period.

Information contained under "Security Ownership of Certain Beneficial Owners and Management" in the 2012 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 2012 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 2012 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:

	Page
Report of Independent Registered Public Accounting Firm	29
Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	30
Consolidated Balance Sheets at January 28, 2012 and January 29, 2011	31
Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	32
Consolidated Statements of Stockholders' Equity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010	33
Notes to Consolidated Financial Statements	34
(2) Financial Statement Schedule: The following report and financial statement schedule is filed herewith:	
Schedule II — Valuation and Qualifying Accounts	67

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 on pages 61-67 are filed with this report or, as noted, incorporated by reference herein. The Company will supply copies of the following exhibits to any shareholder upon receipt of a written request addressed to the Corporate Secretary, The Cato Corporation, 8100 Denmark Road, Charlotte, NC 28273 and the payment of $.50 per page to help defray the costs of handling, copying and postage. In most cases, documents incorporated by reference to exhibits to our registration statements, reports or proxy statements filed by the Company with the Securities and Exchange Commission are available to the public over the Internet from the SEC's web site at http://www.sec.gov. You may also read and copy any such document at the SEC's public reference room located at Room 1580, 100 F. Street, N.E., Washington, D.C. 20549 under the Company's SEC file number (1–31340).

Exhibit Number	Description of Exhibit
3.1	Registrant's Restated Certificate of Incorporation of the Registrant dated March 6, 1987, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333 — 96283).
3.2	Registrant's By Laws incorporated by reference to Exhibit 99.2 to Form 8-K of the Registrant filed December 10, 2007.
4.1	Rights Agreement dated December 18, 2003, incorporated by reference to Exhibit 4.1 to Form 8-A12G of the Registrant filed December 22, 2003 and as amended in Form 8-A12B/A filed on January 6, 2004.
10.2*	1999 Incentive Compensation Plan dated August 26, 1999, incorporated by reference to Exhibit 4.3 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333 — 96283).
10.3*	2004 Incentive Compensation Plan, amended and restated as of May 22, 2008, incorporated by reference to Appendix A to Definitive Proxy Statement on Schedule 14A filed April 11, 2008.
10.4*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Wayland H. Cato, Jr., incorporated by reference to Exhibit 99(c) to Form 8-K of the Registrant filed on July 22, 2003.

Exhibit Number	Description of Exhibit
10.5*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Edgar T. Cato, incorporated by reference to Exhibit 99(d) to Form 8-K of the Registrant filed on July 22, 2003.
10.6*	Retirement Agreement between Registrant and Wayland H. Cato, Jr. dated August 29, 2003 incorporated by reference to Exhibit 10.1 to Form 10-Q of the Registrant for quarter ended August 2, 2003.
10.7*	Retirement Agreement between Registrant and Edgar T. Cato dated August 29, 2003, incorporated by reference to Exhibit 10.2 to Form 10-Q of the Registrant for the quarter ended August 2, 2003.
10.9*	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.
18.1	Letter regarding change in accounting principle from PricewaterhouseCoopers, dated June 8, 2011, to the Board of Directors of The Cato Corporation regarding the preferability of change in accounting principle from the Retail Method to the Cost Method.
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 years ended January 28, 2012, formatted in XBRL: (i) Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; (ii) Consolidated Balance Sheets at January 28, 2012 and January 29, 2011; (iii) Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; (iv) Consolidated Statements of Stockholders' Equity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010; and (v) Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

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

** Submitted electronically herewith.

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 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 2012 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/ EDWARD I. WEISIGER, JR
Edward I. Weisiger, Jr.
(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	A Bermudian Company	Providence Insurance Company, Limited
CatoSouth LLC	North Carolina	CatoSouth LLC
Cato of Texas L.P.	Texas	Cato of Texas L.P.
Cato Southwest, Inc.	Delaware	Cato Southwest, Inc.
CaDel LLC	Delaware	CaDel LLC
CatoWest LLC	Nevada	CatoWest LLC
Cedar Hill National Bank	A Nationally Chartered Bank	Cedar Hill National Bank
catocorp.com, LLC	Delaware	catocorp.com, LLC

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-176511, 333-119300, 333-119299, 333-96283, 33-41314, 33-41315, 33-69844, and 333-96285) of The Cato Corporation of our report dated March 27, 2012 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

PricewaterhouseCoopers LLP
Charlotte, North Carolina
March 27, 2012

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 27, 2012

/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 27, 2012

/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 28, 2012 (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 27, 2012

/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 28, 2012 (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 27, 2012

/s/ John R. Howe

John R. Howe
Executive Vice President
Chief Financial Officer

Schedule II

VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts(a)	Self Insurance Reserves(b)	Inventory Reserves(c)
Balance at January 31, 2009	$ 3,723	$ 4,889	$ 3,431
Additions charged to costs and expenses	3,643	4,003	225
Additions (reductions) charged to other accounts	846(d)	(922)	—
Deductions	(4,938)(e)	(3,049)	(782)
Balance at January 30, 2010	3,274	4,921	2,874
Additions charged to costs and expenses	2,827	6,607	481
Additions (reductions) charged to other accounts	646(d)	(940)	—
Deductions	(3,762)(e)	(4,069)	(295)
Balance at January 29, 2011	2,985	6,519	3,060
Additions charged to costs and expenses	1,723	5,062	602
Additions (reductions) charged to other accounts	609(d)	(961)	—
Deductions	(2,955)(e)	(4,288)	(1,319)
Balance at January 28, 2012	$ 2,362	$ 6,332	$ 2,343

(a) Deducted from trade accounts receivable.

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

(c) Reserves for inventory shortage and LCM as restated for 2009 and 2010.

(d) Recoveries of amounts previously written off.

(e) Uncollectible accounts written off.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

CORPORATE INFORMATION

A copy of the Company's Annual Report to the Securities and Exchange Commission (Form 10-K) for the fiscal year ended January 28, 2012 is available to shareholders without charge upon written request to:

Mr. John R. Howe
Executive Vice President,
Chief Financial Officer
The Cato Corporation
P.O. Box 34216
Charlotte, North Carolina 28234

CORPORATE HEADQUARTERS

The Cato Corporation
8100 Denmark Road
Charlotte, North Carolina 28273-5975
(704) 554-8510

MAILING ADDRESS

P.O. Box 34216
Charlotte, North Carolina 28234

INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP
Charlotte, North Carolina 28202

CORPORATE COUNSEL

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

TRANSFER AGENT AND REGISTRAR

American Stock Transfer
Securities Transfer Department, CMG-5
Charlotte, North Carolina 28288

ANNUAL MEETING NOTICE

The Annual Meeting of Shareholders
11:00 a.m.
Thursday, May 24, 2012
Corporate Office
8100 Denmark Road
Charlotte, NC 28273-5975

MARKET & DIVIDEND NOTICE

The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO. Below is the market range and dividend information for the four quarters of fiscal 2011 and 2010.

	PRICE		
2011	**HIGH**	**LOW**	**DIVIDEND**
First quarter	$ 25.64	$ 23.03	$ .185
Second quarter	30.74	25.11	.230
Third quarter	28.19	21.98	.230
Fourth quarter	26.95	22.83	.230

	PRICE		
2010	**HIGH**	**LOW**	**DIVIDEND**
First quarter	$ 25.11	$ 18.70	$ .165
Second quarter	25.21	21.49	.185
Third quarter	28.47	22.27	.185
Fourth quarter	29.60	24.23	.185

As of March 27, 2012 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.

The Cato Corporation

8100 DENMARK ROAD
CHARLOTTE, NC 28273-5975
CATOCORP.COM