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DELTA REPORT

10-K

CATO - CATO CORP

10-K - FEBRUARY 03, 2024 COMPARED TO 10-K - JANUARY 28, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	8376
CHANGES	527
DELETIONS	3111
ADDITIONS	4738

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, 2023 February 3, 2024

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
Address of Principal Executive Offices

704
/
554-8510
Registrant's Telephone Number

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

Title of each class
Trading Symbol(s)
Name of each exchange on which registered

Class A - Common Stock, par value $.033 per share
CATO
New York Stock Exchange

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THE CATO CORPORATION
FORM 10-K
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Forward-looking Information

The following information should be read along with the Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-K and any documents incorporated by reference that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for our fiscal year ended February 3, 2024 ("fiscal 2023") and beyond, including, for but not limited to, our statements fiscal regarding year expected ending amounts February of 3, capital 2024 ("fiscal 2023") expenditures and beyond, store including, openings, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures, statements regarding the potential impact of the COVID-19 pandemic and related responses and mitigation efforts, as well as the potential impact of supply chain disruptions, inflationary extreme weather conditions, inflationary pressures and other economic conditions on our business, results of operations and financial condition and statements regarding new store development strategy; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-

(5)

looking statements relating by using to words our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “will,” “expects, “expects,” “anticipates,” “approximates, “approximates,” “believes,”
“estimates,” “hopes,” “intends,”
“may,” “plans, “plans,” “could,” “would, “would,” “should” “should” and any variations or negative formations of such words and
similar expressions. We can give no assurance that actual results or events will not differ materially from thosethose expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are

1A of this annual report on Form 10-K for the fiscal year ended January 28, 2023 February 3, 2024 (“fiscal 2022” 2023”), as amended

amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Securities and Commission

(“SEC”) Exchange Commission (“SEC”) from time to time. We do not undertake, and expressly decline, any obligation to update any any such forward-looking information contained in this report, this report, whether as a result of new information, future events, or otherwise.

As used herein, the terms “we,” “our,” “us,” the “Company” or “Cato” include The Cato Corporation and its subsidiaries, unless the context indicates another meaning and except that when used with reference to common stock or other securities described herein and in describing the positions held by management of the Company, such terms include only The Cato Corporation. Our website is located at www.catofashions.com where we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports (including amendments to these reports) filed or furnished pursuant to Section 13(a) or 15(d) under the Securities Exchange Act of 1934. These reports are available as soon as reasonably practicable after we electronically file these materials with the SEC. We also post on our website the charters of our Audit,

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Compensation and Corporate Governance and Nominating Committees; our Corporate Governance Guidelines; Code of Business Conduct and Ethics and Code of Ethics for the Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer and any amendments or waivers thereto for any of our directors or executive officers; and any other publicly available corporate governance materials

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contemplated by SEC or New York Stock Exchange regulations. The information contained on our website, www.catof www.catofashions.com, ashions.com, is not, and should in no way be construed as, a part of this or any other report that we filed with or furnished to the SEC.

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PART I

Item 1.

Business:

Background

The Company, founded in 1946, operated 1,280 1,178 fashion specialty stores at January February 28, 3, 2023, 2024, in 32 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.” The Cato concept seeks to offer quality fashion apparel and accessories at low prices every day, in junior/missy and plus sizes. The Cato concept’s stores and e-commerce website feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the Cato concept’s merchandise is sold under its private label and is produced by various vendors in accordance with the concept’s specifications. The It’s Fashion and It’s Fashion Metro concepts offer fashion with a focus on the latest trendy styles for the entire family at low prices every day.

The Versona concept's stores and e-commerce website offer quality fashion apparel items, jewelry and accessories at exceptional values every day. The Company's stores range in size from 2,200 2,400 to 19,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. The Company emphasizes friendly customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales under the Company's plan represented 6% of retail sales in fiscal 2022. 2023. See Note 13 to the Consolidated Financial Statements, "Reportable Segment Information," for a discussion of information regarding the Company's two reportable segments: retail Retail and credit. Credit.

The Company has operated Cato-branded retail stores for approximately 76 77 years. The Company originated as a family-owned business and made its first initial public offering of stock in 1968. In 1980, the Company went private and in 1987 again conducted an initial public offering.

Business Strategy

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

Merchandise Assortment.

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

Value Pricing.

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

Strip Shopping Center Locations.

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

Customer Service.

Store managers and sales associates are trained to provide prompt and courteous service and to assist customers in

the purchase of its merchandise more convenient for its customers.

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Merchandising

Merchandising

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

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

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

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

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 580 600 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2022, 2023, purchases from the Company's largest vendor accounted for approximately 16% 13% of the Company's total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company sources a majority of its merchandise directly from manufacturers overseas, primarily in Southeast Asia. These manufacturers are dependent on materials that are primarily sourced from China. The Company purchases its remaining merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments; however, these vendors are dependent on materials primarily sourced from China. The Company opened its own overseas sourcing operations in the fall of 2014, replacing the Company's former sourcing agent in 2015. Although a significant portion of the Company's merchandise is manufactured overseas, primarily in Southeast Asia, the Company does not expect that any economic, political, public health or social unrest in any one country would have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise. However, the Company can give no assurance that any changes or disruptions in its merchandise supply chain would not materially and adversely affect the Company. See "Risk Factors – Risks Relating To to Our Business – Because we source a significant portion of our merchandise directly and Because indirectly from overseas, we are source a subject to risks significant associated with changes, portion of disruptions, increased costs our or other problems affecting the Company's merchandise directly supply chain; the risks of conducting international operations and indirectly from overseas, we are subject to risks associated with international operations and risks that affect the prevailing social, economic, political, public health and other conditions in the areas from which we source merchandise; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain have and could continue to materially and adversely affect the adversely affect the Company's business, results of operations and financial condition."

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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

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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 online system. Shipments are made by common carrier, and each store receives at least one shipment per week. The centralization of the Company's distribution process also subjects it to risks in the event of damage to or destruction of its distribution facility or other disruptions affecting the distribution center or the flow of goods into or out of Charlotte, North Carolina. See "Risk Factors –
Risks Relating To to Our Information Technology, and Related Systems – A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely Cybersecurity affect – A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely affect our business and results of operations."

Advertising

The Company uses television, in-store signage, graphics, a Company website, two e-commerce websites and social media as its primary advertising media. The Company's total advertising expenditures were approximately 1.0%, 0.9% 1.0% and 0.8% 0.9% of retail sales for fiscal years 2022, 2023, 2021 2022 and
2020, 2021, respectively.

Store Operations

The Company's store operations management team consists of four territorial managers, 11 regional managers and 109 104 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales and payroll. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases. Stores are typically staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the store and seasonal personnel needs. In general, store managers are paid a salary or on an hourly basis as are all other store personnel. Store managers, assistant managers and sales associates are eligible for monthly and semi-
annual bonuses based on achieving targeted goals for their respective store's sales increases.

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 92% 93% are located in strip shopping centers and
8% 7% in enclosed shopping malls. The Company typically locates stores in strip shopping centers anchored by a national discounter, primarily Walmart Supercenters, or market-dominant grocery stores. The
Company's strip center locations provide ample parking and shopping convenience for its customers.

The Company's store development activities consist of opening new stores in new and existing markets, relocating selected existing stores to more desirable locations in the same market area and closing underperforming stores. The following table sets forth information with respect to the Company's development activities since fiscal
2018: 2019:

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Store Development

Number of Stores
Beginning of
Number
Number
Number of Stores
Fiscal Year
Year
Opened
Closed
End of Year
2018…………………….…...………….
1,351
-
40
1,311
2019…………………….…...………….
1,311
5
35
1,281
2020……………………………….. ………….
1,281
76
27
1,330
2021……………… ………………….....…….
1,330
6
25
1,311
2022……………..………..………...…….
1,311
19
50
1,280
2023…………………...………...…….
1,280
9
111
1,178

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 3.1%3.4%, 3.1% and 2.5% and 2.7% of retail retail sales in fiscal 2023, 2022 2021 and 2020, 2021, respectively. The Company’s net bad debt expense was 2.0%3.6%, 3.0%2.0% and 3.6%3.0%
of credit sales in fiscal 2023, 2022 2021 and 2020, 2021, respectively.

Customers applying for the Company’s credit card are approved for credit if they have a satisfactory credit record and the

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Information Technology Systems

The Company’s information technology systems provide daily financial and merchandising

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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, conditions, customer demographic differences demographics 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.

Our stores typically generate a higher percentage of our annual net net sales and and profitability in the the first and second quarters of our fiscal year compared to other quarters. 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.

Regulation

The Company's business and operations subject it to a wide range of local, state, national and international laws and regulations in a variety of areas, including but not limited to, trade, licensing and permit requirements, import and export matters, privacy and data protection, credit regulation, environmental matters, recordkeeping and information management, tariffs, taxes, intellectual property and anti-corruption. Though compliance with these laws laws and regulations has not not had a material effect on the our capital expenditures, results of of operations or competitive position of the Company in fiscal 2022, the Company faces 2023, the Company faces ongoing risks related to its efforts to comply with these laws and regulations and risks related to noncompliance, as discussed generally below throughout the "Risk Factors" section and in particular particular under "Risk Factors – Risks Relating to Accounting and Legal Matters – Our business operations subject operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise attention or otherwise adversely affect our business, results of operations and financial condition."

Human Capital

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As of January February 28, 3, 2023, 2024, the Company employed approximately 7,600 7,300 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons.

The Company's full-time team associates are engaged in various executive, operating, and administrative functions in the Home Office and distribution center and the remainder are engaged in store operations.

The Company is not a party to any collective bargaining agreements and considers its associate relations

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to be good. The Company offers a broad range of Company-paid benefits to its associates including medical and dental plans, paid vacation, a 401(k) plan, Employee Stock Purchase Plan, Employee Stock
Ownership Plan, disability insurance, associate assistance programs, life insurance and an associate discount. The level of benefits and eligibility vary depending on the associate's full-time or part-time status, date of hire, length of service and level of pay. The Company endeavors to promote diversity, to provide opportunities for advancement, and to treat all of its associates with dignity and respect. The
Company constantly strives to improve its training programs to develop associates. Over 80% of store and field management are promoted from within, allowing the Company to internally staff its store base.
The Company has training programs at each level of store operations. The Company also performs ongoing reviews of its safety protocols, including measures to promote the health and safety of its associates.

Item 1A.

Risk Factors:

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

Risks Relating to Our Business:

Increasing Continued high interest rates and inflationary conditions have and may continue to adversely impact impact our customers' discretionary income or willingness to purchase discretionary discretionary items, which may may adversely affect our business, margins, results of operations and financial condition.

Increasing Continued high interest rates have adversely affected our customers' discretionary income, in part due to to increased interest costs associated with credit accounts including revolving credit accounts, car loans, mortgage loans and other credit accounts. In addition, the increased payments due to higher interest rates deter our customers from purchasing discretionary items such as apparel, shoes and jewelry. Continued inflationary pressures limit our customers' willingness to purchase apparel, shoes and jewelry. shoe Inflationary pressures or jewelry limit products, as prices associated with non-discretionary items, including food, fuel and shelter costs increase or remain high, reducing our customers' willingness discretionary to income. purchase Any apparel, shoe or jewelry products, as prices associated with non-discretionary products including food and fuel are increasing, reducing our customers' discretionary income. Any reduction in our customers' discretionary spending on our products could erode our sales volume and adversely affect our results of operations and financial condition.

Increased product costs, freight costs, wage increases and operating costs due to inflation and other factors, as well as limitations in our ability to offset these cost increases by increasing the retail prices of our products or otherwise, have and may continue to adversely affect our business,

margins, results of operations and financial condition.

Tight labor markets are causing wages to increase at the store, distribution center and home office levels, as well as making it more difficult to hire new associates and retain existing associates. The tight labor market and inflation also are driving up our operating costs. In addition, inflationary pressures on labor and raw materials used to make our products may continue to increase the cost we pay for our products. If we are unable to offset the effects of these increased costs to our business by increasing the retail prices of our products, reducing other expenses or otherwise, our business, margins, results of operations and financial condition may be adversely affected.

Our ability to raise retail prices in response to these cost increases is limited, in part due to our customers' unwillingness to pay higher prices for discretionary items in light of actual or perceived

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effects of inflation in increasing our customers' cost of essential items and diminishing customers' discretionary disposable income or financial outlook. Moreover, the persistence or worsening of inflationary conditions could also lead our customers to reduce their amount of current discretionary spending on our products even in the could absence of price increases, which could erode our sales volume and adversely adversely affect our results of operations and financial condition.

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

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A significant amount of our merchandise is manufactured overseas, principally in Southeast Asia. We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. Further, our third-party vendors are dependent on materials primarily sourced from China. As a result, political unrest, labor disputes, terrorism, war, public health threats, including but not limited to communicable diseases (such as COVID-19), financial or other forms of instability or other events resulting in the disruption of trade from countries affecting our supply chain, increased security requirements for imported merchandise, or the imposition of, or changes in, laws, regulations or changes in duties, quotas, tariffs, taxes or governmental policies regarding or responses to these matters or other factors affecting the availability or cost of imports, can cause significant delays or interruptions in the supply of our merchandise or increase our costs. In addition, geopolitical tensions, sanctions, prohibitions, additional tariffs, compliance and reporting requirements have resulted in increased costs associated with merchandise produced in certain regions. Any new sanctions, tariffs and reporting requirements enacted in the future may further increase our costs associated with sourcing products from those regions or limit our ability to procure the products we source, and our ability to source these products from other regions may be limited or result in increased sourcing costs.

We are also subject to supply chain disruptions affecting ocean transit freight, times and costs, including lack issues of related overall ocean container shipping to capacity versus a sustained drought in Panama that is causing longer transit times through the current demand for container shipping capacity, lack of our ability to access the ocean container capacity that we require, lack of equipment such as containers, port congestion, including increased dwell times for ocean container ships, Panama Canal and other conditions impacting limiting ocean freight. the number of containers on a vessel due to vessel draft restrictions. We also face disruptions from issues related to vessels transiting the Suez Canal and Red Sea, which are being forced to travel a much longer distance around the Cape of Good Hope due to the hostilities in the Middle East. These continued issues have and may continue to drive up our ocean freight costs, delay merchandise deliveries, and impact our ability to access the already limited supply of ocean container shipping capacity that we require. We also are subject to domestic supply chain disruptions, including lack of domestic intermodal transportation intermodal transportation (trucks (trucks and drivers), domestic port congestion, including increased dwell times for incoming container for incoming container ships, lack of container yard capacity and lack of available drayage from the ports and and other conditions that impact our domestic supply chain. These supply chain risks have and may continue and may continue to result in both higher costs to transport our merchandise and delayed merchandise arrivals to our stores, which adversely affect our ability to sell this merchandise and increase markdowns of it.

We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. Further, our third-party vendors are dependent on materials primarily sourced from China. As a result, we are subject to numerous risks that can cause significant delays or interruptions in the supply of our merchandise or increase our costs. These risks include political unrest, labor disputes, terrorism, war, public health threats, including but not limited to communicable diseases (such as COVID-19), financial or other forms of instability or other events resulting in the disruption of trade from countries affecting our supply chain, increased security requirements for imported merchandise, or the imposition of, or changes in, laws, regulations or changes in duties, quotas, tariffs, taxes or governmental policies regarding or responses to these matters or other factors affecting the availability or cost of imports. In addition, geopolitical tensions, sanctions, prohibitions, additional tariffs, compliance and reporting requirements have resulted in increased costs associated with merchandise produced in certain regions. Any new sanctions, tariffs and reporting requirements enacted in the future may further increase our costs associated with sourcing products from those regions or limit our ability to procure the products we source, and our ability to source these products from other regions may be limited or result in increased sourcing costs.

Our costs are also affected by currency fluctuations, and changes in the value of the dollar relative to foreign currencies have impacted and may continue to impact our cost of goods sold. Any of these factors can materially can materially and adversely affect our business and results of of operations. In addition, increased energy and and transportation costs have caused us significant cost increases from time to time, and future adverse changes in these costs or the disruption of the means by which merchandise is transported to us could cause additional cost increases or interruptions of our supply chain, which could be significant. Further, we are subject to increased costs or potential disruptions impacting any port or trade route through which our products move, or we may be subject to increased costs and delays if forced to route freight through different ports than the ones through which our products typically move. If we are forced to source merchandise from other countries or other domestic vendors with foreign sources in different countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell.

Adverse The operation of our sourcing offices in Asia presents increased operational and developments legal risks.

affecting In October the 2014, we financial established our services own sourcing industry, including events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional

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counterparties, could adversely affect our business, financial condition or results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies offices in the financial Asia. If services industry our sourcing or offices are the financial services industry generally, or concerns or rumors about any events of these unable kinds or other similar risks, have in the past and may in the future lead to sporadic or market-wide liquidity problems that could adversely affect us. For example, on March 10, 2023, Silicon Valley Bank, or SVB, was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation, or the FDIC, as receiver. Similarly, on March 12, 2023, Signature Bank was swept into receivership. In addition on March 8, 2023, Silvergate Capital announced that it will liquidate its subsidiary, Silvergate Bank, and successfully oversee merchandise production to ensure that the liquidation process product is being supervised by the California Department of Financial Protection produced on time and Innovation. Although a statement by within the the Company's Department of the Treasury, the Federal Reserve and the FDIC stated that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts, borrowers under credit agreements, letters of credit and certain other financial instruments with SVB, Signature Bank or any other financial institution that is placed into receivership by the FDIC may be unable to access undrawn amounts thereunder.

If any of specifications, our transactional business, counterparties, brand, such reputation, as our merchandise vendors and their factors, our landlords, our payment processors including credit card, gift card and checks, our transportation vendors and other vendors that provide services and supplies to us, are unable to access funds or lending arrangements with such a financial institution, such parties' ability to pay their obligations could be adversely affected. If this occurred we could be adversely impacted by not receiving the product we ordered or the payments generated by our sales, by not being able to receive products to our distribution center or our stores in a timely manner or at all, or by not being able to retain services from third parties that we require. These impacts may adversely affect our financial condition, results of operations and our ability to execute our business strategy.

Furthermore, these adverse developments affecting the financial services or related perceptions may negatively impact our customers' discretionary income for or our customers' willingness to purchase apparel, shoes or jewelry products. Any reduction in our customers' discretionary spending on our products could erode our sales volume and adversely affect our costs, results of operations and financial condition. condition could be materially and adversely affected.

In addition, the current business environment, including geopolitical issues, make operating in certain Asian markets challenging. To the extent we explore other countries to source our product or explore

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increasing the amount of product sourced from current countries, we may be subject to additional increased legal and operational risks associated with doing business in new countries or increasing our business in other countries. Further, the activities conducted by our sourcing offices outside the United States subject us to foreign operational risks, as well as U.S. and international regulations and compliance risks, as discussed elsewhere in this "Risk Factors" section, in particular below under "Risk Factors – Risks Relating to

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

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

Consumer spending habits, including spending for our apparel and accessories, are affected by, among other things, prevailing social, economic, political and public health conditions and uncertainties (such as matters under debate in the U.S. from time to time regarding budgetary, spending and tax policies), levels of employment, fuel, inflation, interest rates, energy and food costs, salaries and wage rates and other sources of

income, tax rates, home values, consumer net worth, the availability of consumer credit, inflation, -

consumer confidence and consumer perceptions of adverse changes in or trends affecting any of these conditions. Any perception that these conditions may be worsening or continuing to trend negatively may significantly weaken many of these drivers of consumer spending habits. Adverse perceptions of these conditions or uncertainties regarding them also generally cause consumers to defer purchases of discretionary items, such as our merchandise, or to purchase cheaper alternatives to our merchandise, all of which may also adversely affect our net sales and results of operations. In addition, numerous events,

whether or not related to actual economic conditions, such as downturns in the stock markets, acts of war or terrorism, political unrest or natural disasters, outbreaks of disease or similar events, may also dampen consumer confidence, and accordingly, lead to reduced consumer spending. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

Increased product costs, freight costs, wage increases and operating costs due to inflation and other factors, as well as limitations in our ability to offset these cost increases by increasing the retail prices of our products or otherwise, have and may continue to adversely affect our business,

margins, results of operations and financial condition.

Tight labor markets have caused wages to increase at the store, distribution center and home office levels, as well as making it more difficult to hire new associates and retain existing associates. The tight labor market and continued inflation also are driving up our operating costs. In addition, inflationary pressures on labor and raw materials used to make our products may continue to increase the cost we pay for our products. If we are unable to offset the effects of these increased costs to our business by increasing the retail prices of our products, reducing other expenses or otherwise, our business, margins,

results of operations and financial condition may be adversely affected.

Our ability to raise retail prices in response to these cost increases is limited, in part due to our customers' unwillingness to pay higher prices for discretionary items in light of actual or perceived effects of inflation in

increasing our customers' cost of essential items and diminishing customers'
disposable income, sentiment or financial outlook. Moreover, the persistence or worsening of inflationary conditions and high interest rates could also lead our customers to reduce their amount of current discretionary spending on our products even in the absence of price increases, which could erode our sales volume and adversely affect our results of operations and financial condition.

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Adverse developments affecting the financial services industry or events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties could adversely affect our business, financial condition or results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to sporadic or market-wide liquidity problems that could adversely affect us. If any of our transactional counterparties, such as our merchandise vendors and their factors, our landlords, our payment processors including credit card, gift card and checks, our transportation vendors and other vendors that provide services and supplies to us, are unable to access funds or lending arrangements with such a financial institution, such parties' ability to pay their obligations could be adversely affected. If this occurred we could be adversely impacted by not receiving the product we ordered or the payments generated by our sales, by not being able to receive products to our distribution center or our stores in a timely manner or at all, or by not being able to retain services from third parties that we require. These impacts may adversely affect our financial condition,
results of operations and our ability to execute our business strategy. Furthermore, these adverse developments affecting the financial services or related perceptions may negatively impact our customers'
discretionary income or our customers' willingness to purchase apparel, shoes or jewelry products. Any
reduction in our customers' discretionary spending on our products could erode our sales volume and adversely affect our results of operations and financial condition.

Extreme weather, natural disasters, impacts of climate change, public health threats or similar events have and may continue to adversely affect our sales or operations from time to time.

Extreme changes in weather, natural disasters, physical impacts of climate change, public health threats or similar events can influence can customer trends and influence customer trends and shopping habits. For example, heavy rainfall or other extreme weather conditions,

including but not limited to winter weather over a prolonged period,
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 extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season can can render a a portion of our our inventory incompatible with those unseasonable conditions. Reduced

sales from extreme or prolonged prolonged unseasonable weather conditions would adversely affect our business.
The occurrence or threat of extreme weather, natural disasters, power outages, terrorist acts, outbreaks of flu or other communicable diseases (such as COVID-19) or other catastrophic events could reduce customer traffic in our stores and likewise disrupt our ability to conduct operations, which would materially and adversely affect us.

The occurrence long-term or threat impacts of global climate change are expected to be unpredictable and widespread.
The potential impacts of climate change present a variety of potential risks. The physical effects of climate change such as extreme weather natural and disasters, drought power could outages, adversely terrorist affect acts, our outbreaks results of flu operations,
including disrupting our supply chain, the costs of our products and negatively impacting our workforce.
In addition, the potential impacts of climate change present transition risks including regulatory and reputational risks. The potential cost of compliance with any future regulations may substantially increase our costs. For example, the use of certain commodities in the manufacture of our products and energy we use in our operations may face increased regulation due to climate change or other communicable diseases (such as COVID-19) or other catastrophic events environmental concerns, which could reduce customer traffic in increase our stores costs. and likewise Furthermore, any failure of disrupt our or perceived failure by us ability to comply conduct operations, with any which would potential future materially climate change regulatory requirements including stakeholder expectations regarding the environment, could adversely affect our reputation and adversely affect us. results of operations.

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.

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Our sales are dependent in part on the location of our stores in shopping centers and malls malls where we believe our consumers and potential consumers shop. In addition, our ability to grow our revenues has been substantially dependent on our ability to secure space for and open new stores in attractive locations.
Shopping centers and malls where we currently operate existing stores or seek to open new stores have been and may continue to be adversely affected by, among other things, general economic downturns or those particularly affecting the

commercial real estate industry, the closing of anchor stores, changes in tenant mix and changes in customer shopping preferences, including but not limited to an increase in preference for online versus in-person shopping. To take advantage of consumer traffic and the shopping preferences of our consumers, we need to maintain and acquire stores in desirable locations where competition for suitable store locations is intense. A decline in customer popularity of the strip shopping centers where we generally locate our stores or in availability of space in in desirable centers and and locations,
or an increase in the cost of such desired space, has limited and could further limit our ability to open new stores, adversely affecting consumer traffic and reducing our sales and net earnings or increasing our operating costs.

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

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

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

to sell a significant amount of unsold inventory at below-average markups over cost, or below cost, which would would adversely affect our margins and results of operations.

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

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

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result in increased costs or liabilities, divert our management’s attention or otherwise adversely affect our business, results of operations and financial condition.”

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

The women’s retail apparel industry is highly competitive. We compete primarily with discount stores, mass merchandisers, department stores, off-price retailers, specialty stores and internet-based retailers, many of which have substantially greater financial, marketing and other resources than we have.

Many of our competitors offer frequent promotions and reduce their selling prices. In some cases, our competitors are expanding into markets in which we have a significant market presence. In addition, our competitors also compete for the same retail store space. As a result of this competition, we may experience pricing pressures, increased marketing expenditures, increased costs to open new stores, as well as loss of market share, which could materially and adversely affect our business, results of operations and financial condition.

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

Comparable sales are expected to continue to fluctuate in the future. Factors affecting comparable sales include fashion trends, customer preferences, calendar and holiday shifts,

competition, weather, supply supply chain issues, actual or potential public health threats and economic conditions, including including but not not limited to increasing continued high interest rates and higher inflation. persistent inflation. In addition, merchandise must be ordered well in advance advance of the applicable selling season and before trends are are confirmed by sales. sales. If we are not able to to accurately predict customers' preferences preferences for our fashion items, we may have too much inventory, which which may cause excessive markdowns. If we are unable to accurately predict demand predict demand for our merchandise, we may end up with inventory shortages, resulting in missed sales.

Our sales. A decrease in comparable sales or our inability to effectively manage inventory may adversely affect our gross margin and results of operations.

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

In October 2014, we established our own sourcing offices in Asia. If our sourcing offices are unable to successfully oversee merchandise production to ensure that product is produced on time and within the Company's specifications, our business, brand, reputation, costs, results of operations and financial condition could be materially and adversely affected.

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In addition, the current business environment, including geopolitical issues, make operating in certain Asian markets challenging. To the extent we explore other countries to source effectively our manage product or explore increasing the amount of product sourced from current countries, we inventory may be subject to additional increased legal and operational risks associated with doing business in new countries or increasing our business in other countries.

Further, the activities conducted by our sourcing offices outside the United States subject us to foreign operational risks, as well as U.S. and international regulations and compliance risks, as discussed elsewhere in this "Risk Factors" section, in particular below under "Risk Factors – Risks Relating to Accounting and Legal Matters - Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, gross margin and results of operations and financial condition." operations.

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. Moreover, attracting and retaining skilled personnel has become increasingly challenging in the tight labor market that has persisted since the onset of the COVID-19 pandemic. To offset this turnover as well as support new store growth, we must continually attract, hire and train new store associates to meet our staffing needs. A significant increase in the turnover rate among our store sales associates and managers would increase our recruiting and training costs, as well as possibly cause a decrease in our store operating efficiency and productivity. We compete for qualified store associates, as well as experienced management personnel, with other companies in our industry or other industries, many of whom have greater financial resources than we do.

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

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

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The currently competitive environment for hiring new associates and retaining existing associates is causing wages to increase, which has affected and could continue to adversely affect our business, margins,
margins, operating results and financial condition if we cannot offset these cost increases.

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

The price and availability of raw materials may be impacted by demand, regulation, weather and crop yields, currency value fluctuations, inflation, as well as other factors. Additionally, manufacturers have and may continue to have increases in other manufacturing costs, such as transportation, labor and benefit costs. These increases in production costs may 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 margins, results of operations and financial condition.

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

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

Risks Relating to Our Information Technology, Related Systems and Related Systems: Cybersecurity:

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

We rely on our existing information technology systems for merchandise operations, including merchandise planning, replenishment, pricing, ordering, markdowns and product life cycle management.

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

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

The protection of employee, Company and customer data is critical to the Company. Any security breach, mishandling, human or programming error or other event that results in the misappropriation, loss or other unauthorized disclosure of employee, Company or customer information, including but not limited to credit card data or other personally identifiable information, could severely damage the

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Company's reputation, expose it to remediation and other costs and the risks of legal proceedings, disrupt its operations and otherwise adversely affect the Company's business and financial condition. The security of certain of this information also depends on the ability of third-party service providers, such as those we use to process credit and debit card payments as described below under "We are subject to payment-related risks," to properly handle and protect such information. Our information systems and those of our third-party service providers are subject to ongoing and persistent cybersecurity threats from those seeking unauthorized access through means which are continually evolving and may be difficult to anticipate or detect for long periods of time. Despite measures the Company takes to protect confidential information against unauthorized access or disclosure, which measures are ongoing and may continue to increase our costs, there is no assurance that such measures will prevent the compromise of such information. If any such our measures compromise are unsuccessful due to cyberattacks or unauthorized access to or disclosure of this information were to occur, otherwise, it could have a material material adverse effect on the Company's reputation, business, operating results, financial condition and cash flows. In addition, the Company may be subject to ransomware attacks, which if successful could result

result in disruptions to the Company’s operations and expose it to remediation
and other costs, risks of legal

affect

proceedings, damage the Company’s reputation and otherwise adversely adversely affect thetheCompany's business and financial condition.

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

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

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

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

We are subject to payment-related risks.

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

Risks Relating to Accounting and Legal Matters:

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

In an effort to provide greater comparability of financial reporting in an increasing global environment, accounting regulatory authorities have been in discussions for many years regarding efforts to either converge U.S. Generally Accepted Accounting Principles with International Financial Reporting

Standards (“IFRS”), have U.S. companies provide supplemental IFRS-based information or continue to work toward a single set of globally accepted accounting standards. If implemented, these potential changes in accounting rules or regulations could significantly impact our future reported results of operations and financial position. Changes in accounting rules or regulations and varying interpretations of existing accounting rules and regulations have significantly affected our reported financial statements and those of other participants in the retail industry in the past and may continue to do so in the future.

Future changes to accounting rules or regulations may adversely affect our reported results of operations and financial position or perceptions of our performance and financial condition.

Continued scrutiny and changing expectations surrounding environmental, social and governance (“ESG”) matters from investors, customers, government regulators and other stakeholders may impose additional reporting requirements, additional costs and compliance risks.

Public companies from across all industries are facing increasing scrutiny from investors, customers, government regulators and other stakeholders concerning ESG matters. In the U.S., there are various new rules the or U.S., there are various proposals for new or enhanced disclosure requirements regarding climate emissions, sustainability, sustainability,

workforce diversity and other human capital resources metrics, among other topics.

Complying with these the complex reporting obligations obligations or expectations may increase our costs associated with compliance,

with compliance, disclosure and reporting. Furthermore, evolving ESG laws, regulations and stakeholder expectations may result result in uncertain and potentially burdensome reporting requirements as stakeholders, agencies and agencies and government authorities adjust their expectations or change laws expectations and regulations, such as the new rules regarding climate emissions reporting and or auditing requirements. change Failure to comply with all laws of the new rules and regulations such as proposals currently under consideration regarding climate emissions reporting and auditing requirements. Failure to comply with all of the currently proposed regulatory requirements in a timely manner may adversely affect our reputation, business and financial performance.

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

U.S. Generally Accepted Accounting Principles and SEC accounting, disclosures and reporting changes are common and have become more frequent and significant in the past several years. Changes in accounting rules, disclosures or regulations and varying interpretations of existing accounting rules, disclosures 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. Future changes to accounting rules, disclosures or regulations may adversely affect our reported results of operations and financial position or perceptions of our performance and financial condition.

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”, “Versona”, “Cache” and “Body Central” trademarks are integral to our store designs, brand recognition and our ability to successfully build consumer loyalty. Although we have registered these trademarks with the U.S. Patent and

Trademark Office ("PTO") and have also registered, or applied for registration of, additional trademarks with the PTO that we believe are important to our business, we cannot give assurance that these registrations will prevent imitation of our trademarks, merchandising concepts, store designs or private label merchandise or the infringement of our other intellectual property rights by others. Infringement of our names, concepts, store designs or merchandise generally, or particularly in a manner that projects lesser quality or carries a negative connotation of our image could adversely affect our business, financial condition and results of operations.

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

Our business operations subject us to legal compliance and litigation risks, as as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our

management's attention or otherwise adversely affect our business, results of operations and financial condition.

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

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

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

From time to time the Company is involved in litigation and other claims against our business.
Primarily these arise from our in the normal course of business but are subject to risks and uncertainties, and uncertainties, and could

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

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 public company, we we are subject to the reporting requirements requirements of the Securities Exchange Act of
1934, the Sarbanes-Oxley Act of 2002, the rules of the SEC and New York Stock Exchange and certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related rule-making that has been and may continue to be implemented over the next several years under the mandates of the Dodd-Frank Act. The requirements of these rules and regulations have increased, and may continue to increase, our compliance costs and place significant strain on our personnel, systems and resources. To satisfy the SEC's rules implementing the requirements of Section 404 of the Sarbanes-
Oxley Act of 2002, we must continue to document, test, monitor and enhance our internal control over financial reporting, which is a costly and time-consuming effort that must be re-evaluated frequently. We
cannot give assurance that our disclosure controls and procedures and our internal control over financial

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reporting, as defined by applicable SEC rules, will be adequate in the future. Any failure to maintain the effectiveness of internal control over financial reporting or to comply with the other various laws and regulations to which we are and will continue to be subject, or to which we may become subject in the future, as a public company could have an adverse material impact on our business, our financial condition and the price of our common stock. In addition, our efforts to comply with these existing and new requirements could significantly increase our compliance costs.

Risks Relating to Our Investments and Liquidity:

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

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

Our ability to access credit markets and our revolving line of credit, either generally or on favorable market terms, may be impacted by the factors discussed in the preceding paragraph, as well as continued compliance with covenants under our revolving credit agreement. The development or persistence of any

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of these adverse factors or failure to comply with covenants on which our borrowing is conditioned may adversely affect our financial condition, results of operations and our ability to execute access our business revolving line of credit and to execute our business strategy.

Risks Relating to the Market Value of Our Common Stock:

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

As of March 23, 2023 March 27, 2024, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially owned approximately 51.0% 51.9% of the combined voting power of our common stock. As a result, Mr. Cato has the ability to substantially influence or determine the outcome of all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations or other significant Company transactions. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. The concentration of voting power held by Mr. Cato could discourage potential investors from acquiring our common stock and could also have the effect of preventing, discouraging or deferring a change in control of the Company or other fundamental transaction, all all of which could depress the market price of our common stock. In addition, Mr. Cato has the ability to control the management of the Company as a result of his position as Chief Executive Officer. We qualify for exemption as a “controlled company” from compliance with certain New York Stock Exchange corporate governance rules, including the requirements that we have a majority of independent directors on our Board, an

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independent compensation committee and an independent corporate governance and nominating committee. If we elected to utilize these “controlled company” exceptions, our other shareholders could lose the benefit of these corporate governance requirements and the market value of our common stock could be adversely affected.

There can be no assurance that we will choose to declare or be able to declare cash dividends in the future.

The declaration and payment of any dividend is subject to the approval of our Board of Directors. Our Board of Directors regularly evaluates our ability to pay a dividend based on many factors, such as but not limited to, applicable legal requirements, the financial position of the Company, contractual restrictions and our capital allocation strategy. There can be no assurance that a cash dividend will be declared in the future in any particular amount, or at all.

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.

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

The trading price of our common stock at times has been, and is likely to continue to be, subject to significant volatility. A variety of factors may cause the price of our common stock to fluctuate, perhaps

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substantially, including, but not limited to, those discussed elsewhere in this report, as well as the following: low trading volume; general market fluctuations resulting from factors not directly related to our operations or the inherent value of our common stock; announcements of developments related to our business; fluctuations in our reported operating results; general conditions or trends affecting or perceived to affect the fashion and retail industry; conditions or trends affecting or perceived to affect the domestic or global economy or the domestic or global credit or capital markets; changes in financial estimates or the scope of coverage given to our Company by securities analysts; negative commentary regarding our

Company and corresponding short-selling market behavior; adverse customer relations developments; significant changes in our senior management team; and legal proceedings. Over the past several years the stock market in general, and the market for shares of equity securities of many retailers in particular,

have experienced extreme price fluctuations that have at times been unrelated to the operating performance of those companies. Such fluctuations and market volatility based on these or other factors may materially and adversely affect the market price of our common stock.

Item 1B.

Unresolved Staff Comments:

None.

Item 1C.

Cybersecurity:

Risk Management Strategy

We recognize the importance of effectively managing cybersecurity risk in protecting our business, customers and employees, and we manage cybersecurity risk as part of our overall risk management system and compliance processes. We maintain a process designed to identify, assess and manage material risks from cybersecurity threats, including risks relating to theft of customer data, primarily payment cards, disruption to business operations or financial reporting systems, fraud, extortion, harm to employee data and violation of privacy laws. In recent years, we have increased our investments in cybersecurity risk management within our environment and have developed an enterprise cybersecurity program designed to detect, identify, classify and mitigate cybersecurity and other data security threats.

This program classifies potential threats by risk levels, and we typically prioritize our threat mitigation efforts based on those risk classifications. In the event we identify a potential cybersecurity, privacy or other data security issue, we have defined procedures for responding to such issues, including procedures that address when and how to engage with Company executives, our Board of Directors, other stakeholders and law enforcement when responding to such issues. Additionally, various aspects of our cybersecurity program, particularly compliance with the Payment Card Industry standards, are regularly reviewed by independent third parties. We also maintain cybersecurity insurance, which we believe to be commensurate with our size and the nature of our operations, as part of our comprehensive insurance portfolio.

We utilize third-party intrusion detection and prevention systems and vulnerability and penetration testing to monitor our environment. We also use third-party software to test our employees' responses to suspicious emails and to inform targeted cyber awareness training. Our information security and privacy policies are informed by regulatory requirements and are reviewed periodically for compliance and alignment with current state and federal laws and regulations. We comply with applicable industry security standards, including the Payment Card Industry Data Security Standard ("PCI DSS"). Because we are aware of the risks associated with third-party service providers, we also have implemented processes to oversee and manage these risks. We conduct security assessments of third-party providers before engagement and maintain ongoing monitoring to help ensure compliance with our cybersecurity standards.

Additionally, we maintain a cybersecurity incident response plan, which is reviewed regularly, and provides a framework for handling and escalating cybersecurity incidents based on the severity of the incident and facilitates cross-functional coordination across the Company.

Through the processes described above, we did not identify risks during the year ended February 3, 2024 from current or past cybersecurity threats or cybersecurity incidents that have materially affected or are reasonably likely to materially affect our business strategy, results of operations, or financial condition. However, we face ongoing risks from certain cybersecurity threats that, if realized, are reasonably likely to materially affect our business strategy, results of operations, or financial condition.

See the risk factors discussed under the heading, "Risk Factors — Risks Relating to Our Information Technology, Related Systems and Cybersecurity" for further information.

Governance

Our Board of Directors recognizes the important roles that information security and mitigating cybersecurity and other data security threats play in our efforts to protect and maintain the confidentiality and security of customer, employee and vendor information, as well as non-public information about our Company. Although the Board as a whole is ultimately responsible for the oversight of our risk management function, the Board has delegated to its Audit Committee primary responsibility for oversight of risk assessment and risk management, including risks related to cybersecurity and other technology issues. The Audit Committee also oversees the Company's internal control over financial reporting, including with respect to financial reporting-related information systems. The Chief Financial Officer (CFO) and Chief Accounting Officer (CAO) meet regularly with the Audit Committee and Board of Directors.

The Audit Committee reviews quarterly our cybersecurity activities, including review of annual external assessment results, training results, and discussion of cybersecurity risks and resolutions, and is responsible for elevating significant matters to the Board as events arise. The Audit Committee receives reports from our Chief Information Officer (CIO) annually regarding our cybersecurity framework, as well as our plans to mitigate cybersecurity risks and respond to any data breaches.

From a management perspective, our enterprise cybersecurity is overseen by our cybersecurity committee, which is chaired by our CFO and includes our CAO, CIO, Chief Information Security Officer

(CISO), as well as key members of financial management, information technology and audit. Our cybersecurity infrastructure is overseen by our CISO, who reports to our CIO. Our CIO reports to our CFO and has served in various roles in information technology and information security for over 30 years.

Item 2.

Properties:

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

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Item 3.

Legal Proceedings:

From time to time, claims are asserted against the Company arising out of operations in the ordinary course of business. The Company currently is not a party to any pending litigation that it believes is likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. See Note 15, "Commitments and Contingencies," for more information.

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Item 3A.

Executive Officers of the Registrant:

The executive officers of the Company and their ages as of March 23, 2023 March 27, 2024 are as follows:

Name

Age

Position

John P. D. Cato...........................

72 73

Chairman, President and Chief Executive Officer

Charles D. Knight.......................
58 59
Executive Vice President, Chief Financial Officer
Gordon Smith.............................

67 68

Executive Vice President, Chief Real Estate and
Store Development Officer

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

Charles D. Knight
has been employed as Executive Vice President, Chief Financial Officer by the Company since January of 2022. From 2018 to 2020, he served in various roles with The Vitamin Shoppe, first as Senior Vice President, Chief Accounting Officer from 2018 to 2019, and then as Executive Vice President, Chief Financial Officer from 2019 to 2020. Prior to that, he served in various roles with Toys "R" Us for 28 years, including as Senior Vice President, Corporate Controller from 2010

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PART II

Item 5.

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

Market & Dividend Information

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

As of March 23, 2023 March 25, 2024, 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.

cato2023012810Kp27i0

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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

[redacted]

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Issuer Purchases of Equity Securities

The following table summarizes the Company's purchases of its common stock for the three months ended January 28, 2023 February 3, 2024:

Total Number of
Maximum Number
Shares Purchased as
(or Approximate Dollar
Total Number
Part of Publicly
Value) of Shares that may
of Shares
Average Price
Announced Plans or yet be Purchased Under
Period
Purchased

Paid per Share (1)
Programs (2)
the Plans or Programs (2)
November 2022 2023
-
$
-
-
December 2022 2023
403,426 -
9.06 -
403,426 -
January 2023 2024
-
-
-
Total
403,426 -
$
9.06 -
403,426 -
197,769 909,653
(1)
Prices include trading costs.
(2)
During the fourth quarter ended January February 28, 3, 2023, 2024, the Company repurchased did and not retired 403,426 shares under this program for approximately $3,655,405 repurchase or an retire average any shares under market this program. price As of $9.06 February 3, per share. As of 2024, the fourth quarter ended January Company had 28, 2023, the Company 909,653 shares had 197,769 shares remaining in in open authorizations. There is no specified expiration date for the Company's repurchase program.
The Board of Directors authorized an increase in the Company's share repurchase program of 1,000,000 shares at the February 23, 2023 Board of Directors' meeting.

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Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations:

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide information to assist readers in better understanding and evaluating our financial condition and results of operations. The following information should be read in conjunction with the Consolidated Financial Statements, including the accompanying Notes appearing in Part II, Item 8 of this annual report on on Form 10-K. This section of the annual report of the on Form 10-K generally discusses fiscal 2022 2023 and fiscal year 2022 2021 and year-to- year-to-year comparisons between fiscal 2023 and fiscal 2022, and as well as certain fiscal 2021 as well, as certain fiscal 2020 items. Discussions of fiscal 2020 2021 items and year-to-year comparisons between fiscal 2021 2022 and fiscal 2021 that are not included 2020 in this Form 10-K can that be found in "Management's are Discussion and Analysis of Financial not Condition and Results of Operations" in this Part Form II, 10-K Item can be found in "Management's Discussion and Analysis 7 of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report annual report on Form 10-K Form 10-K for the fiscal year ended January 29, 2022 January 28, 2023.

Recent Developments

Inflationary Cost Pressure and Rising High Interest Rates

The current high inflationary environment continues to impact the Company through higher operating costs, including costs to ship our products to stores and customers, operating supplies, wages, and fuel. In addition to the price increases, costs for fuel, food, and housing, including rent, as well as other consumables across the economy, are increasingly impacting our Our customers' disposable income as well as our customers' willingness to purchase discretionary items such as was apparel, jewelry or shoes.

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Results of Operations

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

Fiscal Year Ended
February 3, 2024
January 28, 2023
January 29, 2022
Retail sales ……………………………………………………………..
100.0
%
100.0
%
Other revenue…………………………………………………………
0.9 1.1
1.0 0.9
Total revenues ………………………………………………………
100.9 101.1
101.0 100.9
Cost of goods sold …………………………………………………..
67.7 66.3
59.5 67.7
Selling, general and administrative………………………………….
32.3 36.1
35.1 32.3
Depreciation …………………………………………………………
1.5 1.4
1.6 1.5
Interest and other income ………………………………………….
0.7
0.8
0.3
Income (loss) before income taxes ………………………………….
0.2 (2.0)
5.1 0.2
Net income …… (loss)……………………………………………………………..
- (3.4)
%
4.8 -
%

Fiscal 2022 2023 Compared to Fiscal 2021 2022

Retail sales decreased by 1.2% 6.9% to $752.4 700.3 million in fiscal 2022 2023 compared to $761.4 $752.4 million in fiscal
2021. 2022. The decrease in retail sales in fiscal 2022 2023 was primarily due to a 1% 5.9% decrease in same-store sales and sales and sales from from closed stores in 2021, partially offset by stores opened in 2022 and stores closed in the first half of 2023, partially offset by an additional week of sales in 2023 and a small increase in sales from stores opened in 2023. Fiscal 2023 had
53 weeks versus 52 weeks in fiscal 2022. Same-store sales for the the fiscal year year 2022 2023 decreased decreased primarily due due to lower average unit transactions, selling price partially resulting from offset late by arriving fewer returns and slightly higher average sales per merchandise due to supply chain disruptions in the first half of 2022. transaction. Same-store sales includes stores that

(principally finance finance charges and late fees on customer accounts receivable, fees on customer accounts receivable, gift card breakage, shipping
charges for e-commerce purchases and layaway fees),

decreased by 6.7% by to $708.1 1.3% million in fiscal 2023
compared to $759.3 million in fiscal 2022 compared to $769.3 million in fiscal 2021. 2022. The

Company operated 1,280 1,178 stores at January February 28, 3, 2023 compared to 1,311 stores operated at January 29, 2024
2022. compared to 1,280 stores operated at January 28, 2023.

In fiscal 2022, 2023, the Company opened 19 nine new stores and closed 50 111 stores.

Other revenue, a component of total revenues, decreased increased to $6.9 7.7 million in fiscal 2022 2023 from $7.9 6.9
million in fiscal 2021. 2022. The decrease resulted primarily increase was due to decreases increases in gift card breakage income and finance charges e-commerce shipping revenues, associated with the Company's proprietary credit card, partially offset by an increase decreases in finance and layaway charges. e-commerce shipping revenue.

Credit revenue of $2.2 2.6 million represented 0.3% 0.4% of total revenue in fiscal 2022, 2023, a $0.1 0.4 million increase compared to fiscal 2021 2022 credit revenue of $2.1 million $2.2 million or 0.3% of total revenue. The increase in credit revenue was primarily due to increases in finance charges and late fee income as a result of higher accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally payroll, postage and other administrative expenses and totaled $1.7 million in fiscal 2022 2023 compared to $1.4 1.7 million in fiscal 2021. 2022. See Note Note 13 of Notes to the Consolidated Financial Statements, "Reportable Segment Information"
for a schedule of credit-related expenses.
expenses. Total credit segment income before taxes was $0.6 million in fiscal 2022 and $0.6 was $0.9 million in fiscal 2021. 2023 and $0.6 million in fiscal 2022.

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Cost of goods sold was $509.7 $464.3 million, or 67.7% 66.3% of retail sales, in fiscal 2022 2023 compared to $453.1 509.7
million, or 59.5% 67.7% of retail sales, in fiscal 2021. 2022. The increase decrease in cost of goods sold as a percentage of sales resulted primarily from higher lower ocean freight costs and increased sales of marked down regular priced goods, and partially offset increases in freight and distribution costs.
The Company expects markdown sales to decrease in 2023 and beyond, as the markdown sales increase is

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primarily attributed to the supply chain disruption in the first half by deleveraging of 2022, occupancy and causing goods to miss their optimum selling times. buying costs. Cost of goods sold includes merchandise merchandise costs, net of discounts and allowances, buying buying costs, distribution costs, occupancy costs, and freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs.

Buying and distribution costs include Buying payroll, payroll-related costs and operating expenses for the buying departments and distribution costs center. 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 21.3% to $242.7 by 2.8% to $236.0 million in fiscal 2022 2023 from $308.3 $242.7 million million in fiscal 2021. 2022. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses (“SG&A”), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees were $252.8 million in fiscal $242.6 million 2023 compared to $242.6 million in fiscal 2022, an increase of 4.2%. As a percent of retail sales, SG&A was 36.1% compared to 32.3% in the prior year. The increase in SG&A expense in fiscal 2022 compared to $267.0 million in fiscal 2021, a decrease of 9.1%. As a percent of retail sales, SG&A 2023 was 32.3% primarily compared attributable to 35.1% in the higher payroll, prior year. insurance and The dollar decrease in SG&A expense was primarily attributable to lower employee benefit/bonusexpense and lower insurance costs, partially offset by higher store wages resulting from higher hourly rates and increased closed store operating hours. expenses.

Depreciation expense was $9.9 million in fiscal 2023 compared to $11.1 million in fiscal 2022 compared to $12.4 million in fiscal 2021. 2022.

Depreciation expense decreased from fiscal 2021 2022 due to fully depreciated older stores and prior period impairments of leasehold improvements and fixtures, partially offset by store development and information technology expenditures.

Interest and other income increased decreased to $5.9 5.1 million in fiscal 2022 2023 compared to $2.1 $5.9 million in fiscal

2021. 2022. The increase decrease is primarily attributable to receiving a Business Recovery Grant from the State of North Carolina proceeds from property insurance claims related to hurricanes in fiscal years 2022, 2021 partially and 2020 and an offset increase in interest by income from short-term higher amounts earned on investments due to rising to higher interest rates, partially offset by lower short-term investments. rates.

Income tax expense was $1.7 10.1 million, or 0.2% 1.4% of retail sales in fiscal 2022 2023 compared to income tax expense of $2.1 1.7 million, or 0.3% 0.2% of retail sales in fiscal 2021. 2022. The income tax expense decrease increase was primarily due to a valuation allowance to lower pre-tax income recorded against U.S. federal and lower federal, state and local deferred tax assets due to tax benefits, a pre-tax loss, partially offset by Global Intangible Low-taxed Income ("GILTI") and foreign non-deductible officer's compensation. rate differential. The effective

tax rate was (73.5%) (Expense) in fiscal 2023 compared to 98.4% (Expense) in fiscal 2022 compared to 5.4% (Expense) in fiscal 2021. 2022. See Note 12 to the Consolidated Financial the Consolidated Financial Statements, "Income Taxes," for further details.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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Property and Equipment:

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

Classification	Estimated Useful Lives
Land improvements	10 years
Buildings	30 - 40 years

Impairment of Long-Lived Assets: Leasehold improvements

5 The Company invests in leaseholds, right-of-use assets and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The 10 Company periodically reviews its store locations and estimates the recoverability of its long-lived assets, which primarily relate to Fixtures and equipment, Leasehold improvements, Right-of-Use assets and net of lease liabilities and Information technology equipment and software. An impairment charge is recorded for the amount by which the carrying value exceeds the estimated fair value when the Company determines that projected cash flows associated with those long-lived assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and future projected cash flows, which include contribution margin projections. The Company assesses the fair value of each lease by considering market rents and any lease terms that may adjust market rents under certain conditions, such as the loss of an anchor tenant or a leased space in a shopping center not meeting certain criteria. Further, in determining when to close a store, the Company considers real estate development in the area and perceived local market conditions, which can be difficult to predict and may be subject to change. Asset impairment charges of $

years
Fixtures and equipment
3
-
10
years
Information technology equipment and software
3
-
10

Other Assets:

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

Balance as of		
	February 3, 2024	January 28, 2023
		January 29, 2022
(Dollars in thousands)		
Other Assets		
Deferred Compensation Investments	$ 9,274	8,586
Miscellaneous Investments	1,923	1,818

884,079 1,811,000 $ 900,719 884,000 and $ 901,000 $ 13,702,022 11,472 were incurred in fiscal 2023, fiscal 2022 and fiscal 2021, and fiscal 2020, respectively.

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

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

44 46

a straight-line basis over the terms of the leases, including renewal periods considered reasonably assured, the Company begins amortization as of the initial possession date which is when the Company enters the space and begins to make improvements in preparation for intended use.

Revenue Recognition:

The Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales from stores are also recorded when the customer takes possession of the merchandise. E-commerce sales are recorded when the risk of loss is transferred to the customer. Gift cards are recorded as deferred revenue until they are redeemed or forfeited. Layaway sales are recorded as deferred revenue until the customer takes possession or forfeits the merchandise. Gift cards do not have expiration dates. A provision is made for estimated merchandise returns based on sales volumes and the Company's experience; actual returns have not varied materially from historical amounts. A provision is made for estimated write-offs associated with sales made with the

Company's proprietary credit card. proprietary In addition, a provision is made for estimated rewards cards issued to customers based on their purchases with the Company's propriety credit card. In addition, Amounts a provision related is to shipping and made for handling billed estimated rewards cards issued based on purchases with the Company's propriety credit card. Amounts related to shipping and handling billed to customers in in a sales transaction are classified as Other revenue and the costs Other revenue and the costs related to shipping product to customers (billed and accrued) are classified as Cost of goods sold.

In accordance with ASU 2014-09,

Revenue from Contracts with Customers (Topic 606)

("Topic 606"),

in fiscal 2022, 2023, 2021 2022 and 2020, 2021, the Company recognized $

256,000 1,116,000

, $

1,482,000 256,000

and $

,000

respectively, of income on unredeemed gift cards ("gift card breakage") as a component of Other

in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Under Topic 606, the Company recognizes gift card breakage using an expected breakage percentage based on redeemed gift cards. See Note 2 for further information on miscellaneous income. The rewards cards issued by the Company have a 90-day expiration.

Balance as of	
February 3, 2024	
January 28, 2023	
January 29, 2022	
Proprietary Credit Card Receivables, net	$ 10,553 10,909
	$ 8,998 10,553
Gift Card Liability	$ 8,523 8,143
	$ 8,308 8,523

The Company offers its own proprietary credit card to customers. All credit activity is performed by the Company's wholly-owned subsidiaries. None of the credit card receivables are secured. The Company estimated customer credit losses of $

349,000 578,000

and $

485,000 349,000

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 the Company's buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Buying, distribution, occupancy and internal transfer costs are treated as period costs and are not capitalized as part of inventory. The direct costs associated with shipping goods to customers are recorded as a component of Cost of goods sold.

[redacted]

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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Advertising:

Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately $

6,868,000 6,277,000

, $

6,037,000 6,868,000

and $

4,385,000 6,037,000

for the fiscal years ended January 28, February 3, 2023 2024 , January 28, 2023 and January 29, 2022 and January 30, 2021, respectively.

Stock Repurchase Program:

For the fiscal year ended January 28, 2023, February 3, 2024, the Company had

197,769 909,653

shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program. Share repurchases are recorded in Retained earnings, net of par value. From year end through March 23, 2023, the Company repurchased

Earnings Per Share:

ASC 260

163,580
Earnings Per Share
shares for $
requires dual presentation of basic EPS and diluted EPS on the face of all income
$1,481,433
statements for all entities with complex capital structures. The
The Board of
Company has presented one basic EPS and one diluted EPS amount for all common
Directors increased the Company's share repurchase authorization by one million shares
shares in the accompanying Consolidated Statements of Income (Loss) and Comprehensive
at the
Income (Loss). While the
February 23, 2023 Board of Directors meeting.
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

[redacted]n 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 earnings (loss) less earnings allocated to non-vested equity awards divided by awards divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the reflects the potential dilution that could occur from common shares issuable through stock options and the Employee Employee Stock Purchase Plan.

The following table reflects the basic and and diluted EPS calculations for EPS calculations the fiscal years ended for the fiscal years ended January February 28, 2023, 3, 2024, January 28, 2023 and January 29, 2022 and January 30, 2021:

Fiscal Year Ended
February 3, 2024
January 28, 2023
January 29, 2022
January 30, 2021
Numerator
(Dollars in thousands)
Net earnings (loss)
$
(23,941)
$
29
$
36,943
$
(47,483)
(Earnings) loss allocated to non-vested equity awards
1,347
12
(1,937)
2,096
Net earnings (loss) available to common stockholders
$
(22,594)
$
4
$

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.

Company's assets and liabilities.

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

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

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

Deferred Tax Valuation Allowance:

The Company assesses the likelihood that deferred tax assets will be realized in light of the Company's current financial performance and projected future financial performance. Based on this assessment, the Company then determines if a valuation allowance should be recorded. If the Company concludes that it is more likely than not that the Company will not be able to realize its tax deferred assets, a valuation allowance is recorded for the proportion of the deferred tax asset it determines may not be realized.

Store Opening Costs:

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

Insurance:

The Company is self-insured with respect to employee health care, workers' compensation and general liability. The Company's self-insurance liabilities are based on the total estimated cost of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management reviews current and historical claims data in developing its estimates.

The Company has stop-loss insurance coverage for individual claims in excess of $ 325,000 for employee healthcare, $ 350,000 for workers' compensation and $ 250,000 for general liability.

Fair Value of Financial Instruments:

The Company's carrying values of financial instruments, such as cash and cash equivalents, short-term investments, and restricted cash, and approximate their short-term fair investments, values 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.*

Subsequent Events: associated with stock awards recognized in all years presented

On February 16, 2024, the Company closed on the sale of land held for investment for $

4.2 grant date fair value and 2) adjustments for the effects of actual forfeitures versus initial

Recently Adopted Accounting Policies:

million less commissions. This transaction will be reflected in the Company's consolidated

In November 2021, the Financial Accounting Standards

financial statements in the first quarter of fiscal 2024.

Board issued Accounting Standards Update 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*

THE CATO CORPORATION

This update provides for increased transparency of government assistance, including the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

disclosure of the types of assistance an entity receives, an entity's method of accounting for

47 49

for all public entities that are required to report segment information. The update will

government assistance and the effect of the assistance on an entity's financial statements. This

change the reporting of segments by adding significant segment expenses, other segment

standard is effective for annual periods beginning after December 15, 2021. The

items, title and position of the chief operating decision maker ("CODM") and how the COD uses

Company adopted this standard on a prospective basis on January 30, 2022.

the reported measures to make decisions. The update also requires an annual disclosure about a reportable segment's profit or loss and assets in interim periods. This guidance is effective

Recently Issued Accounting Pronouncements:

for fiscal years beginning after December 15, 2023

The Company has reviewed recent accounting pronouncements and believe

and interim periods within fiscal years beginning after December 15, 2024. Early adoption is

In November 2023, the Financial

none will have a material impact on the Company's financial statements.

permitted.

Accounting

and the guidance is applicable retrospectively to all prior periods presented in the financial

Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, "Segment

statements.

Reporting

The Company is currently in the process of evaluating the potential impact of adoption of this

(Topic 280): Improvements to Reportable Segment Disclosures", which modifies disclosure

new guidance on its consolidated financial statements and related disclosures.

requirements

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures", which modifies the requirements on income tax disclosures to require disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. This guidance is effective for fiscal years beginning after December 15, 2024 for all public business entities, with early adoption and retrospective application permitted. The Company is currently in the process of evaluating the potential impact of adoption of this new guidance on its consolidated financial statements and related disclosures.

2. Interest and Other Income:

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

	Fiscal Year Ended			
	February 3, 2024	January 28, 2023	January 29, 2022	January 30, 2021
Dividend income	$ **(78)**	$ (47)	$ (76)	$ (5)
Interest income	**(3,919)**	(1,876)	(1,421)	(2,697)
State recovery grant	$ (1,431)	- (1,431)		
Insurance proceeds	(1,683)	- (1,683)		

In fiscal 2022, the Company received $ 1.4 million from the state of North Carolina's Business Recovery Program, which provides provided aid to eligible North Carolina businesses that suffered significant economic damage from the COVID-19 pandemic. Additionally, in fiscal 2021, the Company received $ 1.7 million in property insurance claims, including business interruption, from Hurricanes Ida and

3. Short-Term Investments:

At January February 28, 3, 2023, 2024, the Company's investment portfolio was primarily invested in corporate and governmental debt securities held in managed accounts. These securities are classified as available-for-sale as they are highly liquid and are recorded on the Consolidated Balance Sheets at estimated fair value, w2021nrealized gains and temporary losses reported net of taxes in Accumulated other

M[redacted]ous income

cland[redacted]ve income.

THE CATO CORPORATION scal 2020, the Company recorded a (gain) on the sale of land

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

50 uary 28, 2023 February 3, 2024 and January 29, 2022 January 28, 2023 (in thousands):

million. [redacted]ain) on investment sales

(25)

February 3, 2024