

CATO CORP
Form 10-Q
November 24, 2015

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

FORM 10-Q

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

For the quarterly period ended October 31, 2015

OR

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

For the transition period from _____ to _____
Commission file number 1-31340

THE CATO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

56-0484485
(I.R.S. Employer Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975
(Address of principal executive offices)

(Zip Code)

(704) 554-8510
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

As of October 31, 2015, there were 26,155,617 shares of Class A common stock and 1,743,525 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

Quarter Ended October 31, 2015

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 |
| (Dollars in thousands, except per share data) | | | | |
| REVENUES | | | | |
| Retail sales | \$ 223,311 | \$ 213,785 | \$ 754,101 | \$ 740,023 |
| Other revenue (principally finance charges, late fees and layaway charges) | 2,156 | 2,225 | 6,534 | 6,778 |
| Total revenues | 225,467 | 216,010 | 760,635 | 746,801 |
| COSTS AND EXPENSES, NET | | | | |
| Cost of goods sold (exclusive of depreciation shown below) | 140,263 | 136,495 | 457,266 | 449,496 |
| Selling, general and administrative (exclusive of depreciation shown below) | 70,659 | 67,623 | 206,354 | 203,442 |
| Depreciation | 6,040 | 5,422 | 16,968 | 16,297 |
| Interest and other income | (857) | (686) | (2,259) | (2,527) |
| Cost and expenses, net | 216,105 | 208,854 | 678,329 | 666,708 |
| Income before income taxes | 9,362 | 7,156 | 82,306 | 80,093 |

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| | | | | | | | | |
|---|----|--------------|----|-------|----|---------------|----|--------|
| Income tax expense | | 1,043 | | 1,464 | | 27,310 | | 28,743 |
| Net income | \$ | 8,319 | \$ | 5,692 | \$ | 54,996 | \$ | 51,350 |
| Basic earnings per share | \$ | 0.30 | \$ | 0.20 | \$ | 1.97 | \$ | 1.82 |
| Diluted earnings per share | \$ | 0.30 | \$ | 0.20 | \$ | 1.97 | \$ | 1.82 |
| Dividends per share | \$ | 0.30 | \$ | 0.30 | \$ | 0.90 | \$ | 0.90 |
| Comprehensive income: | | | | | | | | |
| Net income | \$ | 8,319 | \$ | 5,692 | \$ | 54,996 | \$ | 51,350 |
| Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of \$125 and (\$18) for the three and nine months ended October 31, 2015 and (\$21) and \$0 for the three and nine months ended November 1, 2014, respectively | | 207 | | (35) | | (27) | | 1 |
| Comprehensive income | \$ | 8,526 | \$ | 5,657 | \$ | 54,969 | \$ | 51,351 |

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

| | October 31, 2015 | January 31, 2015 | November 1, 2014 |
|--|------------------|------------------|------------------|
| ASSETS | | | |
| (Dollars in thousands) | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 43,425 | \$ 93,946 | \$ 83,749 |
| Short-term investments | 216,602 | 162,185 | 157,548 |
| Restricted cash and investments | 4,473 | 4,479 | 4,686 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,542, \$1,542 and \$1,741 at October 31, 2015, January 31, 2015 and November 1, 2014, respectively | 38,205 | 41,023 | 40,555 |
| Merchandise inventories | 136,101 | 137,549 | 127,786 |
| Deferred income taxes | 4,308 | 4,291 | 4,720 |
| Prepaid expenses | 9,247 | 10,978 | 6,165 |
| Total Current Assets | 452,361 | 454,451 | 425,209 |
| Property and equipment – net | 139,512 | 135,181 | 145,962 |
| Noncurrent deferred income taxes | 4,567 | 3,363 | 1,375 |
| Other assets | 21,937 | 15,283 | 9,943 |
| Total Assets | \$ 618,377 | \$ 608,278 | \$ 582,489 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 104,495 | \$ 111,674 | \$ 94,135 |
| Accrued expenses | 48,119 | 48,404 | 45,300 |
| Accrued bonus and benefits | 10,095 | 19,567 | 14,541 |
| Accrued income taxes | 11,284 | 14,256 | 17,844 |
| Total Current Liabilities | 173,993 | 193,901 | 171,820 |
| Other noncurrent liabilities (primarily deferred rent) | 36,847 | 34,179 | 32,994 |
| Commitments and contingencies: | - | - | - |
| Stockholders' Equity: | | | |
| Preferred stock, \$100 par value per share, | | | |

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| | | | |
|--|-------------------|------------|------------|
| 100,000 shares authorized, none issued | - | - | - |
| Class A common stock, \$.033 par value per share, 50,000,000 shares authorized; issued 26,155,617 shares, 26,174,684 shares and 26,168,286 shares at October 31, 2015, January 31, 2015 and November 1, 2014, respectively | 877 | 873 | 872 |
| Convertible Class B common stock, \$.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at October 31, 2015, January 31, 2015 and November 1, 2014, respectively | 58 | 58 | 58 |
| Additional paid-in capital | 88,729 | 85,029 | 83,779 |
| Retained earnings | 317,114 | 293,452 | 292,187 |
| Accumulated other comprehensive income | 759 | 786 | 779 |
| Total Stockholders' Equity | 407,537 | 380,198 | 377,675 |
| Total Liabilities and Stockholders' Equity | \$ 618,377 | \$ 608,278 | \$ 582,489 |

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended | |
|--|-------------------------------|-------------------------|
| | October 31, 2015 | November 1, 2014 |
| | (Dollars in thousands) | |
| Operating Activities: | | |
| Net income | \$ 54,996 | \$ 51,350 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 16,968 | 16,297 |
| Provision for doubtful accounts | 717 | 805 |
| Purchase premium and premium amortization of investments | (4,453) | 258 |
| Share-based compensation | 3,074 | 2,678 |
| Excess tax benefits from share-based compensation | (192) | (181) |
| Deferred income taxes | (1,204) | - |
| Loss on disposal and write-offs of property and equipment | 353 | 618 |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Accounts receivable | 2,101 | (2,136) |
| Merchandise inventories | 1,448 | 23,075 |
| Prepaid and other assets | (126) | (495) |
| Accrued income taxes | (2,780) | 3,170 |
| Accounts payable, accrued expenses and other liabilities | (13,157) | (4,358) |
| Net cash provided by operating activities | 57,745 | 91,081 |
| Investing Activities: | | |
| Expenditures for property and equipment | (22,432) | (21,380) |
| Purchase of short-term investments | (101,726) | (33,050) |
| Sales of short-term investments | 51,693 | 36,320 |
| Purchase of Other Assets | (5,402) | (1,286) |
| Sales of Other Assets | 298 | 85 |
| Change in restricted cash and investments | 6 | 15 |
| Net cash used in investing activities | (77,563) | (19,296) |
| Financing Activities: | | |
| Dividends paid | (25,202) | (25,508) |
| Repurchase of common stock | (6,148) | (42,615) |
| Proceeds from employee stock purchase plan | 455 | 468 |
| Excess tax benefits from share-based compensation | 192 | 181 |

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| | | | |
|--|-----------|----|----------|
| Proceeds from stock options exercised | - | | 11 |
| Net cash used in financing activities | (30,703) | | (67,463) |
| Net increase/(decrease) in cash and cash equivalents | (50,521) | | 4,322 |
| Cash and cash equivalents at beginning of period | 93,946 | | 79,427 |
| Effect of exchange rate on cash | - | | - |
| Cash and cash equivalents at end of period | \$ 43,425 | \$ | 83,749 |
| Non-cash investing activity: | | | |
| Accrued plant and equipment | \$ (665) | \$ | (3,681) |

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31, 2015 AND NOVEMBER 1, 2014

NOTE 1 - GENERAL:

The condensed consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the “Company”), and all amounts shown as of and for the periods ended October 31, 2015 and November 1, 2014 are unaudited. In the opinion of management, all adjustments considered necessary for a fair statement have been included. All such adjustments are of a normal, recurring nature unless otherwise noted. The results of the interim period may not be indicative of the results expected for the entire year.

The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2015. Amounts as of January 31, 2015 have been derived from the audited balance sheet, but do not include all disclosures required by accounting principles generally accepted in the United States of America.

During the first quarter of 2015, the Company determined that it had improperly calculated a long-term deferred tax liability in prior periods due to the inclusion of certain insurance premium amounts related to its captive insurance company. The Company recorded a favorable out of period adjustment during the three month period ended May 2, 2015 which resulted in a decrease in its long-term deferred tax liability by \$1.2 million, decreased its Income tax expense by \$1.0 million and increased its Accrued income taxes by \$0.2 million. The Condensed Consolidated Statements of Income and Comprehensive Income, Balance Sheet and Statement of Cash Flows for the nine months ended October 31, 2015 reflect the above amounts. The correction is not deemed material to prior period or current period consolidated financial statements.

The Company has changed the classification of certain items in its Consolidated Statements of Cash Flows to conform the November 1, 2014 presentation with our fiscal 2014 Form 10-K to show approximately \$1.2 million of cash outflows related to the purchase and sale of other assets previously reported in operating activities as investing activities. The correction is not deemed material to prior periods or current period Consolidated Financial Statements.

On November 24, 2015, the Board of Directors maintained the quarterly dividend at \$0.30 per share.

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(UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31, 2015 AND NOVEMBER 1, 2014

NOTE 2 - EARNINGS PER SHARE:

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

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

| | Three Months Ended | | Nine Months Ended | |
|--|-------------------------------|-------------|--------------------------|-------------|
| | October 31, | November 1, | October 31, | November 1, |
| | 2015 | 2014 | 2015 | 2014 |
| | (Dollars in thousands) | | | |
| Numerator | | | | |
| Net earnings | \$ 8,319 | \$ 5,692 | \$ 54,996 | \$ 51,350 |
| Earnings allocated to non-vested equity awards | (175) | (113) | (1,145) | (1,001) |
| Net earnings available to common stockholders | \$ 8,144 | \$ 5,579 | \$ 53,851 | \$ 50,349 |
| Denominator | | | | |
| Basic weighted average common shares outstanding | 27,368,931 | 27,359,660 | 27,396,760 | 27,673,293 |

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| | | | | |
|--|-------------------|------------|-------------------|------------|
| Dilutive effect of stock options | 5,234 | 4,493 | 5,703 | 2,640 |
| Diluted weighted average common shares outstanding | 27,374,165 | 27,364,153 | 27,402,463 | 27,675,933 |

Net income per common share

| | | | | | | | | |
|---|----|-------------|----|------|----|-------------|----|------|
| Basic earnings per share (Class A and B Shares) | \$ | 0.30 | \$ | 0.20 | \$ | 1.97 | \$ | 1.82 |
| Diluted earnings per share (Class A and B Shares) | \$ | 0.30 | \$ | 0.20 | \$ | 1.97 | \$ | 1.82 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31, 2015 AND NOVEMBER 1, 2014

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended October 31, 2015:

| | | Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities |
|--|----|---|
| Beginning Balance at August 1, 2015 | \$ | 552 |
| Other comprehensive income before reclassifications | | 227 |
| Amounts reclassified from accumulated other comprehensive income (b) | | (20) |
| Net current-period other comprehensive income | | 207 |
| Ending Balance at October 31, 2015 | \$ | 759 |

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

(b) Includes (\$32) impact of Accumulated other comprehensive income reclassifications into Interest and other

income for net gains on available-for-sale securities. The tax impact of this reclassification was (\$12).

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the nine months ended October 31, 2015:

| | | Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities |
|--|----|---|
| Beginning Balance at January 31, 2015 | \$ | 786 |
| Other comprehensive income before reclassifications | | (154) |
| Amounts reclassified from accumulated other comprehensive income (b) | | 127 |
| Net current-period other comprehensive income | | (27) |
| Ending Balance at October 31, 2015 | \$ | 759 |

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

(b) Includes \$203 impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was \$76.

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NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED):

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended November 1, 2014:

| | | Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities |
|--|----|---|
| Beginning Balance at August 2, 2014 | \$ | 814 |
| Other comprehensive income before reclassifications | | (40) |
| Amounts reclassified from accumulated other comprehensive income (b) | | 5 |
| Net current-period other comprehensive income | | (35) |
| Ending Balance at November 1, 2014 | \$ | 779 |

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

(b) Includes \$8 impact of Accumulated other comprehensive income reclassifications into Interest and other

income for net gains on available-for-sale securities. The tax impact of this reclassification was \$3.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the nine months ended November 1, 2014:

| | | Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities |
|--|----|---|
| Beginning Balance at February 1, 2014 | \$ | 778 |
| Other comprehensive income before reclassifications | | 141 |
| Amounts reclassified from accumulated other comprehensive income (b) | | (140) |
| Net current-period other comprehensive income | | 1 |
| Ending Balance at November 1, 2014 | \$ | 779 |

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

(b) Includes \$224 impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was \$84.

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NOTE 4 – FINANCING ARRANGEMENTS:

As of October 31, 2015, the Company had an unsecured revolving credit agreement to borrow \$35.0 million less the balance of any revocable letters of credit as discussed below. The revolving credit agreement is committed until August 2018. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of October 31, 2015. There were no borrowings outstanding under this credit facility during the periods ended October 31, 2015, January 31, 2015 or November 1, 2014. The weighted average interest rate under the credit facility was zero at October 31, 2015 due to no borrowings during the year.

At October 31, 2015 and January 31, 2015, the Company had no outstanding revocable letters of credit relating to purchase commitments. At November 1, 2014, the Company had approximately \$0.4 million of outstanding revocable letters of credit related to purchase commitments.

NOTE 5 – REPORTABLE SEGMENT INFORMATION:

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

The Company's retail operating segments have similar economic characteristics and similar operating, financial and competitive risks. They are similar in nature of product, as they all offer women's apparel, shoes and accessories.

Merchandise inventory for the Company's retail operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Merchandise for the Company's operating segments is distributed to retail stores in a similar manner through the Company's single distribution center and is subsequently distributed to clients in a similar manner.

The Company operates its women's fashion specialty retail stores in 32 states as of October 31, 2015, principally in the southeastern United States. The Company offers its own credit card to its customers and all credit authorizations, payment processing and collection efforts are performed by a separate subsidiary of the Company.

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NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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

| Three Months Ended | | | | Nine Months Ended | | | |
|---------------------------|---------------|---------------|--------------|---------------------------|---------------|---------------|--------------|
| October 31, 2015 | Retail | Credit | Total | October 31, 2015 | Retail | Credit | Total |
| Revenues | \$224,179 | \$1,288 | \$225,467 | Revenues | \$756,591 | \$4,044 | \$760,635 |
| Depreciation | 6,028 | 12 | 6,040 | Depreciation | 16,931 | 37 | 16,968 |
| Interest and other income | (857) | - | (857) | Interest and other income | (2,259) | - | (2,259) |
| Income before taxes | 8,917 | 445 | 9,362 | Income before taxes | 80,914 | 1,392 | 82,306 |
| Total assets | 561,709 | 56,668 | 618,377 | Total assets | 561,709 | 56,668 | 618,377 |
| Capital expenditures | 11,030 | - | 11,030 | Capital expenditures | 22,432 | - | 22,432 |
| | | | | | | | |
| Three Months Ended | | | | Nine Months Ended | | | |
| November 1, 2014 | Retail | Credit | Total | November 1, 2014 | Retail | Credit | Total |
| Revenues | \$214,569 | \$1,441 | \$216,010 | Revenues | \$742,448 | \$4,353 | \$746,801 |
| Depreciation | 5,412 | 10 | 5,422 | Depreciation | 16,262 | 35 | 16,297 |
| Interest and other income | (686) | - | (686) | Interest and other income | (2,527) | - | (2,527) |
| Income before taxes | 6,630 | 526 | 7,156 | Income before taxes | 78,509 | 1,584 | 80,093 |
| Total assets | 514,727 | 67,762 | 582,489 | Total assets | 514,727 | 67,762 | 582,489 |
| Capital expenditures | 7,414 | - | 7,414 | Capital expenditures | 21,380 | - | 21,380 |

The Company evaluates segment performance based on income before taxes. The Company does not allocate certain corporate expenses or income taxes to the credit segment.

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

| | Three Months Ended | | Nine Months Ended | |
|----------------|---------------------------|-------------|--------------------------|-------------|
| | October 31, | November 1, | October 31, | November 1, |
| | 2015 | 2014 | 2015 | 2014 |
| Bad debt | | | | |
| expense | \$ 219 | \$ 257 | \$ 717 | \$ 805 |
| Payroll | 219 | 213 | 648 | 630 |
| Postage | 149 | 181 | 540 | 559 |
| Other expenses | 244 | 254 | 710 | 740 |
| Total expenses | \$ 831 | \$ 905 | \$ 2,615 | \$ 2,734 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31, 2015 AND NOVEMBER 1, 2014

NOTE 6 – STOCK BASED COMPENSATION:

As of October 31, 2015, the Company had three long-term compensation plans pursuant to which stock-based compensation was outstanding or could be granted. The Company's 1987 Non-Qualified Stock Option Plan is for the granting of options to officers and key employees. As of October 31, 2015, there were no available stock options for grant under this plan. The 2013 Incentive Compensation Plan and 2004 Amended and Restated Incentive Compensation Plan are for the granting of various forms of equity-based awards, including restricted stock and stock options for grant, to officers, directors and key employees. Effective May 23, 2013, shares for grant were no longer available under the 2004 Amended and Restated Incentive Compensation Plan.

The following table presents the number of options and shares of restricted stock initially authorized and available for grant under each of the plans as of October 31, 2015:

| | 1987 Plan | 2004 Plan | 2013 Plan | Total |
|--|--------------|--------------|--------------|-----------|
| Options and/or restricted stock initially authorized | 5,850,000 | 1,350,000 | 1,500,000 | 8,700,000 |
| Options and/or restricted stock available for grant: | | | | |
| January 31, 2015 | - | - | 1,287,396 | 1,287,396 |
| October 31, 2015 | - | - | 1,130,088 | 1,130,088 |

In accordance with ASC 718, the fair value of current restricted stock awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. As of October 31, 2015, January 31, 2015 and November 1, 2014, there was \$13,371,000, \$10,357,000 and \$11,343,000 of total unrecognized compensation expense related to nonvested restricted stock awards, which had a remaining weighted-average vesting period of 2.9 years, 2.6 years and 2.9 years, respectively. The total fair value of the shares recognized as compensation expense during the three and nine months ended October 31, 2015 was \$1,040,000 and \$2,981,000, respectively, compared to \$893,000 and \$2,582,000, respectively, for the three and nine months ended November 1, 2014. These expenses are classified as a component of Selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

The following summary shows the changes in the shares of unvested restricted stock outstanding during the nine months ended October 31, 2015:

| | Number of Shares | | Weighted Average Grant Date Fair Value Per Share |
|---|---------------------|----|--|
| Restricted stock awards at January 31, 2015 | 552,495 | \$ | 26.19 |
| Granted | 159,673 | | 39.60 |
| Vested | (87,130) | | 26.03 |
| Forfeited or expired | (21,383) | | 28.03 |
| Restricted stock awards at October 31, 2015 | 603,655 | \$ | 29.70 |

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NOTE 6 – STOCK BASED COMPENSATION (CONTINUED):

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a 15% discount through payroll deductions. During the nine months ended October 31, 2015 and November 1, 2014, the Company sold 15,245 and 19,743 shares to employees at an average discount of \$5.27 and \$4.19 per share, respectively, under the Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately \$80,000 and \$83,000 for the nine months ended October 31, 2015 and November 1, 2014, respectively. These expenses are classified as a component of Selling, general and administrative expenses.

NOTE 7 – FAIR VALUE MEASUREMENTS:

The following tables set forth information regarding the Company's financial assets that are measured at fair value (in thousands) as of October 31, 2015, January 31, 2015 and November 1, 2014:

| Description | October 31, 2015 | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|-------------------------|---|--|--|
| Assets: | | | | |
| State/Municipal Bonds | \$ 197,601 | \$ - | \$ 197,601 | \$ - |
| Corporate Bonds | 19,128 | - | 19,128 | - |
| U.S. Treasury Notes | 2,602 | 2,602 | - | - |
| Cash Surrender Value of Life Insurance | 6,455 | - | - | 6,455 |
| Privately Managed Funds | 9 | - | - | 9 |

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| | | | | | | | | |
|-------------------------|----|---------|----|-------|----|---------|----|---------|
| Corporate Equities | | 638 | | 638 | | - | | - |
| Certificates of Deposit | | 100 | | 100 | | - | | - |
| Total Assets | \$ | 226,533 | \$ | 3,340 | \$ | 216,729 | \$ | 6,464 |
| Liabilities: | | | | | | | | |
| Deferred Compensation | | (6,231) | | - | | - | | (6,231) |
| Total Liabilities | \$ | (6,231) | \$ | - | \$ | - | \$ | (6,231) |

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| Description | January 31, 2015 | Quote Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|-----------------------------|--|--|--|
| Assets: | | | | |
| State/Municipal Bonds | \$ 148,650 | \$ - | \$ 148,650 | - |
| Corporate Bonds | 14,052 | - | 14,052 | - |
| Auction Rate Securities (ARS) | - | - | - | - |
| U.S. Treasury Notes | 3,758 | 3,758 | - | - |
| Cash Surrender Value of Life Insurance | 4,558 | - | - | 4,558 |
| Privately Managed Funds | 306 | - | - | 306 |
| Corporate Equities | 613 | 613 | - | - |
| Certificates of Deposit | 100 | 100 | - | - |
| Total Assets | \$ 172,037 | \$ 4,471 | \$ 162,702 | 4,864 |
| Liabilities: | | | | |
| Deferred Compensation | (4,272) | - | - | (4,272) |
| Total Liabilities | \$ (4,272) | \$ - | \$ - | (4,272) |

| Description | November 1, 2014 | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|----------------------------------|-----------------------------|---|--|--|
| Assets: | | | | |
| State/Municipal Bonds | \$ 149,893 | \$ - | \$ 149,893 | - |
| Corporate Bonds | 8,384 | - | 8,384 | - |
| Auction Rate Securities (ARS) | 3,140 | - | - | 3,140 |
| U.S. Treasury Notes | 3,754 | 3,754 | - | - |

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| | | | | |
|------------------------------|------------|----------|------------|----------|
| Cash Surrender Value of Life | | | | |
| Insurance | 3,852 | - | - | 3,852 |
| Privately Managed Funds | 308 | - | - | 308 |
| Corporate Equities | 642 | 642 | - | - |
| Certificates of Deposit | 100 | 100 | - | - |
| Total Assets | \$ 170,073 | \$ 4,496 | \$ 158,277 | \$ 7,300 |
| Liabilities: | | | | |
| Deferred Compensation | (4,201) | - | - | (4,201) |
| Total Liabilities | \$ (4,201) | \$ - | \$ - | (4,201) |

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at October 31, 2015 and January 31, 2015 and Aa3 or better at November 1, 2014. The state, municipal and corporate bonds have contractual maturities which range from less than one month to 5.8 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from 11 months to 1.4 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and investments and Other assets on the accompanying Condensed Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

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Additionally, at October 31, 2015, the Company had \$0.6 million of corporate equities and deferred compensation plan assets of \$6.5 million. At January 31, 2015, the Company had \$0.3 million of privately managed funds, \$0.6 million of corporate equities and deferred compensation plan assets of \$4.3 million. At November 1, 2014, the Company had \$0.3 million of privately managed funds, a single auction rate security (“ARS”) of \$3.1 million which was redeemed at par in the fourth quarter 2014, \$0.6 million of corporate equities and deferred compensation plan assets of \$3.9 million. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets.

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

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

Deferred compensation plan assets consist of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds. These funds are designed to mirror existing mutual funds and money market funds that are observable and actively traded. Cash surrender values are provided by third parties and reviewed for reasonableness by the Company.

The following tables summarize the change in fair value of the Company’s financial assets and liabilities associated with deferred compensation measured using Level 3 inputs as of October 31, 2015 and November 1, 2014 (in thousands):

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| | Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3) | | | | Total |
|---|--|-------------------------------------|----------------------------|----------|-------|
| | Available-For-Sale Debt Securities ARS | Other Investments Private Equity | Cash Surrender Value | | |
| Beginning Balance at January 31, 2015 | \$ - | \$ 306 | \$ 4,558 | \$ 4,864 | |
| Redemptions | - | (276) | - | (276) | |
| Additions | - | | 1,858 | 1,858 | |
| Total gains or (losses) Included in interest and other income (or changes in net assets) | - | - | 39 | 39 | |
| Included in other comprehensive income | - | (21) | - | (21) | |
| Ending Balance at October 31, 2015 | \$ - | \$ 9 | \$ 6,455 | \$ 6,464 | |

| | Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3) | |
|---|--|------------|
| | Deferred Compensation | Total |
| Beginning Balance at January 31, 2015 | \$ (4,272) | \$ (4,272) |
| Additions | (1,901) | (1,901) |
| Total (gains) or losses Included in interest and other income (or changes in net assets) | (58) | (58) |
| Included in other comprehensive income | - | - |
| Ending Balance at October 31, 2015 | \$ (6,231) | \$ (6,231) |

**Fair Value Measurements Using Significant
Unobservable Asset Inputs (Level 3)**

| | Available-For-Sale Debt Securities ARS | Other Investments Private Equity | Cash Surrender Value | Total |
|---|---|---|-------------------------------------|--------------|
| Beginning Balance at February 1, 2014 | \$ 3,140 | \$ 392 | \$ 2,957 | \$ 6,489 |
| Redemptions | - | (70) | - | (70) |
| Additions | | | 753 | 753 |
| Total gains or (losses) Included in interest and other income (or changes in net assets) | - | (1) | 142 | 141 |
| Included in other comprehensive income | - | (13) | | (13) |
| Ending Balance at November 1, 2014 | \$ 3,140 | \$ 308 | \$ 3,852 | \$ 7,300 |

**Fair Value Measurements Using Significant
Unobservable Liability Inputs (Level 3)**

| | Deferred Compensation | Total |
|---|----------------------------------|--------------|
| Beginning Balance at February 1, 2014 | \$ (3,298) | \$ (3,298) |
| Additions | (663) | (663) |
| Total (gains) or losses Included in interest and other income (or changes in net assets) | (240) | (240) |
| Included in other comprehensive income | - | - |
| Ending Balance at November 1, 2014 | \$ (4,201) | \$ (4,201) |

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Quantitative information regarding the significant unobservable inputs related to the ARS as of November 1, 2014 were as follows:

| As of November 1, 2014 | | | |
|-------------------------------|------------------------------------|--|---------------------------------|
| Fair Value | Valuation | Unobservable Inputs | |
| (in thousands) | Technique | | |
| \$3,140 | Net present value of cash flows | Total Term Yield Comparative bond discount rate | 7.9 Years 0.07% 0.12% |
| | | 17 | |

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THE CATO CORPORATION
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2014

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS:

In November 2015, the Financial Accounting Standards Board issued an effective date for a new leasing standard that will require substantially all leases to be recorded on the balance sheet. The standard is effective for the Company's first quarter of its 2019 fiscal year; early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

In July 2015, the Financial Accounting Standards Board issued an accounting standards update that will simplify the measurement of inventory for companies. The standard differentiates the valuation methods used to measure inventory based on the type of inventory method utilized by a company. Companies using the first-in, first-out method and the average cost method will measure inventory at the net realizable value method to measure inventory. Companies using the last-in, first-out method and the retail method will use the lower of cost or market to measure inventory. The standard is effective for the Company's first quarter of its 2017 fiscal year; early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board issued an accounting standards update that will supersede most current revenue recognition guidance and modify the accounting treatment for certain costs associated with revenue generation. The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and provides several steps to apply to achieve that principle. In addition, the new guidance enhances disclosure requirements to include more information about specific revenue contracts entered into by the entity. The standard is effective for the Company's first quarter of its 2018 fiscal year; early adoption is permitted as of the original effective date. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

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THE CATO CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION:

The following information should be read along with the unaudited Condensed 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-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; (4) statements relating to our operations or activities for our fiscal year ending January 30, 2016 (“fiscal 2015”) and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “will,” “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “plans,” “should” and any variations or negative formations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in the conditions that drive consumer confidence and spending, including, but not limited to, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, home values, consumer net worth and the availability of credit; uncertainties regarding the impact of any governmental responses to the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond rapidly to changing fashion trends and consumer demands; adverse weather or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand; and other factors discussed under “Risk Factors” in Part I, Item 1A of our annual report on Form 10-K for the fiscal year ended January 31, 2015 (“fiscal 2014”), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission (“SEC”) from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

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**THE CATO CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

CRITICAL ACCOUNTING POLICIES:

The Company’s accounting policies are more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2015. As disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the preparation of the Company’s financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company’s financial statements include the allowance for doubtful accounts, inventory shrinkage, the calculation of potential asset impairment, workers’ compensation, general and auto insurance liabilities, reserves related to self-insured health insurance, and uncertain tax positions.

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

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**THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

RESULTS OF OPERATIONS:

The following table sets forth, for the periods indicated, certain items in the Company's unaudited Condensed Consolidated Statements of Income as a percentage of total retail sales:

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 |
| Total retail sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Other revenue | 1.0 | 1.0 | 0.9 | 0.9 |
| Total revenues | 101.0 | 101.0 | 100.9 | 100.9 |
| Cost of goods sold (exclusive of depreciation) | 62.8 | 63.8 | 60.6 | 60.7 |
| Selling, general and administrative (exclusive of depreciation) | 31.6 | 31.6 | 27.4 | 27.5 |
| Depreciation | 2.7 | 2.5 | 2.3 | 2.2 |
| Interest and other income | (0.4) | (0.3) | (0.3) | (0.3) |
| Income before income taxes | 4.2 | 3.4 | 10.9 | 10.8 |
| Net income | 3.7 | 2.7 | 7.3 | 6.9 |

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**THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

RESULTS OF OPERATIONS (CONTINUED):

Comparison of the Three and Nine Months ended October 31, 2015 with November 1, 2014

Total retail sales for the third quarter were \$223.3 million compared to last year's third quarter sales of \$213.8 million, a 4.4% increase. The Company's third quarter of fiscal 2015 sales increased due to sales from non-comparable stores and a 2.0% increase in same-store sales. For the nine months ended October 31, 2015, total retail sales were \$754.1 million compared to last year's comparable nine month sales of \$740.0 million. Sales in the first nine months of fiscal 2015 improved due to sales from non-comparable stores, partially offset by a 0.6% decrease in same-store sales. Same-store sales include stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. E-commerce sales were less than 1% of sales for the nine months ended October 31, 2015 and are included in the same-store sales calculation. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable and layaway fees), were \$225.5 million and \$760.6 million for the three and nine months ended October 31, 2015, compared to \$216.0 million and \$746.8 million for the three and nine months ended November 1, 2014, respectively. The Company operated 1,370 stores at October 31, 2015 compared to 1,343 stores at the end of last year's third quarter. For the first nine months of fiscal 2015, the Company opened 28 new stores, relocated eight stores and closed four stores. In total, the Company currently expects to open approximately 31 stores, relocate 13 stores and close eight stores in fiscal 2015.

Credit revenue of \$1.3 million represented 0.6% of total revenues in the third quarter of fiscal 2015, compared to 2014 credit revenue of \$1.4 million or 0.7% of total revenues. Credit revenue decreased slightly for the most recent comparable period due to lower finance charge income and lower late fee income from sales under the Company's proprietary credit card. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses principally include bad debt expense, payroll, postage and other administrative expenses and totaled \$0.8 million in the third quarter of fiscal 2015, compared to last year's third quarter expense of \$0.9 million.

Other revenue in total, as included in total revenues, was \$2.2 million and \$6.5 million for the three and nine months ended October 31, 2015, compared to \$2.2 million and \$6.8 million for the prior year's comparable three and nine months. The overall decrease in the nine months ended October 31, 2015 resulted primarily from lower finance charges.

Cost of goods sold was \$140.3 million, or 62.8% of retail sales and \$457.3 million or 60.6% of retail sales for the three and nine months ended October 31, 2015, compared to \$136.5 million, or 63.8% of retail sales and \$449.5 million, or 60.7% of retail sales for the prior year's comparable three and nine month periods of fiscal 2014. The overall decrease in cost of goods sold as a percent of retail sales for the third quarter of fiscal 2015 resulted primarily from higher sales of regular priced goods, partially offset by higher purchasing, distribution and occupancy costs. Cost of goods sold includes merchandise costs (net of discounts and allowances), buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy costs 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 exclusive of depreciation) increased by 7.4% to \$83.0 million for the third quarter of fiscal 2015 and increased by 2.2% to \$296.8 million for the first nine months of fiscal 2015 compared to \$77.3 million and \$290.5 million for the prior year's comparable three and nine months of fiscal 2014. Gross margin as presented may not be comparable to those of other entities.

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**THE CATO CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts. SG&A expenses were \$70.7 million, or 31.6% of retail sales and \$206.4 million, or 27.4% of retail sales for the third quarter and first nine months of fiscal 2015, respectively, compared to \$67.6 million, or 31.6% of retail sales and \$203.4 million, or 27.5% of retail sales for the prior year's comparable three and nine month periods, respectively. The decrease in SG&A as a percent of retail sales for the first nine months of fiscal 2015 was primarily attributable to lower incentive-based compensation expense.

Depreciation expense was \$6.0 million, or 2.7% of retail sales and \$17.0 million, or 2.3% of retail sales for the third quarter and first nine months of fiscal 2015, respectively, compared to \$5.4 million, or 2.5% of retail sales and \$16.3 million or 2.2% of retail sales for the prior year's comparable three and nine month periods of fiscal 2014, respectively.

Interest and other income was \$0.9 million, or 0.4% of retail sales and \$2.3 million, or 0.3% of retail sales for the three and nine months ended October 31, 2015, respectively, compared to \$0.7 million, or 0.3% of retail sales and \$2.5 million, or 0.3% of retail sales for the prior year's comparable three and nine month periods of fiscal 2014, respectively.

Income tax expense was \$1.0 million, or 0.5% of retail sales and \$27.3 million, or 3.6% of retail sales for the third quarter and first nine months of fiscal 2015, respectively, compared to \$1.5 million, or 0.7% of retail sales and \$28.7 million, or 3.9% of retail sales for the prior year's comparable three and nine month periods of fiscal 2014, respectively. The effective income tax rate for the third quarter of fiscal 2015 decreased to 11.1% compared to 20.5% for the third quarter of 2014 primarily due to favorable tax adjustments from an amended federal tax return, partially offset by higher income before taxes.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during the first nine months of fiscal 2015 was \$57.7 million as compared to \$91.1 million in the first nine months of fiscal 2014. These amounts enable the Company to fund its regular operating needs, capital expenditure program, cash dividend payments, and share repurchases. In addition, the Company maintains a \$35.0 million unsecured revolving credit facility for short-term financing of seasonal cash needs. There were no outstanding borrowings on this facility at October 31, 2015, January 31, 2015 and November 1, 2014.

Cash provided by operating activities for the first nine months of fiscal 2015 was primarily generated by earnings adjusted for depreciation and changes in working capital. The decrease of \$33.4 million for the first nine months of fiscal 2015 as compared to the first nine months of fiscal 2014 was primarily due to a smaller decrease in inventory from the end of the fiscal year and a larger decrease in accounts payable and accrued expenses from the end of the fiscal year offset by a decrease in accounts receivable..

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's regular operating requirements, expected capital expenditures, dividends and share repurchases for fiscal 2015 and the next 12 months.

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**THE CATO CORPORATION
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CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

At October 31, 2015, the Company had working capital of \$278.4 million compared to \$260.6 million at January 31, 2015 and \$253.4 million at November 1, 2014. Additionally, the Company had \$0.6 million, \$0.9 million and \$1.0 million invested in privately managed investment funds and other miscellaneous equities at October 31, 2015, January 31, 2015 and November 1, 2014, respectively, which are included in Other assets on the Condensed Consolidated Balance Sheets.

At October 31, 2015, January 31, 2015 and November 1, 2014, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to \$35.0 million, less the value of revocable letters of credit discussed below. The revolving credit agreement is committed until August 2018. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of October 31, 2015. There were no borrowings outstanding under the credit facility as of October 31, 2015, January 31, 2015 and November 1, 2014.

At October 31, 2015 and January 31, 2015, the Company had no outstanding revocable letters of credit relating to purchase commitments. At November 1, 2014, the Company had \$0.4 million of outstanding revocable letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled \$22.4 million in the first nine months of fiscal 2015, compared to \$21.4 million in last fiscal year's first nine months. The expenditures for the first nine months of fiscal 2015 were primarily for the development of 28 new stores, additional investments in new technology and home office renovations. For the full fiscal 2015 year, the Company expects to invest approximately \$32.5 million for capital expenditures to open approximately 31 new stores, relocate approximately 13 stores, upgrade merchandise systems and complete home office renovations.

Net cash used in investing activities totaled \$77.6 million in the first nine months of fiscal 2015 compared to \$19.3 million used in the comparable period of 2014. The increase was due primarily to increased purchases of short-term investments and purchases of other assets.

Net cash used in financing activities totaled \$30.7 million in the first nine months of fiscal 2015 compared to \$67.5 million used in the comparable period of fiscal 2014. The decrease was primarily due to lower share repurchases.

On November 24, 2015, the Board of Directors maintained the quarterly dividend at \$0.30 per share.

As of October 31, 2015, the Company had 2,015,123 shares remaining in open authorizations under its share repurchase program.

The Company does not use derivative financial instruments.

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at October 31, 2015 and January 31, 2015 and Aa3 or better at November 1, 2014. The state, municipal and corporate bonds have contractual maturities which range from less than one month to 5.8 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from 11 months to 1.4 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and investments and Other assets on the accompanying Condensed Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

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**THE CATO CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

Additionally, at October 31, 2015, the Company had \$0.6 million of corporate equities and deferred compensation plan assets of \$6.5 million. At January 31, 2015, the Company had \$0.3 million of privately managed funds, \$0.6 million of corporate equities and deferred compensation plan assets of \$4.3 million. At November 1, 2014, the Company had \$0.3 million of privately managed funds, a single auction rate security (“ARS”) of \$3.1 million which was redeemed at par in the fourth quarter 2014, \$0.6 million of corporate equities and deferred compensation plan assets of \$3.9 million. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets.

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

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

Deferred compensation plan assets consist of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds. These funds are designed to mirror existing mutual funds and money market funds that are observable and actively traded. Cash surrender values are provided by third parties and reviewed for reasonableness by the Company.

RECENT ACCOUNTING PRONOUNCEMENTS:

See Note 8, Recent Accounting Pronouncements.

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**THE CATO CORPORATION
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

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

ITEM 4. CONTROLS AND PROCEDURES:

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of October 31, 2015. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of October 31, 2015, our disclosure controls and procedures, as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934 (the "Exchange Act"), were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company's fiscal quarter ended October 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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THE CATO CORPORATION

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS:

ITEM 4. CONTROLS AND PROCEDURES:

Not Applicable

ITEM 1A. RISK FACTORS:

In addition to the other information in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended January 31, 2015. These risks could materially affect our business, financial condition or future results; however, they are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS:

The following table summarizes the Company’s purchases of its common stock for the three months ended October 31, 2015:

ISSUER PURCHASES OF EQUITY SECURITIES

| Fiscal Period | Total Number of Shares Purchased | Average Price Paid per Share (1) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | Maximum Number (or Approximate Dollar Value) of Shares that may Yet be Purchased Under The Plans or Programs (2) |
|----------------|----------------------------------|----------------------------------|--|--|
| August 2015 | 40,500 | \$ 33.83 | 40,500 | |
| September 2015 | 125,700 | 33.66 | 125,700 | |
| October 2015 | - | - | - | |
| Total | 166,200 | \$ 33.70 | 166,200 | 2,015,123 |

(1) Prices include trading costs.

(2) As of August 1, 2015, the Company's share repurchase program had 2,181,323 shares remaining in open authorizations. During the third quarter ended October 31, 2015, the Company repurchased and retired 166,200 shares under this program for approximately \$5,601,610 or an average market price of \$33.70 per share. As of the third quarter ended October 31, 2015, the Company had 2,015,123 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

Not Applicable

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THE CATO CORPORATION

PART II OTHER INFORMATION

ITEM 4. MINE SAFETY DISCLOSURES:

Not Applicable

ITEM 5. OTHER INFORMATION:

Not Applicable

ITEM 6. EXHIBITS:

| Exhibit No. | Item |
|-------------|---|
| 3.1 | Registrant's Restated Certificate of Incorporation dated March 6, 1987, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283). |
| 3.2 | Registrant's By Laws, incorporated by reference to Exhibit 99.2 to Form 8-K of the Registrant Filed December 10, 2007. |
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer. |
| 32.1* | Section 1350 Certification of Principal Executive Officer. |
| 32.2* | Section 1350 Certification of Principal Financial Officer. |
| 101.1* | The following materials from Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2015, formatted in XBRL: (i) Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months and Nine Months Ended October 31, 2015 and November 1, 2014; (ii) Condensed Consolidated Balance Sheets at October 31, 2015, January 31, 2015 and November 1, 2014; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2015 and November 1, 2014; and (iv) Notes to Condensed Consolidated Financial Statements. |

* Submitted electronically herewith.

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THE CATO CORPORATION

PART II OTHER INFORMATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CATO CORPORATION

November 24, 2015
Date

/s/ John P. D. Cato
John P. D. Cato

Chairman, President and
Chief Executive Officer

November 24, 2015
Date

/s/ John R. Howe
John R. Howe

Executive Vice President
Chief Financial Officer