CATO CORP
Form 10-Q
August 28, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 1, 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	56-0484485
(State or other jurisdiction of incorporation or organization)	(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)

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 þ 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 August 1, 2015, there were 26,318,286 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 August 1, 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		Six Months Ended	
	August 1, 2015	August 2, 2014	**August 1, 2015**	August 2, 2014
	(Dollars in thousands, except per share data)			
REVENUES				
Retail sales	$ **249,215**	$ 243,775	$ **530,790**	$ 526,238
Other revenue (principally finance charges, late fees and layaway charges)	**2,054**	2,283	**4,378**	4,553
Total revenues	**251,269**	246,058	**535,168**	530,791
COSTS AND EXPENSES, NET				
Cost of goods sold (exclusive of depreciation shown below)	**154,483**	148,637	**317,003**	313,001
Selling, general and administrative (exclusive of depreciation shown below)	**67,111**	68,332	**135,695**	135,819
Depreciation	**5,554**	5,424	**10,928**	10,875
Interest and other income	**(834)**	(1,099)	**(1,402)**	(1,841)
Cost and expenses, net	**226,314**	221,294	**462,224**	457,854
Income before income taxes	**24,955**	24,764	**72,944**	72,937
Income tax expense	**9,361**	9,113	**26,267**	27,279

Net income	$	**15,594**	$	15,651	$	**46,677**	$	45,658
Basic earnings per share	$	**0.56**	$	0.56	$	**1.67**	$	1.61
Diluted earnings per share	$	**0.56**	$	0.56	$	**1.67**	$	1.61
Dividends per share	$	**0.30**	$	0.30	$	**0.60**	$	0.60
Comprehensive income:								
Net income	$	**15,594**	$	15,651	$	**46,677**	$	45,658
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of $58 and ($143) for the three and six months ended August 1, 2015 and $53 and $21 for the three and six months ended August 2, 2014, respectively		**98**		87		**(234)**		36
Comprehensive income	$	**15,692**	$	15,738	$	**46,443**	$	45,694

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	August 1, 2015	January 31, 2015	August 2, 2014
ASSETS	**(Dollars in thousands)**		
Current Assets:			
Cash and cash equivalents	**$ 70,132**	$ 93,946	$ 92,247
Short-term investments	**213,848**	162,185	158,198
Restricted cash and investments	**4,472**	4,479	4,692
Accounts receivable, net of allowance for doubtful accounts of $1,535, $1,542 and $1,735 at August 1, 2015, January 31, 2015 and August 2, 2014, respectively	**37,580**	41,023	40,315
Merchandise inventories	**123,195**	137,549	116,026
Deferred income taxes	**4,433**	4,291	4,699
Prepaid expenses	**9,678**	10,978	7,271
Total Current Assets	**463,338**	454,451	423,448
Property and equipment – net	**134,993**	135,181	145,614
Noncurrent deferred income taxes	**4,567**	3,363	1,375
Other assets	**20,506**	15,283	9,674
Total Assets	**$ 623,404**	$ 608,278	$ 580,111
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	**$ 100,642**	$ 111,674	$ 86,302
Accrued expenses	**50,429**	48,404	47,735
Accrued bonus and benefits	**6,141**	19,567	11,416
Accrued income taxes	**17,957**	14,256	23,481
Total Current Liabilities	**175,169**	193,901	168,934
Other noncurrent liabilities (primarily deferred rent)	**36,546**	34,179	31,951
Commitments and contingencies:	**-**	-	-
Stockholders' Equity:			
Preferred stock, $100 par value per share, 100,000 shares			

authorized, none issued	**-**	-	-
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; issued 26,318,286 shares, 26,174,684 shares and 26,175,776 shares at August 1, 2015, January 31, 2015 and August 2, 2014, respectively	**877**	873	873
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at August 1, 2015, January 31, 2015 and August 2, 2014, respectively	**58**	58	58
Additional paid-in capital	**87,405**	85,029	82,612
Retained earnings	**322,797**	293,452	294,869
Accumulated other comprehensive income	**552**	786	814
Total Stockholders' Equity	**411,689**	380,198	379,226
Total Liabilities and Stockholders' Equity	**$ 623,404**	$ 608,278	$ 580,111

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	August 1, 2015	August 2, 2014
	(Dollars in thousands)	
Operating Activities:		
Net income	**$ 46,677**	$ 45,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**10,928**	10,875
Provision for doubtful accounts	**498**	548
Purchase premium and premium amortization of investments	**(3,593)**	399
Share-based compensation	**1,996**	1,750
Excess tax benefits from share-based compensation	**(126)**	(119)
Deferred income taxes	**(1,204)**	-
Loss on disposal and write-offs of property and equipment	**123**	178
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**2,945**	(1,639)
Merchandise inventories	**14,354**	34,835
Prepaid and other assets	**(1,296)**	(1,438)
Accrued income taxes	**3,827**	8,745
Accounts payable, accrued expenses and other liabilities	**(19,362)**	(15,123)
Net cash provided by operating activities	**55,767**	84,669
Investing Activities:		
Expenditures for property and equipment	**(11,402)**	(13,967)
Purchase of short-term investments	**(78,776)**	(21,430)
Sales of short-term investments	**30,265**	23,997
Purchase of Other Assets	**(2,995)**	(1,200)
Sales of Other Assets	**268**	69
Change in restricted cash and investments	**7**	8
Net cash used in investing activities	**(62,633)**	(12,523)
Financing Activities:		
Dividends paid	**(16,795)**	(17,127)

Repurchase of common stock		**(547)**		(42,615)
Proceeds from employee stock purchase plan		**268**		297
Excess tax benefits from share-based compensation		**126**		119
Proceeds from stock options exercised		**-**		-
Net cash used in financing activities		**(16,948)**		(59,326)
Net increase/(decrease) in cash and cash equivalents		**(23,814)**		12,820
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	**$**	**70,132**	$	92,247
Non-cash investing activity:				
Accrued plant and equipment	**$**	**(1,075)**	$	(4,880)

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 SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 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 August 1, 2015 and August 2, 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 six months ended August 1, 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 August 2, 2014 presentation with our fiscal 2014 Form 10-K to show approximately $0.9 million of cash outflows related to the purchase and sale of other assets previously reported in operating activities as investing activities.

On August 27, 2015, the Board of Directors maintained the quarterly dividend at $0.30 per share.

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FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 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		Six Months Ended	
	August 1, 2015	August 2, 2014	**August 1, 2015**	August 2, 2014
	(Dollars in thousands)			
Numerator				
Net earnings	**$ 15,594**	$ 15,651	**$ 46,677**	$ 45,658
Earnings allocated to non-vested equity awards	**(335)**	(323)	**(961)**	(860)
Net earnings available to common stockholders	**$ 15,259**	$ 15,328	**$ 45,716**	$ 44,798
Denominator				
Basic weighted average common shares outstanding	**27,452,199**	27,357,829	**27,410,674**	27,846,611
Dilutive effect of stock options	**5,739**	2,516	**5,916**	1,654
Diluted weighted average common shares	**27,457,938**	27,360,345	**27,416,590**	27,848,265

outstanding								
Net income per common share								
Basic earnings per share (Class A and B Shares)	**$**	**0.56**	$	0.56	**$**	**1.67**	$	1.61
Diluted earnings per share (Class A and B Shares)	**$**	**0.56**	$	0.56	**$**	**1.67**	$	1.61

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 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 August 1, 2015:

		Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at May 2, 2015	$	454
Other comprehensive income before reclassifications		102
Amounts reclassified from accumulated other comprehensive income (b)		(4)
Net current-period other comprehensive income		98
Ending Balance at August 1, 2015	$	552

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to Other Comprehensive Income.
(b) Includes ($6) 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 ($2).

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the six months ended August 1, 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		(382)
Amounts reclassified from accumulated other comprehensive income (b)		148
Net current-period other comprehensive income		(234)
Ending Balance at August 1, 2015	$	552

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to Other Comprehensive Income.
(b) Includes $236 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 $88.

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FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

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 August 2, 2014:

		Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at May 3, 2014	$	727
Other comprehensive income before reclassifications		213
Amounts reclassified from accumulated other comprehensive income (b)		(126)
Net current-period other comprehensive income		87
Ending Balance at August 2, 2014	$	814

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to Other Comprehensive Income.
(b) Includes $202 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.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the six months ended August 2, 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		181
Amounts reclassified from accumulated other comprehensive income (b)		(145)
Net current-period other comprehensive income		36
Ending Balance at August 2, 2014	$	814

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to Other Comprehensive Income.
(b) Includes $232 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 $87.

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NOTE 4 – FINANCING ARRANGEMENTS:

As of August 1, 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 August 1, 2015. There were no borrowings outstanding under this credit facility during the periods ended August 1, 2015, January 31, 2015 or August 2, 2014. The weighted average interest rate under the credit facility was zero at August 1, 2015 due to no borrowings during the year.

At August 1, 2015 and January 31, 2015, the Company had no outstanding revocable letters of credit relating to purchase commitments. At August 2, 2014 the Company had approximately $0.3 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 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 August 1, 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 August 1, 2015	**Retail**	**Credit**	**Total**	**Six Months Ended August 1, 2015**	**Retail**	**Credit**	**Total**
Revenues	$ 249,919	$ 1,350	$ 251,269	Revenues	$ 532,412	$ 2,756	$ 535,168
Depreciation	5,541	13	5,554	Depreciation	10,903	25	10,928
Interest and other income	(834)	-	(834)	Interest and other income	(1,402)	-	(1,402)
Income before taxes	24,479	476	24,955	Income before taxes	71,997	947	72,944
Total assets	554,375	69,029	623,404	Total assets	554,375	69,029	623,404
Capital expenditures	6,823	-	6,823	Capital expenditures	11,402	-	11,402

Three Months Ended August 2, 2014	**Retail**	**Credit**	**Total**	**Six Months Ended August 2, 2014**	**Retail**	**Credit**	**Total**
Revenues	$ 244,622	$ 1,436	$ 246,058	Revenues	$ 527,879	$ 2,912	$ 530,791
Depreciation	5,412	12	5,424	Depreciation	10,850	25	10,875
Interest and other income	(1,099)	-	(1,099)	Interest and other income	(1,841)	-	(1,841)
Income before taxes	24,188	576	24,764	Income before taxes	71,879	1,058	72,937
Total assets	513,174	66,937	580,111	Total assets	513,174	66,937	580,111
Capital expenditures	9,851	-	9,851	Capital expenditures	13,967	-	13,967

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.

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		Six Months Ended	
	August 1, 2015	August 2, 2014	**August 1, 2015**	August 2, 2014
Bad debt expense	**$ 239**	$ 240	**$ 498**	$ 548
Payroll	**219**	211	**430**	417
Postage	**200**	188	**391**	379
Other expenses	**203**	209	**465**	485
Total expenses	**$ 861**	$ 848	**$ 1,784**	$ 1,829

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

NOTE 6 – STOCK BASED COMPENSATION:

As of August 1, 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 August 1, 2015, there were no available stock options for grant. 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 August 1, 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
August 1, 2015	-	-	1,128,599	1,128,599

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 August 1, 2015, January 31, 2015 and August 2, 2014, there was $14,528,000, $10,357,000 and $12,330,000 of total unrecognized compensation expense related to nonvested restricted stock awards, which had a remaining weighted-average vesting period of 3.1 years, 2.6 years and 3.1 years, respectively. The total fair value of the shares recognized as compensation expense during the three and six months ended August 1, 2015 was $1,319,000 and $1,940,000, respectively, compared to $1,183,000 and $1,689,000, respectively, for the three and six months ended August 2, 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 six months ended August 1, 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	(18,443)		27.92
Restricted stock awards at August 1, 2015	606,595	$	29.69

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

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 six months ended August 1, 2015 and August 2, 2014, the Company sold 8,781 and 12,748 shares to employees at an average discount of $5.40 and $4.11 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 $47,000 and $52,000 for the six months ended August 1, 2015 and August 2, 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 August 1, 2015, January 31, 2015 and August 2, 2014:

Description	August 1, 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	$ 198,965	$ -	$ 198,965	$ -
Corporate Bonds	15,010	-	15,010	-
U.S. Treasury Notes	3,004	3,004	-	-
Cash Surrender Value of Life Insurance	6,447	-	-	6,447
Privately Managed Funds	39	-	-	39
Corporate Equities	678	678	-	-

Certificates of Deposit		100		100		-		-
Total Assets	$	224,243	$	3,782	$	213,975	$	6,486
Liabilities:								
Deferred Compensation		(6,143)		-		-		(6,143)
Total Liabilities	$	(6,143)	$	-	$	-	$	(6,143)

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Description		**January 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	$	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		**August 2, 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	$	152,479	$	-	$	152,479	$	-
Corporate Bonds		6,452		-		6,452		-
Auction Rate Securities (ARS)		3,140		-		-		3,140
U.S. Treasury Notes		1,503		1,503		-		-
Cash Surrender Value of Life Insurance		3,812		-		-		3,812
		324		-		-		324

Privately Managed Funds								
Corporate Equities		606		606		-		-
Certificates of Deposit		100		100		-		-
Total Assets	$	168,416	$	2,209	$	158,931	$	7,276
Liabilities:								
Deferred Compensation		(4,132)		-		-		(4,132)
Total Liabilities	$	(4,132)	$	-	$	-	$	(4,132)

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 August 1, 2015 and January 31, 2015 and Aa3 or better at August 2, 2014. The state, municipal and corporate bonds have contractual maturities which range from one month to 6.1 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from two months to 1.6 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.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

Additionally, at August 1, 2015, the Company had $0.7 million of corporate equities and deferred compensation plan assets of $6.4 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 $4.6 million. At August 2, 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 $3.8 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 measured using Level 3 inputs as of August 1, 2015 and August 2, 2014 (in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)		
	Available-For-Sale Debt Securities	Other Investments	Cash Surrender

	ARS	Private Equity	Value	Total
Beginning Balance at January 31, 2015	$ -	$ 306	$ 4,558	$ 4,864
Redemptions	-	(246)	-	(246)
Additions	-		1,668	1,668
Total gains or (losses)				
Included in interest and other income (or changes in net assets)	-	-	221	221
Included in other comprehensive income	-	(21)	-	(21)
Ending Balance at August 1, 2015	$ -	$ 39	$ 6,447	$ 6,486

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	Total
Beginning Balance at January 31, 2015	$ (4,272)	$ (4,272)
Additions	(1,692)	(1,692)
Total (gains) or losses		
Included in interest and other income (or changes in net assets)	(179)	(179)
Included in other comprehensive income	-	-
Ending Balance at August 1, 2015	$ (6,143)	$ (6,143)

		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	-	2	102	104

changes in net assets)								
Included in other comprehensive income		-		-				-
Ending Balance at August 2, 2014	$	3,140	$	324	$	3,812	$	7,276

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)			
	Deferred Compensation		Total	
Beginning Balance at February 1, 2014	$	(3,298)	$	(3,298)
Additions		(672)		(672)
Total (gains) or losses				
Included in interest and other income (or changes in net assets)		(162)		(162)
Included in other comprehensive income		-		-
Ending Balance at August 2, 2014	$	(4,132)	$	(4,132)

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

Quantitative information regarding the significant unobservable inputs related to the ARS as of August 2, 2014 were as follows:

As of August 2, 2014			
Fair Value (in thousands)	Valuation Technique	Unobservable Inputs	
$3,140	Net present value of cash flows	Total Term	8.1 Years
		Yield	0.07%
		Comparative bond discount rate	0.16%

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS:

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.

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.

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.

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		Six Months Ended	
	August 1, 2015	August 2, 2014	**August 1, 2015**	August 2, 2014
Total retail sales	**100.0** %	100.0 %	**100.0** %	100.0 %
Other revenue	**0.8**	0.9	**0.8**	0.9
Total revenues	**100.8**	100.9	**100.8**	100.9
Cost of goods sold (exclusive of depreciation)	**62.0**	61.0	**59.7**	59.5
Selling, general and administrative (exclusive of depreciation)	**26.9**	28.0	**25.6**	25.8
Depreciation	**2.2**	2.2	**2.1**	2.1
Interest and other income	**(0.3)**	(0.5)	**(0.3)**	(0.3)
Income before income taxes	**10.0**	10.2	**13.7**	13.9
Net income	**6.3**	6.4	**8.8**	8.7

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 Six Months ended August 1, 2015 with August 2, 2014

Total retail sales for the second quarter were $249.2 million compared to last year's second quarter sales of $243.8 million, a 2.2% increase. The Company's second quarter of fiscal 2015 sales increased due to sales from non-comparable stores and flat same-store sales. For the six months ended August 1, 2015, total retail sales were $530.8 million compared to last year's comparable six month sales of $526.2 million. Sales in the first six months of fiscal 2015 improved due to sales from non-comparable stores partially offset by a 2% 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 six months ended August 1, 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 $251.3 million and $535.2 million for the three and six months ended August 1, 2015, compared to $246.1 million and $530.8 million for the three and six months ended August 2, 2014, respectively. The Company operated 1,358 stores at August 1, 2015 compared to 1,328 stores at the end of last year's second quarter. For the first six months of fiscal 2015, the Company opened 14 new stores, relocated five stores and closed two stores. In total, the Company currently expects to open approximately 40 stores, relocate 14 stores and close 13 stores in fiscal 2015.

Credit revenue of $1.4 million represented 0.5% of total revenues in the second quarter of fiscal 2015, compared to 2014 credit revenue of $1.4 million or 0.6% 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 $0.9 million in the second quarter of fiscal 2015, compared to last year's second quarter expense of $0.8 million. The slight increase was primarily due to higher payroll and postage costs.

Other revenue in total, as included in total revenues, was $2.1 million and $4.4 million for the three and six months ended August 1, 2015, compared to $2.3 million and $4.6 million for the prior year's comparable three and six months. The overall decrease in the three months ended August 1, 2015 resulted primarily from lower layaway fees. The overall decrease in the six months ended August 1, 2015 resulted primarily from lower finance charges.

Cost of goods sold was $154.5 million, or 62.0% of retail sales and $317.0 million or 59.7% of retail sales for the three and six months ended August 1, 2015, compared to $148.6 million, or 61.0% of retail sales and $313.0 million, or 59.5% of retail sales for the prior year's comparable three and six month periods of fiscal 2014. The overall increase in cost of goods sold as a percent of retail sales for the second quarter of fiscal 2015 resulted primarily from lower sales of regular priced goods and higher purchasing and sourcing 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) decreased by 0.4% to $94.7 million for the second quarter of fiscal 2015 and increased by 0.3% to $213.8 million for the first six months of fiscal 2015 compared to $95.1 million and $213.2 million for the prior year's comparable three and six months of fiscal 2014. Gross margin as presented may not be comparable to those of other entities.

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 $67.1 million, or 26.9% of retail sales and $135.7 million, or 25.6% of retail sales for the second quarter and first six months of fiscal 2015, respectively, compared to $68.3 million, or 28.0% of retail sales and $135.8 million, or 25.8% of retail sales for the prior year's comparable three and six month periods, respectively. The decrease in SG&A expense for the second quarter and for the first six months of fiscal 2015 was primarily attributable to lower incentive-based compensation expense.

Depreciation expense was $5.6 million, or 2.2% of retail sales and $10.9 million, or 2.1% of retail sales for the second quarter and first six months of fiscal 2015, respectively, compared to $5.4 million, or 2.2% of retail sales and $10.9 million or 2.1% of retail sales for the prior year's comparable three and six month periods of fiscal 2014, respectively.

Interest and other income was $0.8 million, or 0.3% of retail sales and $1.4 million, or 0.3% of retail sales for the three and six months ended August 1, 2015, respectively, compared to $1.1 million, or 0.5% of retail sales and $1.8 million, or 0.3% of retail sales for the prior year's comparable three and six month periods of fiscal 2014, respectively.

Income tax expense was $9.4 million, or 3.8% of retail sales and $26.3 million, or 4.9% of retail sales for the second quarter and first six months of fiscal 2015, respectively, compared to $9.1 million, or 3.7% of retail sales and $27.3 million, or 5.2% of retail sales for the prior year's comparable three and six month periods of fiscal 2014, respectively. The effective income tax rate for the second quarter of fiscal 2015 increased to 37.5% compared to 36.8% for the second quarter of 2014 primarily due to lower Work Opportunity Tax Credits compared to 2014.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during the first six months of fiscal 2015 was $55.8 million as compared to $84.7 million in the first six 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 August 1, 2015, January 31, 2015 and August 2, 2014.

Cash provided by operating activities for the first six months of fiscal 2015 was primarily generated by earnings adjusted for depreciation and changes in working capital. The decrease of $28.9 million for the first six months of fiscal 2015 as compared to the first six months of fiscal 2014 was primarily due to a smaller decrease in inventory from the end of the fiscal year.

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.

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

At August 1, 2015, the Company had working capital of $288.2 million compared to $260.6 million at January 31, 2015 and $254.5 million at August 2, 2014. Additionally, the Company had $0.7 million, $0.9 million and $0.9 million invested in privately managed investment funds and other miscellaneous equities at August 1, 2015, January 31, 2015 and August 2, 2014, respectively, which are included in Other assets on the Condensed Consolidated Balance Sheets.

At August 1, 2015, January 31, 2015 and August 2, 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 August 1, 2015. There were no borrowings outstanding under the credit facility as of August 1, 2015, January 31, 2015 and August 2, 2014.

At August 1, 2015 and January 31, 2015, the Company had no outstanding revocable letters of credit relating to purchase commitments. At August 2, 2014, the Company had $0.3 million of outstanding revocable letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled $11.4 million in the first six months of fiscal 2015, compared to $14.0 million in last fiscal year's first six months. The expenditures for the first six months of fiscal 2015 were primarily for the development of 14 new stores, additional investments in new technology and home office renovations. For the full fiscal 2015 year, the Company expects to invest approximately $47.2 million for capital expenditures to open approximately 40 new stores, relocate approximately 14 stores, upgrade merchandise systems and complete home office renovations.

Net cash used in investing activities totaled $62.6 million in the first six months of fiscal 2015 compared to $12.5 million used in the comparable period of 2014. The increase was due primarily to increased purchases of short-term investments partially offset by lower capital expenditures and lower sales of short-term investments.

Net cash used in financing activities totaled $16.9 million in the first six months of fiscal 2015 compared to $59.3 million used in the comparable period of fiscal 2014. The decrease was primarily due to lower share repurchases.

On August 27, 2015, the Board of Directors maintained the quarterly dividend at $0.30 per share.

As of August 1, 2015, the Company had 2,181,323 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 August 1, 2015 and January 31, 2015 and Aa3 or better at August 2, 2014. The state, municipal and corporate bonds have contractual maturities which range from one month to 6.1 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from two months to 1.6 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.

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

Additionally, at August 1, 2015, the Company had $0.7 million of corporate equities and deferred compensation plan assets of $6.4 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 $4.6 million. At August 2, 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 $3.8 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 August 1, 2015. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of August 1, 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 August 1, 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:

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 August 1, 2015:

ISSUER PURCHASES OF EQUITY SECURITIES

ITEM 1A. RISK FACTORS:

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)
May 2015	-	$ -	-	
June 2015	-	-		
July 2015	-	-	-	
Total	-	$ -	-	2,181,323

(1) Prices include trading costs.

(2) During the second quarter ended August 1, 2015, the Company did not repurchase shares under this program. As of the second quarter ended August 1, 2015, the Company had 2,181,323 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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

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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 August 1, 2015, formatted in XBRL: (i) Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months and Six Months Ended August 1, 2015 and August 2, 2014; (ii) Condensed Consolidated Balance Sheets at August 1, 2015, January 31, 2015 and August 2, 2014; (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended August 1, 2015 and August 2, 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

August 28, 2015 Date	/s/ John P. D. Cato John P. D. Cato Chairman, President and Chief Executive Officer
August 28, 2015 Date	/s/ John R. Howe John R. Howe Executive Vice President Chief Financial Officer

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