

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.

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**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)				
<b>REVENUES</b>				
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
<b>COSTS AND EXPENSES, NET</b>				
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		<b>1,043</b>		1,464		<b>27,310</b>		28,743
Net income	\$	<b>8,319</b>	\$	5,692	\$	<b>54,996</b>	\$	51,350
Basic earnings per share	\$	<b>0.30</b>	\$	0.20	\$	<b>1.97</b>	\$	1.82
Diluted earnings per share	\$	<b>0.30</b>	\$	0.20	\$	<b>1.97</b>	\$	1.82
Dividends per share	\$	<b>0.30</b>	\$	0.30	\$	<b>0.90</b>	\$	0.90
Comprehensive income:								
Net income	\$	<b>8,319</b>	\$	5,692	\$	<b>54,996</b>	\$	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		<b>207</b>		(35)		<b>(27)</b>		1
Comprehensive income	\$	<b>8,526</b>	\$	5,657	\$	<b>54,969</b>	\$	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
<b>ASSETS</b>			
(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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
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	<b>877</b>	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	<b>58</b>	58	58
Additional paid-in capital	<b>88,729</b>	85,029	83,779
Retained earnings	<b>317,114</b>	293,452	292,187
Accumulated other comprehensive income	<b>759</b>	786	779
Total Stockholders' Equity	<b>407,537</b>	380,198	377,675
Total Liabilities and Stockholders' Equity	<b>\$ 618,377</b>	\$ 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)	
<b>Operating Activities:</b>		
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
<b>Investing Activities:</b>		
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)
<b>Financing Activities:</b>		
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
<b>Non-cash investing activity:</b>			
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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**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.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 31,</b>	November 1,	<b>October 31,</b>	November 1,
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>(Dollars in thousands)</b>			
<b>Numerator</b>				
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
<b>Denominator</b>				
Basic weighted average common shares outstanding	<b>27,368,931</b>	27,359,660	<b>27,396,760</b>	27,673,293

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

**Net income per common share**

Basic earnings per share (Class A and B Shares)	\$	<b>0.30</b>	\$	0.20	\$	<b>1.97</b>	\$	1.82
Diluted earnings per share (Class A and B Shares)	\$	<b>0.30</b>	\$	0.20	\$	<b>1.97</b>	\$	1.82

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**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:

		<b>Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities</b>
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:

		<b>Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities</b>
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:

		<b>Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities</b>
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:

		<b>Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities</b>
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):

<b>Three Months Ended October 31, 2015</b>	<b>Retail</b>	<b>Credit</b>	<b>Total</b>	<b>Nine Months Ended October 31, 2015</b>	<b>Retail</b>	<b>Credit</b>	<b>Total</b>
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
<b>Three Months Ended November 1, 2014</b>	<b>Retail</b>	<b>Credit</b>	<b>Total</b>	<b>Nine Months Ended November 1, 2014</b>	<b>Retail</b>	<b>Credit</b>	<b>Total</b>
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):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 31,</b>	November 1,	<b>October 31,</b>	November 1,
	<b>2015</b>	2014	<b>2015</b>	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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**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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**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 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:

<b>Description</b>	<b>October 31, 2015</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Assets:</b>				
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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<b>Description</b>	<b>January 31, 2015</b>	<b>Quote Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Assets:</b>				
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	-	-
<b>Total Assets</b>	<b>\$ 172,037</b>	<b>\$ 4,471</b>	<b>\$ 162,702</b>	<b>4,864</b>
<b>Liabilities:</b>				
Deferred Compensation	(4,272)	-	-	(4,272)
<b>Total Liabilities</b>	<b>\$ (4,272)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(4,272)</b>

<b>Description</b>	<b>November 1, 2014</b>	<b>Quoted Prices in Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Unobservable Inputs Level 3</b>
<b>Assets:</b>				
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)**

	<b>Available-For-Sale Debt Securities ARS</b>	<b>Other Investments Private Equity</b>	<b>Cash Surrender Value</b>	<b>Total</b>
Beginning Balance at February 1, 2014	\$ 3,140	\$ 392	\$ 2,957	\$ 6,489
Redemptions	-	(70)	-	(70)
Additions			753	753
Total gains or (losses)				