CATO CORP
Form 10-Q
September 08, 2011

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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 July 30, 2011

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 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 þ 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 September 7, 2011, there were 27,707,496 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 July 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND

COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	July 30, 2011 (Unaudited)	July 31, 2010 (Unaudited)	**July 30, 2011 (Unaudited)**	July 31, 2010 (Unaudited)
	(Dollars in thousands, except per share data)			
REVENUES				
Retail sales	**$ 234,077**	$ 231,839	**$ 505,010**	$ 490,879
Other income (principally finance charges, late fees and layaway charges)	**2,729**	2,862	**5,456**	5,785
Total revenues	**236,806**	234,701	**510,466**	496,664
COSTS AND EXPENSES, NET				
Cost of goods sold (exclusive of depreciation shown below)	**145,156**	141,404	**303,561**	291,264
Selling, general and administrative (exclusive of depreciation shown below)	**58,955**	62,340	**122,271**	130,421
Depreciation	**5,371**	5,277	**10,775**	10,547
Interest and other income	**(949)**	(957)	**(1,906)**	(1,849)
Cost and expenses, net	**208,533**	208,064	**434,701**	430,383
Income before income taxes	**28,273**	26,637	**75,765**	66,281
Income tax expense	**10,170**	9,659	**27,141**	24,269
Net income	**$ 18,103**	$ 16,978	**$ 48,624**	$ 42,012
Basic earnings per share	**$ 0.61**	$ 0.58	**$ 1.65**	$ 1.42
Diluted earnings per share	**$ 0.61**	$ 0.58	**$ 1.65**	$ 1.42
Dividends per share	**$ 0.230**	$ 0.185	**$ 0.415**	$ 0.35
Comprehensive income:				

Net income	**$ 18,103**	$ 16,978	**$ 48,624**	$ 42,012
Unrealized gain (loss) on available-for-sale securities, net of deferred income tax benefit	**310**	130	**584**	44
Comprehensive income	**$ 18,413**	$ 17,108	**$ 49,208**	$ 42,056

See notes to consolidated financial statements.

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THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	July 30, 2011 (Unaudited)	July 31, 2010 (Unaudited)	January 29, 2011 (Unaudited)
		(Dollars in thousands)	
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 77,376	$ 68,336	$ 48,630
Short-term investments	190,533	165,755	181,395
Restricted cash and investments	4,801	2,547	4,826
Accounts receivable, net of allowance for doubtful accounts of $2,654 , $3,233 and $2,985 at July 30, 2011, July 31, 2010 and January 29, 2011 respectively	37,621	39,747	39,703
Merchandise inventories	117,225	105,157	144,028
Deferred income taxes	3,338	7,802	3,660
Prepaid expenses	3,739	5,352	3,199
Total Current Assets	434,633	394,696	425,441
Property and equipment – net	104,333	100,869	99,773
Other assets	9,434	7,499	7,545
Total Assets	$ 548,400	$ 503,064	$ 532,759
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 86,553	$ 79,276	$ 103,898
Accrued expenses	36,308	32,587	35,318
Accrued bonus and benefits	8,906	18,062	22,841
Accrued income taxes	23,145	22,493	11,861
Total Current Liabilities	154,912	152,418	173,918
Deferred income taxes	9,540	7,833	9,540
Other noncurrent liabilities (primarily deferred rent)	14,190	16,362	15,287
Commitments and contingencies:	-	-	-
Stockholders' Equity:			
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	-	-	-
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; issued 27,741,091 shares, 27,736,131 shares			

and 27,758,123 shares at July 30, 2011, July 31, 2010 and January 29, 2011, respectively	**925**	925	925
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at July 30, 2011, July 31, 2010 and January 29, 2011, respectively	**58**	58	58
Additional paid-in capital	**70,203**	66,584	68,537
Retained earnings	**297,713**	258,307	264,218
Accumulated other comprehensive income	**859**	577	276
Total Stockholders' Equity	**369,758**	326,451	334,014
Total Liabilities and Stockholders' Equity	**$ 548,400**	$ 503,064	$ 532,759

See notes to consolidated financial statements.

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THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	July 30, 2011 (Unaudited)	July 31, 2010 (Unaudited)
	(Dollars in thousands)	
Operating Activities:		
Net income	**$ 48,624**	$ 42,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**10,775**	10,547
Provision for doubtful accounts	**882**	1,499
Share-based compensation	**1,302**	1,213
Excess tax benefits from share-based compensation	**(89)**	(133)
Loss on disposal of property and equipment	**415**	220
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**1,200**	(1,092)
Merchandise inventories	**26,803**	24,492
Prepaid and other assets	**(2,437)**	(2,145)
Accrued income taxes	**11,373**	11,686
Accounts payable, accrued expenses and other liabilities	**(31,387)**	(28,357)
Net cash provided by operating activities	**67,461**	59,942
Investing Activities:		
Expenditures for property and equipment	**(15,751)**	(8,866)
Purchase of short-term investments	**(79,623)**	(111,454)
Sales of short-term investments	**71,399**	93,768
Change in restricted cash and investments	**25**	28
Net cash used in investing activities	**(23,950)**	(26,524)
Financing Activities:		
Dividends paid	**(12,243)**	(10,304)
Repurchase of common stock	**(2,897)**	(5,840)
Proceeds from employee stock purchase plan	**254**	218
Excess tax benefits from share-based compensation	**89**	133
Proceeds from stock options exercised	**32**	326
Net cash used in financing activities	**(14,765)**	(15,467)
Net increase in cash and cash equivalents	**28,746**	17,951
Cash and cash equivalents at beginning of period	**48,630**	50,385
Cash and cash equivalents at end of period	**$ 77,376**	$ 68,336

See notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

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 July 30, 2011 and July 31, 2010 are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation 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 29, 2011. Amounts as of January 29, 2011, have been derived from the audited balance sheet other than the retrospective application of the change in accounting principle.

On August 25, 2011, the Board of Directors maintained the quarterly dividend at $.23 per share or an annualized rate of $0.92 per share.

CHANGE IN ACCOUNTING PRINCIPLE:

The Company elected to change its method of accounting for inventory to the weighted average cost method from the retail method effective January 30, 2011. In accordance with ASC 250 "Accounting Changes and Error Corrections", all periods have been retrospectively adjusted to reflect the period-specific effects of the change to the weighted average cost method. The Company believes that the weighted average cost method better matches cost of sales with related sales, as well as having an inventory valuation that more closely reflects the acquisition cost of inventory by valuing inventory on a unit basis versus the product department level under the retail method. The cumulative adjustment as of January 31, 2010, was an increase in inventory of $11,700,000 and an increase in retained earnings of $7,300,000.

Additionally, the Company has changed the classification for certain balance sheet items to conform to the 2011 presentation. This change in classification has reduced accounts payable and inventory by $1,600,000 as of January

29, 2011 and $500,000 as of July 31, 2010.

In addition, the Company has changed the classification of certain prior year income statement items to conform to the 2011 presentation. The change has no effect on net income; however, it does reduce retail sales by $26,000 and cost of goods sold by $98,000 and increases selling, general and administrative expense by $72,000 for the three months ended July 31, 2010. The change also reduces retail sales by $746,000, cost of goods sold by $339,000 and selling, general and administrative expense by $407,000 for the six months ended July 31, 2010.

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THE CATO CORPORATION
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FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

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

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

	July 31, 2010 (Unaudited) (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Merchandise inventories	$ 95,720	$ 9,437	$ 105,157
Deferred income taxes	7,748	54	7,802
Total Current Assets	385,205	9,491	394,696
Total Assets	493,573	9,491	503,064
Accounts payable	79,802	(526)	79,276
Total Current Liabilities	152,944	(526)	152,418
Deferred income taxes	4,087	3,746	7,833
Retained earnings	252,037	6,270	258,307
Total Stockholders' Equity	320,181	6,270	326,451
Total Liabilities and Stockholders’ Equity	$ 493,573	$ 9,491	$ 503,064

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

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

	Three Months Ended July 31, 2010 (Unaudited) (Dollars in thousands, except per share data)					
	As Previously Reported		Total Changes		As Adjusted	
Retail Sales	$	231,865	$	(26)	$	231,839
Total Revenues		234,727		(26)		234,701
Cost of goods sold		143,039		(1,635)		141,404
Selling, general and administrative		62,268		72		62,340
Cost and expenses, net		209,627		(1,563)		208,064
Income before income taxes		25,100		1,537		26,637
Income tax expense		9,081		578		9,659
Net income	$	16,019	$	959	$	16,978
Basic earnings per share	$	0.54	$	0.04	$	0.58
Diluted earnings per share	$	0.54	$	0.04	$	0.58

	Six Months Ended July 31, 2010 (Unaudited) (Dollars in thousands, except per share data)					
	As Previously Reported		Total Changes		As Adjusted	
Retail Sales	$	491,625	$	(746)	$	490,879
Total Revenues		497,410		(746)		496,664
Cost of goods sold		289,893		1,371		291,264
Selling, general and administrative		130,828		(407)		130,421
Cost and expenses, net		429,419		964		430,383
Income before income taxes		67,991		(1,710)		66,281
Income tax expense		24,912		(643)		24,269
Net income	$	43,079	$	(1,067)	$	42,012
Basic earnings per share	$	1.46	$	(0.04)	$	1.42
Diluted earnings per share	$	1.46	$	(0.04)	$	1.42

	Six Months Ended July 31, 2010 (Unaudited) (Dollars in thousands)		
	As Previously Reported	Total Changes	As Adjusted
Cash flow from operating activities:			
Net income	$ 43,079	$ (1,067)	$ 42,012
Merchandise inventories	22,908	1,584	24,492
Accounts payable, accrued expenses and other liabilities	$ (27,840)	$ (517)	$ (28,357)

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

NOTE 2 - EARNINGS PER SHARE:

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. 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	
	July 30, 2011	July 31, 2010	**July 30, 2011**	July 31, 2010
	(Dollars in thousands, except share data and per share data)			
Basic earnings per share:				
Net earnings	**$ 18,103**	$ 16,978	**$ 48,624**	$ 42,012
Earnings allocated to non-vesting equity awards	**(292)**	(287)	**(811)**	(709)
Net earnings available to common stockholders	**$ 17,811**	$ 16,692	**$ 47,813**	$ 41,303
Basic weighted-average common shares outstanding	**29,010,209**	28,966,065	**28,978,512**	28,990,500
Basic earnings per share	**$ 0.61**	$ 0.58	**$ 1.65**	$ 1.42
Diluted earnings per share:				
Net earnings	**$ 18,103**	$ 16,978	**$ 48,624**	$ 42,012
Earnings allocated to non-vesting equity awards	**(292)**	(287)	**(810)**	(709)
Net earnings available to common stockholders	**$ 17,811**	$ 16,692	**$ 47,814**	$ 41,303
Basic weighted-average common shares outstanding	**29,010,209**	28,966,065	**28,978,512**	28,990,500

Dilutive effect of stock options	**5,932**	12,710	**5,635**	12,109
Diluted weighted-average common shares outstanding	**29,016,141**	28,978,775	**28,984,147**	29,002,609
Diluted earnings per share	**$ 0.61**	$ 0.58	**$ 1.65**	$ 1.42

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the six months ended July 30, 2011 and July 31, 2010 were $15,780,000 and $13,315,000, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

NOTE 4 – FINANCING ARRANGEMENTS:

As of July 30, 2011, the Company had an unsecured revolving credit agreement of $35.0 million. The revolving credit agreement is committed until August 2013. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of July 30, 2011. There were no borrowings outstanding under this credit facility during the six months ended July 30, 2011 or July 31, 2010. Interest on any borrowings is based on LIBOR, which was 0.19% at July 30, 2011.

At July 30, 2011 and July 31, 2010 the Company had approximately $5.7 million and $10.3 million, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

NOTE 5 – REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operated its fashion specialty retail stores in 31 states at July 30, 2011, principally in the southeastern United States. The Company offers its own credit card to its customers and all related credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

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

Three Months Ended July 30, 2011	Retail	Credit	Total	Six Months Ended July 30, 2011	Retail	Credit	Total
Revenues	$ 234,885	$ 1,921	$ 236,806	Revenues	$ 506,592	$ 3,874	$ 510,466
Depreciation	5,367	4	5,371	Depreciation	10,767	8	10,775
Interest and other income	(949)	-	(949)	Interest and other income	(1,906)	-	(1,906)
Income before taxes	27,330	943	28,273	Income before taxes	74,183	1,582	75,765

Total assets	471,320	77,080	548,400	Total assets	471,320	77,080	548,400
Capital expenditures	11,319	41	11,360	Capital expenditures	15,665	86	15,751
Three Months Ended July 31, 2010	**Retail**	**Credit**	**Total**	**Six Months Ended July 31, 2010**	**Retail**	**Credit**	**Total**
Revenues	$ 232,581	$ 2,120	$ 234,701	Revenues	$ 492,322	$ 4,342	$ 496,664
Depreciation	5,272	5	5,277	Depreciation	10,536	11	10,547
Interest and other income	(957)	-	(957)	Interest and other income	(1,849)	-	(1,849)
Income before taxes	25,794	843	26,637	Income before taxes	64,810	1,471	66,281
Total assets	429,977	73,087	503,064	Total assets	429,977	73,087	503,064
Capital expenditures	4,842	-	4,842	Capital expenditures	8,866	-	8,866

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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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	
	July 30, 2011	July 31, 2010	**July 30, 2011**	July 31, 2010
Bad debt expense	**$ 352**	$ 676	**$ 882**	$ 1,499
Payroll	**247**	239	**489**	474
Postage	**187**	197	**388**	425
Other expenses	**188**	160	**525**	462
Total expenses	**$ 974**	$ 1,272	**$ 2,284**	$ 2,860

NOTE 6 – STOCK BASED COMPENSATION:

As of July 30, 2011, 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 authorized 5,850,000 shares for the granting of options to officers and key employees. The 1999 Incentive Compensation Plan and 2004 Amended and Restated Incentive Compensation Plan authorized 1,500,000 and 1,350,000 shares, respectively, for the granting of various forms of equity-based awards, including restricted stock and stock options to officers and key employees. The 1999 Plan has expired as to the ability to grant new awards.

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

	1987 Plan	1999 Plan	2004 Plan	Total

Options and/or restricted stock initially authorized	5,850,000	1,500,000	1,350,000	8,700,000
Options and/or restricted stock available for grant:				
January 29, 2011	18,627	-	627,872	646,499
July 30, 2011	19,677	-	537,981	557,658

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 July 30, 2011 and July 31, 2010, there was $7,346,000 and $7,312,000 of total unrecognized compensation cost related to nonvested restricted stock awards, which have a remaining weighted average vesting period of 2.7 years and 2.9 years, respectively. The total fair value of the shares recognized as compensation expense during the second quarter and six months ended July 30, 2011 was $790,000 and $1,257,000, respectively compared to $770,000 and $1,226,000 for the second quarter and six months ended July 31, 2010, respectively. These expenses are classified as a component of selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

NOTE 6 – STOCK BASED COMPENSATION (CONTINUED):

The following summary shows the changes in the shares of restricted stock outstanding during the six months ended July 30, 2011:

	Number of Shares		Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at January 29, 2011	509,456	$	20.32
Granted	102,449		25.41
Vested	(123,423)		20.55
Forfeited or expired	(18,127)		21.19
Restricted stock awards at July 30, 2011	470,355	$	21.43

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 July 30, 2011 and July 31, 2010, the Company sold 12,006 and 12,729 shares to employees at an average discount of $3.74 and $3.03 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 $45,000 and $39,000 for the six months ended July 30, 2011 and July 31, 2010, respectively. These expenses are classified as a component of selling, general and administrative expenses.

The following is a summary of the changes in stock options outstanding during the six months ended July 30, 2011:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value(a)
Options outstanding at January 29, 2011	21,675	$	13.86	2.78 years	$	228,434
Granted	-					

Forfeited or expired	1,050		12.00				
Exercised	3,450		13.47				
Outstanding at July 30, 2011	17,175	$	14.05	2.49 years	$	229,746
Vested and exercisable at July 30, 2011	17,175	$	14.05	2.49 years	$	229,746

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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NOTE 6 – STOCK BASED COMPENSATION (CONTINUED):

No options were granted in the first half of fiscal 2011 or fiscal 2010.

The total intrinsic value of options exercised during the second quarter and six months ended July 30, 2011 was $41,000.

During the second quarter of 2010, the Company completed amortizing its nonvested options. In accordance with ASC 718, the Company adjusted its related forfeiture assumption and recognized a reduction in share based compensation expense of $53,000 and $52,000 for the second quarter and six month period ended July 31, 2010. There was no share based compensation expense for the second quarter and six month period ended July 30, 2011.

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

NOTE 7 – INCOME TAXES:

For the quarter ended July 30, 2011, the Company's effective tax rate was 36.0% compared to 36.3% for the prior year quarter ended July 31, 2010. The current year quarter was impacted by the reduction of a reserve for certain unrecognized tax benefits from the closing of a state income tax audit. The effective income tax rate for the first six months of fiscal 2011 was 35.8% compared to 36.6% for the first six months of fiscal 2010. During the next 12 months, various taxing authorities' statutes of limitations are expected to expire which could result in a potential reduction of unrecognized tax benefits. In addition, certain state examinations may close, the ultimate resolution of which could materially affect the effective tax rate. As a consequence, the balance in unrecognized tax benefits can be expected to fluctuate from period to period. It is reasonably possible such changes could be significant when compared to our total unrecognized tax benefits, but the amount of change is not currently estimable.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 30, 2011 AND JULY 31, 2010

NOTE 8 – 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 July 30, 2011 and January 29, 2011.

Description	July 30, 2011	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
State/Municipal Bonds	$ 142,938	$ -	$ 142,938	$ -
Corporate Bonds	28,119	-	28,119	-
Auction Rate Securities (ARS)	3,450	-	-	3,450
Variable Rate Demand Notes (VRDN)	20,817	20,817	-	-
US Treasury Notes	2,679	2,679	-	-
Privately Managed Funds	1,909	-	-	1,909
Corporate Equities	473	473	-	-
Certificates of Deposit	100	100	-	