

CATO CORP
Form 10-Q
May 28, 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 May 2, 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)

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 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

As of May 2, 2015, there were 26,319,927 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 May 2, 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	
	May 2, 2015	May 3, 2014
	-	-
	(Dollars in thousands, except per share data)	
REVENUES		
Retail sales	\$ 281,575	\$ 282,462
Other revenue (principally finance charges, late fees and layaway charges)	2,324	2,270
Total revenues	283,899	284,732
COSTS AND EXPENSES, NET		
Cost of goods sold (exclusive of depreciation shown below)	162,520	164,363
Selling, general and administrative (exclusive of depreciation shown below)	68,584	67,487
Depreciation	5,374	5,452
Interest and other income	(568)	(742)
Cost and expenses, net	235,910	236,560
Income before income taxes	47,989	48,172
Income tax expense	16,906	18,166

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Net income	\$	31,083	\$	30,006
Basic earnings per share	\$	1.11	\$	1.04
Diluted earnings per share	\$	1.11	\$	1.04
Dividends per share	\$	0.30	\$	0.30
Comprehensive income:				
Net income	\$	31,083	\$	30,006
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of (\$201) and (\$32) for May 2, 2015 and May 3, 2014, respectively		(332)		(51)
Comprehensive income	\$	30,751	\$	29,955

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION**CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	May 2, 2015	January 31, 2015 (Dollars in thousands)	May 3, 2014
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 94,294	\$ 93,946	\$ 79,468
Short-term investments	177,471	162,185	159,286
Restricted cash and investments	4,474	4,479	4,699
Accounts receivable, net of allowance for doubtful accounts of \$1,535, \$1,542 and \$1,732 at May 2, 2015, January 31, 2015 and May 3, 2014 respectively	38,316	41,023	41,036
Merchandise inventories	133,862	137,549	129,652
Deferred income taxes	4,492	4,291	4,752
Prepaid expenses	13,384	10,978	10,522
Total Current Assets	466,293	454,451	429,415
Property and equipment – net	133,480	135,181	142,989
Noncurrent deferred income taxes	4,567	3,363	1,375
Other assets	17,894	15,283	9,458
Total Assets	\$ 622,234	\$ 608,278	\$ 583,237
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 101,116	\$ 111,674	\$ 96,816
Accrued expenses	47,322	48,404	44,258
Accrued bonus and benefits	4,310	19,567	6,009
Accrued income taxes	32,321	14,256	32,479
Total Current Liabilities	185,069	193,901	179,562
Other noncurrent liabilities (primarily deferred rent)	34,177	34,179	30,170
Stockholders' Equity:			
Preferred stock, \$100 par value per share, 1,000,000 shares authorized, none issued	-	-	-
Class A common stock, \$0.033 par value per share, 50,000,000 shares authorized; issued 26,319,927 shares, 26,174,684 shares			

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and 26,282,502 shares at May 2, 2015, January 31, 2015 and

May 3, 2014, respectively	877	873	876
Convertible Class B common stock, \$0.033 par value per share,			
15,000,000 shares authorized; issued 1,743,525 shares at			
May 2, 2015, January 31, 2015 and May 3, 2014	58	58	58
Additional paid-in capital	85,983	85,029	81,324
Retained earnings	315,616	293,452	290,520
Accumulated other comprehensive income	454	786	727
Total Stockholders' Equity	402,988	380,198	373,505
Total Liabilities and Stockholders' Equity	\$ 622,234	\$ 608,278	\$ 583,237

See notes to condensed consolidated financial statements (unaudited).

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THE CATO CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

Three Months Ended
May 2, 2015 **May 3, 2014**

(Dollars in thousands)**Operating Activities:**

Net income	\$	31,083	\$	30,006
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		5,374		5,452
Provision for doubtful accounts		259		307
Purchase premium and premium amortization of investments		(1,214)		296
Share-based compensation		667		555
Excess tax benefits from share-based compensation		(59)		(55)
Deferred income taxes		(1,204)		(2)
Loss on disposal of property and equipment		67		118
Changes in operating assets and liabilities which provided (used) cash:				
Accounts receivable		2,448		(2,119)
Merchandise inventories		3,687		21,209
Prepaid and other assets		(2,650)		(4,723)
Accrued income taxes		18,124		17,679
Accounts payable, accrued expenses and other liabilities		(26,817)		(13,704)
Net cash provided by operating activities		29,765		55,019

Investing Activities:

Expenditures for property and equipment	(4,579)	(7,423)
Purchase of short-term investments	(28,531)	(8,905)
Sales of short-term investments	13,885	10,354
Purchase of Other Assets	(1,837)	(1,203)
Sales of Other Assets	268	311
Change in restricted cash and investments	5	2
Net cash used in investing activities	(20,789)	(6,864)

Financing Activities:

Dividends paid	(8,374)	(8,748)
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Repurchase of common stock	(547)		(39,681)
Proceeds from employee stock purchase plan	235		260
Excess tax benefits from share-based compensation	59		55
Net cash used in financing activities	(8,627)		(48,114)
Net increase in cash and cash equivalents	349		41
Cash and cash equivalents at beginning of period	93,946		79,427
Effect of exchange rate changes on cash	(1)		-
Cash and cash equivalents at end of period	\$ 94,294	\$	79,468
Non-cash investing activity			
Accrued other assets and property and equipment	\$ (1,697)	\$	(3,314)

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 ENDED MAY 2, 2015 AND MAY 3, 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 May 2, 2015 and May 3, 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 an 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 three months ended May 2, 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 May 3, 2014 presentation with our 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 May 21, 2015, the Board of Directors maintained the quarterly dividend at \$0.30 per share.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 2, 2015 AND MAY 3, 2014

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 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	
		May 2, 2015	May 3, 2014
		(Dollars in thousands)	
Numerator			
	Net earnings	\$ 31,083	\$ 30,006
	Earnings allocated to non-vested equity awards	(609)	(509)
	Net earnings available to common stockholders	\$ 30,474	\$ 29,497
Denominator			
	Basic weighted average common shares outstanding	27,369,149	28,335,395
	Dilutive effect of stock options	6,081	713
	Diluted weighted average common shares outstanding	27,375,230	28,336,108
Net income per common share			
	Basic earnings per share	\$ 1.11	\$ 1.04

Diluted earnings per share	6	\$	1.11	\$	1.04
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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 2, 2015 AND MAY 3, 2014

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following tables set forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended May 2, 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 reclassification		(483)
Amounts reclassified from accumulated other comprehensive income (b)		151
	&#	