

CATO CORP
Form 10-Q
December 08, 2010

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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 30, 2010

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 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 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 November 16, 2010, there were 27,760,077 shares of Class A common stock and 1,743,525 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

Quarter Ended October 30, 2010

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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 | | Nine Months Ended | |
|---|--|--------------------|--------------------------|--------------------|
| | October 30, | October 31, | October 30, | October 31, |
| | 2010 | 2009 | 2010 | 2009 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | (Dollars in thousands, except per share data) | | | |
| REVENUES | | | | |
| Retail sales | \$ 197,985 | \$ 190,966 | \$ 689,610 | \$ 654,389 |
| Other income (principally finance charges, late fees and layaway charges) | 2,799 | 2,854 | 8,584 | 8,724 |
| Total revenues | 200,784 | 193,820 | 698,194 | 663,113 |
| COSTS AND EXPENSES, NET | | | | |
| Cost of goods sold (exclusive of depreciation shown below) | 125,694 | 124,545 | 415,588 | 409,917 |
| Selling, general and administrative (exclusive of depreciation shown below) | 60,473 | 60,519 | 191,301 | 181,643 |
| Depreciation | 5,645 | 5,441 | 16,191 | 16,467 |
| Interest and other income | (1,039) | (957) | (2,888) | (2,878) |
| Cost and expenses, net | 190,773 | 189,548 | 620,192 | 605,149 |
| Income before income taxes | 10,011 | 4,272 | 78,002 | 57,964 |
| Income tax expense | 3,275 | 1,289 | 28,187 | 19,509 |

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| | | | | | | | | |
|---|----|--------------|----|-------|----|---------------|----|--------|
| Net income | \$ | 6,736 | \$ | 2,983 | \$ | 49,815 | \$ | 38,455 |
| Basic earnings per share | \$ | 0.23 | \$ | 0.10 | \$ | 1.69 | \$ | 1.31 |
| Diluted earnings per share | \$ | 0.23 | \$ | 0.10 | \$ | 1.69 | \$ | 1.31 |
| Dividends per share | \$ | 0.185 | \$ | 0.165 | \$ | 0.535 | \$ | 0.495 |
| Comprehensive income: | | | | | | | | |
| Net income | \$ | 6,736 | \$ | 2,983 | \$ | 49,815 | \$ | 38,455 |
| Unrealized gains (losses) on available-for-sale securities, net | | | | | | | | |
| of deferred income tax benefit | | 50 | | (68) | | 94 | | (38) |
| Comprehensive income | \$ | 6,786 | \$ | 2,915 | \$ | 49,909 | \$ | 38,417 |

See notes to consolidated financial statements.

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THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

| | October 30, 2010 (Unaudited) | January 30, 2010 (Unaudited) | October 31, 2009 (Unaudited) |
|--|---------------------------------|---------------------------------|---------------------------------|
| | (Dollars in thousands) | | |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 36,786 | \$ 50,385 | \$ 32,636 |
| Short-term investments | 188,097 | 147,955 | 147,528 |
| Restricted cash and investments | 2,038 | 2,575 | 2,647 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,109, \$3,274 and \$3,308 at October 30, 2010, January 30, 2010 and October 31, 2009, respectively | 38,762 | 40,154 | 40,472 |
| Merchandise inventories | 120,557 | 118,628 | 101,139 |
| Deferred income taxes | 7,727 | 7,812 | 6,446 |
| Prepaid expenses | 2,967 | 3,258 | 4,758 |
| Total Current Assets | 396,934 | 370,767 | 335,626 |
| Property and equipment – net | 100,367 | 102,769 | 108,572 |
| Other assets | 7,495 | 7,454 | 7,341 |
| Total Assets | \$ 504,796 | \$ 480,990 | \$ 451,539 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 87,220 | \$ 103,627 | \$ 77,180 |
| Accrued expenses | 35,425 | 31,615 | 35,683 |
| Accrued bonus and benefits | 21,888 | 22,286 | 16,486 |
| Accrued income taxes | 17,723 | 10,940 | 13,150 |
| Total Current Liabilities | 162,256 | 168,468 | 142,499 |
| Deferred income taxes | 4,087 | 4,087 | 2,528 |
| Other noncurrent liabilities (primarily deferred rent) | 15,777 | 17,123 | 18,161 |
| 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 27,760,464 shares, 27,842,587 shares, and 27,841,180 shares at October 30, 2010, January 30, 2010 and October 31, 2009, respectively | 925 | 928 | 928 |
| Convertible Class B common stock, \$.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at October 30, 2010, January 30, 2010 and October 31, 2009 | 58 | 58 | 58 |
| Additional paid-in capital | 67,744 | 64,706 | 64,343 |
| Retained earnings | 253,322 | 225,086 | 222,647 |
| Accumulated other comprehensive income | 627 | 534 | 375 |
| Total Stockholders' Equity | 322,676 | 291,312 | 288,351 |
| Total Liabilities and Stockholders' Equity | \$ 504,796 | \$ 480,990 | \$ 451,539 |

See notes to consolidated financial statements.

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THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended | |
|--|-------------------------------|-------------------------|
| | October 30, 2010 | October 31, 2009 |
| | (Unaudited) | (Unaudited) |
| | (Dollars in thousands) | |
| Operating Activities: | | |
| Net income | \$ 49,815 | \$ 38,455 |
| Adjustments to reconcile net income to net cash provided | | |
| by operating activities: | | |
| Depreciation | 16,191 | 16,467 |
| Provision for doubtful accounts | 2,139 | 2,621 |
| Share based compensation | 1,792 | 1,775 |
| Excess tax benefits from share-based compensation | (246) | (148) |
| Loss on disposal of property and equipment | 472 | 599 |
| Changes in operating assets and liabilities which provided | | |
| (used) cash: | | |
| Accounts receivable | (747) | 1,043 |
| Merchandise inventories | (1,929) | 11,151 |
| Prepaid and other assets | 249 | (640) |
| Accrued income taxes | 7,030 | 1,792 |
| Accounts payable, accrued expenses and other liabilities | (14,341) | (11,996) |
| Net cash provided by operating activities | 60,425 | 61,119 |
| Investing Activities: | | |
| Expenditures for property and equipment | (14,263) | (9,376) |
| Purchase of short-term investments | (140,896) | (112,721) |
| Sales of short-term investments | 100,934 | 58,563 |
| Change in restricted cash and investments | 537 | 6,442 |
| Net cash used in investing activities | (53,688) | (57,092) |
| Financing Activities: | | |
| Dividends paid | (15,758) | (14,600) |
| Repurchase of common stock | (5,840) | (49) |
| Proceeds from employee stock purchase plan | 410 | 389 |
| Excess tax benefits from share-based compensation | 246 | 148 |

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| | | | |
|--|-----------------|----|-----------|
| Proceeds from stock options exercised | 606 | | 459 |
| Net cash used in financing activities | (20,336) | | (13,653) |
| Net decrease in cash and cash equivalents | (13,599) | | (9,626) |
| Cash and cash equivalents at beginning of period | 50,385 | | 42,262 |
| Cash and cash equivalents at end of period | 36,786 | \$ | \$ 32,636 |

See notes to consolidated financial statements.

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**THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009**

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 30, 2010 and October 31, 2009 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 30, 2010.

The year-end condensed consolidated balance sheet presented as of the fiscal year ended January 30, 2010 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

On December 2, 2010, the Board of Directors maintained the quarterly dividend at \$.185 per share or an annualized rate of \$.74 per share.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

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 | | Nine Months Ended | |
|---|--|-----------------------------|-----------------------------|-----------------------------|
| | October 30, 2010 | October 31, 2009 | October 30, 2010 | October 31, 2009 |
| | (Dollars in thousands, except per share data) | | | |
| Basic earnings per share: | | | | |
| Net earnings | \$ 6,736 | \$ 2,983 | \$ 49,815 | \$ 38,455 |
| Earnings allocated to non-vesting equity awards | (115) | (36) | (832) | (553) |
| Net earnings available to common shares outstanding | \$ 6,621 | \$ 2,947 | \$ 48,983 | \$ 37,902 |
| Basic weighted-average common shares outstanding | 28,970,179 | 29,062,994 | 28,995,380 | 29,019,302 |
| Basic earnings per share | \$ 0.23 | \$ 0.10 | \$ 1.69 | \$ 1.31 |

Diluted earnings per share:

| | | | | | | | | |
|---|----|-------------------|----|------------|----|-------------------|----|------------|
| Net earnings | \$ | 6,736 | \$ | 2,983 | \$ | 49,815 | \$ | 38,455 |
| Earnings allocated to non-vesting equity awards | | (115) | | (36) | | (832) | | (553) |
| Net earnings available to common shares outstanding | \$ | 6,621 | \$ | 2,947 | \$ | 48,983 | \$ | 37,902 |
| Basic weighted-average common shares outstanding | | 28,970,179 | | 29,062,994 | | 28,995,380 | | 29,019,302 |
| Dilutive effect of stock options | | 6,908 | | 20,622 | | 6,385 | | 17,891 |
| Diluted weighted-average shares outstanding | | 28,977,087 | | 29,083,616 | | 29,001,765 | | 29,037,193 |
| Diluted earnings per share | \$ | 0.23 | \$ | 0.10 | \$ | 1.69 | \$ | 1.31 |

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the nine months ended October 30, 2010 and October 31, 2009 were \$21,282,000 and \$18,078,000, respectively.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

NOTE 4 – FINANCING ARRANGEMENTS:

As of October 30, 2010, the Company had an unsecured revolving credit agreement of \$35.0 million. Net of the Company's standby letter of credit for payments to the current general liability and workers' compensation insurance administrator, the revolving credit agreement provided for borrowings of up to \$33.3 million at October 30, 2010. In August, 2010, the Company extended the revolving credit agreement 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 October 30, 2010. There were no borrowings outstanding under this credit facility during the nine months ended October 30, 2010 or October 31, 2009 or during the fiscal year ended January 30, 2010. Interest on any borrowings is based on LIBOR, which was 0.254% at October 30, 2010.

At October 30, 2010 and October 31, 2009 the Company had approximately \$5.7 million and \$8.4 million, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. In addition, the standby letter of credit of approximately \$1.7 million at October 30, 2010 for payments to the current general liability and workers' compensation insurance administrator was subsequently cancelled in November 2010.

NOTE 5 – REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operated its women's fashion specialty retail stores in 31 states at October 30, 2010, 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 wholly-owned subsidiary of the Company.

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

| Three Months Ended | | | | Nine Months Ended | | | |
|-----------------------|--------|--------|-------|----------------------|--------|--------|-------|
| | Retail | Credit | Total | | Retail | Credit | Total |

| October 30, 2010 | | | | October 30, 2010 | | | |
|--|---------------|---------------|--------------|---|---------------|---------------|--------------|
| Revenues | \$ 198,687 | \$ 2,097 | \$ 200,784 | Revenues | \$ 691,755 | \$ 6,439 | \$ 698,194 |
| Depreciation | 5,641 | 4 | 5,645 | Depreciation | 16,176 | 15 | 16,191 |
| Interest and other income | (1,039) | - | (1,039) | Interest and other income | (2,888) | - | (2,888) |
| Income before taxes | 9,223 | 788 | 10,011 | Income before taxes | 75,743 | 2,259 | 78,002 |
| Total assets | 430,928 | 73,868 | 504,796 | Total assets | 430,928 | 73,868 | 504,796 |
| Capital expenditures | 5,397 | - | 5,397 | Capital expenditures | 14,263 | - | 14,263 |
| | | | | | | | |
| Three Months Ended October 31, 2009 | Retail | Credit | Total | Nine Months Ended October 31, 2009 | Retail | Credit | Total |
| Revenues | \$ 191,494 | \$ 2,326 | \$ 193,820 | Revenues | \$ 656,035 | \$ 7,078 | \$ 663,113 |
| Depreciation | 5,435 | 6 | 5,441 | Depreciation | 16,444 | 23 | 16,467 |
| Interest and other income | (957) | - | (957) | Interest and other income | (2,878) | - | (2,878) |
| Income before taxes | 3,524 | 748 | 4,272 | Income before taxes | 55,812 | 2,152 | 57,964 |
| Total assets | 379,719 | 71,820 | 451,539 | Total assets | 379,719 | 71,820 | 451,539 |
| Capital expenditures | 3,215 | 3 | 3,218 | Capital expenditures | 9,373 | 3 | 9,376 |

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 CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

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 | | Nine Months Ended | |
|------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | October 30, 2010 | October 31, 2009 | October 30, 2010 | October 31, 2009 |
| Bad debt expense | \$ 640 | \$ 869 | \$ 2,139 | \$ 2,621 |
| Payroll | 242 | 237 | 716 | 733 |
| Postage | 195 | 217 | 620 | 686 |
| Other expenses | 228 | 249 | 690 | 863 |
| Total expenses | \$ 1,305 | \$ 1,572 | \$ 4,165 | \$ 4,903 |

NOTE 6 – STOCK BASED COMPENSATION:

As of October 30, 2010, 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 30, 2010 | 18,627 | - | 737,162 | 755,789 |
| October 30, 2010 | 18,627 | - | 625,283 | 643,910 |

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 30, 2010 and October 31, 2009, there was \$6,705,000 and \$6,562,000 of total unrecognized compensation cost related to nonvested restricted stock awards, which have a remaining weighted-average vesting period of 2.6 years and 2.5 years, respectively. The total fair value of the shares recognized as compensation expense during the third quarter and nine months ended October 30, 2010 was \$545,000 and \$1,771,000, respectively, compared to \$501,000 and \$1,641,000 for the third quarter and nine months ended October 31, 2009, respectively. These expenses are classified as a component of selling, general and administrative expenses in the condensed consolidated statements of income.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

NOTE 6 – STOCK BASED COMPENSATION (CONTINUED):

The following summary shows the changes in the shares of restricted stock outstanding during the nine months ended October 30, 2010:

| | Number of Shares | | Weighted Average Grant Date Fair Value Per Share |
|---|---------------------|----|--|
| Restricted stock awards at January 30, 2010 | 496,428 | \$ | 19.74 |
| Granted | 119,120 | | 24.54 |
| Vested | (86,261) | | 22.83 |
| Forfeited or expired | (14,603) | | 19.89 |
| Restricted stock awards at October 30, 2010 | 514,684 | \$ | 20.33 |

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 30, 2010 and October 31, 2009, the Company sold 22,745 and 25,744 shares to employees at an average discount of \$3.19 and \$2.67 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 \$72,000 and \$69,000 for the nine months ended October 30, 2010 and October 31, 2009, 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 nine months ended October 30, 2010:

| | Shares | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value(a) |
|---|--------|----|--|---|------------------------------------|
| Options outstanding at January 30, 2010 | 64,350 | \$ | 14.08 | 4.02 years | \$ 398,312 |

| | | | | |
|--|----------|----|------------------|------------|
| Granted | - | - | - | - |
| Forfeited or expired | - | | | |
| Exercised | (42,675) | | | |
| Outstanding at October 30, 2010 | 21,675 | \$ | 13.86 2.78 years | \$ 206,759 |
| Vested and exercisable at October 30, 2010 | 21,675 | \$ | 13.86 2.78 years | \$ 206,759 |

(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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**THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009**

NOTE 6 – STOCK BASED COMPENSATION (CONTINUED):

No options were granted in the first nine months of fiscal 2010 or fiscal 2009.

The total intrinsic value of options exercised during the third quarter and nine months ended October 30, 2010 was approximately \$248,000 and \$463,000, respectively.

During the quarter, the Company completed amortizing its nonvested options. In accordance with ASC 718, the Company adjusted its related forfeiture assumption. As a result, the Company recognized a reduction in share-based compensation expense of \$-0- and \$52,000 for the third quarter and nine month period ended October 30, 2010, respectively, compared to an expense of \$12,000 and \$66,000 for the third quarter and nine month period ended October 31, 2009, respectively. These amounts are classified as a component of selling, general and administrative expenses in the condensed consolidated statements of income.

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 October 30, 2010, the Company's effective tax rate was 32.7% compared to 30.2% for the prior year quarter ended October 31, 2009. The prior year quarter was more favorably impacted by the reduction of the provision for unrecognized tax benefits resulting from the closing of certain state income tax audits. The effective income tax rate for the first nine months of fiscal 2010 was 36.1% compared to 33.7% for the first nine months of

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fiscal 2009 primarily as a result of the favorable resolution of various state income tax matters in the prior year. During the next 12 months, various taxing authorities' statutes of limitations will expire which could result in a potential reduction of the provision for 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 estimable.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

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 October 30, 2010 and January 30, 2010.

| Description | (\$ in thousands) | | | |
|--------------------------------------|---------------------|--|---|--|
| | October 30, 2010 | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
| State/Municipal Bonds | \$ 131,702 | \$ 131,702 | | |
| Corporate Bonds | 36,376 | 36,376 | | |
| Auction Rate Securities (ARS) | 3,450 | | | 3,450 |
| Variable Rate Demand Notes (VRDN) | 21,750 | 21,750 | | |
| Privately Managed Funds | 1,953 | | | 1,953 |
| Corporate Equities | 437 | 437 | | |
| Total | \$ 195,668 | \$ 190,265 | \$ - | \$ 5,403 |

| Description | (\$ in thousands) | | | |
|-------------|---------------------|--|---|--|
| | January 30, 2010 | Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |

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| | | | | | | |
|-----------------------------------|----|---------|----|---------|----|------------|
| State/Municipal Bonds | \$ | 76,056 | \$ | 76,056 | | |
| Corporate Bonds | | 8,989 | | 8,989 | | |
| Auction Rate Securities (ARS) | | 3,450 | | | | 3,450 |
| Variable Rate Demand Notes (VRDN) | | 65,382 | | 65,382 | | |
| Privately Managed Funds | | 1,940 | | | | 1,940 |
| Corporate Equities | | 407 | | 407 | | |
| Total | \$ | 156,224 | \$ | 150,834 | \$ | - \$ 5,390 |

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED):

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes ("VRDN"), corporate bonds and governmental debt securities held in managed funds with underlying ratings of A or better at both October 30, 2010 and January 30, 2010. The underlying securities have contractual maturities which generally range from 16 days to 30 years. These securities are classified as available-for-sale and are recorded as short term investments on the accompanying Condensed Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in accumulated other comprehensive income.

Additionally, at October 30, 2010, the Company had \$2.0 million of privately managed funds, \$0.4 million of corporate equities and a single auction rate security ("ARS") of \$3.5 million which continues to fail its auction. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets. At January 30, 2010, the Company had \$1.9 million of privately managed funds, \$0.4 million of corporate equities, and a single ARS of \$3.5 million, all of which are recorded within Other assets in the Condensed Consolidated Balance Sheets.

The Company's failed ARS is measured at fair value using Level 3 inputs at each reporting period. Because there is no active market for this particular ARS, its fair value was determined through the use of a discounted cash flow analysis. The terms used in the analysis were based on management's estimate of the timing of future liquidity, which assumes that the security will be called or refinanced by the issuer or settled with a broker dealer prior to maturity. The discount rates used in the discounted cash flow analysis were based on market rates for similar liquid tax exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the Company also considered a liquidity/risk value reduction. In estimating the fair value of this ARS, the Company also considered the financial condition and near-term prospects of the issuer, the probability that the Company will be unable to collect all amounts due according to the contractual terms of the security and whether the security has been downgraded by a rating agency. The Company's valuation is sensitive to market conditions and management's judgment and can change significantly based on the assumptions used.

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.

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

NOTE 8 – FAIR VALUE MEASUREMENTS (CONTINUED):

The following table summarizes the change in the fair value of the Company's financial assets measured using Level 3 inputs during the first nine months of fiscal 2010:

Roll Forward
(\$ in thousands)

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | Total |
|---|---|-------------------|----------|-------|
| | Available-For-Sale | Other Investments | | |
| | Debt Securities ARS | Private Equity | | |
| Beginning Balance at January 30, 2010 | \$ 3,450 | \$ 1,940 | \$ 5,390 | |
| Total gains or (losses) | | | | |
| Included in earnings (or changes in net assets) | - | 13 | 13 | |
| Included in other comprehensive income | - | - | - | |
| Ending Balance at October 30, 2010 | \$ 3,450 | \$ 1,953 | \$ 5,403 | |

Roll Forward
(\$ in thousands)

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | Total |
|---|---|-------------------|----------|-------|
| | Available-For-Sale | Other Investments | | |
| | Debt Securities ARS | Private Equity | | |
| Beginning Balance at January 31, 2009 | \$ - | \$ 1,955 | \$ 1,955 | |
| Transfers into Level 3 | 3,450 | - | 3,450 | |
| Total gains or (losses) | - | - | - | |
| Included in earnings (or changes in net assets) | - | 25 | 25 | |

| | | | | | |
|---|-------|----|-------|----|-------|
| Included in other comprehensive income | - | | - | | - |
| Ending Balance at October 31, 2009 \$ | 3,450 | \$ | 1,980 | \$ | 5,430 |

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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED OCTOBER 30, 2010 AND OCTOBER 31, 2009

NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS:

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends ASC 820 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. This ASU was effective for the Company on January 31, 2010, and did not have a material impact on the Company's disclosures.

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THE CATO CORPORATION

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

FORWARD LOOKING INFORMATION:

The following information should be read along with the Unaudited Condensed Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; (4) statements relating to our operations or activities for fiscal 2010 and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodelings 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 “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “may,” “plans,” “should” and variations 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: general economic conditions including, but not limited to, the continuation or worsening of (i) the current adverse or recessionary conditions affecting the U.S. and global economies and consumer spending and (ii) the adverse conditions in the U.S. and global credit markets; uncertainties regarding the impact of any governmental responses to the foregoing adverse economic and credit market conditions; competitive factors and pricing pressures; our ability to predict fashion trends; consumer apparel buying patterns; adverse weather conditions; 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 30, 2010 (“fiscal 2009”), as amended or supplemented, and in other reports we file with or furnish to the SEC from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

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

CRITICAL ACCOUNTING POLICIES:

The Company's accounting policies are more fully described in Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States 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, workers' compensation, general and auto insurance liabilities, group health insurance, inventory markdowns, litigation, calculation of asset impairment, store closings, inventory shrinkage and uncertain tax positions.

The Company's critical accounting policies and estimates are discussed with the Audit Committee on a quarterly basis.

RESULTS OF OPERATIONS:

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

| | Three Months Ended | | Nine Months Ended | |
|--------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| | October 30, 2010 | October 31, 2009 | October 30, 2010 | October 31, 2009 |
| Total retail sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Other income | 1.4 | 1.5 | 1.2 | 1.3 |
| Total revenues | 101.4 | 101.5 | 101.2 | 101.3 |
| Cost of goods sold | 63.5 | 65.2 | 60.3 | 62.6 |

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| | | | | |
|-------------------------------------|--------------|-------|--------------|-------|
| Selling, general and administrative | 30.5 | 31.7 | 27.7 | 27.7 |
| Depreciation | 2.9 | 2.9 | 2.3 | 2.5 |
| Interest and other income | (0.5) | (0.5) | (0.4) | (0.4) |
| Income before income taxes | 5.1 | 2.2 | 11.3 | 8.9 |
| Net income | 3.4 | 1.5 | 7.2 | 5.9 |

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

RESULTS OF OPERATIONS – (CONTINUED):

Comparison of Third Quarter and First Nine Months of 2010 with 2009.

Total retail sales for the third quarter were \$198.0 million compared to last year's third quarter sales of \$191.0 million, a 3.7% increase. Same-store sales increased 1.9% in the third quarter of fiscal 2010 due to better sell-throughs of regular price merchandise. For the nine months ended October 30, 2010, total retail sales were \$689.6 million compared to last year's first nine months sales of \$654.4 million an increase of 5.4%. Same-store sales increased 3.9% for the comparable nine month period. Total revenues, comprised of retail sales and other income (principally, finance charges and late fees on customer accounts receivable and layaway fees), were \$200.8 million and \$698.2 million for the third quarter and nine months ended October 30, 2010, respectively, compared to \$193.8 million and \$663.1 million for the third quarter and nine months ended October 31, 2009, respectively. The Company operated 1,281 stores at October 30, 2010 compared to 1,291 stores at the end of last year's third quarter. For the first nine months of 2010 the Company opened 29 new stores, relocated four stores and closed 19 stores. The Company currently expects to open approximately 40 stores, relocate five stores and close approximately 26 stores in fiscal 2010.

Credit revenue of \$2.1 million represented 1.0% of total revenues in the third quarter of fiscal 2010, compared to the third quarter of fiscal 2009 credit revenue of \$2.3 million or 1.2% of total revenues. Credit revenue decreased for the comparable period due to lower finance and late charge income due to decreased 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 include principally bad debt expense, payroll, postage and other administrative expenses and totaled \$1.3 million in the third quarter of 2010, compared to last year's third quarter expenses of \$1.6 million. The decrease was primarily due to lower bad debt expense which included a \$0.1 million reduction in the bad debt reserve as well as reduced administrative expenses compared to the third quarter of 2009.

Other income in total, as included in total revenues, was \$2.8 million and \$8.6 million for the third quarter and first nine months of fiscal 2010, compared to \$2.9 million and \$8.7 million for the prior year's comparable third quarter and

first nine months. The slight overall year-to-date decrease resulted primarily from lower finance charges and late fees due to decreased sales under the Company's proprietary credit card partially offset by an increase in layaway charges.

Cost of goods sold was \$125.7 million, or 63.5% of retail sales and \$415.6 million or 60.3% of retail sales for the third quarter and first nine months of fiscal 2010, compared to \$124.5 million, or 65.2% of retail sales and \$409.9 million or 62.6% of retail sales for the prior year's comparable three and nine month periods, respectively. The overall decrease in cost of goods sold as a percent of retail sales for the third quarter and first nine months of 2010 resulted primarily from leveraging higher sales and lower markdowns. The decrease in markdowns was primarily attributable to inventory management and higher sell-throughs of regular priced merchandise. 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 expenses 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) increased by 8.9% to \$72.3 million for the third quarter of fiscal 2010 and increased by 12.1% to \$274.0 million for the first nine months of fiscal 2010 compared to \$66.4 million and \$244.5 million for the prior year's comparable

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

RESULTS OF OPERATIONS – (CONTINUED):

three and nine month periods, respectively. Gross margin as presented may not be comparable to those of other entities.

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 \$60.5 million, or 30.5% of retail sales and \$191.3 million, or 27.7% of retail sales for the third quarter and first nine months of fiscal 2010, respectively, compared to \$60.5 million, or 31.7% of retail sales and \$181.6 million, or 27.7% of retail sales for the prior year’s comparable three and nine month periods, respectively. SG&A expenses as a percentage of retail sales decreased 1.2% for the third quarter of fiscal 2010 as compared to the prior year primarily as a result of lower accrued incentive compensation. Although for the first nine months of fiscal 2010, SG&A expenses as a percent of retail sales remained flat compared to the prior year, the overall dollar increase for the first nine months of fiscal 2010 was primarily attributable to increased incentive based compensation, payroll and workers’ compensation expenses, partially offset by a reduction in legal expense.

Depreciation expense was \$5.6 million, or 2.9% of retail sales and \$16.2 million, or 2.3% of retail sales for the third quarter and first nine months of fiscal 2010, respectively, compared to \$5.4 million, or 2.9% of retail sales and \$16.5 million, or 2.5% of retail sales for the prior year’s comparable three and nine month periods, respectively. The third quarter dollar increase compared to the prior year third quarter of 2009 was due to increased depreciation as a result of the acceleration of depreciable lives on certain information technology assets. The decrease in depreciation expense for the first nine months of fiscal 2010 was due to lower store development in the past two years and decreased information technology investments.

Interest and other income was \$1.0 million, or 0.5% of retail sales and \$2.9 million, or 0.4% of retail sales for the third quarter and first nine months of fiscal 2010, respectively, compared to \$1.0 million, or 0.5% of retail sales and \$2.9 million, or 0.4% of retail sales for the prior year’s comparable three and nine month periods, respectively. Interest and other income remained flat for the comparable third quarter and nine month periods.

Income tax expense was \$3.3 million or 1.7% of retail sales and \$28.2 million, or 4.1% for the third quarter and first nine months of fiscal 2010, respectively, compared to \$1.3 million, or 0.7% of retail sales and \$19.5 million, or 3.0% of retail sales for the prior year's comparable three and nine month periods, respectively. The third quarter increase resulted from higher pre-tax income and a higher effective tax rate. The effective income tax rate for the third quarter of fiscal 2010 was 32.7% compared to 30.2% for the third quarter of 2009. The prior year quarter was impacted by the reduction of the provision for unrecognized tax benefits resulting from the closing of certain state income tax audits. The effective income tax rate for the first nine months of fiscal 2010 was 36.1% compared to 33.7% for the nine months of fiscal 2009 primarily as a result of the favorable resolution of various state income tax matters in the prior year.

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

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during the first nine months of fiscal 2010 was \$60.4 million as compared to \$61.1 million in the first nine months of fiscal 2009. These amounts enable the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and share repurchases. In addition, the Company maintains a \$35.0 million unsecured revolving credit facility for short-term financing of seasonal cash needs. There were no outstanding borrowings on this facility at October 30, 2010, and borrowing capacity under the facility was \$33.3 million, net of standby letter of credit obligations until November 2010 when the standby letter of credit was cancelled.

Cash provided by operating activities for the first nine months of fiscal 2010 was primarily generated by earnings adjusted for depreciation and changes in working capital. The decrease of \$0.7 million for the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 was primarily due to a decrease in the change in inventories and accounts payable, partially offset by an increase in net income and accrued income taxes.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations, will be adequate to fund the Company's operating requirements, dividends, share repurchases and expected capital expenditures for the balance of fiscal 2010 and for the foreseeable future.

At October 30, 2010, the Company had working capital of \$234.6 million compared to \$193.1 million at October 31, 2009. Additionally, the Company had \$2.4 million invested in privately managed investment funds and other miscellaneous equities at October 30, 2010, which are included in Other assets on the Condensed Consolidated Balance Sheets.

At October 30, 2010, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to \$33.3 million, net of standby letter of credit obligations. In August 2010, the Company extended the revolving

credit agreement 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 October 30, 2010. There were no borrowings outstanding under the credit facility during the third quarter ended October 30, 2010 or the fiscal year ended January 30, 2010.

At October 30, 2010 and October 31, 2009, the Company had approximately \$5.7 million and \$8.4 million, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. In addition, the Company has a standby letter of credit in the amount of approximately \$1.7 million at October 30, 2010 for payments to the current general liability and workers' compensation insurance processor. This standby letter of credit was subsequently cancelled in November 2010.

Expenditures for property and equipment totaled \$14.3 million in the first nine months of fiscal 2010, compared to \$9.4 million in last year's first nine months. The expenditures for the first nine months of 2010 were primarily for the development of 29 new stores and additional investments in new technology. For the full fiscal 2010 year, the Company expects to invest approximately \$19.6 million for capital expenditures. This includes expenditures to open approximately 40 new stores and relocate five stores.

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

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK (CONTINUED):

Net cash used in investing activities totaled \$53.7 million in the first nine months of fiscal 2010 compared to \$57.1 million used in the comparable period of 2009. The decrease was due primarily to the increase in sales of short-term investments over purchases of such investments offset partially by increased expenditures for property and equipment.

On December 2, 2010, the Board of Directors maintained the quarterly dividend at \$.185 per share or an annualized rate of \$.74 per share.

As of October 30, 2010, the Company had 442,942 shares remaining available for repurchase under its share repurchase program. There is no specified expiration date for the Company's repurchase program. For the nine months ended October 30, 2010, the Company repurchased 253,000 shares at a cost of \$5,682,605.

The Company does not use derivative financial instruments.

The Company's investment portfolio was primarily invested in tax exempt variable rate demand notes ("VRDN"), corporate bonds, and governmental debt securities held in managed funds with underlying ratings of A or better at both October 30, 2010 and January 30, 2010. The underlying securities have contractual maturities which generally range from 16 days to 30 years. These securities are classified as available-for-sale and are recorded as short term investments on the accompanying Condensed Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at October 30, 2010, the Company had \$2.0 million of privately managed funds, \$0.4 million of corporate equities and a single auction rate security ("ARS") of \$3.5 million which continues to fail its auction.

Reference Note 8 – Fair Value Measurements for further information regarding the failed ARS. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets.

Information regarding new accounting pronouncements is provided in Note 9 to the Company's Condensed Consolidated Financial Statements.

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THE CATO CORPORATION
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

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

ITEM 4. CONTROLS AND PROCEDURES:

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of October 30, 2010. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of October 30, 2010, 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 provide reasonable assurance 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 Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No change in the Company’s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company’s fiscal quarter ended October 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II OTHER INFORMATION

THE CATO CORPORATION

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 30, 2010. 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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 4. REMOVED AND RESERVED

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. |
| 4.1 | Rights Agreement dated December 18, 2003, incorporated by reference to Exhibit 4.1 to Form 8-A12G of the Registrant filed December 22, 2003 and as amended in Form 8-A12B/A filed January 6, 2004. |
| 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. |

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PART II OTHER INFORMATION

THE CATO CORPORATION

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

December 8, 2010
Date

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

Chairman, President and

Chief Executive Officer

December 8, 2010
Date

/s/ John R. Howe
John R. Howe

Executive Vice President

Chief Financial Officer