CATO CORP
Form 10-K
March 24, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended January 30, 2016
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-31340

The Cato Corporation

Registrant

Delaware *State of Incorporation*	**56-0484485** *I.R.S. Employer Identification Number*
8100 Denmark Road **Charlotte, North Carolina 28273-5975** *Address of Principal Executive Offices*	**704/554-8510** *Registrant's Telephone Number*

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Class A Common Stock	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ

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 þ 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No

Indicate by check mark, if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No þ

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of August 1, 2015, the last business day of the Company's most recent second quarter, was $994,363,842 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of January 30, 2016, there were 26,129,692 shares of Class A common stock and 1,743,525 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2016 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

Part III — Items 10, 11, 12, 13 and 14

THE CATO CORPORATION

FORM 10-K

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Forward-looking Information

The following information should be read along with the 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 annual report on Form 10-K 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 "Business," "Properties," "Legal Proceedings," "Controls and Procedures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for our fiscal year ending January 28, 2017 ("fiscal 2016") and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "could," "should," "will," "would" and any varia negative formulations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in the conditions that drive consumer confidence and spending, including, but not limited to, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, home values, consumer net worth and the availability of credit; uncertainties regarding the impact of any governmental responses to the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly changing fashion trends and consumer demands; adverse weather or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand; and other factors discussed under "Risk Factors" in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended January 30, 2016 ("fiscal 2015"), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission ("SEC") from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

As used herein, the terms "we," "our," "us" (or when the context requires otherwise and similar terms), the "Company" or "Cato" include The Cato Corporation and its subsidiaries, except that when used with reference to common stock or other securities described herein and in describing the positions held by management of the Company, such terms include only The Cato Corporation. Our website is located at www.catocorp.com where we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports (including amendments to these reports) filed or furnished pursuant to Section 13(a) or 15(d) under the Securities Exchange Act of 1934. These reports are available as soon as reasonably practicable after we electronically file these materials with the SEC. We also post on our website the charters of our Audit, Compensation and Corporate Governance and Nominating Committees; our Corporate Governance Guidelines, Code of Business Conduct and Ethics; and any amendments or waivers thereto; and any other publicly available corporate governance materials contemplated by SEC or New York Stock Exchange regulations. The information contained on our website, www.catocorp.com, is not, and should in no way be construed as, a part of this or any other report that we filed with or furnished to the SEC.

PART I

Item 1. ***Business:***

General

The Company, founded in 1946, operated 1,372 fashion specialty stores at January 30, 2016, in 32 states, principally in the southeastern United States, under the names "Cato," "Cato Fashions," "Cato Plus," "It's Fashion," "It's Fashi Metro" and "Versona." The Cato concept seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy, plus sizes and girls sizes 7 to 16. The Cato concept's stores and e-commerce website feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the Cato concept's merchandise is sold under its private label and is produced by various vendors in accordance with the concept's specifications. The It's Fashion and It's Fashion Metro concepts offer fashion with a focus on the latest trendy styles for the entire family at low prices every day. The Versona concept's stores and e-commerce website offer quality fashion jewelry, accessories and apparel items at exceptional values every day. The Company's stores range in size from 2,000 to 19,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. The Company emphasizes friendly customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales under the Company's plan represented 8% of retail sales in fiscal 2015. See Note 14 to the Consolidated Financial Statements, "Reportable Segment Information," for a discussion of information regarding the Company's two reportable segments: retail and credit.

Business

The Company's primary objective is to be the leading fashion specialty retailer for fashion and value in its markets. Management believes the Company's success is dependent upon its ability to differentiate its stores from department stores, mass merchandise discount stores and competing specialty stores. The key elements of the Company's business strategy are:

Merchandise Assortment. The Company's stores offer a wide assortment of on-trend apparel and accessory items in primarily junior/missy, plus sizes, girls sizes 7 to 16, mens and kids sizes newborn to 7 with an emphasis on color, product coordination and selection. Colors and styles are coordinated and presented so that outfit selection is easily made.

Value Pricing. The Company offers quality merchandise that is generally priced below comparable merchandise offered by department stores and mall specialty apparel chains, but is generally more fashionable than merchandise offered by discount stores. Management believes that the Company has positioned itself as the every day low price leader in its market segment.

Strip Shopping Center Locations. The Company locates its stores principally in convenient strip centers anchored by national discounters or market-dominant grocery stores that attract large numbers of potential customers.

Customer Service. Store managers and sales associates are trained to provide prompt and courteous service and to assist customers in merchandise selection and wardrobe coordination.

Credit and Layaway Programs. The Company offers its own credit card and a layaway plan to make the purchase of its merchandise more convenient for its customers.

Merchandising

Merchandising

The Company seeks to offer a broad selection of high quality and exceptional value apparel and accessories to suit the various lifestyles of fashion and value-conscious customers. In addition, the Company strives to offer on-trend fashion in exciting colors with consistent fit and quality.

The Company's merchandise lines include dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry, handbags, men's wear and lines for kids and newborns. The Company primarily offers exclusive merchandise with fashion and quality comparable to mall specialty stores at low prices, every day.

The Company believes that the collaboration of its merchandising team with an expanded in-house product development and direct sourcing function has enhanced merchandise offerings and delivers quality, exclusive on-trend styles at lower prices. The product development and direct sourcing operations provide research on emerging fashion and color trends, technical services and direct sourcing options.

As a part of its merchandising strategy, members of the Company's merchandising staff frequently attend trade shows to stay abreast of latest trends and styles, visit selected stores to monitor the merchandise offerings of other retailers, regularly communicate with store operations associates and frequently confer with key vendors. The Company also takes aggressive markdowns on slow-selling merchandise and typically does not carry over merchandise to the next season.

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 530 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2015, purchases from the Company's largest vendor accounted for approximately 7% of the Company's total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company purchases a majority of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments. This enables the Company to react to merchandise trends in a more timely fashion. The Company sources its remaining merchandise directly from manufacturers overseas. The Company opened its own overseas sourcing operations in the fall of 2014, replacing the Company's former sourcing agent in 2015. Although a significant portion of the Company's merchandise

is manufactured overseas, the Company does not expect that any economic, political or social unrest in any one country would have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise. However, the Company can give no assurance that any changes or disruptions in its merchandise supply chain would not materially and adversely affect the Company. See "Risk Factors – Risks Relating To Our Business – Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations, changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition."

An important component of the Company's strategy is the allocation of merchandise to individual stores based on an analysis of sales trends by merchandise category, customer profiles and climatic conditions. A merchandise control system provides current information on the sales activity of each merchandise style in each of the Company's stores. Point-of-sale terminals in the stores collect and transmit sales and inventory information to the Company's central database, permitting timely response to sales trends on a store-by-store basis.

All merchandise is shipped directly to the Company’s distribution center in Charlotte, North Carolina, where it is inspected and then allocated by the merchandise distribution staff for shipment to individual stores. The flow of merchandise from receipt at the distribution center to shipment to stores is controlled by an on-line system. Shipments are made by common carrier, and each store receives at least one shipment per week. The centralization of the Company’s distribution process also subjects it to risks in the event of damage to or destruction of its distribution facility or other disruptions affecting the distribution center or the flow of goods into or out of Charlotte, North Carolina. See “Risk Factors – Risks Relating To Our Business – A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely affect our business and results of operations.”

Advertising

The Company uses television, in-store signage, graphics, a Company website, an e-commerce website and social media as its primary advertising media. The Company’s total advertising expenditures were approximately 0.8%, 0.6% and 0.7% of retail sales for fiscal years 2015, 2014 and 2013, respectively.

Store Operations

The Company’s store operations management team consists of one director of stores, five territorial managers, 17 regional managers and 144 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll and shrinkage control. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are typically staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the store and seasonal personnel needs. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers, assistant managers and sales associates are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store’s sales increases and shrinkage control.

The Company constantly strives to improve its training programs to develop associates. Over 80% of store and field management are promoted from within, allowing the Company to internally staff an expanding store base. The Company has training programs at each level of store operations. New store managers are trained in training stores managed by experienced associates who have achieved superior results in meeting the Company’s goals for store sales, payroll expense and shrinkage control. The type and extent of district manager training varies depending on whether the district manager is promoted from within or recruited from outside the Company.

Store Locations

Most of the Company’s stores are located in the southeastern United States in a variety of markets ranging from small towns to large metropolitan areas with trade area populations of 20,000 or more. Stores average approximately 4,500 square feet in size.

All of the Company’s stores are leased. Approximately 97% are located in strip shopping centers and 3% in enclosed shopping malls. The Company typically locates stores in strip shopping centers anchored by a national discounter, primarily Wal-Mart Supercenters, or market-dominant grocery stores. The Company’s strip center locations provide ample parking and shopping convenience for its customers.

The Company’s store development activities consist of opening new stores in new and existing markets and relocating selected existing stores to more desirable locations in the same market area. The following table sets forth information with respect to the Company’s development activities since fiscal 2011:

Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
2011…………………….……...…………	1,282	38	32	1,288
2012…………………….……...…………	1,288	34	12	1,310
2013…………………….……...…….……	1,310	32	22	1,320
2014………….....…………….……...……	1,320	33	7	1,346
2015…………….………...………...……	1,346	31	5	1,372

The Company expects to open 23 new stores during fiscal 2016. The Company anticipates closing up to 17 stores, relocating 16 stores and remodeling 10 stores by year end.

The Company periodically reviews its store base to determine whether any particular store should be closed based on its sales trends and profitability. The Company intends to continue this review process to identify underperforming stores.

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 3.6%, 3.9% and 4.3% of retail sales in fiscal 2015, 2014 and 2013 respectively. The Company's net bad debt expense was 3.2%, 4.5% and 3.9% of credit sales in fiscal 2015, 2014 and 2013, respectively.

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record and the Company has considered the customer's ability to make the required minimum payment. Customers are required to make minimum monthly payments based on their account balances. If the balance is not paid in full each month, the Company assesses the customer a finance charge. If payments are not received on time, the customer is assessed a late fee subject to regulatory limits.

Layaway Plan

Under the Company's layaway plan, merchandise is set aside for customers who agree to make periodic payments. The Company adds a nonrefundable administrative fee to each layaway sale. If no payment is made within four weeks, the customer is considered to have defaulted, and the merchandise is returned to the selling floor and again offered for sale, often at a reduced price. All payments made by customers who subsequently default on their layaway purchase are returned to the customer upon request, less the administrative fee and a restocking fee.

The Company defers recognition of layaway sales to the accounting period when the customer picks up and completely pays for layaway merchandise. Administrative fees are recognized in the period in which the customer picks up the merchandise or upon default of the layaway purchase. Recognition of restocking fees occurs in the accounting period when the customer defaults on the layaway purchase. Layaway sales represented approximately 4.7%, 4.5% and 4.5% of retail sales in fiscal 2015, 2014 and 2013, respectively.

Information Technology Systems

The Company's information technology systems provide daily financial and merchandising information that is used by management to enhance the timeliness and effectiveness of purchasing and pricing decisions. Management uses a daily report comparing actual sales with planned sales and a weekly ranking report to monitor and control purchasing decisions. Weekly reports are also produced which reflect sales, weeks of supply of inventory and other critical data by product categories, by store and by various levels of responsibility reporting. Purchases are made based on projected sales, but can be modified to accommodate unexpected increases or decreases in demand for a particular item.

Sales information is projected by merchandise category and, in some cases, is further projected and actual performance measured by stock keeping unit (SKU). Merchandise allocation models are used to distribute merchandise to individual stores based upon historical sales trends, climatic differences, customer demographic differences and targeted inventory turnover rates.

Competition

The women's retail apparel industry is highly competitive. The Company believes that the principal competitive factors in its industry include merchandise assortment and presentation, fashion, price, store location and customer service. The Company competes with retail chains that operate similar women's apparel specialty stores. In addition, the Company competes with mass merchandise chains, discount store chains, major department stores, off-price retailers and internet-based retailers. Although we believe we compete favorably with respect to the principal competitive factors described above, many of our direct and indirect competitors are well-established national, regional or local chains, and some have substantially greater financial, marketing and other resources. The Company expects its stores in larger cities and metropolitan areas to face more intense competition.

Seasonality

Due to the seasonal nature of the retail business, the Company has historically experienced and expects to continue to experience seasonal fluctuations in its revenues, operating income and net income. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods. See Note 13 of Notes to the Consolidated Financial Statements for information regarding our quarterly results of operations for the last two fiscal years.

Regulation

A variety of laws affect the revolving credit card program offered by the Company. The Credit Card Accountability Responsibility and Disclosure Act of 2009 ("The Act") amended the Truth in Lending Act to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan. The Act contained provisions addressing matters such as change in terms, notices, limits on fees, rate increases, payment allocation and account disclosures. The Act requires creditors to provide consumers with account disclosures that are timely and in a form that is readily understandable. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit lenders from discrimination against any credit applicants, establish guidelines for gathering and evaluating credit information and require written notification when credit is denied. Regulation AA, Unfair or Deceptive Acts or Practices, establishes consumer complaint

procedures and defines unfair or deceptive practices in extending credit to consumers. The Federal Trade Commission has adopted or proposed various trade regulation rules dealing with unfair credit and collection practices and the preservation of consumers' claims and defenses. The Company is also subject to the U.S. Patriot Act and the Bank Secrecy Act, which require the Company to monitor account holders and account transactions, respectively. Additionally, the Gramm-Leach-Bliley Act requires the Company to disclose, initially and annually, to its customers, the Company's privacy policy as it relates to a customer's non-public personal information.

Associates

As of January 30, 2016, the Company employed approximately 10,500 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers its associate relations to be good.

Item 1A. ***Risk Factors:***

An investment in our common stock involves numerous types of risks. You should carefully consider the following risk factors, in addition to the other information contained in this report, including the disclosures under "Forward-looking Information" above in evaluating our Company and any potential investment in our common stock. If any of the following risks or uncertainties occur, our business, financial condition and operating results could be materially and adversely affected, the trading price of our common stock could decline and you could lose all or a part of your investment in our common stock. The risks and uncertainties described in this section are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business operating results and financial condition.

Risks Relating To Our Business:

If we are unable to anticipate, identify and respond to rapidly changing fashion trends and customer demands in a timely manner, our business and results of operations could materially suffer.

Customer tastes and fashion trends, particularly for women's apparel, are volatile, tend to change rapidly and cannot be predicted with certainty. Our success depends in part upon our ability to consistently anticipate, design and respond to changing merchandise trends and consumer preferences in a timely manner. Accordingly, any failure by us to anticipate, identify, design and respond to changing fashion trends could adversely affect consumer acceptance of our merchandise, which in turn could adversely affect our business and our image with our customers. If we miscalculate either the market for our merchandise or our customers' tastes or purchasing habits, we may be required to sell a significant amount of unsold inventory at below-average markups over cost, or below cost, which would adversely affect our margins and results of operations.

Existing and increased competition in the women's retail apparel industry may negatively impact our business, results of operations, financial condition and market share.

The women's retail apparel industry is highly competitive. We compete primarily with discount stores, mass merchandisers, department stores, off-price retailers, specialty stores and internet-based retailers, many of which have substantially greater financial, marketing and other resources than we have. Many of our competitors offer frequent promotions and reduce their selling prices. In some cases our competitors are expanding into markets in which we have a significant market presence. In addition, our competitors also compete for the same retail store space. As a result of this competition, we may experience pricing pressures, increased marketing expenditures, increased costs to open new stores, as well as loss of market share, which could materially and adversely affect our business, results of operations and financial condition.

Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition.

A significant amount of our merchandise is manufactured overseas, principally in East Asia. We directly import some of this merchandise and indirectly import the remaining merchandise from domestic vendors who acquire the merchandise from foreign sources. As a result, political, financial or other forms of instability or other events resulting in the disruption of trade from countries affecting our supply chain, increased security requirements for imported merchandise, or the imposition of additional regulations or changes in duties, quotas, tariffs, taxes or other factors affecting the availability or cost of imports, could cause significant delays or interruptions in the supply of our merchandise or increase our costs. Our costs are also affected by currency fluctuations, and changes in the value of the dollar relative to foreign currencies may increase our cost of goods sold. Any of these factors could have a material adverse effect on our business. In addition, increased energy and transportation costs have caused us significant cost increases from time to time, and future adverse changes in these costs or the disruption of the means by which merchandise is transported to us could cause additional cost increases or interruptions of our supply chain which could be significant. Further, we are subject to increased costs or potential disruptions impacting any port or trade route through which our products move. If we are forced to source merchandise from other countries or other domestic vendors with foreign sources in different countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell.

The inability of third-party vendors to produce goods on time and to the Company's specification may adversely affect the Company's business, results of operations and financial condition.

Our dependence on third-party vendors to manufacture and supply our merchandise subjects us to numerous risks that our vendors will fail to perform as we expect. For example, the deterioration in any of our key vendors' financial condition, their failure to ship merchandise in a timely manner that meets our specifications, or other failures to follow our vendor guidelines or comply with applicable laws and regulations, including compliant labor, environmental practices and product safety, could expose us to operational, quality, competitive, reputational and legal risks. If we are not able to timely or adequately replace the merchandise we currently source with merchandise produced elsewhere, or if our vendors fail to perform as we expect, our business, results of operations and financial condition could be adversely affected. Activities conducted by us or on our behalf outside the United States further subject us to numerous U.S. and international regulations and compliance risks, as discussed below under "Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition."

The operation of our sourcing offices in Asia may present increased legal and operational risks.

In October 2014, we established our own sourcing offices in Asia. Our experience with legal and regulatory practices and requirements in Asia is limited. If our sourcing offices are unable to successfully oversee merchandise production to ensure that product is produced on time and within the Company's specifications, our business, brand, reputation, costs, results of operations and financial condition could be materially and adversely affected. Further, the activities conducted by our sourcing office outside the United States further subject us to foreign operational risks, as well as U.S. and international regulations and compliance risks, as discussed elsewhere in this "Risk Factors" section, in particular below under "Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition."

Fluctuations in the price, availability and quality of inventory may result in higher cost of goods, which the Company may not be able to pass on to its customers.

Vendors are increasingly passing on higher production costs, which may impact our ability to maintain or grow our margins. The price and availability of raw materials may be impacted by demand, regulation, weather and crop yields, as well as other factors. Additionally, manufacturers have and may continue to have increases in other manufacturing costs, such as transportation, labor and benefit costs. These increases in production costs result in higher merchandise costs to the Company. Due to the Company's limited flexibility in price point, the Company may not be able to pass on those cost increases to the consumer, which could have a material adverse effect on our results of operations and financial condition.

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Any actual or perceived deterioration in the conditions that drive consumer confidence and spending may materially and adversely affect consumer demand for our apparel and accessories and our results of operations.

Consumer spending habits, including spending for our apparel and accessories, are affected by, among other things, prevailing economic conditions and uncertainties, political conditions and uncertainties (such as those currently being debated in the U.S. regarding budgetary, spending and tax policies), levels of employment, fuel, energy and food costs, salaries and wage rates and other sources of income, tax rates, home values, consumer net worth, the availability of consumer credit, consumer confidence and consumer perceptions of adverse changes in or trends affecting any of these conditions. Any perception that these conditions may be worsening or continuing to trend negatively may significantly weaken many of these drivers of consumer spending habits. Adverse perceptions of these conditions or uncertainties regarding them also generally cause consumers to defer purchases of discretionary items, such as our merchandise, or to purchase cheaper alternatives to our merchandise, all of which may also adversely affect our net sales and results of operations. In addition, numerous events, whether or not related to actual economic conditions, such as downturns in the stock markets, acts of war or terrorism, political unrest or natural disasters, or similar events, may also dampen consumer confidence, and accordingly, lead to reduced consumer spending. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

A failure or disruption relating to our information technology systems could adversely affect our business.

We rely on our existing information technology systems for merchandise operations, including merchandise planning, replenishment, pricing, ordering, markdowns and product life cycle management. In addition to merchandise operations, we utilize our information technology systems for our distribution processes, as well as our financial systems, including accounts payable, general ledger, accounts receivable, sales, banking, inventory and fixed assets. Despite the precautions we take, our information systems may be vulnerable to disruption or failure from numerous events, including but not limited to, natural disasters, severe weather conditions, power outages, technical malfunctions, cyber attacks, acts of war or terrorism, similar catastrophic events or other causes beyond our control or that we fail to anticipate. Any disruption or failure in the operation of our information technology systems, or our failure to continue to upgrade or improve such systems could adversely affect our business. Modifications and/or upgrades to our current information technology systems may also disrupt our operations.

A disruption or shutdown of our centralized distribution center or transportation network could materially and adversely affect our business and results of operations.

The distribution of our products is centralized in one distribution center in Charlotte, North Carolina and distributed through our network of third-party freight carriers. The merchandise we purchase is shipped directly to our distribution center, where it is prepared for shipment to the appropriate stores and subsequently delivered to the

stores by our third-party freight carriers. If the distribution center or our third-party freight carriers were to be shutdown or lose significant capacity for any reason, including but not limited to, any of the causes described under "A failure or disruption relating to our information technology systems could adversely affect our business," our operations would likely be seriously disrupted. Such problems could occur as the result of any loss, destruction or impairment of our ability to use our distribution center, as well as any broader problem generally affecting the ability to ship goods into our distribution center or deliver goods to our stores. As a result, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes for us to reopen or replace the distribution center and/or our transportation network. Any such occurrence could adversely affect our business, results of operations and financial condition.

Our ability to attract consumers and grow our revenues is dependent on the success of our store location strategy and our ability to successfully open new stores as planned.

Our sales are dependent in part on the location of our stores in shopping centers where we believe our consumers and potential consumers shop. In addition, our ability to grow our revenues has been substantially dependent on our ability to secure space for and open new stores in attractive locations. Centers where we currently operate existing stores or seek to open new stores may be adversely affected by, among other things, general economic downturns or those particularly affecting the commercial real estate industry, the closing of anchor stores, changes in tenant mix and changes in customer shopping preferences. To take advantage of consumer traffic and the shopping preferences of our consumers, we need to maintain and acquire stores in desirable locations where competition for suitable store locations is intense. A decline in customer popularity of the strip shopping centers where we generally locate our stores or in availability of space in desirable centers and locations, or an increase in the cost of such desired space, limiting our ability to open new stores, could adversely affect consumer traffic and reduce our sales and net earnings or increase our operating costs.

Our ability to open and operate new stores depends on many factors, some of which are beyond our control. These factors include, but are not limited to, our ability to identify suitable store locations, negotiate acceptable lease terms, secure necessary governmental permits and approvals and hire and train appropriate store personnel. In addition, our continued expansion into new regions of the country where we have not done business before may present new challenges in competition, distribution and merchandising as we enter these new markets. Our failure to successfully and timely execute our plans for opening new stores or the failure of these stores to perform up to our expectations could adversely affect our business, results of operations and financial condition.

Changes to accounting rules and regulations may adversely affect our reported results of operations and financial condition.

In an effort to provide greater comparability of financial reporting in an increasing global environment, accounting regulatory authorities are entering into collaborative efforts to converge U.S. Generally Accepted Accounting Principles with International Financial Reporting Standards. These changes in accounting rules or regulations may significantly impact our future reported results of operations and financial position. Changes in accounting rules or regulations and varying interpretations of existing accounting rules and regulations have significantly affected our reported financial statements and those of other participants in the retail industry in the past and may continue to do so in the future.

For example, pending changes to lease accounting standards will require lessees to capitalize operating leases in their financial statements in the future. These changes will have a major impact on the Company as a retailer with numerous leased locations. Such changes will require us to record a significant amount of lease-related assets and liabilities on our balance sheet and make other changes to the recording and classification of lease-related expenses on our statements of income and cash flows. These changes could lead to the perception by investors that we are highly leveraged and would change the calculation of numerous financial metrics and measures of our performance and

financial condition. These and other future changes to accounting rules or regulations may adversely affect our reported results of operations and financial position.

If the Company is unable to successfully integrate new businesses into its existing business, the Company's financial condition and results of operations will be adversely affected.

The Company's long-term business strategy includes growth through the development of new store concepts. This growth may require significant capital expenditures and management attention. The Company may not realize any of the anticipated benefits of a new business and integration costs may exceed anticipated amounts. We have incurred substantial financial commitments and fixed costs related to our retail stores that we will not be able to recover if our stores are not successful and that could potentially result in impairment charges. If we cannot successfully execute our growth strategies, our financial condition and results of operations may be adversely impacted.

A security breach that results in unauthorized disclosure of employee, Company or customer information could adversely affect our costs, reputation and results of operations.

The protection of employee, Company and customer data is critical to the Company. Any security breach, mishandling, human or programming error or other event that results in the misappropriation, loss or other unauthorized disclosure of employee, Company or customer information, including but not limited to credit card data or other personally identifiable information, could severely damage the Company's reputation, expose it to remediation and other costs and the risks of legal proceedings, disrupt its operations and otherwise adversely affect the Company's business and financial condition. Despite measures the Company has taken to protect confidential information, there is no assurance that such measures will prevent the compromise of such information. If any such compromise or unauthorized disclosure of this information were to occur, it could have a material adverse effect on the Company's reputation, business, operating results, financial condition and cash flows.

We are subject to payment-related risks.

We accept payments using a variety of methods, including third party credit cards, our own branded credit cards, debit cards, gift cards and physical bank checks. For existing and future payment methods we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in increased costs and reduce the ease of use of certain payment methods), as well as fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time, raising our operating costs and lowering profitability. We rely on third-party service providers for payment processing services, including the processing of credit and debit cards. In each case, it could disrupt our business if these third-party service providers become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, including data security rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks’ costs, subject to fines and higher transaction fees. In addition we may lose our ability to accept credit and debit card payments from our customers and process electronic funds transfers or facilitate other types of payments, and our business and operating results could be adversely affected

The Company’s failure to successfully operate its e-commerce website or fulfill customer expectations could adversely impact customer satisfaction, our reputation and our business.

Although the Company's e-commerce platform provides another channel to drive incremental sales, provide existing customers the on-line shopping experience and introduce the Company to a new customer base, it also exposes us to numerous risks. We are subject to potential failures in the efficient and uninterrupted operation of our website, customer contact center or our distribution center, including system failures caused by telecommunication

system providers, order volumes that exceed our present system capabilities, electrical outages, mechanical problems and human error. Our e-commerce platform may also expose us to greater potential for security or data breaches involving the unauthorized disclosure of customer information, as discussed above under "A security breach that results in unauthorized disclosure of employee, Company or customer information could adversely affect our costs, reputation and results of operations." We are also subject to risk related to delays or failures in the performance of third parties, such as shipping companies, including delays associated with labor strikes or slowdowns or adverse weather conditions. If the Company does not successfully meet the challenges of operating an e-commerce website or fulfilling customer expectations, the Company's business and sales could be adversely affected.

Failure to attract, train, and retain skilled personnel could adversely affect our business and our financial condition.

Like most retailers, we experience significant associate turnover rates, particularly among store sales associates and managers. Because our continued store growth will require the hiring and training of new associates, we must continually attract, hire and train new store associates to meet our staffing needs. A significant increase in the turnover rate among our store sales associates and managers would increase our recruiting and training costs, as well as possibly cause a decrease in our store operating efficiency and productivity. We compete for qualified store associates, as well as experienced management personnel, with other companies in our industry or other industries, many of whom have greater financial resources than we do.

In addition, we depend on key management personnel to oversee the operational divisions of the Company for the support of our existing business and future expansion. The success of executing our business strategy depends in large part on retaining key management. We compete for key management personnel with other retailers, and our inability to attract and retain qualified personnel could limit our ability to continue to grow.

If we are unable to retain our key management and store associates or attract, train, or retain other skilled personnel in the future, we may not be able to service our customers effectively or execute our business strategy, which could adversely affect our business, operating results and financial condition.

Our business operations subject us to legal compliance and litigation risks, as well as regulations and regulatory enforcement priorities, which could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business, results of operations and financial condition.

Our operations are subject to federal, state and local laws, rules and regulations, as well as U.S. and foreign laws and regulations relating to our activities in foreign countries from which we source our merchandise and operate our sourcing offices. Our business is also subject to regulatory and litigation risk in all of these jurisdictions, including foreign jurisdictions that may lack well-established or reliable legal systems for resolving legal disputes. Compliance risks and litigation claims have arisen and may continue to arise in the ordinary course of our business and include, among other issues, intellectual property issues, employment issues, commercial disputes, product-oriented matters, tax, customer relations and personal injury claims. International activities subject us to numerous U.S. and international regulations, including but not limited to, restrictions on trade, license and permit requirements, import and export license requirements, privacy and data protection laws, environmental laws, records and information management regulations, tariffs and taxes and anti-corruption laws, such as the Foreign Corrupt Practices Act, violations of which by employees or persons acting on the Company's behalf may result in significant investigation costs and severe criminal or civil sanctions. These and other liabilities to which we may be subject could negatively affect our business, operating results and financial condition. These matters frequently raise complex factual and legal issues, which are subject to risks and uncertainties and could divert significant management time. The Company may also be subject to regulatory review and audits, which results maybe have the potential to materially and adversely affect our business, results of operations and financial condition. In addition, governing laws, rules and regulations,

and interpretations of existing laws are subject to change from time to time. Compliance and litigation matters could result in unexpected expenses and liability, as well as have an adverse effect on our operations and our reputation.

If we fail to protect our trademarks and other intellectual property rights or infringe the intellectual property rights of others, our business, brand image, growth strategy, results of operations and financial condition could be adversely affected.

We believe that our "Cato", "It's Fashion", "It's Fashion Metro" and "Versona" trademarks are integral to our store designs brand recognition and our ability to successfully build consumer loyalty. Although we have registered these trademarks with the U.S. Patent and Trademark Office ("PTO") and have also registered, or applied for registration of, additional trademarks with the PTO that we believe are important to our business, we cannot assure that these registrations will prevent imitation of our trademarks, merchandising concepts, store designs or private label merchandise or the infringement of our other intellectual property rights by others. Infringement of our names, concepts, store designs or merchandise generally, or particularly in a manner that projects lesser quality or carries a negative connotation of our image could adversely affect our business, financial condition and results of operations.

In addition, we cannot assure that others will not try to block the manufacture or sale of our private label merchandise by claiming that our merchandise violates their trademarks or other proprietary rights. In the event of such a conflict, we could be subject to lawsuits or other actions, the ultimate resolution of which we cannot predict; however, such a controversy could adversely affect our business, financial condition and results of operations.

We may experience market conditions that could adversely impact the valuation and liquidity of, and our ability to access, our short-term investments and cash and cash equivalents.

Our short-term investments and cash equivalents are primarily comprised of investments in federal, state, municipal and corporate debt securities. The value of those securities may be impacted by factors beyond our control, such as changes to credit ratings, rates of default, collateral value, discount rates, and strength and quality of market credit and liquidity. As federal, state and municipal entities struggle with declining tax revenues and budget deficits, we cannot be assured of our ability to timely access these investments if the market for these issues declines. Similarly, the default by issuers could adversely affect our financial condition, results of operations and ability to execute our business strategy. In addition, we have significant amounts of cash and cash equivalents at financial institutions that are in excess of the federally insured limits. An economic downturn or development of adverse conditions affecting the financial sector and stability of financial institutions could cause us to experience losses on our deposits.

Maintaining and improving our internal control over financial reporting and other requirements necessary to operate as a public company may strain our resources, and any material failure in these controls may negatively impact our business, the price of our common stock and market confidence in our reported financial information.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the rules of the SEC and New York Stock Exchange and certain aspects of the

Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related rule-making that has been and will continue to be implemented over the next several years under the mandates of the Dodd-Frank Act. The requirements of these rules and regulations have, and may continue to, increase our compliance costs and place significant strain on our personnel, systems and resources. To satisfy the SEC's rules implementing the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we must continue to document, test, monitor and enhance our internal control over financial reporting, which is a costly and time-consuming effort that must be re-evaluated frequently. We cannot give assurance that our disclosure controls and procedures and our internal control over financial reporting, as defined by applicable SEC rules, will be adequate in the future. Any failure to maintain the effectiveness of internal control over financial reporting or to comply with the other various laws and regulations to which we are and will continue to be subject, or to which we may become subject in the future, as a public company could have an adverse material impact on our business, our financial condition and the price of our common stock. In addition, our efforts to comply with these requirements, particularly with new requirements under the Dodd-Frank Act that have yet to be implemented, could significantly increase our compliance costs.

Inventory shrinkage could have a material adverse affect on our business, financial condition and results of operations.

We are subject to the risk of inventory loss and theft. Although our inventory shrinkage rates have not been material, or fluctuated significantly in recent years, we cannot assure you that actual rates of inventory loss and theft in the future will be within our estimates or that the measures we are taking will effectively reduce the problem of inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, it could have a material adverse effect on our business, financial condition and results of operations.

Government enacted healthcare reform could adversely affect our business and results of operations.

In March 2010, the United States government enacted healthcare reform legislation, known as the Patient Protection and Affordable Care Act. This legislation and related guidance expands the Company’s responsibility for providing employees with insurance coverage that meets minimum eligibility and coverage requirements or face, alternatively, beginning in 2015, penalties for failure to offer this coverage. The legislation also includes provisions that will impact the number of individuals with insurance coverage, the types of coverage and level of health benefits that will be required and the amount of payment providers performing healthcare services will receive. The full effect of this legislation is expected to continue to be phased in over several years, and could increase healthcare expenses for the Company and have an adverse effect on the Company's results of operations. The Company is still assessing its potential impact on healthcare expenses. However, to the extent we are required to provide health insurance benefits to our employees that are more extensive than the health insurance benefits we currently provide and to a potentially larger proportion of our employees, or pay penalties if we elect not to provide these benefits, our expenses will increase. If we are unable to offset these cost increases by raising our prices or cutting other costs, such increased expenses could materially and adversely affect our results of operations.

Unusual weather, natural disasters or similar events may adversely affect our sales or operations.

Extreme changes in weather, natural disasters or similar events can influence customer trends and shopping habits. For example, heavy rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect our business. The occurrence or threat of extreme weather, natural disasters, power outages, terrorist acts, outbreaks of flu or other communicable diseases or other catastrophic events could reduce customer traffic in our stores and likewise disrupt our ability to conduct operations, which could materially and adversely affect us.

Risks Relating To The Market Value Of Our Common Stock:

Our operating results are subject to seasonal and quarterly fluctuations, which could adversely affect the market price of our common stock.

Our business varies with general seasonal trends that are characteristic of the retail apparel industry. As a result, our stores typically generate a higher percentage of our annual net sales and profitability in the first and second quarters of our fiscal year compared to other quarters. Accordingly, our operating results for any one fiscal period are not necessarily indicative of results to be expected from any future period, and such seasonal and quarterly fluctuations could adversely affect the market price of our common stock.

The interests of a principal shareholder may limit the ability of other shareholders to influence the direction of the Company.

As of March 23, 2016, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 41% of the voting power of our common stock. As a result, Mr. Cato may be able to control or significantly influence substantially all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations or other significant Company transactions. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. In addition, the concentration of voting power held by Mr. Cato could have the effect of preventing, discouraging or deferring a change in control of the Company, which could depress the market price of our common stock.

Conditions in the stock market generally, or particularly relating to our Company or common stock, may materially and adversely affect the market price of our common stock and make its trading price more volatile.

The trading price of our common stock at times has been, and is likely to continue to be, subject to significant volatility. A variety of factors may cause the price of the common stock to fluctuate, perhaps substantially, including, but not limited to, those discussed elsewhere in this report, as well as the following: low trading volume; general market fluctuations resulting from factors not directly related to our operations or the inherent value of our common stock; announcements of developments related to our business; fluctuations in our reported operating results; general conditions in the fashion and retail industry; conditions affecting or perceived to affect the domestic or global economy or the domestic or global credit or capital markets; changes in financial estimates or the scope of coverage given to our Company by securities analysts; negative commentary regarding our Company and corresponding short-selling market behavior; adverse customer relations developments; significant changes in our senior management team; and legal proceedings. Over the past several years the stock market in general, and the market for shares of equity securities of many retailers in particular, have experienced extreme price fluctuations that have at times been unrelated to the operating performance of those companies. Such fluctuations and market volatility based on these or other factors may materially and adversely affect the market price of our common stock.

Item 1B. ***Unresolved Staff Comments:***

None.

Item 2. ***Properties:***

The Company's distribution center and general offices are located in a Company-owned building of approximately 552,000 square feet located on a 15-acre tract in Charlotte, North Carolina. The Company's automated merchandise handling and distribution activities occupy approximately 418,000 square feet of this building and its general offices and corporate training center are located in the remaining 134,000 square feet. A building of approximately 24,000 square feet located on a 2-acre tract adjacent to the Company's existing location is used for receiving and distribution of store and office operating supplies.

Item 3. ***Legal Proceedings:***

From time to time, claims are asserted against the Company arising out of operations in the ordinary course of business. The Company currently is not a party to any pending litigation that it believes is likely to have a material adverse effect on the Company’s financial position, results of operations or cash flows.

Item 3A. ***Executive Officers of the Registrant:***

The executive officers of the Company and their ages as of March 24, 2016 are as follows:

Name	Age	Position
John P. D. Cato...................	65	Chairman, President and Chief Executive Officer
John R. Howe.......................	53	Executive Vice President, Chief Financial Officer
Sally Almason......................	62	Executive Vice President, Merchandising Cato and Versona concepts
Michael T. Greer..................	53	Executive Vice President, Director of Stores
Gordon Smith.......................	60	Executive Vice President, Chief Real Estate and Store Development Officer

John P. D. Cato has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since January 2004, he has served as Chairman, President and Chief Executive Officer. From May 1999 to January 2004, he served as President, Vice Chairman of the Board and Chief Executive Officer. From June 1997 to May 1999, he served as President, Vice Chairman of the Board and Chief Operating Officer. From August 1996 to June 1997, he served as Vice Chairman of the Board and Chief Operating Officer. From 1989 to 1996, he managed the Company's off-price concept, serving as Executive Vice President and as President and General Manager of the It's Fashion concept from 1993 to August 1996. Mr. Cato is a former director of Harris Teeter Supermarkets, Inc., formerly Ruddick Corporation.

John R. Howe has been employed by the Company since 1986. Since September 2008, he has served as Executive Vice President, Chief Financial Officer. From June 2007 until September 2008, he served as Senior Vice President, Controller. From 1999 to 2007, he served as Vice President, Assistant Controller. From 1997 to 1999, he served as Assistant Vice President, Budgets and Planning. From 1995 to 1997, he served as Director, Budgets and Planning. From 1990 to 1995, he served as Assistant Tax Manager. From 1986 to 1990, Mr. Howe held various positions within the finance area.

Sally Almason has been employed by the Company since 1995. Since November 2010, she has served as Executive Vice President, Merchandising Cato and Versona concepts. From 2009 to 2010, she has served as Executive Vice President, General Merchandise Manager for the Cato concept. From 2004 to 2009, she served as Senior Vice President, General Merchandise Manager for the Cato concept. From 1995 to 2004, she served as Vice President, Divisional Merchandise Manager for the Cato concept.

Michael T. Greer has been employed by the Company since 1985. Since May 2006, he has served as Executive Vice President, Director of Stores of the Company. From November 2004 until May 2006, he served as

Senior Vice President, Director of Stores of the Company. From February 2004 until November 2004, he served as Senior Vice President, Director of Stores of the Cato concept. From 2002 to 2003 Mr. Greer served as Vice President, Director of Stores of the It's Fashion concept. From 1999 to 2001 he served as Territorial Vice President of Stores of the Cato concept and from 1996 to 1999 he served as Regional Vice President of Stores of the Cato concept. From 1985 to 1995, Mr. Greer held various store operational positions in the Cato concept.

Gordon Smith has been employed by the Company since 1989. Since July 2011, he has served as Executive Vice President, Chief Real Estate and Store Development Officer. From February 2008 until July 2011 Mr. Smith served as Senior Vice President, Real Estate. From October 1989 to February 2008, Mr. Smith served as Assistant Vice President, Corporate Real Estate.

Item 4. ***Mine Safety Disclosures:***

No matters requiring disclosure.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:***

Market & Dividend Information

The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO. Below is the market range and dividend information for the four quarters of fiscal 2015 and 2014.

	Price		
2015	**High**	**Low**	**Dividend**
First quarter	$ 44.61	$ 38.02	$ 0.30
Second quarter	40.90	36.72	0.30
Third quarter	38.69	32.81	0.30
Fourth quarter	40.33	34.10	0.30

	Price		
2014	**High**	**Low**	**Dividend**
First quarter	$ 30.45	$ 25.77	$ 0.30
Second quarter	32.71	27.70	0.30
Third quarter	36.15	31.30	0.30
Fourth quarter	44.26	34.84	0.30

As of March 24, 2016 the approximate number of record holders of the Company's Class A Common Stock was 5,000 and there were 2 record holders of the Company's Class B Common Stock.

Stock Performance Graph

The following graph compares the yearly change in the Company's cumulative total shareholder return on the Company's Common Stock (which includes Class A Stock and Class B Stock) for each of the Company's last five fiscal years with (i), the Dow Jones U.S. Retailers, Apparel Index and (ii) the Russell 2000 Index.

THE CATO CORPORATION

STOCK PERFOMANCE TABLE

(BASE 100 – IN DOLLARS)

LAST TRADING DAY OF THE FISCAL YEAR	THE CATO CORPORATION	DOW JONES U.S. RETAILERS, APPL INDEX	RUSSELL 2000 INDEX
1/28/2011	100	100	100
1/27/2012	114	119	103
2/1/2013	130	149	119

1/31/2014	133	170	151
1/30/2015	209	205	158
1/29/2016	205	203	142

The graph assumes an initial investment of $100 on January 28, 2011, the last trading day prior to the commencement of the Company's 2011 fiscal year, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

The following table summarizes the Company’s purchases of its common stock for the three months ended January 30, 2016:

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share (1)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)**	**Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (2)**
November 2015	-	$ -	-	
December 2015	-	-	-	
January 2016	-	-	-	
Total	-	$ -	-	2,015,123

(1) Prices include trading costs.

(2) On May 20, 2014, the Board of Directors increased, by 2 million shares, the authorization to purchase shares. During the fourth quarter ended January 30, 2016, the Company did not repurchase shares under this program. As of the fourth quarter ended January 30, 2016, the Company had 2,015,123 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

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Item 6. ***Selected Financial Data:***

Certain selected financial data for the five fiscal years ended January 30, 2016 have been derived from the Company's audited financial statements. The financial statements and Independent Registered Public Accounting Firm's integrated audit reports for the three most recent fiscal years are contained elsewhere in this report. All data set forth below are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this annual report.

Fiscal Year (1)	**2015**	2014	2013	2012	2011
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$1,001,390**	$977,867	$910,500	$933,782	$920,622
Other revenue	**9,701**	9,047	9,533	10,266	10,836
Total revenues	**1,011,091**	986,914	920,033	944,048	931,458
Cost of goods sold (exclusive of depreciation shown below)	**616,480**	600,569	571,246	581,961	574,176
Selling, general and administrative (exclusive of depreciation shown below)	**275,713**	276,234	245,868	244,327	238,982
Selling, general and administrative percent of retail sales	**27.6%**	28.3%	27.0%	26.2%	26.0%
Depreciation	**$22,963**	$22,026	$21,825	$22,455	$21,825
Interest expense	**264**	57	75	116	21
Interest and other income	**3,456**	3,445	3,267	3,782	3,817
Income before income taxes	**99,127**	91,473	84,286	98,971	100,271
Income tax expense	**32,285**	30,971	29,964	37,303	35,437
Net income	**66,842**	60,502	54,322	61,668	64,834
Basic earnings per share	**2.39**	2.15	1.86	2.11	2.21
Diluted earnings per share	**2.39**	2.15	1.86	2.11	2.21
Cash dividends paid per share	**1.200**	1.200	0.200	2.980	0.875
SELECTED OPERATING DATA:					
Stores open at end of year	**1,372**	1,346	1,320	1,310	1,288
Average sales per store (2)	**$729,000**	$730,000	$692,000	$722,000	$716,000
Average sales per square foot of selling space	**162**	162	154	161	162

BALANCE SHEET DATA (at period end):					
Cash, cash equivalents, short-term investments and restricted cash	**$287,024**	$260,610	$245,256	$194,646	$245,989
Working capital	**278,988**	260,550	269,617	230,612	272,139
Total assets	**642,344**	608,278	596,918	532,646	551,089
Total stockholders' equity	**412,665**	380,198	391,109	345,234	366,679

(1) The fiscal year 2012 contained 53 weeks versus 52 weeks for all other years shown.

(2) Calculated using actual sales volume for stores open for the full year and an estimated annual sales volume for new stores opened during the year.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations:***

Results of Operations

The table below sets forth certain financial data of the Company expressed as a percentage of retail sales for the years indicated:

Fiscal Year Ended	January 30, 2016	January 31, 2015	February 1, 2014
Retail sales	**100.0%**	100.0%	100.0%
Other revenue	**1.0**	0.9	1.0
Total revenues	**101.0**	100.9	101.0
Cost of goods sold	**61.6**	61.4	62.7
Selling, general and administrative	**27.6**	28.3	27.0
Depreciation	**2.3**	2.3	2.4
Interest and other income	**0.4**	0.4	0.4
Income before income taxes	**9.9**	9.4	9.3
Net income	**6.7%**	6.2%	6.0%

Fiscal 2015 Compared to Fiscal 2014

Retail sales increased by 2.4% to $1,001.4 million in fiscal 2015 compared to $977.9 million in fiscal 2014. The increase in retail sales in fiscal 2015 was largely attributable to flat same-store sales and non-comparable store sales across a larger store base. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. In fiscal 2015, e-commerce sales were less than 2% of total sales and same-store sales. In fiscal 2014, e-commerce sales were less than 1% of total sales and were not included in the same-store sales calculation. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, layaway fees and shipping charged to customers for e-commerce purchases), increased by 2.5% to $1,011.1 million in fiscal 2015 compared to $986.9 million in fiscal 2014. The Company operated 1,372 stores at January 30, 2016 compared to 1,346 stores operated at January 31, 2015.

In fiscal 2015, the Company opened 31 new stores, relocated 11 stores and closed five stores.

Other revenue in total increased to $9.7 million from $9.0 million in fiscal 2014. The increase resulted primarily from higher layaway charges and shipping charged to customers for e-commerce purchases, partially offset by lower credit revenue and finance charges.

Credit revenue of $5.4 million represented 0.5% of total revenue in fiscal 2015, a decrease compared to fiscal 2014 credit revenue of $5.8 million or 0.6% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. 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 $3.3 million in fiscal 2015 compared to $3.4 million in fiscal 2014. The decrease in these expenses was principally due to a reduction in other expense of $0.1 million. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased $0.3 million from $2.3 million in fiscal 2014 to $2.0 million in fiscal 2015 due to lower credit revenue. Total credit income of $2.0 million in fiscal 2015 represented 2.0% of total income before taxes of $99.1 million compared to total credit income of $2.3 million in fiscal 2014, which represented 2.5% of fiscal 2014 total income before taxes of $91.5 million.

Cost of goods sold was $616.5 million, or 61.6% of retail sales, in fiscal 2015 compared to $600.6 million, or 61.4% of retail sales, in fiscal 2014. The increase in cost of goods sold as a percentage of sales resulted primarily from higher buying and occupancy costs. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy 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 and excluding depreciation) increased by 2.0% to $384.9 million in fiscal 2015 from $377.3 million in fiscal 2014. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses ("SG&A"), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were $276.0 million in fiscal 2015 compared to $276.2 million in fiscal 2014, a decrease of 0.1%. As a percent of retail sales, SG&A was 27.6% compared to 28.3% in the prior year. The decrease in SG&A as a percent of sales resulted primarily from a decrease in incentive compensation, partially offset by higher healthcare costs.

Depreciation expense was $23.0 million in fiscal 2015 compared to $22.0 million in fiscal 2014. Depreciation expense increased slightly from fiscal 2014 due to increases in store development, information technology investments and home office renovations, partially offset by older stores and IT projects being fully depreciated.

Interest and other income increased to $3.5 million in fiscal 2015 compared to $3.4 million in fiscal 2014. Miscellaneous income and interest income were greater compared to fiscal 2014. See Note 2 of Notes to Consolidated Financial Statements for further details.

Income tax expense was $32.3 million, or 3.2% of retail sales in fiscal 2015 compared to $31.0 million, or 3.2% of retail sales in fiscal 2014. The dollar increase resulted from higher pre-tax income, partially offset by a lower effective tax rate. The effective tax rate was 32.6% in fiscal 2015 compared to 33.9% in fiscal 2014.

Fiscal 2014 Compared to Fiscal 2013

Retail sales increased by 7.4% to $977.9 million in fiscal 2014 compared to $910.5 million in fiscal 2013. The increase in retail sales in fiscal 2014 was largely attributable to a same-store sales increase of 4% from fiscal 2013 and non-comparable store sales including e-commerce. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. E-commerce sales were less than 1% of sales in fiscal 2014 and fiscal 2013 and are not yet included in the same-store sales calculation. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable and layaway fees), increased by 7.3% to $986.9 million in fiscal 2014 compared to $920.0 million in fiscal 2013. The Company operated 1,346 stores at January 31, 2015 compared to 1,320 stores operated at February 1, 2014.

In fiscal 2014, the Company opened 33 new stores, relocated four stores and closed seven stores.

Other revenue in total decreased to $9.0 million from $9.5 million in fiscal 2013. The decrease resulted primarily from lower credit revenue and finance charges offset by higher layaway charges.

Credit revenue of $5.8 million represented 0.6% of total revenue in fiscal 2014, a decrease compared to fiscal 2013 credit revenue of $6.2 million or 0.7% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. 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 $3.4 million in fiscal 2014 compared to $3.6 million in fiscal 2013. The decrease in these expenses was principally due to a reduction in bad debt expense of $0.1 million. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased $0.3 million from $2.6 million in fiscal 2013 to $2.3 million in fiscal 2014 due to lower credit revenue. Total credit income of $2.3 million in fiscal 2014 represented 2.5% of total income before taxes of $91.5 million compared to total credit income of $2.6 million in fiscal 2013, which represented 3.1% of fiscal 2013 total income before taxes of $84.3 million.

Cost of goods sold was $600.6 million, or 61.4% of retail sales, in fiscal 2014 compared to $571.2 million, or 62.7% of retail sales, in fiscal 2013. The decrease in cost of goods sold as a percentage of sales resulted primarily from leveraging of merchandise and distribution costs due to higher sales of regular priced goods. 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 and excluding depreciation) increased by 11.2% to $377.3 million in fiscal 2014 from $339.3 million in fiscal 2013. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses ("SG&A"), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were $276.3 million in fiscal 2014 compared to $245.9 million in fiscal 2013, an increase of 12.4%. As a percent of retail sales, SG&A was 28.3% compared to 27.0% in the prior year. The increase in SG&A as a percent of sales resulted primarily from an increase in incentive compensation, partially offset by lower closed store and impairment costs.

Depreciation expense was $22.0 million in fiscal 2014 compared to $21.8 million in fiscal 2013. Depreciation expense increased slightly from fiscal 2013 due to increases in store development, information technology investments and home office renovations, partially offset by older stores and IT projects being fully depreciated.

Interest and other income increased to $3.4 million in fiscal 2014 compared to $3.3 million in fiscal 2013. Miscellaneous income and interest income were greater compared to fiscal 2013. See Note 2 of Notes to Consolidated Financial Statements for further details.

Income tax expense was $31.0 million, or 3.2% of retail sales in fiscal 2014 compared to $30.0 million, or 3.3% of retail sales in fiscal 2013. The dollar increase resulted from higher pre-tax income, partially offset by a lower effective tax rate. The effective tax rate was 33.9% in fiscal 2014 compared to 35.6% in fiscal 2013.

Off-Balance Sheet Arrangements

Other than operating leases in the ordinary course of business, the Company is not a party to any off-balance sheet arrangements.

Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, the preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of the Company's financial statements include the allowance for doubtful accounts, inventory shrinkage, the calculation of potential asset impairment, workers' compensation, general and auto insurance liabilities, reserves relating to self-insured health insurance, and uncertain tax positions.

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

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts based on the accounts receivable aging and estimates of actual write-offs. The allowance is reviewed for adequacy and adjusted, as necessary, on a quarterly basis. The Company also provides for estimated uncollectible late fees charged based on historical write-offs. The Company's financial results can be significantly impacted by changes in bad debt write-off experience and the aging of the accounts receivable portfolio.

Merchandise Inventories

The Company's inventory is valued using the weighted-average cost method and is stated at the lower of cost or market. Physical inventories are conducted throughout the year to calculate actual shrinkage and inventory on hand. Estimates based on actual shrinkage results are used to estimate inventory shrinkage, which is accrued for the period between the last physical inventory and the financial reporting date. The Company regularly reviews its inventory levels to identify slow moving merchandise and uses markdowns to clear slow moving inventory.

Lease Accounting

The Company recognizes rent expense on a straight-line basis over the lease term as defined in ASC 840 - *Leases.* Our lease agreements generally provide for scheduled rent increases during the lease term or rent holidays, including rental payments commencing at a date other than the date of initial occupancy. We include any rent escalation and rent holidays in our straight-line rent expense. In addition, we record landlord allowances for normal tenant improvements as deferred rent, which is included in other noncurrent liabilities in the consolidated balance sheets. This deferred rent is amortized over the lease term as a reduction of rent expense. Also, leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related lease term. See Note 1 to the Consolidated Financial Statements for further information on the Company's accounting for its leases.

Impairment of Long-Lived Assets

The Company primarily invests in property and equipment in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its assets, recording an impairment charge for the amount by which carrying value exceeds fair value, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. In addition, the Company regularly evaluates its computer-related and other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Insurance Liabilities

The Company is primarily self-insured for healthcare, workers' compensation and general liability costs. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management reviews current and historical claims data in developing its estimates. The Company also uses information provided by outside actuaries with respect to healthcare, workers' compensation and general liability claims. If the underlying facts and circumstances of the claims change or the historical experience upon which insurance provisions are recorded is not indicative of future trends, then the Company may be required to make adjustments to the provision for insurance costs that could be material to the Company's reported financial condition and results of operations. Historically, actual results have not significantly deviated from estimates.

Uncertain Tax Positions

The Company records liabilities for uncertain tax positions principally related to state income taxes as of the balance sheet date. These liabilities reflect the Company's best estimate of its ultimate income tax liability based on the tax codes, regulations, and pronouncements of the jurisdictions in which we do business. Estimating our ultimate tax liability involves significant judgments regarding the application of complex tax regulations across many jurisdictions. Despite the Company's belief that the estimates and judgments are reasonable, differences between the estimated and actual tax liabilities can and do exist from time to time. These differences may arise from settlements of tax audits, expiration of the statute of limitations, or the evolution and application of the various jurisdictional tax codes and regulations. Any differences will be recorded in the period in which they become known and could have a material effect on the results of operations in the period the adjustment is recorded.

Revenue Recognition

While the Company's recognition of revenue is predominantly derived from routine retail transactions and does not involve significant judgment, revenue recognition represents an important accounting policy of the Company. As discussed in Note 1 to the Consolidated Financial Statements, the Company recognizes sales from stores at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. E-commerce sales are recorded when the risk of loss is transferred to the customer. Sales from purchases made with Cato credit, gift cards and layaway sales are also recorded when the customer takes possession of the merchandise. Gift cards are recorded as deferred revenue within accrued expenses until they are redeemed or forfeited. Layaway sales are recorded as deferred revenue within accrued expenses until the customer takes possession or forfeits the merchandise. Gift cards do not have expiration dates. A provision is made for estimated product returns based on sales volumes and the Company's experience; actual returns have not varied materially from amounts provided historically.

The Company recognizes income on unredeemed gift cards ("gift card breakage") as a component of other income. Gift card breakage is determined after 60 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions. Gift card breakage income is analyzed and recognized on a quarterly basis and is not expected to be material.

Finance revenue on the Company's private label credit card portfolio is recognized as earned under the interest method. Late fees are recognized as earned, less provisions for estimated uncollectible fees.

Liquidity, Capital Resources and Market Risk

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during fiscal 2015 was $93.9 million as compared to $117.5 million in fiscal 2014. These amounts have enabled the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and selective repurchases of the Company's common stock.

Cash provided by operating activities for these periods was primarily generated by earnings adjusted for the change due to depreciation and changes in working capital and share-based compensation. The decrease of $23.6 million for fiscal 2015 compared to fiscal 2014 is primarily due to a larger increase in inventory from the end of the prior fiscal year and a decrease in accrued bonus and benefits,, partially offset by an increase in net income and a decrease in accounts receivable and prepaid and other assets.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures, dividends and other operating requirements for fiscal 2016 and for the foreseeable future.

At January 30, 2016, the Company had working capital of $279.0 million compared to $260.6 million and $269.6 million at January 31, 2015 and February 1, 2014, respectively.

At January 30, 2016, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to $35.0 million less the balance of revocable letters of credit discussed below. The revolving credit agreement is committed until August 2018. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of January 30, 2016. There were no borrowings outstanding under this credit facility during the fiscal year ended January 30, 2016 or the fiscal year ended January 31, 2015.

The Company had no outstanding revocable letters of credit relating to purchase commitments at January 30, 2016 and January 31, 2015. The Company had approximately $0.4 million of revocable letters of credit at February 1, 2014.

Expenditures for property and equipment totaled $26.5 million, $28.9 million and $31.5 million in fiscal 2015, 2014 and 2013, respectively. The expenditures for fiscal 2015 were primarily for store development, investments in new technology and general office expansion. In fiscal 2016, the Company is planning to invest approximately $27.0 million in capital expenditures. In addition, the Company has planned for additional investments in technology and the renovation of the current office space.

Net cash used in investing activities totaled $81.8 million for fiscal 2015 compared to net cash used in investing activities of $27.7 million for fiscal 2014 and net cash provided by investing activities of $32.9 million for fiscal 2013. The increase in cash used was due primarily to purchases of short-term investments and other assets, partially offset by sales of short-term investments and other assets.

On February 26, 2016, the Board of Directors maintained the quarterly dividend at $0.30 per share, which was paid on March 23, 2016. Additionally, in February 2016 the Company repurchased 148,900 shares for $5,194,000, primarily to offset dilution from its equity compensation plans.

The Company does not use derivative financial instruments.

See Note 4, "Fair Value Measurements," for information regarding the Company's financial assets that are measured at fair value.

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at January 30, 2016. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from two days to 5.6 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from eight months to 1.1 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at January 30, 2016, the Company had $0.6 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At January 31, 2015, the Company had $0.3 million of privately managed funds and $0.6 million of corporate equities, all of which are recorded within Other assets in the Consolidated Balance Sheets.

Level 1 category securities are measured at fair value using quoted active market prices. Level 2 investment securities include corporate and municipal bonds for which quoted prices may not be available on active exchanges for identical instruments. Their fair value is principally based on market values determined by management with assistance of a third-party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the pricing service using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics, among other factors.

Deferred compensation plan assets consist of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds. These funds are designed to mirror existing mutual funds and money market funds that are observable and actively traded. Cash surrender values are provided by third parties and reviewed for reasonableness by the Company.

The following table shows the Company's obligations and commitments as of January 30, 2016, to make future payments under noncancellable contractual obligations (in thousands):

	Payments Due During One Year Fiscal Period Ending						
Contractual Obligations (1)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**
Merchandise letters of credit	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating leases	215,803	69,550	52,135	38,094	25,405	15,695	14,924
Total Contractual Obligations	$ 215,803	$ 69,550	$ 52,135	$ 38,094	$ 25,405	$ 15,695	$ 14,924

(1) In addition to the amounts shown in the table above, $9.6 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC 740 and we are uncertain if or when such amounts may be settled. See Note 12, Income Taxes, of the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

See Note 1, Summary of Significant Accounting Policies, Recently Adopted Accounting Policies, and Recent Accounting Pronouncements.

Item 7A. ***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 8. ***Financial Statements and Supplementary Data:***

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of The Cato Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of The Cato Corporation and its subsidiaries at January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 30, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company has prospectively adopted new accounting guidance which changes the classification of deferred tax assets and liabilities in the consolidated balance sheet.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 24, 2016

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Fiscal Year Ended		
	January 30, 2016	January 31, 2015	February 1, 2014
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	**$ 1,001,390**	$ 977,867	$ 910,500
Other revenue (principally finance charges, late fees and layaway charges)	**9,701**	9,047	9,533
Total revenues	**1,011,091**	986,914	920,033
COSTS AND EXPENSES, NET			
Cost of goods sold (exclusive of depreciation shown below)	**616,480**	600,569	571,246
Selling, general and administrative (exclusive of depreciation shown below)	**275,713**	276,234	245,868
Depreciation	**22,963**	22,026	21,825
Interest expense	**264**	57	75
Interest and other income	**(3,456)**	(3,445)	(3,267)
Cost and expenses, net	**911,964**	895,441	835,747
Income before income taxes	**99,127**	91,473	84,286
Income tax expense	**32,285**	30,971	29,964
Net income	**$ 66,842**	$ 60,502	$ 54,322
Basic earnings per share	**$ 2.39**	$ 2.15	$ 1.86
Diluted earnings per share	**$ 2.39**	$ 2.15	$ 1.86
Dividends per share	**$ 1.20**	$ 1.20	$ 0.20
Comprehensive income:			
Net income	**$ 66,842**	$ 60,502	$ 54,322

Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of $6, $5, and ($26) for fiscal 2015, 2014 and 2013, respectively		**14**		8		(43)
Comprehensive income	**$**	**66,856**	$	60,510	$	54,279

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED BALANCE SHEETS

	January 30, 2016	January 31, 2015
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 67,057	$ 93,946
Short-term investments	215,495	162,185
Restricted cash and investments	4,472	4,479
Accounts receivable, net of allowance for doubtful accounts of $1,447 at January 30, 2016 and $1,542 at January 31, 2015	36,610	41,023
Merchandise inventories	141,101	137,549
Deferred income taxes	-	4,291
Prepaid expenses and other current assets	7,317	10,978
Total Current Assets	472,052	454,451
Property and equipment – net	138,303	135,181
Deferred income taxes	10,280	3,363
Other assets	21,709	15,283
Total Assets	$ 642,344	$ 608,278
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 113,154	$ 111,674
Accrued expenses	52,886	48,404
Accrued bonus and benefits	12,034	19,567
Accrued income taxes	14,990	14,256
Total Current Liabilities	193,064	193,901
Other noncurrent liabilities (primarily deferred rent)	36,615	34,179
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; 26,129,692 and 26,174,684 shares issued at January 30, 2016 and January 31, 2015, respectively	877	873
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; 1,743,525 shares at January 30, 2016 and January 31, 2015	58	58
Additional paid-in capital	90,336	85,029
Retained earnings	320,594	293,452
Accumulated other comprehensive income	800	786

Total Stockholders' Equity		**412,665**		380,198
Total Liabilities and Stockholders’ Equity	**$**	**642,344**	$	608,278

See notes to consolidated financial statements.

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	January 30, 2016	January 31, 2015	February 1, 2014
		(Dollars in thousands)	
Operating Activities:			
Net income	**$ 66,842**	$ 60,502	$ 54,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**22,963**	22,026	21,825
Provision for doubtful accounts	**873**	875	1,009
Purchase premium and premium amortization of investments	**(3,263)**	(104)	(873)
Share based compensation	**4,124**	3,582	3,007
Excess tax benefits from share-based compensation	**(257)**	(243)	(88)
Deferred income taxes	**(2,635)**	(1,563)	(4,766)
Loss on disposal of property and equipment	**223**	1,288	1,665
Impairment of store assets	**1,917**	2,249	2,646
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	**3,540**	(2,674)	(217)
Merchandise inventories	**(3,552)**	13,312	(10,123)
Prepaid and other assets	**1,854**	(6,078)	2,969
Accrued income taxes	**991**	(356)	651
Accounts payable, accrued expenses and other liabilities	**233**	24,643	20,932
Net cash provided by operating activities	**93,853**	117,459	92,959
Investing Activities:			
Expenditures for property and equipment	**(26,534)**	(28,901)	(31,542)
Purchase of short-term investments	**(116,956)**	(49,820)	(65,455)
Sales of short-term investments	**66,927**	48,850	62,766
Purchase of other assets	**(5,650)**	(1,267)	-
Sales of other assets	**442**	3,227	-
Change in restricted cash and investments provided (used)	**4**	222	1,298
Net cash (used) in investing activities	**(81,767)**	(27,689)	(32,933)
Financing Activities:			

Dividends paid	**(33,572)**	(33,886)	(5,853)
Repurchase of common stock	**(6,148)**	(42,129)	(6,429)
Proceeds from employee stock purchase plan	**488**	510	394
Excess tax benefits from share-based compensation	**257**	243	88
Proceeds from stock options exercised	**-**	11	132
Net cash provided (used) in financing activities	**(38,975)**	(75,251)	(11,668)
Net increase (decrease) in cash and cash equivalents	**(26,889)**	14,519	48,358
Cash and cash equivalents at beginning of period	**93,946**	79,427	31,069
Effect of exchange rate changes on cash	**-**	-	-
Cash and cash equivalents at end of period	**$ 67,057**	$ 93,946	$ 79,427
Non-cash investing activity			
Accrued plant and equipment	**$ 2,876**	$ 1,780	$ 4,315

See notes to consolidated financial statements.

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THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in thousands)					
Balance — February 02, 2013	$ 918	$ 58	$ 76,594	$ 266,843	$ 821	345,234
Comprehensive income:						
Net income	-	-	-	54,322	-	54,322
Unrealized losses on available-for-sale securities, net of deferred income tax benefit of ($26)	-	-	-		(43)	(43)
Dividends paid ($0.200 per share)	-	-	-	(5,853)	-	(5,853)
Class A common stock sold through employee stock purchase plan — 19,070 shares	1	-	463	-	-	464
Class A common stock sold through stock option plans — 9,050 shares	-	-	145	-	-	145
Class A common stock issued through restricted stock grant plans 198,017 shares	7	-	2,915	1	-	2,923
Windfall tax benefit from equity compensation plans		-	346	-	-	346
Repurchase and retirement of treasury shares – 271,296 shares	(9)	-	-	(6,420)	-	(6,429)
Balance — February 1, 2014	$ 917	$ 58	$ 80,463	$ 308,893	$ 778	391,109
Comprehensive income:						
Net income	-	-	-	60,502	-	60,502
Unrealized gains on available-for-sale securities, net of deferred income tax liability of $5	-	-	-	-	8	8
Dividends paid ($1.20 per share)	-	-	-	(33,886)	-	(33,886)
Class A common stock sold through employee stock purchase plan — 20,941 shares	1	-	600	-	-	601

Class A common stock sold through stock option plans — 500 shares		-	-	28	-	-	28
Class A common stock issued through restricted stock grant plans 164,927 shares		5	-	3,449	20	-	3,474
Windfall tax benefit from equity compensation plans		-	-	489		-	489
Repurchase and retirement of treasury shares – 1,509,965 shares		(50)	-	-	(42,077)	-	(42,127)
Balance — January 31, 2015	$	873$	58$	85,029$	293,452$	786$	380,198
Comprehensive income:							
Net income		-	-	-	66,842	-	66,842
Unrealized gains on available-for-sale securities, net of deferred income tax liability of $6		-	-	-	-	14	14
Dividends paid ($1.20 per share)		-	-	-	(33,572)	-	(33,572)
Class A common stock sold through employee stock purchase plan — 16,305 shares		-	-	574	-	-	574
Class A common stock sold through stock option plans — 000 shares		-	-	17	-	-	17
Class A common stock issued through restricted stock grant plans 118,745 shares		4	-	3,996	20	-	4,020
Windfall tax benefit from equity compensation plans		-	-	720	-	-	720
Repurchase and retirement of treasury shares – 179,990 shares		-	-	-	(6,148)	-	(6,148)
Balance — January 30, 2016	$	877$	58$	90,336$	320,594$	800$	412,665

See notes to consolidated financial statements.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation: The Consolidated Financial Statements include the accounts of The Cato Corporation and its wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated.

Description of Business and Fiscal Year: The Company has two reportable segments — the operation of a fashion specialty stores segment ("Retail Segment") and a credit card segment ("Credit Segment"). The apparel specialty stores operate under the names "Cato," "Cato Fashions," "Cato Plus," "It's Fashion," "It's Fashion Metro" and "Versona," including e-commerce websites. The stores are located primarily in strip shopping centers principally in the southeastern United States. The Company's fiscal year ends on the Saturday nearest January 31 of the subsequent year.

Correction of Prior Period Error: During the first quarter of 2015, the Company determined that it had improperly calculated a long-term deferred tax liability in prior periods due to the inclusion of certain insurance premium amounts related to its captive insurance company. The Company recorded a favorable out-of-period adjustment during the three month period ended May 2, 2015 which resulted in a decrease in its long-term deferred tax liability by $1.2 million, decreased its Income tax expense by $1.0 million and increased its Accrued income taxes by $0.2 million. The Condensed Consolidated Statements of Income and Comprehensive Income, Balance Sheet and Statement of Cash Flows for the twelve months ended January 30, 2016 reflect the above amounts. The correction is not deemed material to prior period or current period consolidated financial statements.

Use of Estimates: The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include the allowance for doubtful accounts, inventory shrinkage, the calculation of potential asset impairment, workers' compensation, general and auto insurance liabilities, reserves relating to self-insured health insurance, and uncertain tax positions.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Short-Term Investments: Investments with original maturities beyond three months are classified as short-term investments. See Note 3 for the Company's estimated fair value of, and other information regarding, its short-term investments. The Company's short-term investments are all classified as available-for-sale. As they are available for current operations, they are classified on the Consolidated Balance Sheets as Current Assets. Available-for-sale securities are carried at fair value, with unrealized gains and temporary losses, net of income taxes, reported as a component of Accumulated other comprehensive income. Other than temporary declines in the fair value of investments are recorded as a reduction in the cost of the investments in the accompanying Consolidated Balance Sheets and a reduction of Interest and other income in the accompanying Consolidated Statements of Income and Comprehensive Income. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in Interest and other income.

Restricted Cash and Investments: The Company has $4.5 million in escrow at January 30, 2016 and January 31, 2015 as security and collateral for administration of the Company's self-insured workers' compensation and general liability coverage which is reported as Restricted cash and investments on the Consolidated Balance Sheets.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental Cash Flow Information: Income tax payments, net of refunds received, for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014 were $29,198,000, $37,888,000 and $34,238,000, respectively.

Inventories: Merchandise inventories are stated at the lower of cost or market as determined by the weighted-average cost method.

Property and Equipment: Property and equipment are recorded at cost, including land. Maintenance and repairs are expensed to operations as incurred; renewals and betterments are capitalized. Depreciation is determined on the straight-line method over the estimated useful lives of the related assets excluding leasehold improvements. Leasehold improvements are amortized over the shorter of the estimated useful life or lease term. For leases with renewal periods at the Company's option, the Company generally uses the original lease term plus reasonably assured renewal option periods (generally one five-year option period) to determine estimated useful lives. Typical estimated useful lives are as follows:

Classification	Estimated Useful Lives
Land improvements	10 years
Buildings	30-40 years
Leasehold improvements	5-10 years
Fixtures and equipment	3-10 years
Information technology equipment and software	3-10 years

Impairment of Long-Lived Assets

The Company invests in property and equipment primarily in connection with the opening and remodeling of stores and in computer software and hardware. The Company periodically reviews its store locations and estimates the recoverability of its assets, recording an impairment charge for the amount by which the carrying value exceeds the estimated fair value, if necessary, when the Company decides to close the store or otherwise determines that future estimated undiscounted cash flows associated with those assets will not be sufficient to recover the carrying value. This determination is based on a number of factors, including the store's historical operating results and cash flows, estimated future sales growth, real estate development in the area and perceived local market conditions that can be difficult to predict and may be subject to change. Store asset impairment charges incurred in fiscal 2015 were $1,917,000. Store asset impairment charges incurred in fiscal 2014 were $2,249,000. Store asset impairment charges incurred in fiscal 2013 were $2,646,000. In addition, the Company regularly evaluates its computer-related and other long-lived assets and may accelerate depreciation over the revised useful life if the asset is expected to be replaced or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Other Assets

Other assets are comprised of long-term assets, primarily insurance contracts related to deferred compensation assets and land held for investment purposes. During the fourth quarter of 2014, the Company had its ARS redeemed at par for $3,450,000.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Year Ended			
	January 30, 2016		January 31, 2015	
	(Dollars in thousands)			
Other Assets				
CSV Life Insurance	**$**	**199**	$	200
Deferred Compensation Investments		**6,409**		4,558
Miscellaneous Investments		**578**		919
Other Deposits		**536**		579
Investment In Partnership		**1,316**		1,267
Land Held for Investment		**9,672**		7,760
Buildings Held for Investment, net		**1,495**		-
Intellectual Property		**1,504**		-
Total Other Assets	**$**	**21,709**	**$**	15,283

Leases

The Company determines the classification of leases consistent with ASC 840 - *Leases*. The Company leases all of its retail stores. Most lease agreements contain construction allowances and rent escalations. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, including renewal periods considered reasonably assured, the Company begins amortization as of the initial possession date which is when the Company enters the space and begins to make improvements in preparation for intended use.

For construction allowances, the Company records a deferred rent liability in Other noncurrent liabilities on the Consolidated Balance Sheets and amortizes the deferred rent over the term of the respective lease as a reduction to Cost of goods sold on the Consolidated Statements of Income and Comprehensive Income.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases.

Revenue Recognition

The Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchase, generally with cash or credit. Sales from purchases made with Cato credit, gift cards and layaway sales from stores are also recorded when the customer takes possession of the merchandise. E-commerce sales are recorded when the risk of loss is transferred to the customer. Gift cards are recorded as deferred revenue until they are redeemed or forfeited. Layaway sales are recorded as deferred revenue until the customer takes possession or forfeits the merchandise. Gift cards do not have expiration dates. A provision is made for estimated merchandise returns based on sales volumes and the Company’s experience; actual returns have not varied materially from historical amounts. Amounts related to shipping and handling billed to customers in a sales transaction are classified as revenue and the costs related to shipping product to customers (billed and accrued) are classified as Cost of goods sold.

In fiscal 2015, 2014 and 2013, the Company recognized $523,000, $553,000 and $370,000, respectively, of income on unredeemed gift cards (“gift card breakage”) as a component of Other income on the Consolidated Statements of Income and Comprehensive Income. Gift card breakage is determined after 60 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company offers its own credit card to customers. All credit activity is performed by the Company's wholly-owned subsidiaries. None of the credit card receivables are secured. Finance revenue is recognized as earned under the interest method and late charges are recognized in the month in which they are assessed, net of provisions for estimated uncollectible amounts. The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts based on the aging of accounts and estimates of actual write-offs. Late fees are recognized as earned, less provisions for estimated uncollectible fees.

Cost of Goods Sold: 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 our buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Buying, distribution, occupancy and internal transfer costs are treated as period costs and are not capitalized as part of inventory. The direct costs associated with shipping goods to customers are recorded as a component of Cost of goods sold.

Advertising: Advertising costs are expensed in the period in which they are incurred. Advertising expense was approximately $7,074,000, $5,528,000 and $5,741,000 for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014, respectively.

Stock Repurchase Program: For fiscal year ending January 30, 2016, the Company had 2,015,123 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program. Share repurchases are recorded in Retained earnings, net of par value. In February 2016, the Company repurchased 148,900 shares for $5,194,000, primarily to offset dilution from its equity compensation plans.

Earnings Per Share: ASC 260 - *Earnings Per Share*, requires dual presentation of basic EPS and diluted 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 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 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.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Year Ended		
	January 30, 2016	January 31, 2015	February 1, 2014
Numerator		(Dollars in thousands)	
Net earnings	**$ 66,842**	$ 60,502	$ 54,322
Earnings allocated to non-vested equity awards	**(1,400)**	(1,180)	(884)
Net earnings available to common stockholders	**$ 65,442**	$ 59,322	$ 53,438
Denominator			
Basic weighted average common shares outstanding	**27,371,538**	27,600,350	28,767,615
Dilutive effect of stock options and restricted stock	**5,734**	3,903	5,063
Diluted weighted average common shares outstanding	**27,377,272**	27,604,253	28,772,678
Net income per common share			
Basic earnings per share	**$ 2.39**	$ 2.15	$ 1.86
Diluted earnings per share	**$ 2.39**	$ 2.15	$ 1.86

Vendor Allowances: The Company receives certain allowances from vendors primarily related to purchase discounts and markdown and damage allowances. All allowances are reflected in Cost of goods sold as earned when the related products are sold. Cash consideration received from a vendor is presumed to be a reduction of the purchase cost of merchandise and is reflected as a reduction of inventory. The Company does not receive cooperative advertising allowances.

Income Taxes: The Company files a consolidated federal income tax return. Income taxes are provided based on the asset and liability method of accounting, whereby deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

Unrecognized tax benefits for uncertain tax positions are established in accordance with ASC 740 when, despite the fact that the tax return positions are supportable, the Company believes these positions may be challenged and the

results are uncertain. The Company adjusts these liabilities in light of changing facts and circumstances. Potential accrued interest and penalties related to unrecognized tax benefits within operations are recognized as a component of Income before income taxes.

Store Opening Costs: Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. A portion of construction, design, and site selection costs are capitalized to new, relocated and remodeled stores.

Closed Store Lease Obligations: At the time stores are closed, provisions are made for the rentals required to be paid over the remaining lease terms on a discounted cash flow basis, reduced by any expected sublease rentals.

Insurance: The Company is self-insured with respect to employee health care, workers' compensation and general liability. The Company's self-insurance liabilities are based on the total estimated cost of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims, and are not discounted. Management reviews current and historical claims data in developing its estimates. The Company has stop-loss insurance coverage for individual claims in excess of $325,000 for employee healthcare, $350,000 for workers' compensation and $250,000 for general liability.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments: The Company's carrying values of financial instruments, such as cash and cash equivalents, short-term investments, restricted cash and short-term investments, approximate their fair values due to their short terms to maturity and/or their variable interest rates.

Stock Based Compensation: The Company records compensation expense associated with restricted stock and other forms of equity compensation in accordance with ASC 718 - *Compensation – Stock Compensation.* Compensation cost associated with stock awards recognized in all years presented includes: 1) amortization related to the remaining unvested portion of all stock awards based on the grant date fair value and 2) adjustments for the effects of actual forfeitures versus initial estimated forfeitures.

Recently Adopted Accounting Policies

In November 2015, the Financial Accounting Standards Board issued new accounting guidance that requires entities to present deferred tax assets and deferred tax liabilities, along with any related valuation allowance, as noncurrent in a balance sheet. The standard is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We have early adopted this new guidance prospectively beginning with the Consolidated Balance Sheet at January 30, 2016. Prior periods were not retrospectively adjusted.

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board issued an effective date for a new leasing standard that will require substantially all leases to be recorded on the balance sheet. The standard is effective for the Company's first quarter of its 2019 fiscal year; early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board issued an accounting standards update that will supersede most current revenue recognition guidance and modify the accounting treatment for certain costs associated with

revenue generation. The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services, and provides several steps to apply to achieve that principle. In addition, the new guidance enhances disclosure requirements to include more information about specific revenue contracts entered into by the entity. The standard is effective for the Company's first quarter of its 2018 fiscal year, and early adoption is permitted. The Company is assessing what impacts this new standard will have on its Consolidated Financial Statements.

2. Interest and Other Income:

The components of Interest and other income are shown below (in thousands):

	January 30, 2016		January 31, 2015		February 1, 2014	
Dividend income	**$**	**(21)**	$	(21)	$	(17)
Interest income		**(1,562)**		(1,266)		(1,288)
Miscellaneous income		**(2,049)**		(1,936)		(1,686)
Net (gain) loss on investment sales		**176**		(222)		(276)
Interest and other income	**$**	**(3,456)**	$	(3,445)	$	(3,267)

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. Short-Term Investments:

At January 30, 2016, the Company's investment portfolio was primarily invested in governmental debt securities held in managed accounts. These securities are classified as available-for-sale as they are highly liquid and are recorded on the Consolidated Balance Sheets at estimated fair value, with unrealized gains and temporary losses reported net of taxes in Accumulated other comprehensive income.

The table below reflects gross accumulated unrealized gains (losses) in short-term investments at January 30, 2016 and January 31, 2015 (in thousands):

	January 30, 2016			January 31, 2015		
	Debt securities issued by various states of the United States and political subdivisions of the states	**Corporate debt securities**	**Total**	Debt securities issued by various states of the United States and political subdivisions of the states	Corporate debt securities	Total
Cost basis	192,561	21,955	214,516	147,227	13,996	161,223
Unrealized gains	939	40	979	906	56	962
Unrealized (loss)	-	-	-	-	-	-
Estimated fair value	$ 193,500	$ 21,995	$ 215,495	$ 148,133	$ 14,052	$ 162,185

Accumulated other comprehensive income on the Consolidated Balance Sheets reflects the accumulated unrealized net gains in short-term investments in addition to unrealized gains from equity investments and restricted cash investments. The table below reflects gross accumulated unrealized gains in these investments at January 30, 2016 and January 31, 2015 (in thousands):

	January 30, 2016			January 31, 2015		
Security Type	**Unrealized Gain/(Loss)**	**Deferred Tax Benefit**	**Unrealized Net Gain/ (Loss)**	Unrealized Gain/(Loss)	Deferred Tax Benefit	Unrealized Net Gain/ (Loss)
Short-Term Investments	$ 978	$ (368)	$ 610	$ 963	$ (362)	$ 601
Equity Investments	304	(114)	190	297	(112)	185
Total	$ 1,282	$ (482)	$ 800	$ 1,260	$ (474)	$ 786

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. 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 January 30, 2016 and January 31, 2015:

Description	January 30, 2016	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	$ 193,500	$ -	$ 193,500	$ -
Corporate Bonds	10,941	-	10,941	-
U.S. Treasury Notes	1,203	1,203	-	-
Cash Surrender Value of Life Insurance	6,409	-	-	6,409
Privately Managed Funds	-	-	-	-
Asset-backed Securities (ABS)	11,054	-	11,054	-
Corporate Equities	578	578	-	-
Certificates of Deposit	100	100	-	-
Total Assets	$ 223,785	$ 1,881	$ 215,495	$ 6,409
Liabilities:				
Deferred Compensation	(6,187)	-	-	(6,187)
Total Liabilities	$ (6,187)	$ -	$ -	$ (6,187)

Description	January 31, 2015	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	$ 148,650	$ -	$ 148,650	$ -
Corporate Bonds	14,052	-	14,052	-

U.S. Treasury Notes	3,758	3,758	-	-
Cash Surrender Value of Life Insurance	4,558	-	-	4,558
Privately Managed Funds	306	-	-	306
Corporate Equities	613	613	-	-
Certificates of Deposit	100	100	-	-
Total Assets	$ 172,037	$ 4,471	$ 162,702	$ 4,864
Liabilities:				
Deferred Compensation	(4,272)	-	-	(4,272)
Total Liabilities	$ (4,272)	$ -	$ -	$ (4,272)

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at January 30, 2016. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from two days to 5.6 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from eight months to 1.1 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at January 30, 2016, the Company had $0.6 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At January 31, 2015, the Company had $0.3 million of privately managed funds and $0.6 million of corporate equities, all of which are recorded within Other assets in the Consolidated Balance Sheets.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Level 1 category securities are measured at fair value using quoted active market prices. Level 2 investment securities include corporate and municipal bonds for which quoted prices may not be available on active exchanges for identical instruments. Their fair value is principally based on market values determined by management with assistance of a third-party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the pricing service using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics, among other factors.

Deferred compensation plan assets consist of life insurance policies. These life insurance policies are valued based on the cash surrender value of the insurance contract, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow and are therefore classified within Level 3 of the valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds. These funds are designed to mirror existing mutual funds and money market funds that are observable and actively traded. Cash surrender values are provided by third parties and reviewed for reasonableness by the Company.

The following tables summarize the change in fair value of the Company's financial assets and liabilities measured using Level 3 inputs as of January 30, 2016 and January 31, 2015 (in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)			
	Available-For-Sale Debt Securities ARS	**Other Investments Private Equity**	**Cash Surrender Value**	**Total**
Beginning Balance at January 31, 2015	$ -	$ 306	$ 4,558	$ 4,865
Redemptions	-	(270)	-	(270)
Additions	-	-	2,071	2,071
Total gains or (losses)				
Included in interest and other income (or changes in net assets)	-	92	(220)	(128)
	-	(128)	-	(128)

Included in other comprehensive income				
Ending Balance at January 30, 2016	$ -	$ -	$ 6,409	$ 6,409

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	Total
Beginning Balance at January 31, 2015	$ (4,272)	$ (4,272)
Additions	(2,092)	(2,092)
Total (gains) or losses		
Included in interest and other income (or changes in net assets)	177	177
Ending Balance at January 30, 2016	$ (6,187)	$ (6,187)

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)			
	Available-For-Sale Debt Securities ARS	Other Investments Private Equity	Cash Surrender Value	Total
Beginning Balance at February 1, 2014	$ 3,140.0	$ 392	$ 2,957	$ 6,489
Redemptions	(3,450.0)	(93)	-	(3,543)
Additions			753	753
Total gains or (losses)				
Included in interest and other income (or changes in net assets)	311.0	147	848	1,306
Included in other comprehensive income	-	(140)	-	(140)
Ending Balance at January 31, 2015	$ -	$ 306	$ 4,558	$ 4,865

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	Total
Beginning Balance at February 1, 2014	$ (3,298)	$ (3,298)
Additions	(719)	(719)
Total (gains) or losses		
Included in interest and other income (or changes in net assets)	(255)	(255)
Ending Balance at January 31, 2015	$ (4,272)	$ (4,272)

5. Accounts Receivable:

Accounts receivable consist of the following (in thousands):

	January 30, 2016	January 31, 2015
Customer accounts — principally deferred payment accounts	**$ 24,045**	$ 26,071
Miscellaneous trade receivables	**14,012**	16,494
Total	**38,057**	42,565
Less allowance for doubtful accounts	**1,447**	1,542
Accounts receivable — net	**$ 36,610**	$ 41,023

Finance charge and late charge revenue on customer deferred payment accounts totaled $5,383,000, $5,773,000 and $6,220,000 for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014, respectively, and charges against the allowance for doubtful accounts were approximately $873,000, $875,000 and $1,009,000 for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014, respectively. Expenses relating to the allowance for doubtful accounts are classified as a component of Selling, general and administrative expense in the accompanying Consolidated Statements of Income and Comprehensive Income.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Property and Equipment:

Property and equipment consist of the following (in thousands):

	January 30, 2016	January 31, 2015
Land and improvements	$ **13,523**	$ 7,968
Buildings	**35,498**	25,807
Leasehold improvements	**106,393**	100,808
Fixtures and equipment	**211,071**	214,969
Information technology equipment and software	**50,937**	59,829
Construction in progress	**2,568**	12,243
Total	**419,990**	421,624
Less accumulated depreciation	**281,687**	286,443
Property and equipment — net	$ **138,303**	$ 135,181

Construction in progress primarily represents costs related to new store development and investments in new technology.

7. Accrued Expenses:

Accrued expenses consist of the following (in thousands):

	January 30, 2016	January 31, 2015
Accrued payroll and related items	$ **8,634**	$ 7,905
Property and other taxes	**17,160**	17,482
Accrued self-insurance	**12,813**	11,589
Fixed Assets	**2,876**	1,780
Other	**11,403**	9,648
Total	$ **52,886**	$ 48,404

8. Financing Arrangements

As of January 30, 2016, the Company had an unsecured revolving credit agreement to borrow $35.0 million less the balance of revocable credits discussed below. The revolving credit agreement is committed until August 2018. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of January 30, 2016. There were no borrowings outstanding under this credit facility during the periods ended January 30, 2016, January 31, 2015 or February 1, 2014. The

weighted average interest rate under the credit facility was zero at January 30, 2016 due to no borrowings during the year.

At January 30, 2016 and January 31, 2015, the Company had no outstanding revocable letters of credit relating to purchase commitments. At February 1, 2014, the Company had approximately $0.4 million of outstanding revocable letters of credit relating to purchase commitments.

9. Stockholders' Equity:

The holders of Class A Common Stock are entitled to one vote per share, whereas the holders of Class B Common Stock are entitled to ten votes per share. Each share of Class B Common Stock may be converted at any time into one share of Class A Common Stock. Subject to the rights of the holders of any shares of Preferred Stock that may be outstanding at the time, in the event of liquidation, dissolution or winding up of the Company, holders of Class A Common Stock are entitled to receive a preferential distribution of $1.00 per share of the net assets of the Company. Cash dividends on the Class B Common Stock cannot be paid unless cash dividends of at least an equal amount are paid on the Class A Common Stock.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's certificate of incorporation provides that shares of Class B Common Stock may be transferred only to certain "Permitted Transferees" consisting generally of the lineal descendants of holders of Class B Stock, trusts for their benefit, corporations and partnerships controlled by them and the Company's employee benefit plans. Any transfer of Class B Common Stock in violation of these restrictions, including a transfer to the Company, results in the automatic conversion of the transferred shares of Class B Common Stock held by the transferee into an equal number of shares of Class A Common Stock.

On March 23, 2016, the Company paid a quarterly dividend of $0.30 per share.

10. Employee Benefit Plans:

The Company has a defined contribution retirement savings plan ("401(k) plan") which covers all associates who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 60% of their annual compensation up to the maximum elective deferral, designated by the IRS. The Company is obligated to make a minimum contribution to cover plan administrative expenses. Further Company contributions are at the discretion of the Board of Directors. The Company's contributions for the years ended January 30, 2016, January 31, 2015 and February 1, 2014 were approximately $1,238,000, $1,268,000 and $1,196,000, respectively.

The Company has a trusteed, non-contributory Employee Stock Ownership Plan ("ESOP"), which covers substantially all associates who meet minimum age and service requirements. The amount of the Company's discretionary contribution to the ESOP is determined annually by the Compensation Committee of the Board of Directors and can be made in Company Class A Common stock or cash. The Company has chosen to contribute cash and the plan purchases stock on the open market consistent with prior years. The Committee approved a contribution of approximately $1,100,000 for the year ended January 30, 2016. The Company's contribution for the year ended January 31, 2015 was $7,784,000 and year ended February 1, 2014 was $887,000.

The Company is primarily self-insured for healthcare. These costs are significant primarily due to the large number of the Company's retail locations and associates. The Company's self-insurance liabilities are based on the total estimated costs of claims filed and estimates of claims incurred but not reported, less amounts paid against such claims. Management reviews current and historical claims data in developing its estimates. If the underlying facts and

circumstances of the claims change or the historical trend is not indicative of future trends, then the Company may be required to record additional expense or a reduction to expense which could be material to the Company's reported financial condition and results of operations. The Company funds healthcare contributions to a third-party provider.

11. Leases:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are at a fixed rate for periods of five years with renewal options. For leases with landlord capital improvement funding, the funded amount is recorded as a deferred liability and amortized over the term of the lease as a reduction to rent expense on the Consolidated Statements of Income and Comprehensive Income. Equipment leases are generally for one to three year periods.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The minimum rental commitments under non-cancelable operating leases are (in thousands):

Fiscal Year		
2016	$	69,550
2017		52,135
2018		38,094
2019		25,405
2020		15,695
Thereafter		14,924
Total minimum lease payments	$	215,803

The following schedule shows the composition of total rental expense for all leases (in thousands):

Fiscal Year Ended		**January 30, 2016**		January 31, 2015		February 1, 2014
Minimum rentals	**$**	**69,665**	$	66,040	$	61,889
Contingent rent		**11**		4		4
Total rental expense	**$**	**69,676**	$	66,044	$	61,893

12. Income Taxes:

As a result of the prospective adoption of the new accounting guidance described in Note 1 to the Consolidated Financial Statements, there were no current deferred tax assets at January 30, 2016. Current deferred tax assets were $4.3 million at January 31, 2015.

Unrecognized tax benefits for uncertain tax positions are established in accordance with ASC 740 when, despite the fact that the tax return positions are supportable, the Company believes these positions may be challenged and the results are uncertain. The Company adjusts these liabilities in light of changing facts and circumstances. As of January 30, 2016, the Company had gross unrecognized tax benefits totaling approximately $9.6 million, of which approximately $9.8 million (inclusive of interest) would affect the effective tax rate if recognized. The Company had approximately $4.3 million, $4.8 million and $5.4 million of interest and penalties accrued related to uncertain tax positions as of January 30, 2016, January 31, 2015 and February 1, 2014, respectively. The Company recognizes interest and penalties related to the resolution of uncertain tax positions as a component of income tax expense. The Company recognized $891,000, $740,000 and $927,000 of interest and penalties in the Consolidated Statements of

Income and Comprehensive Income for the years ended January 30, 2016, January 31, 2015 and February 1, 2014, respectively. The Company is no longer subject to U.S. federal income tax examinations for years before 2012. In state and local tax jurisdictions, the Company has limited exposure before 2004. During the next 12 months, various state and local taxing authorities' statutes of limitations will expire and certain state examinations may close, which could result in a potential reduction of unrecognized tax benefits for which a range cannot be determined.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

Fiscal Year Ended	January 30, 2016	January 31, 2015	February 1, 2014
Balances, beginning	**$ 9,431**	$ 9,214	$ 8,892
Additions for tax positions of the current year	**1,452**	877	1,209
Reduction for tax positions of prior years for:			
Settlements during the period	**(611)**	(170)	(464)
Lapses of applicable statute of limitations	**(712)**	(490)	(423)
Balances, ending	**$ 9,560**	$ 9,431	$ 9,214

The provision for income taxes consists of the following (in thousands):

Fiscal Year Ended	January 30, 2016	January 31, 2015	February 1, 2014
Current income taxes:			
Federal	**$ 29,076**	$ 33,108	$ 31,699
State	**4,981**	514	3,032
Foreign	**197**	-	-
Total	**34,254**	33,622	34,731
Deferred income taxes:			
Federal	**(1,953)**	(1,863)	(4,260)
State	**(104)**	(611)	(507)
Foreign	**88**	(177)	-
Total	**(1,969)**	(2,651)	(4,767)
Total income tax expense	**$ 32,285**	$ 30,971	$ 29,964

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of the Company's deferred tax assets and liabilities as of January 30, 2016 and January 31, 2015 are as follows (in thousands):

	January 30, 2016	January 31, 2015
Deferred tax assets:		
Allowance for doubtful accounts	**$ 502**	$ 543
Inventory valuation	**3,063**	2,717
Deferred lease liability	**1,176**	1,881
Non-deductible accrued liabilities	**3,081**	1,895
Other taxes	**1,564**	1,664
Federal benefit of uncertain tax positions	**4,044**	4,237
Equity compensation expense	**4,888**	3,862
Other	**2,732**	2,422
Total deferred tax assets	**21,050**	19,221
Deferred tax liabilities		
Property and equipment	**8,095**	6,458
Unrealized gains on short-term investments	**481**	472
Healthcare expense	**818**	2,117
Other	**1,376**	2,517
Total deferred tax liabilities	**10,770**	11,564
Net deferred tax assets	**$ 10,280**	$ 7,657

The reconciliation of the Company's effective income tax rate with the statutory rate is as follows:

Fiscal Year Ended	**January 30, 2016**	January 31, 2015	February 1, 2014
Federal income tax rate	**35.0%**	35.0%	35.0 %
State income taxes	**2.5**	(0.2)	2.8
Tax credits	**(1.8)**	(1.8)	(1.4)
Tax exempt interest	**(0.5)**	(0.5)	(0.5)
Effects of permanent differences	**0.5**	0.6	0.1
Other	**(3.1)**	0.8	(0.4)
Effective income tax rate	**32.6%**	33.9%	35.6 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Quarterly Financial Data (Unaudited):

Summarized quarterly financial results are as follows (in thousands, except per share data):

Fiscal 2015		**First**		**Second**		**Third**		**Fourth**
Total revenues	$	283,899	$	251,269	$	225,467	$	250,456
Gross profit (exclusive of depreciation)		121,379		96,786		85,204		91,242
Net income		31,083		15,594		8,320		11,845
Basic earnings per share	$	1.11	$	0.56	$	0.30	$	0.42
Diluted earnings per share	$	1.11	$	0.56	$	0.30	$	0.42
Fiscal 2014		**First**		**Second**		**Third**		**Fourth**
Total revenues	$	284,732	$	246,461	$	215,608	$	240,113
Gross profit (exclusive of depreciation)		120,369		97,422		79,515		89,039
Net income		30,006		15,652		5,692		9,152
Basic earnings per share	$	1.04	$	0.56	$	0.22	$	0.33
Diluted earnings per share	$	1.04	$	0.56	$	0.22	$	0.33

14. Reportable Segment Information

The Company has determined that it has four operating segments, as defined under ASC 280-10, including Cato, It's Fashion, Versona and Credit. As outlined in ASC 280-10, the Company has two reportable segments: Retail and Credit. The Company has aggregated its three retail operating segments, including e-commerce, based on the aggregation criteria outlined in ASC 280-10, which states that two or more operating segments may be aggregated into a single reportable segment if aggregation is consistent with the objective and basic principles of ASC 280-10, which require the segments have similar economic characteristics, products, production processes, clients and methods of distribution.

The Company's retail operating segments have similar economic characteristics and similar operating, financial and competitive risks. They are similar in terms of product offered, as they all offer women's apparel, shoes and accessories. Merchandise inventory of the Company's retail operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Merchandise for the Company's retail operating segments is distributed to retail stores in a similar manner through the Company's single distribution center and is

subsequently distributed to clients in a similar manner.

The Company operates its women's fashion specialty retail stores in 32 states as of January 30, 2016, principally in the southeastern United States. The Company offers its own credit card to its customers and all credit authorizations, payment processing, and collection efforts are performed by a separate subsidiary of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Fiscal 2015		**Retail**		**Credit**		**Total**
Revenues	$	1,005,708	$	5,383	$	1,011,091
Depreciation		22,914		49		22,963
Interest and other income		3,456		-		3,456
Income before taxes		97,119		2,008		99,127
Total assets		540,941		101,403		642,344
Capital expenditures		26,534		-		26,534

Fiscal 2014		**Retail**		**Credit**		**Total**
Revenues	$	981,141	$	5,773	$	986,914
Depreciation		21,981		45		22,026
Interest and other income		3,445		-		3,445
Income before taxes		89,131		2,342		91,473
Total assets		533,236		75,042		608,278
Capital expenditures		28,871		30		28,901

Fiscal 2013		**Retail**		**Credit**		**Total**
Revenues	$	913,813	$	6,220	$	920,033
Depreciation		21,785		40		21,825
Interest and other income		3,267		-		3,267
Income before taxes		81,709		2,577		84,286
Total assets		524,908		72,010		596,918
Capital expenditures		31,423		119		31,542

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 1. The Company evaluates performance based on profit or loss from operations before income taxes. The Company does not allocate certain corporate expenses to the credit segment.

The following schedule summarizes the direct expenses of the credit segment which are reflected in selling, general and administrative expenses (in thousands):

	January 30, 2016	January 31, 2015	February 1, 2014
Bad debt expense	**$ 873**	$ 875	$ 1,009
Payroll	**862**	841	907
Postage	**712**	737	744
Other expenses	**879**	933	943
Total expenses	**$ 3,326**	$ 3,386	$ 3,603

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Stock Based Compensation:

As of January 30, 2016, the Company had three long-term compensation plans pursuant to which stock-based compensation was outstanding or could be granted. The Company's 1987 Non-Qualified Stock Option Plan is for the granting of options to officers and key employees. The 2013 Incentive Compensation Plan and 2004 Incentive Compensation Plan are for the granting of various forms of equity-based awards, including restricted stock and stock options for grant, to officers, directors and key employees. Effective May 23, 2013, shares for grant were no longer available under the 2004 Amended and Restated Incentive Compensation Plan.

The following table presents the number of options and shares of restricted stock initially authorized and available for grant under each of the plans as of January 30, 2016:

	1987 Plan	2004 Plan	2013 Plan	Total
Options and/or restricted stock initially authorized	5,850,000	1,350,000	1,500,000	8,700,000
Options and/or restricted stock available for grant:				
January 31, 2015	-	-	1,287,396	1,287,396
January 30, 2016	-	-	1,145,723	1,145,723

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 a five-year vesting period. As of January 30, 2016, there was $12,214,000 of total unrecognized compensation expense related to unvested restricted stock awards, which is expected to be recognized over a remaining weighted-average vesting period of 2.6 years. The total fair value of the shares recognized as compensation expense during the twelve months ended January 30, 2016, January 31, 2015 and February 1, 2014 was $4,020,000, $3,474,000 and $2,924,000, respectively. The expenses are classified as a component of Selling, general and administrative expenses in the Consolidated Statements of Income and Comprehensive Income.

The following summary shows the changes in the shares of unvested restricted stock outstanding during the years ended January 30, 2016, January 31, 2015 and February 1, 2014:

	Number of Shares	**Weighted Average Grant Date Fair Value Per Share**
Restricted stock awards at February 2, 2013	440,146	$ 23.70

Granted	214,637		23.57
Vested	(121,692)		19.82
Forfeited or expired	(27,468)		24.71
Restricted stock awards at February 1, 2014	505,623	$	24.52
Granted	206,713		28.25
Vested	(108,155)		22.41
Forfeited or expired	(51,686)		26.00
Restricted stock awards at January 31, 2015	552,495	$	26.19
Granted	159,673		39.60
Vested	(87,130)		26.03
Forfeited or expired	(48,362)		28.83
Restricted stock awards at January 30, 2016	576,676	$	29.71

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a 15% discount through payroll deductions. During the twelve month period ended January 30, 2016, the Company sold 16,305 shares to employees at an average discount of $5.29 per share under the Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately $86,000, $90,000 and $70,000 for fiscal years 2015, 2014 and 2013, respectively. These expenses are classified as a component of Selling, general and administrative expenses.

The following is a summary of changes in stock options outstanding during the year ended January 30, 2016:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Options outstanding at January 31, 2015	20,127	$	23.56	8.25 years	$	194,628
Granted	-		-			
Forfeited or expired	-					
Exercised	-		-			
Outstanding at January 30, 2016	20,127	$	23.56	7.25 years	$	195,433
Vested and exercisable at January 30, 2016	8,051	$	23.56	7.25 years	$	78,173

(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.

No options were granted in fiscal 2015 and fiscal 2014. In fiscal 2013, 20,127 options were granted. The Company utilizes the Black–Scholes method to estimate the fair value of share based payments.

No options were exercised in fiscal 2015. The total intrinsic value of options exercised during the years ended January 31, 2015 and February 1, 2014 was $11,000 and $112,000, respectively.

The stock option expense was $17,000, $17,000 and $13,000 for the twelve months ended January 30, 2016, January 31, 2015 and February 1, 2014, respectively.

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.

16. Commitments and Contingencies:

The Company does not have any guarantees with third parties.

The Company is a defendant in legal proceedings considered to be in the normal course of business. The resolution of such currently pending matters, individually or collectively, is not expected to have a material effect on the Company's results of operations, cash flows or financial position. We accrue for these matters when the liability is deemed probable and estimable.

THE CATO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. Accumulated Other Comprehensive Income:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of January 30, 2016:

		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		(114)
Amounts reclassified from accumulated other comprehensive income (b)		128
Net current-period other comprehensive income		14
Ending Balance at January 30, 2016	$	800

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income (“OCI”).
(b) Includes ($206) impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was ($77). Amounts in parentheses indicate a debit/reduction to OCI.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) as of January 31, 2015:

		Changes in Accumulated Other Comprehensive Income (a) Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at February 1, 2014	$	778
Other comprehensive income before reclassification		148
Amounts reclassified from accumulated other comprehensive income (b)		(140)
Net current-period other comprehensive income		8
Ending Balance at January 31, 2015	$	786

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to OCI.
(b) Includes $224 impact of accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $84. Amounts in parentheses indicate a debit/reduction to OCI.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:***

None.

Item 9A. ***Controls and Procedures:***

Conclusion Regarding the Effectiveness of Disclosure 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 January 30, 2016. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of January 30, 2016, our disclosure controls and procedures, as defined in Rule 13a-15(e), under the Securities Exchange Act of 1934 (the "Exchange Act"), were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of January 30, 2016 based on the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of January 30, 2016.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of January 30, 2016, as stated in its report which is included herein.

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 January 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. ***Other Information:***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance:***

Information contained under the captions "Election of Directors," "Meetings and Committees," "Corporate Governance Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's Proxy Statement for its 2016 annual stockholders' meeting (the "2016 Proxy Statement") is incorporated by reference in response to this Item 10. The information in response to this Item 10 regarding executive officers of the Company is contained in Item 3A, Part I hereof under the caption "Executive Officers of the Registrant."

Item 11. ***Executive Compensation:***

Information contained under the captions "2015 Executive Compensation," "Fiscal 2015 Director Compensation," "Corporate Governance Matters-Compensation Committee Interlocks and Insider Participation" in the Company's 2016 Proxy Statement is incorporated by reference in response to this Item.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:***

Equity Compensation Plan Information

The following table provides information about stock options outstanding and shares available for future awards under all of Cato's equity compensation plans. The information is as of January 30, 2016.

Plan Category	**(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (1)**	**(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (1)**	**(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (2)**
Equity compensation plans approved by security holders	20,127	$23.56	1,357,242
Equity compensation plans not approved by security holders	-	-	-
Total	20,127	$23.56	1,357,242

(1) This column contains information regarding employee stock options only; there are no outstanding warrants or stock appreciation rights.

(2) Includes the following:

Under the Company's stock incentive plan, referred to as the 2013 Incentive Compensation Plan, 1,145,723 shares are available for grant. Under this plan, non-qualified stock options may be granted to key associates.

Under the 2013 Employee Stock Purchase Plan, 211,519 shares are available. Eligible associates may participate in the purchase of designated shares of the Company's common stock. The purchase price of this stock is equal to

85% of the lower of the closing price at the beginning or the end of each semi-annual stock purchase period.

Information contained under "Security Ownership of Certain Beneficial Owners and Management" in the 2016 Proxy Statement is incorporated by reference in response to this Item.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence:***

Information contained under the caption "Certain Relationships and Related Person Transactions," "Corporate Governance Matters-Director Independence" and "Meetings and Committees" in the 2016 Proxy Statement is incorporated by reference in response to this Item.

Item 14. ***Principal Accountant Fees and Services:***

Information contained under the captions “Ratification of Independent Registered Public Accounting Firm-Audit Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Service by the Independent Registered Public Accounting Firm" in the 2016 Proxy Statement is incorporated by reference in response to this item.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules:***

(a) The following documents are filed as part of this report:

(1) Financial Statements:

	Page
Report of Independent Registered Public Accounting Firm	32
Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014...	33
Consolidated Balance Sheets at January 30, 2016 and January 31, 2015...	34
Consolidated Statements of Cash Flows for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014..	35
Consolidated Statements of Stockholders' Equity for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014...	36
Notes to Consolidated Financial Statements..	37

(2) Financial Statement Schedule: The following report and financial statement schedule is filed herewith:

Schedule II — Valuation and Qualifying Accounts...	64

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related Notes thereto.

(3) Index to Exhibits: The following exhibits listed in the Index below are filed with this report or, as noted, incorporated by reference herein. The Company will supply copies of the following exhibits to any shareholder upon receipt of a written request addressed to the Corporate Secretary, The Cato Corporation, 8100 Denmark Road, Charlotte, NC 28273 and the payment of $.50 per page to help defray the costs of handling, copying and postage. In most cases, documents incorporated by reference to exhibits to our registration statements, reports or proxy statements filed by the Company with the Securities and Exchange Commission are available to the public over the Internet from the SEC's web site at http://www.sec.gov. You may also read and copy any such document at the SEC's public reference room located at Room 1580, 100 F. Street, N.E., Washington, D.C. 20549 under the Company's SEC file number (1–31340).

Exhibit Number	Description of Exhibit
3.1	Registrant's Restated Certificate of Incorporation of the Registrant 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 on January 6, 2004.
10.3*	2004 Incentive Compensation Plan, amended and restated as of May 22, 2008, incorporated by reference to Appendix A to Definitive Proxy Statement on Schedule 14A filed April 11, 2008.
10.4*	2013 Incentive Compensation Plan, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed May 31, 2013 (SEC file No. 333-188993).
10.5*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Wayland H. Cato, Jr., incorporated by reference to Exhibit 99(c) to Form 8-K of the Registrant filed on July 22, 2003.
10.6*	Form of Agreement, dated as of August 29, 2003, between the Registrant and Edgar T. Cato, incorporated by reference to Exhibit 99(d) to Form 8-K of the Registrant filed on July 22, 2003.
10.7*	Retirement Agreement between Registrant and Wayland H. Cato, Jr. dated August 29, 2003 incorporated by reference to Exhibit 10.1 to Form 10-Q of the Registrant for quarter ended August 2, 2003.
10.8*	Retirement Agreement between Registrant and Edgar T. Cato dated August 29, 2003, incorporated by reference to Exhibit 10.2 to Form 10-Q of the Registrant for the quarter ended August 2, 2003.
10.9*	Letter Agreement between the Registrant and John R. Howe dated as of August 28, 2008, incorporated by Reference to Exhibit 99.1 to Form 8-K of the Registrant filed September 3, 2008.

10.10*	Deferred Compensation Plan effective July 28, 2011, incorporated by reference to Exhibit 10.1 to Form 8-K of the Registrant filed on July 19, 2011.
21.1**	Subsidiaries of Registrant.
23.1**	Consent of Independent Registered Public Accounting Firm.
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 Chief Executive Officer.
32.2**	Section 1350 Certification of Chief Financial Officer.
101.1**	The following materials from Registrant's Annual Report on form 10-K for the fiscal years ended January 30, 2016, formatted in XBRL: (i) Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014; (ii) Consolidated Balance Sheets at January 30, 2016 and January 31, 2015; (iii) Consolidated Statements of Cash Flows for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014; (iv) Consolidated Statements of Stockholders' Equity for the fiscal years ended January 30, 2016, January 31, 2015 and February 1, 2014; and (v) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan required to be filed under Item 15 of this report and Item 601 of Regulation S-K.

** Filed or submitted electronically herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Cato has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Cato Corporation

By /s/ JOHN P. D. CATO
John P. D. Cato

Chairman, President and

Chief Executive Officer

By /s/ JOHN R. HOWE
John R. Howe

Executive Vice President

Chief Financial Officer

By /s/ JEFFREY R. SHOCK
Jeffrey R. Shock

Senior Vice President

Controller

Date: March 24, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 24, 2016 by the following persons on behalf of the Registrant and in the capacities indicated:

/s/ JOHN P. D. CATO

John P. D. Cato

(President and Chief Executive Officer

(Principal Executive Officer) and Director)

/s/ BAILEY W. PATRICK

Bailey W. Patrick

(Director)

/s/ JOHN R. HOWE

John R. Howe

(Executive Vice President

Chief Financial Officer (Principal Financial Officer))

/s/ THOMAS B. HENSON

Thomas B. Henson

(Director)

/s/ JEFFREY R. SHOCK

Jeffrey R. Shock

(Senior Vice President

Controller (Principal Accounting Officer))

/s/ BRYAN F. KENNEDY III

Bryan F. Kennedy III

(Director)

/s/ THOMAS E. MECKLEY

Thomas E. Meckley

(Director)

/s/ D. HARDING STOWE

D. Harding Stowe

(Director)

/s/ EDWARD I. WEISIGER, JR

Edward I. Weisiger, Jr.

(Director)

Schedule II

VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Allowance for Doubtful Accounts(a)	Self Insurance Reserves(b)
Balance at February 2, 2013	$ 2,053	$ 9,593
Additions charged to costs and expenses	1,221	15,212
Additions (reductions) charged to other accounts	425(c)	(611)
Deductions	(1,956)(d)	(13,638)
Balance at February 1, 2014	1,743	10,556
Additions charged to costs and expenses	1,070	15,270
Additions (reductions) charged to other accounts	428(c)	(680)
Deductions	(1,699)(d)	(13,589)
Balance at January 31, 2015	$ 1,542	$ 11,557
Additions charged to costs and expenses	1,048	16,769
Additions (reductions) charged to other accounts	345(c)	1,245
Deductions	(1,488)(d)	(16,812)
Balance at January 30, 2016	$ 1,447	$ 12,759

(a) Deducted from trade accounts receivable.
(b) Reserve for Workers' Compensation, General Liability and Healthcare
(c) Recoveries of amounts previously written off.
(d) Uncollectible accounts written off.