

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-31340

THE CATO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

56-0484485

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

8100 Denmark Road Charlotte, North Carolina 28273-5975

(Address of principal executive offices)
(Zip Code)

(704) 554-8510

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A - Common Stock, par value \$.033 per share	CATO	New York Stock Exchange

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

As of April 30, 2022, there were 19,223,633 shares of Class A common stock and 1,763,652 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

Quarter Ended April 30, 2022

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CATO CORPORATION

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME
(UNAUDITED)**

	Three Months Ended	
	April 30, 2022	May 1, 2021
	(Dollars in thousands, except per share data)	
REVENUES		
Retail sales	\$ 204,933	\$ 211,234
Other revenue (principally finance charges, late fees and layaway charges)	<u>1,788</u>	<u>1,851</u>
Total revenues	<u>206,721</u>	<u>213,085</u>
COSTS AND EXPENSES, NET		
Cost of goods sold (exclusive of depreciation shown below)	132,243	123,675
Selling, general and administrative (exclusive of depreciation shown below)	60,441	63,237
Depreciation	2,743	3,042
Interest and other income	<u>(403)</u>	<u>(663)</u>
Costs and expenses, net	<u>195,024</u>	<u>189,291</u>
Income before income taxes	11,697	23,794
Income tax expense	1,949	3,081
Net income	<u>\$ 9,748</u>	<u>\$ 20,713</u>
Basic earnings per share	<u>\$ 0.46</u>	<u>\$ 0.92</u>
Diluted earnings per share	<u>\$ 0.46</u>	<u>\$ 0.92</u>
Comprehensive income:		
Net income	\$ 9,748	\$ 20,713
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of (\$362) and (\$40) for April 30, 2022 and May 1, 2021, respectively	<u>(1,206)</u>	<u>(134)</u>
Comprehensive income	<u>\$ 8,542</u>	<u>\$ 20,579</u>

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	April 30, 2022	January 29, 2022
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 25,881	\$ 19,759
Short-term investments	120,021	145,998
Restricted cash	3,920	3,919
Accounts receivable, net of allowance for customer credit losses of \$801 and \$803 at April 30, 2022 and January 29, 2022, respectively	60,121	55,812
Merchandise inventories	127,576	124,907
Prepaid expenses and other current assets	6,029	5,273
Total Current Assets	343,548	355,668
Property and equipment – net	67,079	63,083
Noncurrent deferred income taxes	9,674	9,313
Other assets	23,192	24,437
Right-of-Use assets – net	168,537	181,265
Total Assets	\$ 612,030	\$ 633,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 106,229	\$ 109,546
Accrued expenses	45,377	40,373
Accrued bonus and benefits	18,901	26,488
Accrued income taxes	2,062	920
Current lease liability	63,175	66,808
Total Current Liabilities	235,744	244,135
Other noncurrent liabilities	17,797	17,914
Lease liability	107,837	117,521
Stockholders' Equity:		
Preferred stock, \$100 par value per share, 100,000 shares authorized, none issued	-	-
Class A common stock, \$0.033 par value per share, 50,000,000 shares authorized; 19,223,633 and 19,824,093 shares issued at April 30, 2022 and January 29, 2022, respectively	649	669
Convertible Class B common stock, \$0.033 par value per share, 15,000,000 shares authorized; 1,763,652 and 1,763,652 shares issued at April 30, 2022 and January 29, 2022, respectively	59	59
Additional paid-in capital	120,249	119,540
Retained earnings	131,181	134,208
Accumulated other comprehensive income	(1,486)	(280)
Total Stockholders' Equity	250,652	254,196
Total Liabilities and Stockholders' Equity	\$ 612,030	\$ 633,766

See notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended	
	April 30, 2022	May 1, 2021
	(Dollars in thousands)	
Operating Activities:		
Net income	\$ 9,748	\$ 20,713
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	2,743	3,042
Provision for customer credit losses	72	113
Purchase premium and premium amortization of investments	388	(1,121)
Share-based compensation	624	306
Deferred income taxes	-	(1)
Loss on disposal of property and equipment	16	58
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(4,382)	(2,510)
Merchandise inventories	(2,669)	(726)
Prepaid and other assets	474	(493)
Operating lease right-of-use assets and liabilities	(590)	(1,242)
Accrued income taxes	1,142	356
Accounts payable, accrued expenses and other liabilities	(8,331)	26,005
Net cash provided (used) by operating activities	(765)	44,500
Investing Activities:		
Expenditures for property and equipment	(4,440)	(554)
Purchase of short-term investments	(1,529)	(62,075)
Sales of short-term investments	25,566	28,397
Net cash provided (used) by investing activities	19,597	(34,232)
Financing Activities:		
Dividends paid	(3,638)	-
Repurchase of common stock	(9,162)	(5,629)
Proceeds from employee stock purchase plan	91	128
Net cash provided (used) by financing activities	(12,709)	(5,501)
Net increase (decrease) in cash, cash equivalents, and restricted cash	6,123	4,767
Cash, cash equivalents, and restricted cash at beginning of period	23,678	21,022
Cash, cash equivalents, and restricted cash at end of period	\$ 29,801	\$ 25,789
Non-cash activity:		
Accrued other assets and property and equipment	\$ 2,971	\$ 263

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Dollars in thousands)					
Balance — January 29, 2022	\$ 728	\$ 119,540	\$ 134,208	\$ (280)	\$ 254,196
Comprehensive income:					
Net income	-	-	9,748	-	9,748
Unrealized net losses on available-for-sale securities, net of deferred income tax benefit of (\$362)	-	-	-	(1,206)	(1,206)
Dividends paid (\$0.17 per share)	-	-	(3,638)	-	(3,638)
Class A common stock sold through employee stock purchase plan — 9,468 shares	-	111	-	-	111
Class A common stock issued through restricted stock grant plans — 0 shares	-	598	5	-	603
Repurchase and retirement of treasury shares — 609,928 shares	(20)	-	(9,142)	-	(9,162)
Balance — April 30, 2022	\$ 708	\$ 120,249	\$ 131,181	\$ (1,486)	\$ 250,652

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Dollars in thousands)					
Balance — January 30, 2021	\$ 762	\$ 115,278	\$ 129,303	\$ 1,155	\$ 246,498
Comprehensive income:					
Net income	-	-	20,713	-	20,713
Unrealized net losses on available-for-sale securities, net of deferred income tax benefit of (\$40)	-	-	-	(134)	(134)
Dividends paid (\$0.00 per share)	-	-	-	-	-
Class A common stock sold through employee stock purchase plan — 19,248 shares	1	150	-	-	151
Class A common stock issued through restricted stock grant plans — 396,558 shares	13	271	-	-	284
Repurchase and retirement of treasury shares — 425,661 shares	(14)	-	(5,615)	-	(5,629)
Balance — May 1, 2021	\$ 762	\$ 115,699	\$ 144,401	\$ 1,021	\$ 261,883

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 1 - GENERAL:

The condensed consolidated financial statements as of April 30, 2022 and for the thirteen-week periods ended April 30, 2022 and May 1, 2021 have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the "Company"), and all amounts shown are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included. All such adjustments are of a normal, recurring nature unless otherwise noted. The results of the interim period may not be indicative of the results expected for the entire year.

The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2022. Amounts as of January 29, 2022 have been derived from the audited balance sheet, but do not include all disclosures required by accounting principles generally accepted in the United States of America.

As planned, in May 2022, the Company made a \$14.4 million contribution to its Employee Stock Ownership Plan, which is included in Accrued bonus and benefits on the accompanying Condensed Consolidated Balance Sheets.

Subsequent to April 30, 2022, the Company received \$18 million of its income tax receivable, which is included in Accounts receivable. The Company anticipates that the remaining balance will be received by the end of the second quarter of fiscal 2022.

On May 19, 2022, the Board of Directors declared the quarterly dividend at \$0.17 per share.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 2 - EARNINGS PER SHARE:

Accounting Standard Codification (“ASC”) 260 – *Earnings Per Share* requires dual presentation of basic and diluted Earnings Per Share (“EPS”) on the face of all income statements for all entities with complex capital structures. The Company has presented one basic EPS and one diluted EPS amount for all common shares in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income. While the Company’s certificate of incorporation provides the right for the Board of Directors to declare dividends on Class A shares without declaration of commensurate dividends on Class B shares, the Company has historically paid the same dividends to both Class A and Class B shareholders and the Board of Directors has resolved to continue this practice. Accordingly, the Company’s allocation of income for purposes of the EPS computation is the same for Class A and Class B shares and the EPS amounts reported herein are applicable to both Class A and Class B shares.

Basic EPS is computed as net income less earnings allocated to non-vested equity awards divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options and the Employee Stock Purchase Plan.

	Three Months Ended	
	April 30, 2022	May 1, 2021
	(Dollars in thousands)	
Numerator		
Net earnings	\$ 9,748	\$ 20,713
Earnings allocated to non-vested equity awards	(541)	(942)
Net earnings available to common stockholders	<u>\$ 9,207</u>	<u>\$ 19,771</u>
Denominator		
Basic weighted average common shares outstanding	<u>20,149,201</u>	21,489,162
Diluted weighted average common shares outstanding	<u>20,149,201</u>	<u>21,489,162</u>
Net income per common share		
Basic earnings per share	<u>\$ 0.46</u>	<u>\$ 0.92</u>
Diluted earnings per share	<u>\$ 0.46</u>	<u>\$ 0.92</u>

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended April 30, 2022:

	<u>Changes in Accumulated Other Comprehensive Income (a)</u>	
	<u>Unrealized Gains and (Losses) on Available-for-Sale Securities</u>	
Beginning Balance at January 29, 2022	\$	(280)
Other comprehensive income (loss) before reclassification		(1,203)
Amounts reclassified from accumulated other comprehensive income (b)		<u>(3)</u>
Net current-period other comprehensive income (loss)		<u>(1,206)</u>
Ending Balance at April 30, 2022	\$	<u>(1,486)</u>

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income ("OCI").

(b) Includes \$4 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 \$1.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended May 1, 2021:

	<u>Changes in Accumulated Other Comprehensive Income (a)</u>	
	<u>Unrealized Gains and (Losses) on Available-for-Sale Securities</u>	
Beginning Balance at January 30, 2021	\$	1,155
Other comprehensive income (loss) before reclassification		(173)
Amounts reclassified from accumulated other comprehensive income (b)		<u>39</u>
Net current-period other comprehensive income (loss)		<u>(134)</u>
Ending Balance at May 1, 2021	\$	<u>1,021</u>

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income ("OCI").

(b) Includes \$51 impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was \$12.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 4 – FINANCING ARRANGEMENTS:

At April 30, 2022, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to \$35.0 million less the balance of letters of credit discussed below and was committed through May 2022. In May 2022, the Company signed a new unsecured revolving credit agreement, which replaces the prior credit agreement, provides up to \$35.0 million in committed availability and is committed through May 2027. The prior credit agreement contained various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of April 30, 2022. The new credit agreement also contains various financial covenants and limitations, including the maintenance of specific financial ratios. There were no outstanding borrowings under the prior credit facility as of April 30, 2022 or January 29, 2022. The weighted average interest rate under the prior credit facility was zero at April 30, 2022 due to no outstanding borrowings.

At April 30, 2022 and January 29, 2022, the Company had no outstanding letters of credit relating to purchase commitments.

NOTE 5 – REPORTABLE SEGMENT INFORMATION:

The Company has determined that it has four operating segments, as defined under ASC 280-10, including Cato, It's Fashion, Versona and Credit. As outlined in ASC 280-10, the Company has two reportable segments: Retail and Credit. The Company has aggregated its three retail operating segments, including e-commerce, based on the aggregation criteria outlined in ASC 280-10, which states that two or more operating segments may be aggregated into a single reportable segment if aggregation is consistent with the objective and basic principles of ASC 280-10, which require the segments to have similar economic characteristics, 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 nature of product, as they all offer women's apparel, shoes and accessories. Merchandise inventory for the Company's retail operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Merchandise for the Company's operating segments is distributed to retail stores in a similar manner through the Company's single distribution center and is subsequently distributed to clients in a similar manner.

The Company operates its women's fashion specialty retail stores in 32 states as of April 30, 2022, 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.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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

Three Months Ended April 30, 2022	Retail	Credit	Total
Revenues	\$206,208	\$513	\$206,721
Depreciation	2,743	-	2,743
Interest and other income	(403)	-	(403)
Income before taxes	11,613	84	11,697
Capital expenditures	4,440	-	4,440

Three Months Ended May 1, 2021	Retail	Credit	Total
Revenues	\$212,547	\$538	\$213,085
Depreciation	3,042	-	3,042
Interest and other income	(663)	-	(663)
Income before taxes	23,540	254	23,794
Capital expenditures	554	-	554

	Retail	Credit	Total
Total assets as of April 30, 2022	\$574,601	\$37,429	\$612,030
Total assets as of January 29, 2022	595,487	38,279	633,766

The Company evaluates segment performance based on income before taxes. The Company does not allocate certain corporate expenses or income taxes to the credit segment.

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

	Three Months Ended	
	April 30, 2022	May 1, 2021
Payroll	\$ 137	\$ 117
Postage	93	78
Other expenses	199	89
Total expenses	<u>\$ 429</u>	<u>\$ 284</u>

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 6 – STOCK BASED COMPENSATION:

As of April 30, 2022, the Company had two long-term compensation plans pursuant to which stock-based compensation was outstanding or could be granted. The 2018 Incentive Compensation Plan and 2013 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 24, 2018, shares for grant were no longer available under the 2013 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 April 30, 2022:

	2013 <u>Plan</u>	2018 <u>Plan</u>	<u>Total</u>
Options and/or restricted stock initially authorized	1,500,000	4,725,000	6,225,000
Options and/or restricted stock available for grant: April 30, 2022	-	3,580,471	3,580,471

In accordance with ASC 718, the fair value of current restricted stock awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. As of April 30, 2022 and January 29, 2022, there was \$9,868,000 and \$11,096,000, respectively, of total unrecognized compensation expense related to unvested restricted stock awards, which had a remaining weighted-average vesting period of 2.4 years and 2.3 years, respectively. The total compensation expense during the three months ended April 30, 2022 was \$603,000 compared to \$283,000 for the three months ended May 1, 2021. These expenses are classified as a component of Selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

The following summary shows the changes in the shares of unvested restricted stock outstanding during the three months ended April 30, 2022:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at January 29, 2022	1,196,288	\$ 13.76
Granted	-	-
Vested	-	-
Forfeited or expired	-	-
Restricted stock awards at April 30, 2022	1,196,288	\$ 13.76

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

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 three months ended April 30, 2022 and May 1, 2021, the Company sold 9,468 and 19,248 shares to employees at an average discount of \$2.21 and \$1.17 per share, respectively, under the Employee Stock Purchase Plan. The compensation expense recognized for the 15% discount given under the Employee Stock Purchase Plan was approximately \$21,000 and \$23,000 for the three months ended April 30, 2022 and May 1, 2021, respectively. These expenses are classified as a component of Selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

NOTE 7 – FAIR VALUE MEASUREMENTS:

The following tables set forth information regarding the Company's financial assets and liabilities that are measured at fair value (in thousands) as of April 30, 2022 and January 29, 2022:

Description	April 30, 2022	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	\$ 28,514	\$ -	\$ 28,514	\$ -
Corporate Bonds	56,515	-	56,515	-
U.S. Treasury/Agencies Notes and Bonds	21,112	-	21,112	-
Cash Surrender Value of Life Insurance	11,033	-	-	11,033
Asset-backed Securities (ABS)	13,512	-	13,512	-
Corporate Equities	803	803	-	-
Commercial Paper	367	-	367	-
Total Assets	\$ 131,856	\$ 803	\$ 120,020	\$ 11,033
Liabilities:				
Deferred Compensation	(9,272)	-	-	(9,272)
Total Liabilities	\$ (9,272)	\$ -	\$ -	\$ (9,272)

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

Description	January 29, 2022	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
State/Municipal Bonds	\$ 30,451	\$ -	\$ 30,451	\$ -
Corporate Bonds	76,909	-	76,909	-
U.S. Treasury/Agencies Notes and Bonds	19,715	-	19,715	-
Cash Surrender Value of Life Insurance	11,472	-	-	11,472
Asset-backed Securities (ABS)	18,556	-	18,556	-
Corporate Equities	818	818	-	-
Commercial Paper	367	-	367	-
Total Assets	<u>\$ 158,288</u>	<u>\$ 818</u>	<u>\$ 145,998</u>	<u>\$ 11,472</u>
Liabilities:				
Deferred Compensation	(10,020)	-	-	(10,020)
Total Liabilities	<u>\$ (10,020)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,020)</u>

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 April 30, 2022 and January 29, 2022. The state, municipal and corporate bonds have contractual maturities which range from one day to 4.6 years. The U.S. Treasury Notes have contractual maturities which range from 46 days to 2.4 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and Other assets on the accompanying Condensed Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at April 30, 2022, the Company had \$0.8 million of corporate equities and deferred compensation plan assets of \$11.0 million. At January 29, 2022, the Company had \$0.8 million of corporate equities and deferred compensation plan assets of \$11.5 million. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets.

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

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' net asset values, as

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

recorded in Other noncurrent liabilities in the Condensed Consolidated Balance Sheet. These funds are designed to mirror mutual funds and money market funds that are observable and actively traded.

The following tables summarize the change in fair value of the Company's financial assets and liabilities measured using Level 3 inputs as of April 30, 2022 and January 29, 2022 (dollars in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3) Cash Surrender Value
Beginning Balance at January 29, 2022	\$ 11,472
Redemptions	-
Additions	-
Total gains or (losses)	
Included in interest and other income (or changes in net assets)	(439)
Included in other comprehensive income	-
Ending Balance at April 30, 2022	<u>\$ 11,033</u>

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3) Deferred Compensation
Beginning Balance at January 29, 2022	\$ (10,020)
Redemptions	489
Additions	(149)
Total (gains) or losses	
Included in interest and other income (or changes in net assets)	408
Included in other comprehensive income	-
Ending Balance at April 30, 2022	<u>\$ (9,272)</u>

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3) Cash Surrender Value
Beginning Balance at January 30, 2021	\$ 11,263
Redemptions	-
Additions	-
Total gains or (losses)	
Included in interest and other income (or changes in net assets)	209
Included in other comprehensive income	-
Ending Balance at January 29, 2022	<u>\$ 11,472</u>

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)
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THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

	<u>Deferred Compensation</u>
Beginning Balance at January 30, 2021	\$ (10,316)
Redemptions	1,010
Additions	(304)
Total (gains) or losses	
Included in interest and other income (or changes in net assets)	(410)
Included in other comprehensive income	-
Ending Balance at January 29, 2022	<u>\$ (10,020)</u>

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS:

None.

NOTE 9 – INCOME TAXES:

The Company had an effective tax rate for the first quarter of 2022 of 16.7% compared to an effective tax rate of 12.9% for the first quarter of 2021. The increase in the 2022 first quarter tax rate was primarily due to higher Global Intangible Low-taxed Income (GILTI), partially offset by the ability to realize foreign tax credits.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

The Company is, from time to time, involved in routine litigation incidental to the conduct of its business, including litigation regarding the merchandise that it sells, litigation regarding intellectual property, litigation instituted by persons injured upon premises under its control, litigation with respect to various employment matters, including alleged discrimination and wage and hour litigation, and litigation with present or former employees.

Although such litigation is routine and incidental to the conduct of the Company's business, as with any business of its size with a significant number of employees and significant merchandise sales, such litigation could result in large monetary awards. Based on information currently available, management does not believe that any reasonably possible losses arising from current pending litigation will have a material adverse effect on its condensed consolidated financial statements. However, given the inherent uncertainties involved in such matters, an adverse outcome in one or more such matters could materially and adversely affect the Company's financial condition, results of operations and cash flows in any particular reporting period. The Company accrues for these matters when the liability is deemed probable and reasonably estimable.

NOTE 11 – 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. A provision is made for estimated write-offs associated with sales made with the Company's proprietary credit card. Amounts related to shipping and handling billed to customers in a sales transaction are classified as Other revenue and the costs related to shipping product to customers (billed and accrued) are classified as Cost of goods sold.

The Company offers its own proprietary credit card to customers. All credit activity is performed by the Company's wholly-owned subsidiaries. None of the credit card receivables are secured. The Company estimated customer credit losses of \$86,000 and \$131,000 for the periods ended April 30, 2022 and May

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

1, 2021, respectively, on sales purchased by the Company's proprietary credit card of \$5.7 million and \$4.4 million for the periods ended April 30, 2022 and May 1, 2021, respectively.

The following table provides information about receivables and contract liabilities from contracts with customers (in thousands):

	<u>Balance as of</u>	
	<u>April 30, 2022</u>	<u>January 29, 2022</u>
Proprietary Credit Card Receivables, net	\$ 9,522	\$ 8,998
Gift Card Liability	\$ 6,556	\$ 8,308

NOTE 12 – LEASES:

The Company determines whether an arrangement is a lease at inception. The Company has operating leases for stores, offices and equipment. Its leases have remaining lease terms of one year to 10 years, some of which include options to extend the lease term for up to five years, and some of which include options to terminate the lease within one year. The Company considers these options in determining the lease term used to establish its right-of-use assets and lease liabilities. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As most of the Company's leases do not provide an implicit rate, it uses its estimated incremental borrowing rate based on the information available at commencement date of the lease in determining the present value of lease payments.

The components of lease cost are shown below (in thousands):

	<u>Three Months Ended</u>	
	<u>April 30, 2022</u>	<u>May 1, 2021</u>
Operating lease cost (a)	\$ 17,754	\$ 16,726
Variable lease cost (b)	\$ 768	\$ 793

(a) Includes right-of-use asset amortization of (\$0.4) million and (\$1.2) million for the three months ended April 30, 2022 and May 1, 2021, respectively.

(b) Primarily related to monthly percentage rent for stores not presented on the balance sheet.

Supplemental cash flow information and non-cash activity related to the Company's operating leases are as follows (in thousands):

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED APRIL 30, 2022 AND MAY 1, 2021

Operating cash flow information:

	<u>Three Months Ended</u>	
	<u>April 30, 2022</u>	<u>May 1, 2021</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ 16,836	\$ 15,947
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations	\$ 3,515	\$ 734

Weighted-average remaining lease term and discount rate for the Company's operating leases are as follows:

	<u>As of</u>	
	<u>April 30, 2022</u>	<u>May 1, 2021</u>
Weighted-average remaining lease term	2.4 years	2.7 years
Weighted-average discount rate	2.92%	3.73%

As of April 30, 2022, the maturities of lease liabilities by fiscal year for the Company's operating leases are as follows (in thousands):

Fiscal Year

2022 (a)	\$ 53,370
2023	53,633
2024	36,956
2025	21,875
2026	10,602
Thereafter	<u>2,986</u>
Total lease payments	179,422
Less: Imputed interest	<u>8,410</u>
Present value of lease liabilities	<u>\$ 171,012</u>

(a) Excluding the 3 months ended April 30, 2022.

THE CATO CORPORATION
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION:

The following information should be read along with the unaudited Condensed Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; (4) statements relating to our operations or activities for our fiscal year ending January 28, 2023 (“fiscal 2022”) and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures and statements regarding the potential impact of the COVID-19 pandemic and related responses and mitigation efforts on our business, results of operations and financial condition; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “will,” “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “may,” “plans,” “could,” “would,” “should” and any variations or negative formations 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, prevailing social, economic, political and public health conditions and uncertainties, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, interest rates, home values, consumer net worth, the availability of credit and inflation; changes in laws, regulations and government policies affecting our business, including but not limited to tariffs; uncertainties regarding the impact of any governmental action regarding, or responses to, the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly changing fashion trends and consumer demands; our ability to successfully implement our new store development strategy to increase new store openings and our ability of any such new stores to grow and perform as expected; adverse weather, public health threats (including the COVID-19 pandemic) or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand, including the ability to liquidate excess inventory at anticipated margins; and other factors discussed under “Risk Factors” in Part I, Item 1A of our annual report on Form 10-K for the fiscal year ended January 29, 2022 (“fiscal 2021”), 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.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

The Company's accounting policies are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2022. As disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 customer credit losses, 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.

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

RESULTS OF OPERATIONS:

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

	Three Months Ended	
	April 30, 2022	May 1, 2021
Total retail sales	100.0 %	100.0 %
Other revenue	0.9	0.9
Total revenues	100.9	100.9
Cost of goods sold (exclusive of depreciation)	64.5	58.5
Selling, general and administrative (exclusive of depreciation)	29.5	29.9
Depreciation	1.3	1.4
Interest and other income	(0.2)	(0.3)
Income before income taxes	5.7	11.3
Net income	4.8	9.8

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

RESULTS OF OPERATIONS(CONTINUED):

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist readers in better understanding and evaluating our financial condition and results of operations. We recommend reading this MD&A in conjunction with our Condensed Consolidated Financial Statements and the Notes to those statements included in the "Financial Statements" section of this Quarterly Report on Form 10-Q, as well as our 2021 Form 10-K.

COVID-19 Update

There is still significant uncertainty regarding the lingering effects of the COVID-19 pandemic on our business, financial condition, results of operations, cash flows, and liquidity. These uncertainties include the impact of new or potential variants of the virus that are more transmissible or severe, stagnant vaccination rates and related factors that may continue to fuel periodic surges of the virus or otherwise impede progress toward the return to pre-pandemic activities and levels of consumer confidence and commercial activity. The Company also faces uncertainty from the impacts of COVID-19 and the governmental responses to COVID-19 surges, including lockdowns, in the foreign countries where our merchandise is produced. The Company is also subject to the continued effects of disruption in the global supply chain, inflation and its impact on our cost of products, transportation, wage rates and other operating costs, as well as, the impact on our customers' disposable incomes, and the availability of workers. The Company expects that these uncertainties and perhaps others related to the pandemic will continue to impact the Company in fiscal 2022. The adverse financial impacts associated with these continued effects of, and uncertainties related to, the COVID-19 pandemic include, but are not limited to, (i) lower net sales in markets affected by actual or potential adverse changes in conditions relating to the pandemic, whether due to increases in case counts, state and local orders, reductions in store traffic and customer demand, labor shortages, or all of these factors, (ii) lower net sales caused by the delay of inventory production and fulfillment, (iii) and incremental costs associated with efforts to mitigate the effects of the outbreak, including increased freight and logistics costs and other expenses.

While the Company currently anticipates a continuation of the uncertainties listed above and the potential adverse impacts of COVID-19 during fiscal 2022, the duration and severity of these effects will depend on the course of future developments, which are highly uncertain. The extent to which the COVID-19 pandemic ultimately impacts the Company's business, financial condition, results of operations, cash flows, and liquidity may differ from management's current estimates due to inherent uncertainties regarding the duration and further spread of the outbreak or its variants, its severity, actions taken to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Comparison of First Quarter of 2022 with 2021

Total retail sales for the first quarter were \$204.9 million compared to last year's first quartersales of \$211.2 million. Sales decreased primarily due to a decrease in same-store sales, partially offset by sales from noncomparable stores. The decrease in same-store sales was primarily due to cooler, wetter weather, late merchandise shipments due to supply chain disruptions and inflationary pressure on our customers' disposable income. Same store sales include 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. 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. E-commerce sales were less than 5.0% of sales for the first quarter of fiscal 2022 and are included

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

in the same-store sales calculation. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, shipping charged to customers for e-commerce purchases and layaway fees), were \$206.7 million for the first quarter ended April 30, 2022, compared to \$213.1 million for the first quarter ended May 1, 2021. The Company operated 1,315 stores at April 30, 2022 compared to 1,325 stores at the end of last fiscal year's first quarter. For the first three months of fiscal 2022, the Company opened five stores and permanently closed one store. The Company currently expects to close approximately 25 stores in fiscal 2022.

Credit revenue of \$0.5 million represented 0.2% of total revenues in the first quarter of fiscal 2022, compared to 2021 credit revenue of \$0.5 million or 0.3% of total revenues. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally payroll, postage and other administrative expenses, and totaled \$0.4 million in the first quarter of 2022, compared to last year's first quarter expenses of \$0.3 million.

Other revenue, a component of total revenues, was \$1.8 million for the first quarter of fiscal 2022, compared to \$1.9 million for the prior year's comparable first quarter. The slight decrease was due to lower e-commerce shipping revenue and finance charges, slightly offset by higher layaway fees.

Cost of goods sold was \$132.2 million, or 64.5% of retail sales for the first quarter of fiscal 2022, compared to \$123.7 million, or 58.5% of retail sales in the first quarter of fiscal 2021. The overall increase in cost of goods sold as a percent of retail sales for first quarter of 2022 resulted primarily from higher markdown sales and an increase in freight costs due to higher fuel prices. 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 costs 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 exclusive of depreciation) decreased by 17.0% to \$72.7 million for the first quarter of fiscal 2022 compared to \$87.6 million in the first quarter of fiscal 2021. Gross margins as presented may not be comparable to those of other entities.

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, and bank and credit card processing fees. SG&A expenses were 29.5% of retail sales for the first quarter of fiscal 2022, compared to 29.9% of retail sales in the first quarter of fiscal 2021. SG&A as a percent of retail sales decreased primarily due to lower incentive compensation, partially offset by increased payroll costs reflecting more normalized operations.

Depreciation expense was \$2.7 million, or 1.3% of retail sales for the first quarter of fiscal 2022, compared to \$3.0 million, or 1.4% of retail sales for the first quarter of fiscal 2021. The decrease in depreciation expense was attributable to older stores being fully depreciated.

Interest and other income was \$0.4 million, or 0.2% of retail sales for the first quarter of fiscal 2022, compared to \$0.7 million, or 0.3% of retail sales for the first quarter of fiscal 2021. The decrease was primarily attributable to a decrease in short-term investments.

Income tax expense was \$1.9 million or 1.0% of retail sales for the first quarter of fiscal 2022, compared to an income tax expense of \$3.1 million, or 1.5% of retail sales for the first quarter of fiscal 2021. Income tax expense for the first quarter of fiscal 2022 decreased primarily as a result of lower pre-tax

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

earnings. The effective income tax rate for the first quarter of fiscal 2022 was 16.7% compared to 12.9% for the first quarter of 2021. The increase in the 2022 first quarter tax rate was primarily due to higher Global Intangible Low-taxed Income (GILTI), partially offset by the ability to realize foreign tax credits.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

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 regular operating requirements and expected capital expenditures for fiscal 2022 and the next 12 months.

Cash used by operating activities for the first three months of fiscal 2022 was primarily generated by earnings adjusted for depreciation and changes in working capital. The decrease in cash provided of \$45.3 million for the first three months of fiscal 2022 as compared to the first three months of fiscal 2021 was primarily due to lower net income and a decrease in accounts payable and accrued liabilities from fiscal 2021 year end versus an increase from 2020 year end, partially offset by a decrease in prepaid and other assets.

At April 30, 2022, the Company had working capital of \$107.8 million compared to \$111.5 million at January 29, 2022. This decrease is primarily attributable to lower short-term investments, partially offset by lower accrued incentive compensation.

At April 30, 2022, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to \$35.0 million less the balance of letters of credit discussed below and was committed through May 2022. In May 2022, the Company signed a new unsecured revolving credit agreement, which replaces the prior credit agreement, provides up to \$35.0 million in committed availability and is committed through May 2027. The prior credit agreement contained various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of April 30, 2022. The new credit agreement also contains various financial covenants and limitations, including the maintenance of specific financial ratios. There were no outstanding borrowings under the prior credit facility as of April 30, 2022 or January 29, 2022.

At April 30, 2022 and January 29, 2022, the Company had no outstanding letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled \$4.4 million in the first three months of fiscal 2022, compared to \$0.6 million in last year's first three months. The increase in expenditures for property and equipment was primarily due to costs associated with opening five new stores and capital investments in information technology and the distribution center. For the full fiscal 2022 year, the Company expects to invest approximately \$22.6 million in capital expenditures, including distribution center automation projects.

Net cash provided by investing activities totaled \$19.6 million in the first three months of fiscal 2022 compared to \$34.2 million used in the comparable period of fiscal 2021, primarily due to lower purchases of short-term investments, partially offset by an increase in capital expenditures.

Net cash used by financing activities totaled \$12.7 million in the first three months of fiscal 2022 compared to \$5.5 million used in the comparable period of fiscal 2021, primarily due to an increase in share repurchases and dividends paid.

On May 19, 2022, the Board of Directors declared the quarterly dividend at \$0.17 per share.

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

As of April 30, 2022, the Company had 840,119 shares remaining in open authorizations under its share repurchase program.

The Company does not use derivative financial instruments.

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 April 30, 2022 and January 29, 2022. The state, municipal and corporate bonds have contractual maturities which range from one day to 4.6 years. The U.S. Treasury Notes have contractual maturities which range from 46 days to 2.4 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and Other assets on the accompanying Condensed Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income. The asset-backed securities are bonds comprised of auto loans and bank credit cards that carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit card asset-backed securities are backed by revolving pools of credit card receivables generated by account holders of cards from American Express, Citibank, JPMorgan Chase, Capital One, and Discover.

Additionally, at April 30, 2022, the Company had \$0.8 million of corporate equities and deferred compensation plan assets of \$11.0 million. At January 29, 2022, the Company had \$0.8 million of corporate equities and deferred compensation plan assets of \$11.5 million. All of these assets are recorded within Other assets in the Condensed Consolidated Balance Sheets. See Note 7, Fair Value Measurements.

RECENT ACCOUNTING PRONOUNCEMENTS:

See Note 8, Recent Accounting Pronouncements.

THE CATO CORPORATION
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

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

ITEM 4. CONTROLS AND PROCEDURES:

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of April 30, 2022. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of April 30, 2022, 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.

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 April 30, 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

THE CATO CORPORATION

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS:

Not Applicable

ITEM 1A. RISK FACTORS:

In addition to the other information in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended January 29, 2022. These risks could materially affect our business, financial condition or future results; however, they are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS:

The following table summarizes the Company’s purchases of its common stock for the three months ended April 30, 2022:

ISSUER PURCHASES OF EQUITY SECURITIES

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)
February 2022	70,967	\$ 16.61	70,967	
March 2022	327,897	15.01	327,897	
April 2022	211,064	14.50	211,064	
Total	<u>609,928</u>	<u>\$ 15.02</u>	<u>609,928</u>	<u>840,119</u>

(1) Prices include trading costs.

(2) As of January 29, 2022, the Company’s share repurchase program had 450,047 shares remaining in open authorizations. The Board of Directors authorized an additional 1,000,000 shares for repurchase under the program at its February 24, 2022 meeting. During the first quarter ended April 30, 2022, the Company repurchased and retired 609,928 shares under this program for approximately \$9,161,613 or an average market price of \$15.02 per share. As of April 30, 2022, the Company had 840,119 shares remaining in open authorizations. There is no specified expiration date for the Company’s repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

Not Applicable

THE CATO CORPORATION

PART II OTHER INFORMATION

ITEM 4. MINE SAFETY DISCLOSURES:

Not Applicable

ITEM 5. OTHER INFORMATION:

Not Applicable

ITEM 6. EXHIBITS:

Exhibit No.	Item
3.1	Registrant's Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q of the Registrant for the quarter ended May 2, 2020.
3.2	Registrant's Amended and Restated By-Laws, incorporated by reference to Exhibit 3.2 to Form 10-Q of the Registrant for the quarter ended May 2, 2020.
10.1	Credit Agreement, dated as of May 19, 2022, among the Registrant, the guarantors party thereto, the banks party thereto and Wells Fargo Bank, National Association, as Agent, incorporated by reference to Exhibit 10.1 to Form 8-K of the Registrant filed May 20, 2022.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1*	Section 1350 Certification of Principal Executive Officer.
32.2*	Section 1350 Certification of Principal Financial Officer.
101.1*	The following materials from Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months ended April 30, 2022 and May 1, 2021; (ii) Condensed Consolidated Balance Sheets at April 30, 2022 and January 29, 2022; (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 30, 2022 and May 1, 2021; (iv) Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended April 30, 2022 and May 1, 2021; and (v) Notes to Condensed Consolidated Financial Statements.
104.1	Cover Page Interactive Data File (Formatted in Inline XBRL and contained in the Interactive Data Files submitted as Exhibit 101.1*)

* Submitted electronically herewith.

THE CATO CORPORATION

PART II OTHER INFORMATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CATO CORPORATION

May 26, 2022

Date

/s/ John P. D. Cato

John P. D. Cato
Chairman, President and
Chief Executive Officer

May 26, 2022

Date

/s/ Charles D. Knight

Charles D. Knight
Executive Vice President
Chief Financial Officer

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John P. D. Cato, certify that:

1. I have reviewed this report on Form 10-Q of The Cato Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 26, 2022

/s/ John P. D. Cato

John P. D. Cato
Chairman, President and
Chief Executive Officer

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934 RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles D. Knight, certify that:

1. I have reviewed this report on Form 10-Q of The Cato Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 26, 2022

/s/ Charles D. Knight

Charles D. Knight
Executive Vice President
Chief Financial Officer

CERTIFICATION OF PERIODIC REPORT

I, John P. D. Cato, Chairman, President and Chief Executive Officer of The Cato Corporation (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that on the date of this Certification:

1. the Form 10-Q of the Company for the quarter ended April 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 26, 2022

/s/ John P. D. Cato

John P. D. Cato
Chairman, President and
Chief Executive Officer

CERTIFICATION OF PERIODIC REPORT

I, Charles D. Knight, Executive Vice President, Chief Financial Officer of The Cato Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that on the date of this Certification:

1. the Form 10-Q of the Company for the quarter ended April 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 26, 2022

/s/ Charles D. Knight

Charles D. Knight
Executive Vice President
Chief Financial Officer

