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

FORM 10-Q

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

For the quarterly period ended August 3, 2013

OR

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

For the transition period from ________________to__________________
Commission file number 1-31340

THE CATO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	56-0484485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975
(Address of principal executive offices)
(Zip Code)

(704) 554-8510
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ___X___ No ______

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

Yes ___X___ No ______

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

Yes ______ No ___X___

As of August 3, 2013, there were 27,510,139 shares of Class A common stock and 1,743,525 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

Quarter Ended August 3, 2013

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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		Six Months Ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
	(Dollars in thousands, except per share data)			
REVENUES				
Retail sales	$ **229,378**	$ 231,450	$ **496,559**	$ 504,240
Other revenue (principally finance charges, late fees and layaway charges)	**2,340**	2,613	**4,857**	5,167
Total revenues	**231,718**	234,063	**501,416**	509,407
COSTS AND EXPENSES, NET				
Cost of goods sold (exclusive of depreciation shown below)	**144,950**	142,459	**301,851**	300,291
Selling, general and administrative (exclusive of depreciation shown below)	**58,965**	59,220	**118,354**	120,575
Depreciation	**5,436**	5,742	**10,885**	11,513
Interest and other income	**(730)**	(985)	**(1,605)**	(1,891)
Cost and expenses, net	**208,621**	206,436	**429,485**	430,488
Income before income taxes	**23,097**	27,627	**71,931**	78,919
Income tax expense	**8,322**	10,294	**26,317**	29,864
Net income	$ **14,775**	$ 17,333	$ **45,614**	$ 49,055
Basic earnings per share	$ **0.51**	$ 0.59	$ **1.56**	$ 1.68
Diluted earnings per share	$ **0.51**	$ 0.59	$ **1.56**	$ 1.68
Dividends per share	$ **0.05**	$ 0.25	$ **0.10**	$ 0.48
Comprehensive income:				
Net income	$ **14,775**	$ 17,333	$ **45,614**	$ 49,055
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of ($273) and ($206) for the three and six months ended August 3, 2013 and $8 and $44 for the three and six months ended July 28, 2012, respectively	**(453)**	13	(342)	73
Comprehensive income	$ **14,322**	$ 17,346	$ **45,272**	$ 49,128

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	August 3, 2013	February 2, 2013	July 28, 2012
		(Dollars in thousands)	
ASSETS			
Current Assets:			
Cash and cash equivalents	**$ 88,559**	$ 31,069	$ 66,043
Short-term investments	**157,326**	157,578	211,390
Restricted cash and investments	**4,807**	5,999	5,311
Accounts receivable, net of allowance for doubtful accounts of $2,036, $2,053 and $2,042 at August 3, 2013, February 2, 2013 and July 28, 2012 respectively	**39,908**	40,016	43,373
Merchandise inventories	**111,206**	140,738	107,034
Deferred income taxes	**4,837**	4,631	3,535
Prepaid expenses	**10,997**	10,183	4,160
Total Current Assets	**417,640**	390,214	440,846
Property and equipment – net	**139,550**	134,227	125,520
Other assets	**10,223**	8,205	7,016
Total Assets	**$ 567,413**	$ 532,646	$ 573,382
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	**$ 80,674**	$ 99,247	$ 70,573
Accrued expenses	**49,196**	43,773	43,160
Accrued bonus and benefits	**1,609**	2,290	4,708
Accrued income taxes	**22,523**	14,292	19,555
Total Current Liabilities	**154,002**	159,602	137,996
Deferred income taxes	**3,330**	3,330	7,887
Other noncurrent liabilities (primarily deferred rent)	**26,520**	24,480	24,231
Commitments and contingencies:	**-**	-	-
Stockholders' Equity:			
Preferred stock, $100 par value per share, 100,000 shares authorized, none issued	**-**	-	-
Class A common stock, $.033 par value per share, 50,000,000 shares authorized; issued 27,510,139 shares, 27,543,376 shares and 27,530,131 shares at August 3, 2013, February 2, 2013 and July 28, 2012 respectively	**917**	918	918
Convertible Class B common stock, $.033 par value per share, 15,000,000 shares authorized; issued 1,743,525 shares at August 3, 2013, February 2, 2013 and July 28, 2012	**58**	58	58
Additional paid-in capital	**78,356**	76,594	73,863
Retained earnings	**303,751**	266,843	327,420
Accumulated other comprehensive income	**479**	821	1,009
Total Stockholders' Equity	**383,561**	345,234	403,268
Total Liabilities and Stockholders’ Equity	**$ 567,413**	$ 532,646	$ 573,382

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	August 3, 2013	July 28, 2012
	(Dollars in thousands)	
Operating Activities:		
Net income	**$ 45,614**	$ 49,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**10,885**	11,513
Provision for doubtful accounts	**696**	596
Share-based compensation	**1,489**	1,444
Excess tax benefits from share-based compensation	**(28)**	(98)
Loss on disposal of property and equipment	**268**	610
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**(588)**	(945)
Merchandise inventories	**29,532**	23,348
Prepaid and other assets	**(3,419)**	1,489
Accrued income taxes	**8,259**	4,509
Accounts payable, accrued expenses and other liabilities	**(16,957)**	(20,982)
Net cash provided by operating activities	**75,751**	70,539
Investing Activities:		
Expenditures for property and equipment	**(10,606)**	(19,922)
Purchase of short-term investments	**(11,756)**	(100,289)
Sales of short-term investments	**11,347**	94,792
Change in restricted cash and investments	**1,192**	14
Net cash used in investing activities	**(9,823)**	(25,405)
Financing Activities:		
Dividends paid	**(2,939)**	(14,027)
Repurchase of common stock	**(5,780)**	(355)
Proceeds from employee stock purchase plan	**214**	259
Excess tax benefits from share-based compensation	**28**	98
Proceeds from stock options exercised	**39**	41
Net cash used in financing activities	**(8,438)**	(13,984)
Net increase in cash and cash equivalents	**57,490**	31,150
Cash and cash equivalents at beginning of period	**31,069**	34,893
Cash and cash equivalents at end of period	**$ 88,559**	$ 66,043
Non-cash investing activity:		
Change in accrued plant and equipment	**$ (5,893)**	$ -

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 2013 AND JULY 28, 2012

NOTE 1 - GENERAL:

The condensed consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the "Company"), and all amounts shown as of and for the three and six month periods ended August 3, 2013 and July 28, 2012 are unaudited. In the opinion of management, all adjustments considered necessary for a fair statement have been included. All such adjustments are of a normal, recurring nature unless otherwise noted. The results of the interim period may not be indicative of the results expected for the entire year.

The interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013. Amounts as of February 2, 2013, 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.

On August 29, 2013, the Board of Directors maintained the quarterly dividend at $0.05 per share. The Board of Directors previously accelerated the full fiscal year 2013 dividend of $1.00 on December 28, 2012.

NOTE 2 - EARNINGS PER SHARE:

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

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

	Three Months Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Numerator				
Net earnings	**$ 14,775**	$ 17,333	**$ 45,614**	$ 49,055
Earnings allocated to non-vested equity awards	**(251)**	(267)	**(733)**	(764)
Net earnings available to common stockholders	**$ 14,524**	$ 17,066	**$ 44,881**	$ 48,291
Denominator				
Basic weighted average common shares outstanding	**28,736,214**	28,813,766	**28,784,425**	28,759,821
Dilutive effect of stock options	**4,859**	4,285	**3,537**	4,231
Diluted weighted average common shares outstanding	**28,741,073**	28,818,051	**28,787,962**	28,764,052
Net income per common share				
Basic earnings per share	**$ 0.51**	$ 0.59	**$ 1.56**	$ 1.68
Diluted earnings per share	**$ 0.51**	$ 0.59	**$ 1.56**	$ 1.68

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the six months ended August 3, 2013 and July 28, 2012 were $18,171,000 and $25,470,000, respectively.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 2013 AND JULY 28, 2012

NOTE 4 – FINANCING ARRANGEMENTS:

As of August 3, 2013, the Company had an unsecured revolving credit agreement to borrow $35.0 million. During 2013, the revolving credit agreement was amended and extended to August 2015. 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 August 3, 2013. There were no borrowings outstanding under this credit facility during the periods ended August 3, 2013, February 2, 2013 or July 28, 2012. The weighted average interest rate under the credit facility was zero at August 3, 2013 due to no borrowings during the year.

At August 3, 2013, February 2, 2013 and July 28, 2012, the Company had approximately $0.6 million, $2.9 million and $5.8 million, respectively, of outstanding irrevocable letters of credit related 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 Accessories and Credit. As outlined in ASC 280-10, the Company has two reportable segments: Retail and Credit. The Company has aggregated its retail operating segments 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, if the segments have similar economic characteristics, similar product, similar production processes, similar clients and similar 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 of the Company's operating segments is sourced from the same countries and some of the same vendors, using similar production processes. Clients of the Company's operating segments have similar characteristics. 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, through its retail stores.

The Company operates its women's fashion specialty retail stores principally in the southeastern United States, and does business in 31 states total as of August 3, 2013. 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.

NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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

Three Months Ended August 3, 2013	**Retail**	**Credit**	**Total**	**Six Months Ended August 3, 2013**	**Retail**	**Credit**	**Total**
Revenues	$ 230,163	$ 1,555	$ 231,718	Revenues	$ 498,242	$ 3,174	$ 501,416
Depreciation	5,427	9	5,436	Depreciation	10,863	22	10,885
Interest and other income	(730)	-	(730)	Interest and other income	(1,605)	-	(1,605)
Income before taxes	22,474	623	23,097	Income before taxes	70,808	1,123	71,931
Total assets	501,281	66,132	567,413	Total assets	501,281	66,132	567,413
Capital expenditures	5,001	-	5,001	Capital expenditures	10,606	-	10,606

Three Months Ended July 28, 2012	**Retail**	**Credit**	**Total**	**Six Months Ended July 28, 2012**	**Retail**	**Credit**	**Total**
Revenues	$ 232,230	$ 1,833	$ 234,063	Revenues	$ 505,772	$ 3,635	$ 509,407
Depreciation	5,729	13	5,742	Depreciation	11,487	26	11,513
Interest and other income	(985)	-	(985)	Interest and other income	(1,891)	-	(1,891)
Income before taxes	26,747	880	27,627	Income before taxes	77,281	1,638	78,919
Total assets	495,526	77,856	573,382	Total assets	495,526	77,856	573,382
Capital expenditures	10,569	-	10,569	Capital expenditures	19,922	-	19,922

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		**Six Months Ended**	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Bad debt expense	**$ 314**	$ 293	**$ 696**	$ 596
Payroll	**234**	224	**465**	445
Postage	**180**	192	**379**	385
Other expenses	**195**	231	**489**	545
Total expenses	**$ 923**	$ 940	**$ 2,029**	$ 1,971

NOTE 6 – STOCK BASED COMPENSATION:

As of August 3, 2013, the Company had two 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 and the 2013 Incentive Compensation Plan is 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 August 3, 2013:

	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:				
February 2, 2013	20,127	443,566	-	463,693
August 3, 2013	-	-	1,489,152	1,489,152

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 August 3, 2013, February 2, 2013 and July 28, 2012, there was $9.9 million, $6.4 million and $7.7 million of total unrecognized compensation expense related to nonvested restricted stock awards, which have a remaining weighted-average vesting period of 4.5 years, 2.3 years and 2.8 years, respectively. The total fair value of the shares recognized as compensation expense during the second quarter and six months ended August 3, 2013 was $1,018,000 and $1,448,000, respectively compared to $794,000 and $1,398,000, respectively for the second quarter and six months ended July 28, 2012. 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 restricted stock outstanding during the six months ended August 3, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at February 2, 2013	440,146	$ 23.70
Granted	214,385	23.57
Vested	(119,652)	19.85
Forfeited or expired	(23,212)	24.81
Restricted stock awards at August 3, 2013	511,667	$ 24.49

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a 15% discount through payroll deductions. During the six months ended August 3, 2013 and July 28, 2012, the Company sold 10,418 and 11,687 shares to employees at an average discount of $3.62 and $3.92 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 $38,000 and $46,000 for the six months ended August 3, 2013 and July 28, 2012, respectively. These expenses are classified as a component of selling, general and administrative expenses.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 2013 AND JULY 28, 2012

The following is a summary of changes in stock options outstanding during the six months ended August 3, 2013.

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value(a)
Options outstanding at February 2, 2013	9,550	$	13.47	2.12 years	$	136,185
Granted	20,127		23.57			
Forfeited or expired	-					
Exercised	(2,500)		14.09			
Outstanding at August 3, 2013	27,177	$	20.89	7.41 years	$	131,922
Vested and exercisable at August 3, 2013	7,050	$	13.25	0.72 years	$	88,046

(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.

20,127 options were granted in the first six months of fiscal 2013. No options were granted in the first six months of fiscal 2012.

The total intrinsic value of options exercised during the second quarter and six months ended August 3, 2013 was $17,000 and $27,000, respectively compared to $28,000 and $50,000, respectively, for the second quarter and six months ended July 28, 2012.

The stock option expense was $5,000 for the three and six months ended August 3, 2013 and zero for the three and six months ended July 28, 2012.

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

NOTE 7 – 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 August 3, 2013, February 2, 2013 and July 28, 2012.

Description	August 3, 2013	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	$ 158,080	$ -	$ 158,080	$ -
Auction Rate Securities (ARS)	3,450	-	-	3,450
U.S. Treasury Notes	1,504	1,504	-	-
Cash Surrender Value of Life Insurance	2,633	-	-	2,633
Privately Managed Funds	471	-	-	471
Corporate Equities	591	591	-	-
Certificates of Deposit	100	100	-	-
Total Assets	$ 166,829	$ 2,195	$ 158,080	$ 6,554
Liabilities:				
Deferred Compensation	(2,746)	-	-	(2,746)
Total Liabilities	$ (2,746)	$ -	$ -	$ (2,746)

Description	February 2, 2013	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	$ 151,377	$ -	$ 151,377	$ -
Corporate Bonds	8,035	-	8,035	-
Auction Rate Securities (ARS)	3,450	-	-	3,450
U.S. Treasury Notes	3,906	3,906	-	-
Cash Surrender Value of Life Insurance	2,051	-	-	2,051
Privately Managed Funds	561	-	-	561
Corporate Equities	474	474	-	-
Certificates of Deposit	100	100	-	-
Total Assets	$ 169,954	$ 4,480	$ 159,412	$ 6,062
Liabilities:				
Deferred Compensation	(2,178)	-	-	(2,178)
Total Liabilities	$ (2,178)	$ -	$ -	$ (2,178)

Description	July 28, 2012	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	$ 176,206	$ -	$ 176,206	$ -
Corporate Bonds	18,884	-	18,884	-
Auction Rate Securities (ARS)	3,450	-	-	3,450
Variable Rate Demand Notes (VRDN)	16,865	16,865	-	-
U.S. Treasury Notes	3,162	3,162	-	-
Privately Managed Funds	871	-	-	871
Corporate Equities	439	439	-	-
Certificates of Deposit	101	101	-	-
Total Assets	$ 219,978	$ 20,567	$ 195,090	$ 4,321

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 August 3, 2013, February 2, 2013 and July 28, 2012. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted investments 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.

Additionally, at August 3, 2013, the Company had $0.5 million of privately managed funds, $0.6 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction, and deferred compensation plan assets of $2.6 million. At February 2, 2013, the Company had $0.6 million of privately managed funds, $0.5 million of corporate equities, a single ARS of $3.5 million and deferred compensation plan assets of $2.1 million. At July 28, 2012, the Company had $0.9 million of privately managed funds, $0.4 million of corporate equities and a single ARS of $3.5 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.

The ARS of $3,450,000 par value was issued by the Wake County, NC Industrial Facilities & Pollution Control Financing Authority. The security is an obligation of Carolina Power & Light Company and has a credit rating of AAA. The Company has collected all interest payments when due since the security was purchased and continues to expect that it will receive all interest due on the security in full and on a timely basis in the future.

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

The Company's privately managed funds consist of two types of funds. The privately managed funds cannot be redeemed at net asset value at a specific date without advance notice. As a result, the Company has classified the investments as Level 3.

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 CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 2013 AND JULY 28, 2012

The following tables summarize the change in fair value of the Company's financial assets measured using Level 3 inputs as of August 3, 2013 and July 28, 2012 (dollars in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)			
	Available-For-Sale Debt Securities	Other Investments	Cash Surrender	
	ARS	Private Equity	Value	Total
Beginning Balance at February 2, 2013	$ 3,450	$ 561	$ 2,051	$ 6,062
Redemptions	-	(97)	-	(97)
Additions	-	-	494	494
Total gains or (losses)				
Included in earnings (or changes in net assets)	-	7	88	95
Included in other comprehensive income	-	-	-	-
Ending Balance at August 3, 2013	$ 3,450	$ 471	$ 2,633	$ 6,554

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)	
	Deferred Compensation	Total
Beginning Balance at February 2, 2013	$ (2,178)	$ (2,178)
Additions	(425)	(425)
Total (gains) or losses		
Included in earnings (or changes in net assets)	(143)	(143)
Included in other comprehensive income	-	-
Ending Balance at August 3, 2013	$ (2,746)	$ (2,746)

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)		
	Available-For-Sale Debt Securities	Other Investments	
	ARS	Private Equity	Total
Beginning Balance at January 28, 2012	$ 3,450	$ 1,604	$ 5,054
Redemptions	-	(722)	(722)
Assets			
Total gains or (losses)			
Included in earnings (or changes in net assets)	-	(11)	(11)
Included in other comprehensive income	-	-	-
Ending Balance at July 28, 2012	$ 3,450	$ 871	$ 4,321

Quantitative information regarding the significant unobservable inputs related to the ARS as of August 3, 2013 and July 28, 2012 were as follows:

As of August 3, 2013

Fair Value	Valuation Technique	Unobservable Inputs	
$3,450	Net present value	Total Term	9.1 Years
	of cash flows	Yield	0.11%
		Comparative bond discount rate	0.19%

As of July 28, 2012

Fair Value	Valuation Technique	Unobservable Inputs	
$3,450	Net present value of cash flows	Total Term	10.1 Years
		Yield	0.28%
		Comparative bond discount rate	0.20%

Significant increases or decreases in certain of the inputs could result in a lower fair value measurement. For example, a decrease in the yield, or an increase to the comparative bond discount rate could result in a lower fair value.

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the first three months of fiscal 2013:

	Changes in Accumulated Other Comprehensive Income (a)	
	Unrealized Gains and (Losses) on Available-for-Sale Securities	
Beginning Balance at May 4, 2013	$	932
Other comprehensive income before reclassifications		(436)
Amounts reclassified from accumulated other comprehensive income (b)		(17)
Net current-period other comprehensive income		(453)
Ending Balance at August 3, 2013	$	479

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to OCI.
(b) Includes $28 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 $11.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the first six months of fiscal 2013:

	Changes in Accumulated Other Comprehensive Income (a)	
	Unrealized Gains and (Losses) on Available-for-Sale Securities	
Beginning Balance at February 2, 2013	$	821
Other comprehensive income before reclassifications		(283)
Amounts reclassified from accumulated other comprehensive income (b)		(59)
Net current-period other comprehensive income		(342)
Ending Balance at August 3, 2013	$	479

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to OCI.
(b) Includes $94 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 $35.

NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS:

During the first quarter of 2013, the Company adopted guidance that requires additional disclosures on reclassifications from accumulated other comprehensive income into net income. The new accounting guidance requires entities to report either parenthetically on the face of the financial statements or in the footnotes of these reclassifications for each financial statement line item. This new guidance only impacts disclosures and as such will have no impact on the Company's consolidated financial position, results of operations or cash flows.

In the first quarter of 2014, the Company will adopt new accounting guidance which requires unrecognized tax benefits to be presented as a decrease in net operating loss, similar to tax loss or tax credit carryforward if certain criteria are met. The new guidance may affect balance sheet classification of certain unrecognized tax benefits and will have no impact on the Company's consolidated results of operations or cash flows,

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 2013 AND JULY 28, 2012

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

FORWARD-LOOKING INFORMATION:

The following information should be read along with the unaudited Condensed Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this Form 10-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for fiscal 2013 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 "will," "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "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, or uncertainties regarding, prevailing U.S. and global economic, political or financial market conditions; changes in other factors that drive consumer or corporate 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 fashion trends; consumer apparel and accessory buying patterns; 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 our annual report on Form 10-K for the fiscal year ended February 2, 2013 ("fiscal 2012"), 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.

CRITICAL ACCOUNTING POLICIES:

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 February 2, 2013. 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 doubtful accounts receivable, reserves related to self-insured health insurance, workers' compensation, general and auto insurance liabilities, calculation of potential asset impairment, inventory shrinkage 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		Six Months Ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Total retail sales	**100.0** %	100.0 %	**100.0** %	100.0 %
Other revenue	**1.0**	1.1	**1.0**	1.0
Total revenues	**101.0**	101.1	**101.0**	101.0
Cost of goods sold (exclusive of depreciation)	**63.2**	61.6	**60.8**	59.6
Selling, general and administrative (exclusive of depreciation)	**25.7**	25.6	**23.8**	23.9
Depreciation	**2.4**	2.5	**2.2**	2.3
Interest and other income	**(0.3)**	(0.4)	**(0.3)**	(0.4)
Income before income taxes	**10.1**	11.9	**14.5**	15.6
Net income	**6.4**	7.5	**9.2**	9.7

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

RESULTS OF OPERATIONS (CONTINUED):

Comparison of Second Quarter of 2013 with 2012

Total retail sales for the second quarter were $229.4 million compared to last year's second quarter sales of $231.5 million, a 1.0% decrease. Same-store sales decreased 2.0% in the second quarter of fiscal 2013. For the six months ended August 3, 2013, total retail sales were $496.6 million compared to last year's comparable six month sales of $504.2 million, and same-store sales decreased 4.0% for the comparable six month period. The Company believes the second quarter and first six month period of fiscal 2013 were both affected by slow economic growth, high unemployment and our customers' limited discretionary spending. 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. 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), were $231.7 million and $501.4 million for the second quarter and six months ended August 3, 2013, compared to $234.1 million and $509.4 million for the second quarter and six months ended July 28, 2012, respectively. The Company operated 1,306 stores at August 3, 2013 compared to 1,295 stores at the end of last year's second quarter. For the first six months of fiscal 2013, the Company opened four new stores, relocated three stores and closed eight stores. The Company currently expects to open approximately 51 stores, relocate nine stores and close approximately 17 stores in fiscal 2013.

Credit revenue of $1.6 million represented 0.7% of total revenues in the second quarter of fiscal 2013, compared to 2012 credit revenue of $1.8 million or 0.8% of total revenues. Credit revenue dollars decreased slightly for the most recent comparable period due to lower finance charge income and lower late fee income from sales under the Company's proprietary credit card. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses principally include bad debt expense, payroll, postage and other administrative expenses and remained flat at $0.9 million for both comparable quarters.

Other revenue in total, as included in total revenues, was $2.3 million and $4.9 million for the second quarter and first six months of fiscal 2013, compared to $2.6 million and $5.2 million for the prior year's comparable second quarter and first six months. The slight overall decrease in the second quarter and first six months of fiscal 2013 resulted primarily from lower finance, late fee and layaway charges.

Cost of goods sold was $145.0 million, or 63.2% of retail sales and $301.9 million or 60.8% of retail sales for the second quarter and first six months of fiscal 2013, compared to $142.5 million, or 61.6% of retail sales and $300.3 million or 59.6% of retail sales for the prior year's comparable three and six month periods of fiscal 2012. The overall increase in cost of goods sold as a percent of retail sales for the second quarter of fiscal 2013 resulted primarily from an increase in markdowns and occupancy costs related to store development. 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 exclusive of depreciation) decreased by 5.2% to $84.4 million for the second quarter of fiscal 2013 and decreased by 4.5% to $194.7 million for the first six months of fiscal 2013 compared to $89.0 million and $203.9 million for the prior year's comparable three and six months of fiscal 2012. Gross margin as presented may not be comparable to those of other entities.

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

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts. SG&A expenses were $59.0 million, or 25.7% of retail sales and $118.4 million, or 23.8% of retail sales for the second quarter and first six months of fiscal 2013, respectively, compared to $59.2 million, or 25.6% of retail sales and $120.6 million, or 23.9% of retail sales for the prior year's comparable three and six month periods, respectively. SG&A expenses as a percentage of retail sales slightly increased for the second quarter of fiscal 2013 as a result of higher insurance costs, partially offset by lower incentive compensation expense. For the first six months of fiscal 2013, SG&A expenses as a percentage of retail sales slightly decreased due to lower incentive compensation expense, partially offset by higher insurance expense and higher payroll costs.

Depreciation expense was $5.4 million, or 2.4% of retail sales and $10.9 million, or 2.2% of retail sales for the second quarter and first six months of fiscal 2013, respectively, compared to $5.7 million, or 2.5% of retail sales and $11.5 million or 2.3% of retail sales for the prior year's comparable three and six month periods of fiscal 2012, respectively. The slight decrease in depreciation expense was due to limited overall store development compared to prior years.

Interest and other income was $0.7 million, or 0.3% of retail sales and $1.6 million, or 0.3% of retail sales for the second quarter and first six months of fiscal 2013, respectively, compared to $1.0 million, or 0.4% of retail sales and $1.9 million, or 0.4% of retail sales for the prior year's comparable three and six month periods of fiscal 2012. The slight decrease was due to lower interest income driven by lower interest rates in the second fiscal quarter of 2013 and the first six months of fiscal 2013.

Income tax expense was $8.3 million or 3.6% of retail sales and $26.3 million, or 5.3% of retail sales for the second quarter and first six months of fiscal 2013, respectively, compared to $10.3 million, or 4.4% of retail sales and $29.9 million, or 5.9% of retail sales for the prior year's comparable three and six month periods of fiscal 2012, respectively. The second quarter decrease resulted from lower pre-tax income and a lower effective tax rate. The effective income tax rate for the second quarter of fiscal 2013 was 36.0% compared to 37.3% for the second quarter of 2012. The effective tax rate for the first six months of fiscal 2013 was 36.6% compared to 37.8% for the first six months of fiscal 2012. This decrease is due to the Work Opportunity Tax Credit, which had not been renewed by Congress at this time last year and was therefore not in effect for second quarter 2012, but was for second quarter 2013.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during the first six months of fiscal 2013 was $75.8 million as compared to $70.5 million in the first six months of fiscal 2012. These amounts enable the Company to fund its regular operating needs, capital expenditure program, cash dividend payments, and share repurchases. In addition, the Company maintains a $35.0 million unsecured revolving credit facility for short-term financing of seasonal cash needs. There were no outstanding borrowings on this facility at August 3, 2013, February 2, 2013 and July 28, 2012.

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

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK (CONTINUED):

Cash provided by operating activities for the first six months of fiscal 2013 was primarily generated by earnings adjusted for depreciation and changes in working capital. The increase of $5.3 million for the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 was primarily due to an increase in accounts payable and slower growth in merchandise inventories.

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, expected capital expenditures, dividends and share repurchases for fiscal 2013 and for the foreseeable future.

At August 3, 2013, the Company had working capital of $263.6 million compared to $230.6 million at February 2, 2013 and $302.9 million at July 28, 2012. Additionally, the Company had $1.1 million, $1.0 million and $1.3 million invested in privately managed investment funds and other miscellaneous equities and a single auction rate security of $3.5 million at August 3, 2013, February 2, 2013 and July 28, 2012, respectively, which are included in Other assets on the Condensed Consolidated Balance Sheets.

At August 3, 2013, February 2, 2013 and July 28, 2012, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to $35.0 million. The revolving credit agreement is committed until August 2015. 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 August 3, 2013. There were no borrowings outstanding under the credit facility as of August 3, 2013, February 2, 2013 and July 28, 2012.

At August 3, 2013, February 2, 2013 and July 28, 2012, the Company had approximately $0.6 million, $2.9 million and $5.8 million, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

Expenditures for property and equipment totaled $10.6 million in the first six months of fiscal 2013, compared to $19.9 million in last year's first six months. The expenditures for the first six months of 2013 were primarily for the development of four new stores, additional investments in new technology, home office renovations and the e-commerce initiative. For the full fiscal 2013 year, the Company expects to invest approximately $42.0 million for capital expenditures. This includes expenditures to open 51 new stores and relocate nine stores, the home office renovations and e-commerce start-up.

Net cash used in investing activities totaled $9.8 million in the first six months of fiscal 2013 compared to $25.4 million used in the comparable period of 2012. The decrease was due primarily to a decrease in expenditures for property and a net decrease in purchases and sales of short-term investments.

On August 29, 2013, the Board of Directors maintained the quarterly dividend at $0.05 per share. The Board of Directors previously accelerated the full year 2013 dividend of $1.00 on December 28, 2012.

As of August 3, 2013, the Company had 1,728,115 shares remaining in open authorizations under its share repurchase program.

The Company does not use derivative financial instruments.

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

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 August 3, 2013, February 2, 2013 and July 28, 2012. At July 28, 2012, the Company also held tax-exempt variable rate demand notes ("VRDN"). These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted investments and Other assets on the accompanying Condensed Consolidated Balance Sheets at estimated fair value, with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at August 3, 2013, the Company had $0.5 million of privately managed funds, $0.6 million of corporate equities and a single auction rate security ("ARS") of $3.5 million which continues to fail its auction, and deferred compensation plan assets of $2.6 million. At February 2, 2013, the Company had $0.6 million of privately managed funds, $0.5 million of corporate equities, a single ARS of $3.5 million and deferred compensation plan assets of $2.1 million. At July 28, 2012, the Company had $0.9 million of privately managed funds, $0.4 million of corporate equities and a single ARS of $3.5 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.

The ARS of $3,450,000 par value was issued by the Wake County, NC Industrial Facilities & Pollution Control Financing Authority. The security is an obligation of Carolina Power & Light Company and has a credit rating of AAA. The Company has collected all interest payments when due since the security was purchased and continues to expect that it will receive all interest due on the security in full and on a timely basis in the future.

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

The Company's privately managed funds consist of two types of funds. The privately managed funds cannot be redeemed at net asset value at a specific date without advance notice. As a result, the Company has classified the investments as Level 3.

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

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.

During the first quarter of 2013, the Company adopted guidance that requires additional disclosures on reclassifications from accumulated other comprehensive income into net income. The new accounting guidance requires entities to report either parenthetically on the face of the financial statements or in the footnotes of these reclassifications for each financial statement line item. This new guidance only impacts disclosures and as such will have no impact on the Company's consolidated financial position, results of operations or cash flows.

In the first quarter of 2014, the Company will adopt new accounting guidance which requires unrecognized tax benefits to be presented as a decrease in net operating loss, similar to tax loss or tax credit carryforward if certain criteria are met. The new guidance may affect balance sheet classification of certain unrecognized tax benefits and will have no impact on the Company's consolidated results of operations or cash flows,

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

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 August 3, 2013. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of August 3, 2013, 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 August 3, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

THE CATO CORPORATION
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 February 2, 2013. 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 August 3, 2013:

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)
May 2013	-	$ -	-	
June 2013	221	25.11	221	
July 2013	-	-	-	
Total	221	$ 25.11	221	1,728,115

(1) Prices include trading costs.

(2) As of May 4, 2013, the Company's share repurchase program had 1,728,336 shares remaining in open authorizations. During the second quarter ending August 3, 2013, the Company repurchased and retired 221 shares under this program for approximately $5,550 or an average market price of $25.11 per share. As of the second quarter ending August 3, 2013, the Company had 1,728,115 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

PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit No.	Item
3.1	Registrant's Restated Certificate of Incorporation dated March 6, 1987, incorporated by reference to Exhibit 4.1 to Form S-8 of the Registrant filed February 7, 2000 (SEC File No. 333-96283).
3.2	Registrant's By Laws incorporated by reference to Exhibit 99.2 to Form 8-K of the Registrant Filed December 10, 2007.
4.1	Rights Agreement dated December 18, 2003, incorporated by reference to Exhibit 4.1 to Form 8-A12G of the Registrant filed December 22, 2003 and as amended in Form 8-A12B/A filed January 6, 2004.
10.1*	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).
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 August 3, 2013, formatted in XBRL: (i) Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months and Six Months Ended August 3, 2013 and July 28, 2012; (ii) Condensed Consolidated Balance Sheets at August 3, 2013, February 2, 2013 and July 28, 2012; (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended August 3, 2013 and July 28, 2012; and (iv) Notes to Condensed Consolidated Financial Statements.

* Submitted electronically herewith.

PART II OTHER INFORMATION

THE CATO CORPORATION

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

August 30, 2013	/s/ John P. D. Cato
Date	John P. D. Cato Chairman, President and Chief Executive Officer
August 30, 2013	/s/ John R. Howe
Date	John R. Howe Executive Vice President Chief Financial Officer

EXHIBIT 31.1

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: August 30, 2013

/s/ John P. D. Cato

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

EXHIBIT 31.2

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, John R. Howe, 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: August 30, 2013

/s/ John R. Howe

John R. Howe
Executive Vice President
Chief Financial Officer

EXHIBIT 32.1

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 August 3, 2013 (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: August 30, 2013

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

EXHIBIT 32.2

CERTIFICATION OF PERIODIC REPORT

I, John R. Howe, 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 August 3, 2013 (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: August 30, 2013

/s/ John R. Howe
John R. Howe
Executive Vice President
Chief Financial Officer