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 July 31, 2021

OR

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

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

THE CATO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

56-0484485
(I.R.S. Employer Identification No.)

8100 Denmark Road, Charlotte, North Carolina28273-5975
(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 X 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 July 31, 2021, there were 20,776,585 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 July 31, 2021

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CATO CORPORATION

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

	Three Months Ended		Six Months Ended	
	July 31, 2021	August 1, 2020	**July 31, 2021**	August 1, 2020
	(Dollars in thousands, except per share data)			
REVENUES				
Retail sales	$ **205,962**	$ 166,265	$ **417,196**	$ 265,078
Other revenue (principally finance charges, late fees and layaway charges)	**1,784**	1,905	**3,635**	3,824
Total revenues	**207,746**	168,170	**420,831**	268,902
COSTS AND EXPENSES, NET				
Cost of goods sold (exclusive of depreciation shown below)	**115,587**	132,736	**239,262**	216,333
Selling, general and administrative (exclusive of depreciation shown below)	**70,984**	43,957	**134,221**	96,468
Depreciation	**3,137**	3,488	**6,179**	7,494
Interest and other income	**(515)**	(961)	**(1,178)**	(2,812)
Cost and expenses, net	**189,193**	179,220	**378,484**	317,483
Income (loss) before income taxes	**18,553**	(11,050)	**42,347**	(48,581)
Income tax expense (benefit)	**4,561**	(3,880)	**7,642**	(12,994)
Net income (loss)	$ **13,992**	$ (7,170)	$ **34,705**	$ (35,587)
Basic earnings (loss) per share	$ **0.62**	$ (0.30)	$ **1.54**	$ (1.48)
Diluted earnings (loss) per share	$ **0.62**	$ (0.30)	$ **1.54**	$ (1.48)
Comprehensive income:				
Net income (loss)	$ **13,992**	$ (7,170)	$ **34,705**	$ (35,587)
Unrealized gain (loss) on available-for-sale securities, net of deferred income taxes of ($44) and ($85) for the three and six months ended July 31, 2021 and $146 and $56 for the three and six months ended August 1, 2020, respectively	**(145)**	484	**(279)**	186
Comprehensive income (loss)	$ **13,847**	$ (6,686)	$ **34,426**	$ (35,401)

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	July 31, 2021	January 30, 2021
ASSETS	**(Dollars in thousands)**	
Current Assets:		
Cash and cash equivalents	**$ 25,354**	$ 17,510
Short-term investments	**191,520**	126,416
Restricted cash	**3,918**	3,512
Restricted short-term investments	**-**	406
Accounts receivable, net of allowance for customer credit losses of $742 and $605 at July 31, 2021 and January 30, 2021, respectively	**51,296**	52,743
Merchandise inventories	**72,042**	84,123
Prepaid expenses and other current assets	**5,421**	5,840
Total Current Assets	**349,551**	290,550
Property and equipment – net	**67,280**	72,550
Noncurrent deferred income taxes	**5,770**	5,685
Other assets	**23,441**	22,850
Right-of-Use assets – net	**144,765**	199,817
Total Assets	**$ 590,807**	$ 591,452
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 71,463**	$ 73,769
Accrued expenses	**40,641**	40,790
Accrued employee benefits and bonus	**30,596**	1,916
Accrued income taxes	**4,096**	2,038
Current lease liability	**54,604**	63,421
Total Current Liabilities	**201,400**	181,934
Other noncurrent liabilities	**20,550**	19,705
Lease liability	**95,045**	143,315
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; 20,776,585 shares and 20,839,795 shares issued at July 31, 2021 and January 30, 2021, respectively	**701**	703
Convertible Class B common stock, $0.033 par value per share, 15,000,000 shares authorized; 1,763,652 shares and 1,763,652 shares issued at July 31, 2021 and January 30, 2021, respectively	**59**	59
Additional paid-in capital	**117,312**	115,278
Retained earnings	**154,864**	129,303
Accumulated other comprehensive income	**876**	1,155
Total Stockholders' Equity	**273,812**	246,498
Total Liabilities and Stockholders' Equity	**$ 590,807**	$ 591,452

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	July 31, 2021	August 1, 2020
	(Dollars in thousands)	
Operating Activities:		
Net income (loss)	**$ 34,705**	$ (35,587)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	**6,179**	7,494
Provision for customer credit losses	**246**	109
Purchase premium and premium amortization of investments	**(1,410)**	161
Share-based compensation	**1,906**	1,903
Deferred income taxes	-	2,669
Loss on disposal of property and equipment	**283**	162
Impairment of store assets	-	5,270
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	**1,202**	(13,058)
Merchandise inventories	**12,081**	27,085
Prepaid and other assets	**(66)**	(7,291)
Operating lease right-of-use assets and liabilities	**(2,035)**	(920)
Accrued income taxes	**2,058**	(467)
Accounts payable, accrued expenses and other liabilities	**26,808**	(35,759)
Net cash provided (used) by operating activities	**81,957**	(48,229)
Investing Activities:		
Expenditures for property and equipment	**(1,125)**	(9,801)
Purchase of short-term investments	**(113,454)**	(8,275)
Sales of short-term investments	**49,696**	108,886
Sales of other assets	-	199
Net cash provided (used) in investing activities	**(64,883)**	91,009
Financing Activities:		
Dividends paid	**(2,488)**	(7,990)
Repurchase of common stock	**(6,483)**	(9,875)
Proceeds from line of credit	-	34,000
Payments on line of credit	-	(34,000)
Proceeds from employee stock purchase plan	**147**	250
Net cash provided (used) in financing activities	**(8,824)**	(17,615)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**8,250**	25,165
Cash, cash equivalents, and restricted cash at beginning of period	**21,022**	14,401
Cash, cash equivalents, and restricted cash at end of period	**$ 29,272**	$ 39,566
Non-cash activity:		
Accrued other assets and property and equipment	**$ 410**	$ 1,556
Accrued treasury stock	**194**	-

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in thousands)					
Balance — January 30, 2021	$ 703	$ 59	$ 115,278	$ 129,303	$ 1,155	$ 246,498
Comprehensive income:						
Net income (loss)	-	-	-	20,713	-	20,713
Unrealized gain (loss) 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 B common stock sold through stock option plans — 0 shares	-	-	-	-	-	-
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	$ 703	$ 59	$ 115,699	$ 144,401	$ 1,021	$ 261,883
Comprehensive income:						
Net income (loss)	-	-	-	13,992	-	13,992
Unrealized gain (loss) on available-for-sale securities, net of deferred income tax benefit of ($44)	-	-	-	-	(145)	(145)
Dividends paid ($0.11 per share)	-	-	-	(2,488)	-	(2,488)
Class A common stock sold through employee stock purchase plan — 1,336 shares	-	-	23	-	-	23
Class B common stock sold through stock option plans — 0 shares	-	-	-	-	-	-
Class A common stock issued through restricted stock grant plans — 10,018 shares	-	-	1,590	5	-	1,595
Repurchase and retirement of treasury shares – 64,709 shares	(2)	-	-	(1,046)	-	(1,048)
Balance — July 31, 2021	$ 701	$ 59	$ 117,312	$ 154,864	$ 876	$ 273,812

See notes to condensed consolidated financial statements (unaudited).

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

	Class A Common Stock	Convertible Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(Dollars in thousands)					
Balance — February 1, 2020	$ 761	$ 59	$ 110,813	$ 203,458	$ 1,423	$ 316,514
Comprehensive income:						
Net income (loss)	-	-	-	(28,417)	-	(28,417)
Unrealized gain (loss) on available-for-sale securities, net of deferred income tax benefit of ($90)	-	-	-	-	(298)	(298)
Dividends paid ($0.33 per share)	-	-	-	(7,990)	-	(7,990)
Class A common stock sold through employee stock purchase plan — 26,957 shares	1	-	293	-	-	294
Class B common stock sold through stock option plans — 0 shares	-	-	-	-	-	-
Class A common stock issued through restricted stock grant plans — 307,354 shares	10	-	587	8	-	605
Repurchase and retirement of treasury shares – 618,056 shares	(22)	-	-	(9,034)	-	(9,056)
Balance — May 2, 2020	$ 750	$ 59	$ 111,693	$ 158,025	$ 1,125	$ 271,652
Comprehensive income:						
Net income (loss)	-	-	-	(7,170)	-	(7,170)
Unrealized gain (loss) on available-for-sale securities, net of deferred income tax liability of $146	-	-	-	-	484	484
Dividends paid ($0.00 per share)	-	-	-	-	-	-
Class A common stock sold through employee stock purchase plan — 0 shares	-	-	-	-	-	-
Class B common stock sold through stock option plans — 0 shares	-	-	-	-	-	-
Class A common stock issued through restricted stock grant plans — (57,805) shares	(2)	-	1,256	(1)	-	1,253
Repurchase and retirement of treasury shares – 0 shares	-	-	-	-	-	-
Balance — August 1, 2020	$ 748	$ 59	$ 112,949	$ 150,854	$ 1,609	$ 266,219

See notes to condensed consolidated financial statements (unaudited).

NOTE 1 - GENERAL:

The condensed consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the "Company"), and all amounts shown as of and for the periods ended July 31, 2021 and August 1, 2020 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 30, 2021. Amounts as of January 30, 2021 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.

Subsequent to July 31, 2021, the Company repurchased 168,390 shares for $2,802,850.

COVID-19 Update

The COVID-19 pandemic adversely impacted the Company's business, financial condition and operating results through fiscal 2020. The first and second quarters of 2021 saw significant improvements in sales compared to 2020. This improvement was primarily attributable to government stimulus, increased customer traffic, states lifting capacity limits as more people were vaccinated, consumers' increasing comfort level with venturing out to social events and customers' preparing to return to work. However, the Company's sales were well below 2019 sales for the comparable period, and there is still a high level of uncertainty regarding the lingering effects of the pandemic, as well as renewed concerns over the impact of new, more transmissible variants of the virus, slowing vaccination rates and related factors that have in some cases slowed and may continue to slow progress toward the return to pre-pandemic activities and levels of consumer confidence. The Company faces additional uncertainty from the continued effects of disruption in the global supply chain and available workers as it attempts to hire associates as its operating hours continue to expand. The Company expects that these uncertainties and perhaps others related to the pandemic will continue to impact the Company in fiscal 2021 and possibly beyond. The adverse financial impacts associated with the 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.

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.

While the Company currently anticipates a continuation of the adverse impacts of COVID-19 during 2021 and possibly beyond, the duration and severity of these effects will depend on the course of future developments, which are highly uncertain, including the relative speed and success of, as well as public confidence in, mitigation measures such as the current effort to vaccinate substantial portions of the U.S. and global population, emerging information regarding variants of the virus or new viruses and their potential impact on current mitigation efforts, public attitudes toward continued compliance with containment and mitigation measures, and possible new information and understanding that could alter the course and duration of current measures to combat the spread of the virus.

Recently Adopted Accounting Policies

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The new accounting rules reduce complexity by removing specific exceptions to general principles related to intraperiod tax allocations, ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The new accounting rules also simplify accounting for franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The Company adopted this accounting standards update on the first day of the first quarter of 2021 with no material impact on its Condensed Consolidated Financial Statements.

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 (Loss) and Comprehensive Income (Loss). 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	
	July 31, 2021	August 1, 2020	**July 31, 2021**	August 1, 2020
	(Dollars in thousands)			
Numerator				
Net earnings (loss)	**$ 13,992**	$ (7,170)	**$ 34,705**	$ (35,587)
(Earnings) loss allocated to non-vested equity awards	**(756)**	320	**(1,739)**	1,531
Net earnings (loss) available to common stockholders	**$ 13,236**	$ (6,850)	**$ 32,966**	$ (34,056)
Denominator				
Basic weighted average common shares outstanding	**21,367,819**	22,908,942	**21,428,491**	22,934,410
Diluted weighted average common shares outstanding	**21,367,819**	22,908,942	**21,428,491**	22,934,410
Net income (loss) per common share				
Basic earnings (loss) per share	**$ 0.62**	$ (0.30)	**$ 1.54**	$ (1.48)
Diluted earnings (loss) per share	**$ 0.62**	$ (0.30)	**$ 1.54**	$ (1.48)

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 July 31, 2021:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at May 1, 2021	$ 1,021
Other comprehensive income before reclassification	(171)
Amounts reclassified from accumulated other comprehensive income (b)	26
Net current-period other comprehensive income	(145)
Ending Balance at July 31, 2021	$ 876

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income.
(b) Includes $34 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 $8.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the six months ended July 31, 2021:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at January 30, 2021	$ 1,155
Other comprehensive income before reclassification	(344)
Amounts reclassified from accumulated other comprehensive income (b)	65
Net current-period other comprehensive income	(279)
Ending Balance at July 31, 2021	$ 876

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income.
(b) Includes $85 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 $20.

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED):

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended August 1, 2020:

	Changes in Accumulated Other Comprehensive Income (a)	
	Unrealized Gains and (Losses) on Available-for-Sale Securities	
Beginning Balance at May 2, 2020	$	1,125
Other comprehensive income before reclassifications		420
Amounts reclassified from accumulated other comprehensive income (b)		64
Net current-period other comprehensive income		484
Ending Balance at August 1, 2020	$	1,609

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income.
(b) Includes $83 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 $19.

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the six months ended August 1, 2020:

	Changes in Accumulated Other Comprehensive Income (a)	
	Unrealized Gains and (Losses) on Available-for-Sale Securities	
Beginning Balance at February 1, 2020	$	1,423
Other comprehensive income before reclassifications		(381)
Amounts reclassified from accumulated other comprehensive income (b)		567
Net current-period other comprehensive income		186
Ending Balance at August 1, 2020	$	1,609

(a) All amounts are net-of-tax. Amounts in parentheses indicate a debit/reduction to other comprehensive income.
(b) Includes $738 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 $171.

NOTE 4 – FINANCING ARRANGEMENTS:

As of July 31, 2021, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to $35.0 million, less the balance of any revocable letters of credit related to purchase commitments. On June 2, 2020, the Company signed an amendment extending the revolving credit agreement through May 2023. 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 July 31, 2021. There were no borrowings outstanding under this credit facility, nor any outstanding letters of credit that reduced borrowing availability, as of July 31, 2021 or January 30, 2021. The weighted average interest rate under the credit facility was zero at July 31, 2021 due to no borrowings outstanding.

At July 31, 2021 and January 30, 2021, the Company had no outstanding revocable 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 July 31, 2021, 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 wholly-owned subsidiary of the Company.

NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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

Three Months Ended July 31, 2021	**Retail**	**Credit**	**Total**	**Six Months Ended July 31, 2021**	**Retail**	**Credit**	**Total**
Revenues	$207,242	$504	$207,746	Revenues	$419,789	$1,042	$420,831
Depreciation	3,137	-	3,137	Depreciation	6,179	-	6,179
Interest and other income	(515)	-	(515)	Interest and other income	(1,178)	-	(1,178)
Income/(Loss) before income taxes	18,366	187	18,553	Income/(Loss) before income taxes	41,906	441	42,347
Capital expenditures	570	-	570	Capital expenditures	1,125	-	1,125

Three Months Ended August 1, 2020	**Retail**	**Credit**	**Total**	**Six Months Ended August 1, 2020**	**Retail**	**Credit**	**Total**
Revenues	$167,523	$647	$168,170	Revenues	$267,413	$1,489	$268,902
Depreciation	3,488	-	3,488	Depreciation	7,494	-	7,494
Interest and other income	(961)	-	(961)	Interest and other income	(2,812)	-	(2,812)
Income/(Loss) before income taxes	(11,368)	318	(11,050)	Income/(Loss) before income taxes	(49,291)	710	(48,581)
Capital expenditures	4,490	-	4,490	Capital expenditures	9,801	-	9,801

	Retail	**Credit**	**Total**
Total assets as of July 31, 2021	$547,985	$42,822	$590,807
Total assets as of January 30, 2021	549,349	42,103	591,452

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**	
	July 31, 2021	August 1, 2020	**July 31, 2021**	August 1, 2020
Payroll	**$ 79**	$ 130	**$ 231**	$ 282
Postage	**51**	82	**162**	193
Other expenses	**187**	118	**208**	305
Total expenses	**$ 317**	$ 330	**$ 601**	$ 780

NOTE 6 – STOCK-BASED COMPENSATION:

As of July 31, 2021, 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 July 31, 2021:

	2013 Plan	2018 Plan	Total
Options and/or restricted stock initially authorized	1,500,000	4,725,000	6,225,000
Options and/or restricted stock available for grant:			
July 31, 2021	-	3,554,897	3,554,897

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 July 31, 2021 and January 30, 2021, there was $13,551,000 and $10,550,000, respectively, of total unrecognized compensation expense related to nonvested restricted stock awards, which had a remaining weighted-average vesting period of 2.8 years and 2.1 years, respectively. The total compensation expense during the three and six months ended July 31, 2021 was $1,597,000 and $1,880,000, respectively, compared to $1,253,000 and $1,859,000, respectively, for the three and six months ended August 1, 2020. These expenses are classified as a component of Selling, general and administrative expenses in the Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The following summary shows the changes in the shares of unvested restricted stock outstanding during the six months ended July 31, 2021:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock awards at January 30, 2021	1,023,956	$ 15.33
Granted	407,910	13.49
Vested	(176,575)	22.22
Forfeited or expired	(33,429)	13.98
Restricted stock awards at July 31, 2021	1,221,862	$ 13.76

NOTE 6 – STOCK BASED-COMPENSATION (CONTINUED):

The Company's Amended and Restated 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 July 31, 2021 and August 1, 2020, the Company sold 20,584 and 26,957 shares to employees at an average discount of $1.26 and $1.64 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 $26,000 and $44,000 for the six months ended July 31, 2021 and August 1, 2020, respectively. These expenses are classified as a component of Selling, general and administrative expenses.

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 July 31, 2021 and January 30, 2021:

Description	July 31, 2021	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	$ 29,333	$ -	$ 29,333	$ -
Corporate Bonds	108,199	-	108,199	-
U.S. Treasury/Agencies Notes and Bonds	32,379	-	32,379	-
Cash Surrender Value of Life Insurance	11,695	-	-	11,695
Asset-backed Securities (ABS)	20,217	-	20,217	-
Corporate Equities	808	808	-	-
Commercial Paper	1,393	-	1,393	-
Total Assets	$ 204,024	$ 808	$ 191,521	$ 11,695
Liabilities:				
Deferred Compensation	(10,397)	-	-	(10,397)
Total Liabilities	$ (10,397)	$ -	$ -	$ (10,397)

Description	January 30, 2021	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	$ 23,254	$ -	$ 23,254	$ -
Corporate Bonds	67,566	-	67,566	-
U.S. Treasury/Agencies Notes and Bonds	17,869	-	17,869	-
Cash Surrender Value of Life Insurance	11,263	-	-	11,263
Asset-backed Securities (ABS)	16,064	-	16,064	-
Corporate Equities	703	703	-	-
Commercial Paper	2,069	-	2,069	-
Total Assets	$ 138,788	$ 703	$ 126,822	$ 11,263
Liabilities:				
Deferred Compensation	(10,316)	-	-	(10,316)
Total Liabilities	$ (10,316)	$ -	$ -	$ (10,316)

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 July 31, 2021 and January 30, 2021. The state, municipal and corporate bonds have contractual maturities which range from one day to five years. The U.S. Treasury Notes have contractual maturities which range from two months to two years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and Restricted short-term investments 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 July 31, 2021, the Company had $0.8 million of corporate equities and deferred compensation plan assets of $11.7 million. At January 30, 2021, the Company had $0.7 million of corporate equities and deferred compensation plan assets of $11.3 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 bonds, municipal bonds and asset-backed securities 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 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 July 31, 2021 and January 30, 2021 (in thousands):

	Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)
	Cash Surrender Value
Beginning Balance at January 30, 2021	$ 11,263
Additions	-
Total gains or (losses)	
Included in interest and other income (or changes in net assets)	432
Included in other comprehensive income	-
Ending Balance at July 31, 2021	$ 11,695

	Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)
	Deferred Compensation
Beginning Balance at January 30, 2021	$ (10,316)
Redemptions	642
Additions	(195)
Total (gains) or losses	
Included in interest and other income (or changes in net assets)	(528)
Included in other comprehensive income	-
Ending Balance at July 31, 2021	$ (10,397)

		Fair Value Measurements Using Significant Unobservable Asset Inputs (Level 3)
		Cash Surrender Value
Beginning Balance at February 1, 2020	$	10,517
Additions		-
Total gains or (losses)		
Included in interest and other income (or changes in net assets)		746
Included in other comprehensive income		-
Ending Balance at January 30, 2021	$	11,263

		Fair Value Measurements Using Significant Unobservable Liability Inputs (Level 3)
		Deferred Compensation
Beginning Balance at February 1, 2020	$	(10,391)
Redemptions		1,714
Additions		(652)
Total (gains) or losses		
Included in interest and other income (or changes in net assets)		(987)
Included in other comprehensive income		-
Ending Balance at January 30, 2021	$	(10,316)

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS:

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In January 2021, the FASB clarified the scope of that guidance with the issuance of ASU 2021-01, *Reference Rate Reform: Scope*. The new accounting rules provide optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The amendments in this standard can be adopted any time before the fourth quarter of 2022. The Company is currently in the process of evaluating the impact of adoption of the new rules on the Company’s financial condition, results of operations, cash flows and disclosures.

NOTE 9 – INCOME TAXES:

The Company had an effective tax rate for the first six months of 2021 of 18.0% (Expense) compared to 26.7% (Benefit) for the first six months of 2020. The change in the effective tax rate for the first six months was primarily due to higher pre-tax earnings and ability to realize foreign tax credits, offset by increases in state income taxes and an upward adjustment in reserves for uncertain tax positions specific to state income taxes in the first quarter of 2020. Further, the Coronavirus Aid, Relief and Economic Security Act (“CARES”) allows the Company to carryback losses five years; therefore, the Company has recorded $33.0 million of estimated refunds calculated through the first quarter of 2021 in Accounts receivable on the Condensed Consolidated Balance Sheets.

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 the Company’s 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 of, 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. During the three and six months ended July 31, 2021, the Company estimated customer credit losses of $,144000 and $275,000, respectively, compared to $,116000 and $185,000 for the three and six months ended August 1, 2020, respectively. Sales purchased on the Company’s proprietary credit card for the three and six months ended July 31, 2021 were $4.8 million and $9.2 million, respectively, compared to $4.3 million and $6.9 million for the three and six months ended August 1, 2020, respectively.

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

	Balance as of	
	July 31, 2021	January 30, 2021
Proprietary Credit Card Receivables, net	**$ 8,903**	$ 9,606
Gift Card Liability	**$ 6,302**	$ 8,155

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 up to 10 years based on the estimated likelihood of renewal. Some 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, the Company 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):

	Three Months Ended	
	July 31, 2021	August 1, 2020
Operating lease cost (a)	**$ 17,334**	$ 17,082
Variable lease cost (b)	**$ 700**	$ 439

(a) Includes right-of-use asset amortization of ($0.5) million and ($1.0) million for the three months ended July 31, 2021 and August 1, 2020, respectively.
(b) Primarily related to monthly percentage rent for stores not presented on the balance sheet.

	Six Months Ended	
	July 31, 2021	August 1, 2020
Operating lease cost (a)	**$ 34,060**	$ 34,075
Variable lease cost (b)	**$ 1,493**	$ 519

(a) Includes right-of-use asset amortization of ($1.6) million and ($2.7) million for the six months ended July 31, 2021 and August 1, 2020, 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):

Operating cash flow information:

	Three Months Ended	
	July 31, 2021	August 1, 2020
Cash paid for amounts included in the measurement of lease liabilities	**$ 15,726**	$ 15,946
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations	**$ (26,157)**	$ 3,287

	Six Months Ended	
	July 31, 2021	August 1, 2020
Cash paid for amounts included in the measurement of lease liabilities	**$ 31,673**	$ 31,445
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations	**$ (25,423)**	$ 31,484

During the second quarter of 2021, the Company reassessed its initial accounting term for approximately 80 stores for the likelihood of renewal. After evaluation, the Company now believes it is no longer probable that these stores will be renewed for a second lease term. The remeasurement resulted in a $25.8 million reduction of the Company's Right-of-Use assets on the Condensed Consolidated Balance Sheets.

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

	As of	
	July 31, 2021	August 1, 2020
Weighted-average remaining lease term	**2.4 years**	2.9 years
Weighted-average discount rate	**3.47%**	4.29%

Maturities of lease liabilities by fiscal year for the Company's operating leases are as follows (in thousands):

<u>**Fiscal Year**</u>	
2021 (a)	$ 33,731
2022	48,846
2023	36,107
2024	22,633
2025	12,386
Thereafter	4,892
Total lease payments	158,595
Less: Imputed interest	8,946
Present value of lease liabilities	$ 149,649

(a) Excluding the 6 months ended July 31, 2021.

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 29, 2022 ("fiscal 2021") 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 and the availability of credit; changes in laws, regulations or governmental policies affecting our business, including tariffs; uncertainties regarding the impact of any governmental actions 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 30, 2021 ("fiscal 2020"), 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 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 30, 2021. 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.

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**	
	July 31, 2021	August 1, 2020	**July 31, 2021**	August 1, 2020
Total retail sales	**100.0** %	100.0 %	**100.0** %	100.0 %
Other revenue	**0.9**	1.1	**0.9**	1.4
Total revenues	**100.9**	101.1	**100.9**	101.4
Cost of goods sold (exclusive of depreciation)	**56.1**	79.8	**57.4**	81.6
Selling, general and administrative (exclusive of depreciation)	**34.5**	26.4	**32.2**	36.4
Depreciation	**1.5**	2.1	**1.5**	2.8
Interest and other income	**(0.3)**	(0.6)	**(0.3)**	(1.1)
Income (loss) before income taxes	**9.0**	(6.6)	**10.2**	(18.3)
Net income (loss)	**6.8**	(4.3)	**8.3**	(13.4)

RESULTS OF OPERATIONS (CONTINUED):

COVID-19 Update

The COVID-19 pandemic adversely impacted the Company's business, financial condition and operating results through fiscal 2020. The first and second quarters of 2021 saw significant improvements in sales compared to 2020. This improvement was primarily attributable to government stimulus, increased customer traffic, states lifting capacity limits as more people were vaccinated, consumers' increasing comfort level with venturing out to social events and customers' preparing to return to work. However, the Company's sales were well below 2019 sales for the comparable period, and there is still a high level of uncertainty regarding the lingering effects of the pandemic, as well as renewed concerns over the impact of new, more transmissible variants of the virus, slowing vaccination rates and related factors that have in some cases slowed and may continue to slow progress toward the return to pre-pandemic activities and levels of consumer confidence. The Company faces additional uncertainty from the continued effects of disruption in the global supply chain and available workers as it attempts to hire associates as its operating hours continue to expand. The Company expects that these uncertainties and perhaps others related to the pandemic will continue to impact the Company in fiscal 2021 and possibly beyond. The adverse financial impacts associated with the 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.

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.

While the Company currently anticipates a continuation of the adverse impacts of COVID-19 during 2021 and possibly beyond, the duration and severity of these effects will depend on the course of future developments, which are highly uncertain, including the relative speed and success of, as well as public confidence in, mitigation measures such as the current effort to vaccinate substantial portions of the U.S. and global population, emerging information regarding variants of the virus or new viruses and their potential impact on current mitigation efforts, public attitudes toward continued compliance with containment and mitigation measures, and possible new information and understanding that could alter the course and duration of current measures to combat the spread of the virus.

Comparison of the Three and Six Months ended July 31, 2021 with August 1, 2020

Total retail sales for the second quarter were $206.0 million compared to last year's second quarter sales of $166.3 million, a 24% increase. The Company's sales increase in the second quarter of fiscal 2021 is primarily due to a 23% increase in same-store sales and sales from new stores, partially offset by permanently closed stores in 2020. The increase in same-store sales is primarily due to stores being open in this year's second quarter, as opposed to closed from March 19, 2020 into the second quarter of 2020. For the six months ended July 31, 2021, total retail sales were $417.2 million compared to last year's comparable six month sales of $265.1 million, a 57% increase. Sales in the first six months of fiscal 2021 increased primarily due to a 56% increase in same-store sales and sales from new stores, partially offset by permanently closed stores in 2020. Same-store sales for the six months ended July 31, 2021 increased primarily due to stores being open in the first six months of 2021 as opposed to closed from March 19, 2020 into the second quarter of 2020. 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% of total sales for the six months ended July 31, 2021 and are included 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 and layaway fees), were $207.7 million and $420.8 million for the three and six months ended July 31, 2021, compared to $168.2 million and $268.9 million for the three and six months ended August 1, 2020, respectively. The Company operated 1,325 stores at July 31, 2021 compared to 1,333 stores at the end of last year's second quarter. During the first six months of fiscal 2021, the Company closed five stores. The Company currently expects to open fewer than 10 stores and to close approximately 25 stores in fiscal 2021.

Credit revenue of $0.5 million represented 0.2% of total revenues in the second quarter of fiscal 2021, compared to 2020 credit revenue of $0.6 million or 0.4% of total revenues. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Credit revenue decreased slightly for the most recent comparable period due to lower finance charge income and lower late fee income from sales using the Company's proprietary credit card. Related expenses principally include payroll, postage and other administrative expenses and totaled $0.3 million in the second quarter of fiscal 2021, compared to last year's second quarter expense of $0.3 million.

Other revenue in total, as included in total revenues, was $1.8 million and $3.6 million for the three and six months ended July 31, 2021, respectively, compared to $1.9 million and $3.8 million for the prior year's comparable three and six month periods. The overall decrease in the three and six months ended July 31, 2021 is primarily due to decreases in finance charge income, partially offset by increases in layaway charges and gift card breakage income.

Cost of goods sold was $115.6 million, or 56.1% of retail sales and $239.3 million, or 57.3% of retail sales for the three and six months ended July 31, 2021, respectively, compared to $132.7 million, or 79.8% of retail sales and $216.3 million, or 81.6% of retail sales for the comparable three and six month periods of fiscal 2020. The overall decrease in cost of goods sold as a percent of retail sales for the second quarter of fiscal 2021 resulted primarily from the leveraging of occupancy, buying and distribution costs due to more normalized sales and higher sales of regular priced goods. Cost of goods sold includes merchandise costs (net of discounts and allowances), buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy 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) increased by 169.9% to $90.4 million for the second quarter of fiscal 2021 and increased by 265.3% to $177.9 million for the first six months of fiscal 2021, compared to $33.5 million and $48.7 million for the prior year's comparable three and six months of fiscal 2020. Gross margin as presented may not be comparable to those of other entities.

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees. SG&A expenses were $71.0 million, or 34.5% of retail sales and $134.2 million, or 32.2% of retail sales for the second quarter and first six months of fiscal 2021, respectively, compared to $44.0 million, or 26.4% of retail sales and $96.5 million, or 36.4% of retail sales for the prior year's comparable three and six month periods. The overall increase in SG&A expense for the second quarter is primarily due to increased employee benefit/bonus expense and store operating expenses as operating hours have increased substantially compared to the prior year's phased store reopening following the extended store closure due to COVID-19. For the first six months of fiscal 2021, the overall increase in SG&A expense was primarily attributable to increased employee benefit/bonus expense and store operating expenses as operating hours have increased substantially compared to the prior year's phased store reopening following the extended store closure due to COVID-19, partially offset by a $5.3 million non-cash impairment charge in 2020.

Depreciation expense was $3.1 million, or 1.5% of retail sales and $6.2 million, or 1.5% of retail sales for the second quarter and first six months of fiscal 2021, respectively, compared to $3.5 million, or 2.1% of retail sales and $7.5 million or 2.8% of retail sales for the comparable three and six month periods of fiscal 2020, respectively. The decrease in depreciation expense is attributable to lower net fixed assets primarily due to $13.7 million of impairment charges in 2020.

Interest and other income was $0.5 million, or 0.3% of retail sales and $1.2 million, or 0.3% of retail sales for the three and six months ended July 31, 2021, respectively, compared to $1.0 million, or 0.6% of retail sales and $2.8 million, or 1.1% of retail sales for the comparable three and six month periods of fiscal 2020, respectively. The decrease for the first six months of fiscal 2021 compared to 2020 is primarily attributable to lower interest rates and smaller gains from the sale of investments, partially offset by an increase in short-term investments.

Income tax expense was $4.6 million and $7.6 million for the second quarter and first six months of fiscal 2021, respectively, compared to an income tax benefit of $3.9 million and $13.0 million for the comparable three and six month periods of fiscal 2020, respectively. For the first six months of fiscal 2021, the Company's effective tax rate was 18.0% (Expense) compared to 26.7% (Benefit) for the first six months of 2020. The change in the 2021 year-to-date effective tax rate was primarily due to higher pre-tax earnings and ability to realize foreign tax credits, partially offset by increases in state income taxes in the first quarter of fiscal 2021.

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 2021 and the next 12 months.

Cash provided by operating activities during the first six months of fiscal 2021 was $82.0 million as compared to $48.2 million used in the first six months of fiscal 2020. Cash provided by operating activities for the first six months of fiscal 2021 was primarily generated by earnings adjusted for depreciation and changes in working capital. The increase in cash provided of $130.2 million for the first six months of fiscal 2021 as compared to the first six months of fiscal 2020 was primarily due to a net income versus a net loss and an increase in accounts payable and accrued liabilities, partially offset by a decrease in store impairment charges.

At July 31, 2021, the Company had working capital of $148.2 million compared to $108.6 million at January 30, 2021. The increase in working capital is primarily attributable to higher short-term investments, partially offset by higher accrued employee benefits and bonus.

At July 31, 2021 and January 30, 2021, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to $35.0 million, less the value of revocable letters of credit relating to purchase commitments. The revolving credit agreement is committed until May 2023. 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 July 31, 2021. There were no borrowings outstanding under the credit facility, nor outstanding letters of credit that reduced borrowing availability, as of July 31, 2021 and January 30, 2021.

Expenditures for property and equipment totaled $1.1 million in the first six months of fiscal 2021, compared to $9.8 million in last fiscal year's first six months. For the full fiscal 2021 year, the Company expects to invest approximately $4.1 million for capital expenditures.

Net cash used by investing activities totaled $64.9 million in the first six months of fiscal 2021 compared to $91.0 million provided by investing activities in the comparable period of 2020. The increase in net cash used in 2021 is primarily due to a decrease in the sale of short-term investments and an increase in the purchase of short-term investments, partially offset by a decrease in capital expenditures.

Net cash used in financing activities totaled $8.8 million in the first six months of fiscal 2021 compared to $17.6 million used in the comparable period of fiscal 2020. The decrease was primarily due to less dividends paid and stock repurchases.

As of July 31, 2021, the Company had 1,380,779 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 July 31, 2021 and January 30, 2021. The state, municipal and corporate bonds have contractual maturities which range from one day to five years. The U.S. Treasury Notes have contractual maturities which range from two months to two years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and Restricted short-term investments 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 July 31, 2021, the Company had $0.8 million of corporate equities and deferred compensation plan assets of $11.7 million. At January 30, 2021, the Company had $0.7 million of corporate equities and deferred compensation plan assets of $11.3 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.

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 July 31, 2021. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of July 31, 2021, 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 July 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS:

Not Applicable

ITEM 1A. RISK FACTORS:

In addition to the other information in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended January 30, 2021. 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 July 31, 2021:

ISSUER PURCHASES OF EQUITY SECURITIES

Fiscal 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 2021	-	$ -	-	
June 2021	-	-	-	
July 2021	64,709	16.18	64,709	
Total	64,709	$ 16.18	64,709	1,380,779

(1) Prices include trading costs.

(2) As of May 1, 2021, the Company's share repurchase program had 1,445,488 shares remaining in open authorizations. During the second quarter ended July 31, 2021, the Company repurchased and retired 64,709 shares under this program for approximately $1,047,060 or an average market price of $16.18 per share. As of July 31, 2021, the Company had 1,380,779 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

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 For 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 Reg for the quarter ended May 2, 2020.
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 July 31, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Income (Loss) and Comprehensive In (Loss) for the Three Months and Six Months Ended July 31, 2021 and August 1, 2020; (ii) Condensed Consol Balance Sheets at July 31, 2021 and January 30, 2021; (iii) Condensed Consolidated Statements of Cash Flows f Six Months Ended July 31, 2021 and August 1, 2020; (iv) Condensed Consolidated Statements of Stockho Equity for the Six Months Ended July 31, 2021 and August 1, 2020; and (v) Notes to Condensed Consol Financial Statements.
104.1	Cover Page Interactive Data File (Formatted in Inline XBRL and contained in the Interactive Data Files subr as Exhibit 101.1*)

* Submitted electronically herewith.

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 25, 2021	/s/ John P. D. Cato
Date	John P. D. Cato Chairman, President and Chief Executive Officer
August 25, 2021	/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 25, 2021

/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 25, 2021

/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 July 31, 2021 (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 25, 2021

/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 July 31, 2021 (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 25, 2021

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