CATO CORP
Form 10-K
March 23, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended January 28, 2017
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-31340

The Cato Corporation

Registrant

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

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

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

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

None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No

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

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of July 30, 2016, the last business day of the Company's most recent second quarter, was $914,302,626 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of January 28, 2017, there were 24,853,129 shares of Class A common stock and 1,751,576 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement relating to the 2017 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

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

THE CATO CORPORATION

FORM 10-K

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Forward-looking Information

The following information should be read along with the Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this annual report on Form 10-K that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Business," "Properties," "Legal Proceedings," "Controls and Procedures" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for our fiscal year ending February 3, 2018 ("fiscal 2017") and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "could," "should," "will," "would" and any varia negative formulations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in the conditions that drive consumer confidence and spending, including, but not limited to, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, home values, consumer net worth and the availability of credit; uncertainties regarding the impact of any governmental responses to the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly changing fashion trends and consumer demands; adverse weather or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand, including the ability to liquidate excess inventory at anticipated margins; and other factors discussed under "Risk Factors" in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended January 28, 2017 ("fiscal 2016"), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission ("SEC") from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

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

PART I

Item 1. ***Business:***

General

The Company, founded in 1946, operated 1,371 fashion specialty stores at January 28, 2017, in 33 states, principally in the southeastern United States, under the names “Cato,” “Cato Fashions,” “Cato Plus,” “It’s Fashion,” “It’s Fashi Metro” and “Versona.” The Cato concept seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy and plus sizes. The Cato concept’s stores and e-commerce website feature a broad assortment of apparel and accessories, including dressy, career, and casual sportswear, dresses, coats, shoes, lingerie, costume jewelry and handbags. A major portion of the Cato concept’s merchandise is sold under its private label and is produced by various vendors in accordance with the concept’s specifications. The It’s Fashion and It’s Fashion Metro concepts offer fashion with a focus on the latest trendy styles for the entire family at low prices every day. The Versona concept’s stores and e-commerce website offer quality fashion apparel items, jewelry and accessories at exceptional values every day. The Company’s stores range in size from 2,000 to 19,000 square feet and are located primarily in strip shopping centers anchored by national discounters or market-dominant grocery stores. The Company emphasizes friendly customer service and coordinated merchandise presentations in an appealing store environment. The Company offers its own credit card and layaway plan. Credit and layaway sales under the Company’s plan represented 8% of retail sales in fiscal 2016. See Note 14 to the Consolidated Financial Statements, “Reportable Segment Information,” for a discussion of information regarding the Company’s two reportable segments: retail and credit.

Business

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

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

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

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

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

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

Merchandising

Merchandising

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

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

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

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

Purchasing, Allocation and Distribution

Although the Company purchases merchandise from approximately 428 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2016, purchases from the Company's largest vendor accounted for approximately 8% of the Company's total purchases. The Company is not dependent on its largest vendor or any other vendor for merchandise purchases, and the loss of any single vendor or group of vendors would not have a material adverse effect on the Company's operating results or financial condition. A substantial portion of the Company's merchandise is sold under its private labels and is produced by various vendors in accordance with the Company's strict specifications. The Company sources a majority of its merchandise directly from manufacturers overseas. The Company purchases its remaining merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments. The Company opened its own overseas sourcing operations in the fall of 2014, replacing the Company's former sourcing agent in 2015. Although a significant portion of the Company's merchandise is manufactured overseas, the Company does not expect that any economic, political or social unrest in any one country would have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise. However, the Company can give no assurance that any changes or disruptions in its merchandise supply chain would not materially and adversely affect the Company. See "Risk Factors – Risks Relating To Our Business – Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations; changes, disruptions, cost changes or other problems affecting the Company's merchandise supply chain could materially and adversely affect the Company's business, results of operations and financial condition."

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

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

Advertising

The Company uses television, in-store signage, graphics, a Company website, an e-commerce website and social media as its primary advertising media. The Company's total advertising expenditures were approximately 0.8%, 0.8% and 0.6% of retail sales for fiscal years 2016, 2015 and 2014, respectively.

Store Operations

The Company's store operations management team consists of one director of stores, five territorial managers, 17 regional managers and 140 district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll and shrinkage control. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are typically staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the store and seasonal personnel needs. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers, assistant managers and sales associates are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

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

Store Locations

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

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

The Company’s store development activities consist of opening new stores in new and existing markets and relocating selected existing stores to more desirable locations in the same market area. The following table sets forth information with respect to the Company’s development activities since fiscal 2012:

Store Development

Fiscal Year	**Number of Stores Beginning of Year**	**Number Opened**	**Number Closed**	**Number of Stores End of Year**
2012	1,288	34	12	1,310
2013	1,310	32	22	1,320
2014	1,320	33	7	1,346
2015	1,346	31	5	1,372
2016	1,372	8	9	1,371

The Company expects to open 13 new stores during fiscal 2017. The Company anticipates closing up to 19 stores, relocating eight stores and remodeling 10 stores by year end.

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

Credit and Layaway

Credit Card Program

The Company offers its own credit card, which accounted for 3.4%, 3.6% and 3.9% of retail sales in fiscal 2016, 2015 and 2014, respectively. The Company’s net bad debt expense was 3.5%, 3.2% and 4.5% of credit sales in fiscal 2016, 2015 and 2014, respectively.

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

Layaway Plan

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

The Company defers recognition of layaway sales to the accounting period when the customer picks up and completely pays for layaway merchandise. Administrative fees are recognized in the period in which the layaway is initiated. Recognition of restocking fees occurs in the accounting period when the customer defaults on the layaway purchase. Layaway sales represented approximately 4.4%, 4.7% and 4.5% of retail sales in fiscal 2016, 2015 and 2014, respectively.

Information Technology Systems

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

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

Competition

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

Seasonality

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

Regulation

A variety of laws affect the revolving credit card program offered by the Company. The Credit Card Accountability Responsibility and Disclosure Act of 2009 ("The Act") amended the Truth in Lending Act to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan. The Act contained provisions addressing matters such as change in terms, notices, limits on fees, rate increases, payment allocation and account disclosures. The Act requires creditors to provide consumers with account disclosures that are timely and in a form that is readily understandable. The Federal Fair Credit Reporting Act also requires certain disclosures to potential customers concerning credit information used as a basis to deny credit. The Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder prohibit lenders from discrimination against any credit applicants, establish guidelines for gathering and evaluating credit information and require written notification when credit is denied. Regulation AA, Unfair, Deceptive or Abusive Acts or Practices, establishes consumer complaint procedures and defines unfair or deceptive practices in extending credit to consumers. The Federal Trade Commission has adopted or proposed various trade regulation rules dealing with unfair credit and collection practices and the preservation of consumers' claims and defenses. The Company is also subject to the U.S. Patriot Act and the Bank Secrecy Act, which require the Company to monitor account holders and account transactions, respectively. Additionally, the Gramm-Leach-Bliley Act requires the Company to disclose to its customers the Company's privacy policy as it relates to a customer's non-public personal information.

Associates

As of January 28, 2017, the Company employed approximately 10,200 full-time and part-time associates. The Company also employs additional part-time associates during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers its associate relations to be good.

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

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

Risks Relating To Our Business:

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

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

Fluctuating comparable sales or our inability to effectively manage inventory may negatively impact our gross margin and our overall results of operations.

Comparable sales are expected to continue to fluctuate in the future. Factors affecting comparable sales include fashion trends, customer preferences, calendar and holiday shifts, competition, weather and economic conditions. In addition, merchandise must be ordered well in advance of the applicable selling season and before trends are confirmed by sales. If we are not able to accurately predict customers' preferences of our fashion items, we may have too much inventory which may cause excessive markdowns. If we are unable to accurately predict demand for our merchandise, we may end up with inventory shortages resulting in missed sales. A decrease in comparable sales or our inability to effectively manage inventory may adversely affect our gross margin and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In an effort to provide greater comparability of financial reporting in an increasing global environment, accounting regulatory authorities have been in discussions for many years regarding efforts to either converge U.S. Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS"), have U.S. companies provide supplemental IFRS-based information or continue to work toward a single set of globally accepted accounting standards. These potential changes in accounting rules or regulations may significantly impact our future reported results of operations and financial position. Changes in accounting rules or regulations and varying interpretations of existing accounting rules and regulations have significantly affected our reported financial statements and those of other participants in the retail industry in the past and may continue to do so in the future.

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

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

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

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

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

We are subject to payment-related risks.

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

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

Although the Company's e-commerce platform provides another channel to drive incremental sales, provide existing customers the on-line shopping experience and introduce the Company to a new customer base, it also exposes us to numerous risks. We are subject to potential failures in the efficient and uninterrupted operation of our website, customer contact center or our distribution center, including system failures caused by telecommunication system providers, order volumes that exceed our present system capabilities, electrical outages, mechanical problems and human error. Our e-commerce platform may also expose us to greater potential for security or data breaches involving the unauthorized disclosure of customer information, as discussed above under “A security breach that results in unauthorized disclosure of employee, Company or customer information could adversely affect our costs, reputation and results of operations.” We are also subject to risk related to delays or failures in the performance of third parties, such as shipping companies, including delays associated with labor strikes or slowdowns or adverse weather conditions. If the Company does not successfully meet the challenges of operating an e-commerce website or fulfilling customer expectations, the Company's business and sales could be adversely affected.

Adverse litigation matters may adversely affect our business and our financial condition.

From time to time the Company is involved in litigation and other claims against our business. Primarily these arise from our normal course of business but are subject to risks and uncertainties, and could require significant management time. The Company’s periodic evaluation of litigation-related matters may change our assessment in light of the discovery of facts with respect to legal actions pending against us, not presently known to us or by determination of judges, juries or other finders of fact. We may also be subjected to legal matters not yet known to us. Adverse decisions may negatively impact our business and our financial condition.

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

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

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

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

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

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

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

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

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

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

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

Associates

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the rules of the SEC and New York Stock Exchange and certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related rule-making that has been and may continue to be implemented over the next several years under the mandates of the Dodd-Frank Act. The requirements of these rules and regulations have, and may continue to, increase our compliance costs and place significant strain on our personnel, systems and resources. To satisfy the SEC’s rules implementing the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we must continue to document, test, monitor and enhance our internal control over financial reporting, which is a costly and time-consuming effort that must be re-evaluated frequently. We cannot give assurance that our disclosure controls and procedures and our internal control over financial reporting, as defined by applicable SEC rules, will be adequate in the future. Any failure to maintain the effectiveness of internal control over financial reporting or to comply with the other various laws and regulations to which we are and will continue to be subject, or to which we may become subject in the future, as a public company could have an adverse material impact on our business, our financial condition and the price of our common stock. In addition, our efforts to comply with these requirements, particularly with new requirements under the Dodd-Frank Act that have yet to be implemented, could significantly increase our compliance costs.

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

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

Risks Relating To The Market Value Of Our Common Stock:

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

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

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

As of March 23, 2017, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 42.6% of the voting power of our common stock. As a result, Mr. Cato may be able to control or significantly influence substantially all matters requiring approval by the shareholders, including the election of directors and the approval of mergers and other business combinations or other significant Company transactions. Mr. Cato may have interests that differ from those of other shareholders, and may vote in a way with which other shareholders disagree or perceive as adverse to their interests. In addition, the concentration of voting power held by Mr. Cato could have the effect of preventing, discouraging or deferring a change in control of the Company, which could depress the market price of our common stock.

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

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

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

None.

Item 2. ***Properties:***

The Company's distribution center and general offices are located in a Company-owned building of approximately 552,000 square feet located on a 15-acre tract in Charlotte, North Carolina. The Company's automated merchandise handling and distribution activities occupy approximately 418,000 square feet of this building and its general offices and corporate training center are located in the remaining 134,000 square feet. A building of approximately 24,000 square feet located on a 2-acre tract adjacent to the Company's existing location is used for receiving and distribution of store and office operating supplies. The Company also owns approximately 185 acres of land in York County, South Carolina as a potential new site for our distribution center.

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

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

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

The executive officers of the Company and their ages as of March 23, 2017 are as follows:

Name	Age	Position
John P. D. Cato........................	66	Chairman, President and Chief Executive Officer
John R. Howe...........................	54	Executive Vice President, Chief Financial Officer
Michael T. Greer.......................	54	Executive Vice President, Director of Stores
Gordon Smith...........................	61	Executive Vice President, Chief Real Estate and Store Development Officer

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

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

Michael T. Greer has been employed by the Company since 1985. Since May 2006, he has served as Executive Vice President, Director of Stores of the Company. From November 2004 until May 2006, he served as Senior Vice President, Director of Stores of the Company. From February 2004 until November 2004, he served as Senior Vice President, Director of Stores of the Cato concept. From 2002 to 2003 Mr. Greer served as Vice President, Director of Stores of the It's Fashion concept. From 1999 to 2001 he served as Territorial Vice President of Stores of the Cato concept and from 1996 to 1999 he served as Regional Vice President of Stores of the Cato concept. From 1985 to 1995, Mr. Greer held various store operational positions in the Cato concept.

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

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

No matters requiring disclosure.

PART II

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

Market & Dividend Information

The Company's Class A Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol CATO. Below is the market range and dividend information for the four quarters of fiscal 2016 and 2015.

	Price		
2016	**High**	**Low**	**Dividend**
First quarter	$ 39.96	$ 32.98	$ 0.30
Second quarter	38.70	34.70	0.33
Third quarter	35.61	29.19	0.33
Fourth quarter	35.59	25.82	0.33

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

As of March 23, 2017 the approximate number of record holders of the Company's Class A Common Stock was 5,000 and there were 2 record holders of the Company's Class B Common Stock.

Stock Performance Graph

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

THE CATO CORPORATION

STOCK PERFOMANCE TABLE

(BASE 100 – IN DOLLARS)

LAST TRADING DAY OF THE FISCAL YEAR	THE CATO CORPORATION	DOW JONES U.S. RETAILERS, APPL INDEX	RUSSELL 2000 INDEX
1/27/2012	100	100	100
2/1/2013	115	125	115
1/31/2014	117	142	147

1/30/2015	184	172	153
1/29/2016	181	170	138
1/27/2017	118	168	184

The graph assumes an initial investment of $100 on January 27, 2012, the last trading day prior to the commencement of the Company's 2012 fiscal year, and that all dividends were reinvested.

Issuer Purchases of Equity Securities

The following table summarizes the Company’s purchases of its common stock for the three months ended January 28, 2017:

Period	Total Number of Shares Purchased		Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs (2)
November 2016	19,900	$	29.58	19,900	
December 2016	-		-	-	
January 2017	215,600		26.55	215,600	
Total	235,500	$	26.81	235,500	2,624,641

(1) Prices include trading costs.

(2) On November 17, 2016, the Board of Directors increased, by 2 million shares, the authorization to purchase shares. During the fourth quarter ended January 28, 2017, the Company repurchased and retired 235,500 shares under this program for approximately $6,313,658 or an average market price of $26.81 per share. As of the fourth quarter ended January 28, 2017, the Company had 2,624,641 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

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

Certain selected financial data for the five fiscal years ended January 28, 2017 have been derived from the Company's audited financial statements. The financial statements and Independent Registered Public Accounting Firm's integrated audit reports for the most recent fiscal years are contained elsewhere in this report. All data set forth below are qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this annual report.

Fiscal Year (1)	**2016**	2015	2014	2013	2012
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	**$947,370**	$1,001,390	$977,867	$910,500	$933,782
Other revenue	**9,199**	9,701	9,047	9,533	10,266
Total revenues	**956,569**	1,011,091	986,914	920,033	944,048
Cost of goods sold (exclusive of depreciation shown below)	**601,985**	616,480	600,569	571,246	581,961
Selling, general and administrative (exclusive of depreciation shown below)	**289,619**	275,713	276,234	245,868	244,327
Selling, general and administrative percent of retail sales	**30.6%**	27.6%	28.3%	27.0%	26.2%
Depreciation	**$22,716**	$22,963	$22,026	$21,825	$22,455
Interest expense	**176**	264	57	75	116
Interest and other income	**7,041**	3,456	3,445	3,267	3,782
Income before income taxes	**49,114**	99,127	91,473	84,286	98,971
Income tax expense	**1,902**	32,285	30,971	29,964	37,303
Net income	**47,212**	66,842	60,502	54,322	61,668
Basic earnings per share	**1.72**	2.39	2.15	1.86	2.11
Diluted earnings per share	**1.72**	2.39	2.15	1.86	2.11
Cash dividends paid per share	**1.29**	1.20	1.20	0.20	2.98
SELECTED OPERATING DATA:					
Stores open at end of year	**1,371**	1,372	1,346	1,320	1,310
Average sales per store (2)	**$681,000**	$729,000	$730,000	$692,000	$722,000
Average sales per square foot of selling space	**151**	162	162	154	161

BALANCE SHEET DATA (at period end):					
Cash, cash equivalents, short-term investments and restricted cash	**$252,158**	$287,024	$260,610	$245,256	$194,646
Working capital	**271,896**	292,615	260,550	269,617	230,612
Total assets	**606,324**	642,344	608,278	596,918	532,646
Total stockholders' equity	**383,903**	412,665	380,198	391,109	345,234

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

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

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

Results of Operations

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

Fiscal Year Ended	**January 28, 2017**	January 30, 2016	January 31, 2015
Retail sales	**100.0%**	100.0%	100.0%
Other revenue	**1.0**	1.0	0.9
Total revenues	**101.0**	101.0	100.9
Cost of goods sold	**63.5**	61.6	61.4
Selling, general and administrative	**30.6**	27.6	28.3
Depreciation	**2.4**	2.3	2.3
Interest and other income	**0.7**	0.4	0.4
Income before income taxes	**5.2**	9.9	9.4
Net income	**5.0%**	6.7%	6.2%

Fiscal 2016 Compared to Fiscal 2015

Retail sales decreased by 5.4% to $947.4 million in fiscal 2016 compared to $1,001.4 million in fiscal 2015. The decrease in retail sales in fiscal 2016 was largely attributable to a same-store sales decrease of 6% and partially offset by a small increase in non-comparable store sales. Same-store sales includes stores that have been open more than 15 months. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. In fiscal 2016 and fiscal 2015, e-commerce sales were less than 2% of total sales and same-store sales. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, layaway fees and shipping charged to customers for e-commerce purchases), decreased by 5.4% to $956.6 million in fiscal 2016 compared to $1,011.1 million in fiscal 2015. The Company operated 1,371 stores at January 28, 2017 compared to 1,372 stores operated at January 30, 2016.

In fiscal 2016, the Company opened eight new stores, relocated six stores and closed nine stores.

Other revenue in total decreased to $9.2 million in fiscal 2016 from $9.7 million in fiscal 2015. The decrease resulted primarily from lower finance charges and lower layaway charges, partially offset by higher shipping charged to customers for e-commerce purchases.

Credit revenue of $4.9 million represented 0.5% of total revenue in fiscal 2016, a decrease compared to fiscal 2015 credit revenue of $5.4 million or 0.5% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled $3.2 million in fiscal 2016 compared to $3.3 million in fiscal 2015. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased $0.3 million from $2.0 million in fiscal 2015 to $1.7 million in fiscal 2016 due to lower credit revenue. Total credit income of $1.7 million in fiscal 2016 represented 3.5% of total income before taxes of $49.1 million compared to total credit income of $2.0 million in fiscal 2015, which represented 2.0% of fiscal 2015 total income before taxes of $99.1 million.

Cost of goods sold was $602.0 million, or 63.5% of retail sales, in fiscal 2016 compared to $616.5 million, or 61.6% of retail sales, in fiscal 2015. The increase in cost of goods sold as a percentage of sales resulted primarily from increased sales of marked down product and slight increases in buying and occupancy costs. Cost of goods sold includes merchandise costs, net of discounts and allowances, buying costs, distribution costs, occupancy costs, freight and inventory shrinkage. Net merchandise costs and in-bound freight are capitalized as inventory costs. Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy expenses include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold and excluding depreciation) decreased by 10.3% to $345.4 million in fiscal 2016 from $384.9 million in fiscal 2015. Gross margin as presented may not be comparable to that of other companies.

Selling, general and administrative expenses (“SG&A”), which primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees and bad debts were $289.8 million in fiscal 2016 compared to $276.0 million in fiscal 2015, an increase of 5.0%. As a percent of retail sales, SG&A was 30.6% compared to 27.6% in the prior year. The increase in SG&A as a percent of sales resulted primarily from an increase in store impairments, closed store expenses, professional fees and litigation, salaries and store equipment, partially offset by lower incentive compensation.

Store asset impairment charges increased to $13,561,000 in fiscal 2016 compared to $1,917,000 in fiscal 2015 due to more stores having impairments of fixtures and leasehold improvements compared to fiscal 2015. The impairment charges are related to lower estimated future cash flows resulting from significantly lower sales for these stores. See Note 1 to the Consolidated Financial Statements for further discussion.

Depreciation expense was $22.7 million in fiscal 2016 compared to $23.0 million in fiscal 2015. Depreciation expense decreased slightly from fiscal 2015 due to older stores and IT projects being fully depreciated, partially offset by store development and information technology.

Interest and other income increased to $7.0 million in fiscal 2016 compared to $3.5 million in fiscal 2015. The increase is primarily attributable to a change in estimate related to the recognition of unredeemed gift card breakage income, as described in Note 1.

Income tax expense was $1.9 million, or 0.2% of retail sales in fiscal 2016 compared to $32.3 million, or 3.2% of retail sales in fiscal 2015. The dollar decrease resulted from significantly lower pre-tax income and favorable adjustments from foreign and domestic tax initiatives. The effective tax rate was 3.9% in fiscal 2016 compared to 32.6% in fiscal 2015. See Note 12 to the Consolidated Financial Statements, “Income Taxes,” for further details.

Fiscal 2015 Compared to Fiscal 2014

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

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

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

Credit revenue of $5.4 million represented 0.5% of total revenue in fiscal 2015, a decrease compared to fiscal 2014 credit revenue of $5.8 million or 0.6% of total revenue. The slight decrease in credit revenue was primarily due to reductions in finance and late charge income as a result of lower accounts receivable balances. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses include principally bad debt expense, payroll, postage and other administrative expenses and totaled $3.3 million in fiscal 2015 compared to $3.4 million in fiscal 2014. The decrease in these expenses was principally due to a reduction in other expense of $0.1 million. See Note 14 of Notes to Consolidated Financial Statements for a schedule of credit-related expenses. Total credit segment income before taxes decreased $0.3 million from $2.3 million in fiscal 2014 to $2.0 million in fiscal 2015 due to lower credit revenue. Total credit income of $2.0 million in fiscal 2015 represented 2.0% of total income before taxes of $99.1 million compared to total credit income of $2.3 million in fiscal 2014, which represented 2.5% of fiscal 2014 total income before taxes of $91.5 million.

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

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

Allowance for Doubtful Accounts

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

Merchandise Inventories

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

Lease Accounting

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

Impairment of Long-Lived Assets

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

Insurance Liabilities

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

Uncertain Tax Positions

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

Revenue Recognition

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

The Company recognizes income on unredeemed gift cards ("gift card breakage") as a component of other income. Gift card breakage is determined after 24 months when the likelihood of the remaining balances being redeemed is remote based on our historical redemption data and there is no legal obligation to remit the remaining balances to relevant jurisdictions. Gift card breakage income is analyzed and recognized on a quarterly basis and is not expected to be material.

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

Liquidity, Capital Resources and Market Risk

The Company has consistently maintained a strong liquidity position. Cash provided by operating activities during fiscal 2016 was $72.1 million as compared to $93.9 million in fiscal 2015. These amounts have enabled the Company to fund its regular operating needs, capital expenditure program, cash dividend payments and selective repurchases of the Company's common stock.

Cash provided by operating activities for these periods was primarily generated by earnings adjusted for the change due to depreciation and changes in working capital and share-based compensation. The decrease of $21.7 million for fiscal 2016 compared to fiscal 2015 is primarily due to a decrease in net income and an increase in prepaid and other assets primarily related to tax payments, partially offset by an increase in impairment.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures, dividends and other operating requirements for fiscal 2017 and for the foreseeable future.

At January 28, 2017, the Company had working capital of $271.9 million compared to $292.6 million and $260.6 million at January 30, 2016 and January 31, 2015, respectively.

At January 28, 2017, the Company had an unsecured revolving credit agreement, which provided for borrowings of up to $35.0 million less the balance of revocable letters of credit discussed below. The revolving credit agreement is committed until August 2018. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance as of January 28, 2017. There were no borrowings outstanding under this credit facility during the fiscal year ended January 28, 2017 or the fiscal year ended January 30, 2016.

The Company had no outstanding revocable letters of credit relating to purchase commitments at January 28, 2017, January 30, 2016 and January 31, 2015.

Expenditures for property and equipment totaled $27.3 million, $26.5 million and $28.9 million in fiscal 2016, 2015 and 2014, respectively. The expenditures for fiscal 2016 were primarily for store development, investments in new technology, an airplane and general office expansion. In fiscal 2017, the Company is planning to invest approximately $15.7 million in capital expenditures.

Net cash used in investing activities totaled $14.6 million for fiscal 2016 compared to net cash used in investing activities of $81.8 million for fiscal 2015 and net cash provided by investing activities of $27.7 million for fiscal 2014. In fiscal 2016, the cash used was due primarily to purchase short-term investments and expenditures for property and equipment, partially offset by sales of short-term investments.

On February 23, 2017, the Board of Directors maintained the quarterly dividend at $0.33 per share, which was paid on March 22, 2017. As of March 23, 2017, the Company repurchased 160,000 shares for $3,987,000, primarily to offset dilution from its equity compensation plans.

The Company does not use derivative financial instruments.

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

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at January 28, 2017. The state, municipal and corporate bonds and asset-backed securities have contractual maturities which range from four days to 26.5 years. The U.S. Treasury Notes and Certificates of Deposit have contractual maturities which range from two months to 1.1 years. These securities are classified as available-for-sale and are recorded as Short-term investments, Restricted cash and investments and Other assets on the accompanying Consolidated Balance Sheets. These assets are carried at fair value with unrealized gains and losses reported net of taxes in Accumulated other comprehensive income.

Additionally, at January 28, 2017, the Company had $0.7 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets. At January 30, 2016, the Company had $0.6 million of corporate equities, which are recorded within Other assets in the Consolidated Balance Sheets.

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

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

The following table shows the Company's obligations and commitments as of January 28, 2017, to make future payments under noncancellable contractual obligations (in thousands):

	Payments Due During One Year Fiscal Period Ending						
Contractual Obligations (1)	**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Merchandise letters of credit	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating leases	223,323	71,999	56,289	40,452	27,176	16,584	10,823
Total Contractual Obligations	$ 223,323	$ 71,999	$ 56,289	$ 40,452	$ 27,176	$ 16,584	$ 10,823

(1) In addition to the amounts shown in the table above, $10.7 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC 740 and we are uncertain if or when such amounts may be settled. See Note 12, Income Taxes, of the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

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

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk:***

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

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

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of stockholders’ equity and of cash flows present fairly, in all material respects, the financial position of The Cato Corporation and its subsidiaries at January 28, 2017 and January 30, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina

March 23, 2017

THE CATO CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND

COMPREHENSIVE INCOME

		Fiscal Year Ended	
	January 28, 2017	January 30, 2016	January 31, 2015
		(Dollars in thousands, except per share data)	
REVENUES			
Retail sales	**$ 947,370**	$ 1,001,390	$ 977,867
Other revenue (principally finance charges,			