REFINITIV

DELTA REPORT

10-Q

CATO - CATO CORP

10-Q - MAY 04, 2024 COMPARED TO 10-Q - OCTOBER 28, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	5710
CHANGES	412
DELETIONS	3264
ADDITIONS	2034

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

FORM
10-Q

☑

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

For the quarterly period ended
October 28, 2023 May 4, 2024

OR

☐

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

For the transition period from ________________to__________________

Commission file number
1-31340

THE CATO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
56-0484485
(State or other jurisdiction of incorporation or organization)
(I.R.S. Employer Identification No.)
8100 Denmark Road
,
Charlotte
,
North Carolina

28273-5975
(Address of principal executive offices)
(Zip Code)
(704) (
704
)
554-8510
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:
Title of each class
Trading Symbol(s)

Name of each exchange on which registered
Class A - Common Stock, par value $.033 per share
CATO
New York Stock Exchange

2 1

THE CATO CORPORATION

FORM 10-Q

Quarter Ended October 28, 2023 May 4, 2024

Table of Contents

[redacted]

3 2

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE CATO CORPORATION

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

(UNAUDITED)

Three Months Ended
Nine Months Ended May 4, 2024
October 28,
April 29, 2023
October 29,
2022
October 28,
2023
October 29,
2022
(Dollars in thousands, except per share data)
REVENUES
Retail sales
$
156,682 175,272
$
174,921
$
528,174
$
574,860 190,311
Other revenue (principally finance charges, late fees and
layaway charges)
1,574 1,827
1,705
5,003
5,351 1,739
Total revenues
158,256 177,099
176,626
533,177
580,211 192,050
COSTS AND EXPENSES, NET
Cost of goods sold (exclusive of depreciation shown below)
105,832 112,505
123,752
345,536
387,744 122,087
Selling, general and administrative (exclusive of depreciation

shown below)
61,792 56,752
61,397
185,344
182,606 61,934
Depreciation
2,504 2,040
2,864
7,371
8,418 2,357
Interest and other income
(1,523) (5,821)
(2,278)

[redacted]

4 3

THE CATO CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

October 28, 2023 May 4, 2024
January 28, 2023
ASSETS February 3, 2024
(Dollars in thousands)
ASSETS
Current Assets:
Cash and cash equivalents
$
25,024 39,101
$
20,005 23,940
Short-term investments
93,552 66,250
108,652 79,012
Restricted cash
3,908 3,533
3,787 3,973
Accounts receivable, net of allowance for customer credit losses of
$
742 671
and $
761 705
at October 28, 2023 May 4, 2024 and January 28, 2023 February 3, 2024, respectively
31,115 31,716
26,497 29,751
Merchandise inventories
98,872 101,317
112,056 98,603
Prepaid expenses and other current assets
8,591 7,724
6,676 7,783
Total Current Assets
261,062 249,641
277,673 243,062
Property and equipment – net
66,302 64,568
70,382
Noncurrent deferred income taxes
10,977
9,213 64,022
Other assets

25,444 23,305
21,596 25,047
Right-of-Use assets – net
123,583 139,635
174,276 154,686
Total Assets
$
487,368 477,149
$
553,140 486,817
LIABILITIES AND STOCKHOLDERS' EQUITY
Current Liabilities:
Accounts payable
$
86,897 86,966
$
91,956 87,821
Accrued expenses

[redacted]

5 4

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

Nine Three Months Ended
October 28, May 4, 2024
April 29, 2023
October 29, 2022
(Dollars in thousands)
Operating Activities:
Net income (loss)
$
(523) 10,974
$
3,020 4,428
Adjustments to reconcile net income (loss) to net cash provided
by operating activities:
Depreciation
7,371 2,040
8,418 2,357
Provision for customer credit losses
397 171
217 98
Purchase premium and premium amortization of investments
(226) (136)
606 (18)
Gain on sale of assets held for investment
(4,093)
-
Share-based compensation
3,189 (38)
1,517 958
Deferred income taxes
(1,981)
-
(832)
Loss (Gain) on disposal of property and equipment

13 65
106 (33)
Changes in operating assets and liabilities which provided (used) cash:
Accounts receivable
(1,815) (1,836)
29,916 (1,793)
Merchandise inventories
13,184 (2,714)
8,189 5,243
Prepaid and other assets
(1,716) 27
1,704 (618)
Operating lease right-of-use assets and liabilities
(1,499) (435)
(1,895) (532)
Accrued income taxes
1,375 518
1,918 2,066
Accounts payable, accrued expenses and other liabilities
(6,099) 1,163
(34,418) (1,429)
Net cash provided by operating activities
11,670 5,706
19,298 9,895
Investing Activities:
Expenditures for property and equipment
(10,271) (3,261)
(14,382) (6,170)
Purchase of short-term investments
(44,595) (8,572)
(53,765) (5,914)
Sales of short-term investments
60,999 21,413
68,348 27,421
Sales of other assets
5,034
-
Net cash provided by investing activities
6,133 14,614

201 15,337
Financing Activities:
Dividends paid
(10,457) (3,523)
(10,870) (3,455)
Repurchase of common stock
(2,563) (2,237)
(11,561) (2,267)
Proceeds from employee stock purchase plan
357 161
279 166
Net cash used in by financing activities
(12,663) (5,599)
(22,152) (5,556)
Net increase (decrease) in cash, cash equivalents, and restricted cash
5,140 14,721
(2,653) 19,676
Cash, cash equivalents, and restricted cash at beginning of period
23,792 27,913
23,678 23,792
Cash, cash equivalents, and restricted cash at end of period
$
28,932 42,634
$
21,025 43,468
Non-cash activity:
Accrued other assets and property and equipment expenditures
$
1,100 491
$
2,311 644
See notes to condensed consolidated financial statements (unaudited).

6 5

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Accumulated
Additional
Other
Total
Common
Paid-in
Retained
Comprehensive
Stockholders'
Stock
Capital
Earnings
Income (Loss)
Equity
(Dollars in thousands)
Balance — February 3, 2024
$
694
$
126,953
$
64,279
$
395
$
192,321
Comprehensive income:
Net income
-

-
10,974
-
10,974
Unrealized net gains on available-for-sale securities, net of deferred
income tax benefit of $0
-
-
-
(748)
(748)
Dividends paid ($
0.17
per share)
-
-
(3,523)
-
(3,523)
Class A common stock sold through employee stock purchase plan
1
189
-
-
190
Share-based compensation issuances and exercises
13
-
5
-
18
Share-based compensation expense
-
(84)
-
-
(84)
Repurchase and retirement of treasury shares
(14)
-
(2,223)
-
(2,237)
Balance — May 4, 2024
$

7

THE CATO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

Accumulated
Additional
Other
Total
Common
Paid-in
Retained
Comprehensive
Stockholders'
Stock
Capital
Earnings
Income
Equity
(Dollars in thousands)
Balance — January 29, 2022
$
728
$
119,540
$
134,208
$

(280)
$
254,196
Comprehensive income:
Net income
-
-
9,748
-
9,748
Unrealized net losses on available-for-sale securities, net of deferred income tax benefit of $
362
-
-
-
(1,206)
(1,206)
Dividends paid ($
0.17
per share)
-
-
(3,638)
-
(3,638)
Class A common stock sold through employee stock purchase plan
-
111
-
-
111
Share-based compensation issuances and exercises
-
-
5
-
5
Share-based compensation expense
-
598
-
-
598
Repurchase and retirement of treasury shares
(20)
-
(9,142)
-
(9,162)
Balance — April 30, 2022

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND

OCTOBER 29, 2022

8 6

NOTE 1 - GENERAL:

The condensed consolidated financial statements as of October May 28, 4, 2023 2024 and for the thirty-nine-week periods ended October 28, 2023 and October 29, 2022 have been prepared from the accounting records thirteen-week of periods unaudited. The ended Cato May Corporation 4, 2024 and its April 29, 2023 have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the (the "Company"), and all amounts shown are are unaudited.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements presentation of the financial statements have been included. All such adjustments are of a normal, recurring nature unless otherwise otherwise noted. The results of the interim period may not be indicative of the results expected for the entire year.

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

January 28, 2023. February 3, 2024. Amounts as of January 28, 2023 February 3, 2024 have been

On November 16, 2023 February 16, 2024, the Company closed on the sale of land held for investment. The sale resulted in a net gain of $ 3.2 million and is included in Interest and other income in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income for the period ended May 4, 2024.

On May 23, 2024, the Board of Directors maintained the quarterly dividend at dividend at $ 0.17 per share.

During the third quarter of the current fiscal year, the Company received an estimate for costs to repair its corporate jet, which had sustained damage at the end of the second quarter. The Company determined that the cost of repair is recoverable and recorded a receivable for the estimated repair cost of $ 3.2 million.

Management has determined that it is more likely than not that the aircraft will be sold within the next 12 months. The Company reclassified the aircraft as an asset held for sale at its estimated fair value of $ 4.2 million, which is included in Other assets in the accompanying Condensed Consolidated Balance Sheets as of October 28, 2023.

NOTE 2 - EARNINGS PER SHARE:

Accounting Standard Codification ("ASC") 260 – *Earnings Per Share* requires dual presentation of basic and diluted Earnings Per Share ("EPS") on the face of all income statements for all entities with complex capital structures. The Company has presented one basic EPS and one diluted EPS amount for all common shares in the accompanying Condensed

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Income and Comprehensive Income. While the

While Company's certificate of incorporation provides the right for the Board of Directors to declare dividends on

Class A shares without declaration of commensurate dividends on Class B shares, the Company's Company certificate of incorporation provides the right for the Board of Directors to declare has dividends on Class A shares without declaration of commensurate dividends on Class B

[redacted]ompany

[redacted]ly paid the same dividends to both Class A and Class B shareholders and the and the

Board of Directors has has resolved to continue this practice. Accordingly, the Company's allocation

Three Months Ended

Nine Months Ended May 4, 2024

October 28, tation is the same for Class A and Class B shares and the EPS amounts reported

April 29, 2023 are applicable applicable to both Class A and Class B B shares.

October 29, 2022

Basic EPS is computed as net income less earnings allocated to non-vested equity awards divided by the weighted average number of common shares outstanding for the period. Diluted EPS

October 28, 2023

reflects the potential dilution that could occur from common shares issuable through stock

October 29, 2022

options and the Employee Stock Purchase Plan.

(Dollars in thousands)

Numerator

Net earnings (loss)

$

(6,077) 10,974

$

(4,453) 4,428

$

(523)

$

3,020

(Earnings) loss Earnings allocated to non-vested equity awards

346 (557)

240

49

(153) (227)

Net earnings (loss) available to common stockholders

$

(5,731) 10,417

$

(4,213)

$

(474)

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND

OCTOBER 29, 2022

10 8

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME:

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (loss) (in thousands) for the the three months ended October 28, 2023; May 4, 2024:

Changes in Accumulated Other Comprehensive Income (Loss) (a)

Unrealized Gains and (Losses) on Available-for-Sale Securities

Beginning Balance at July 29, 2023 February 3, 2024

$

(716) 395

Other comprehensive income (loss) before reclassification

185 (1,434)

Amounts reclassified from accumulated other comprehensive income (b)

16 686

Net current-period other comprehensive income (loss)

201 (748)

Ending Balance at October 28, 2023 May 4, 2024

$

(515) (353)

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (loss) (in thousands) for the nine the three months ended October 28, 2023; April 29, 2023:

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

(b) Includes $

20 892

impact of Accumulated other comprehensive income reclassifications into Interest and other income for net realized gains on available-for-sale securities. The tax impact of this reclassification was $

4 206

Changes in Accumulated Other Comprehensive Income (Loss) (a)

Unrealized Gains and (Losses) on Available-for-Sale Securities

Beginning Balance at January 28, 2023

$

(1,238)

Other comprehensive income (loss) before reclassification

704

Amounts reclassified from accumulated other comprehensive income (b)

impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $

723 355

Ending Balance at October 28, 2023 April 29, 2023

5

(515) (883)

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

(b) Includes $

24

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND

OCTOBER 29, 2022

11

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED):

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the three months ended October 29, 2022:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at July 30, 2022	$ (1,425)
Other comprehensive income before reclassifications	(637)
Amounts reclassified from accumulated other comprehensive income (b)	8
Net current-period other comprehensive income	[illegible])
[illegible]	[illegible]

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

(b) Includes $ 11 impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $ 3 .

The following table sets forth information regarding the reclassification out of Accumulated other comprehensive income (in thousands) for the nine months ended October 29, 2022:

	Changes in Accumulated Other Comprehensive Income (a)
	Unrealized Gains and (Losses) on Available-for-Sale Securities
Beginning Balance at January 29, 2022	$ (280)
Other comprehensive income before reclassifications	(1,788)
Amounts reclassified from accumulated other comprehensive income (b)	14
Net current-period other comprehensive income	(1,774)
Ending Balance at October 29, 2022	$ (2,054)

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

(b) Includes $ 18 impact of Accumulated other comprehensive income reclassifications into Interest and other income for net gains on available-for-sale securities. The tax impact of this reclassification was $ 4

THE CATO CORPORATION

NOTE 4 – FINANCING ARRANGEMENTS:

As of October 28, 2023, the Company has an unsecured revolving credit line, which provides for borrowings of up At May 4, 2024, the Company had an unsecured revolving credit agreement, which provides for borrowings of up to $
35.0
million less the balance of any revocable letters of credit related to purchase commitments, commitments, and is committed through May 2027. The revolving credit agreement contains various financial covenants covenants and limitations, limitations, including the the maintenance of of specific financial financial ratios. On October April 24, 2023, 25, 2024, the Company amended the revolving Company credit agreement to link the calculation of the Company's EBITDAR coverage ratio to amended the amount revolving of credit the agreement Company's to cash modify and a investments. definition Though used the in effect of the amendment reduced calculating the
Company's minimum EBITDAR coverage ratio for the to quarter ended add back October 28, certain 2023 and income tax is expected receivables included to do in the calculation of so going forward, the Company was in compliance with the amended credit agreement for ratio. For the quarter ended October
28, 2023 May 4, 2024, and also would have been in compliance without after giving effect to the amendment. amendment, the
Company was in compliance with the credit agreement. There were no
borrowings borrowings outstanding,
no r any

October
28,

any outstanding letters of credit that reduced borrowing availability, as of May 24,2 2024.
The weighted average weighted average interest rate under the credit facility was zero
at October 28, 2023
May 4, 2024 due to no
borrowings outstanding. outstanding borrowings.

NOTE 5 – REPORTABLE SEGMENT INFORMATION:

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

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

~~The Company operates its women's fashion specialty~~ retail stores in 31 states as of October May 28, 4, 2023, 2024, principally in the southeastern United States. The Company offers its own credit card to its customers and all credit authorizations, payment processing and collection efforts are

13

NOTE 5 – REPORTABLE SEGMENT INFORMATION (CONTINUED):

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

Three Months Ended

Nine Months Ended

October 28, 2023 May 4, 2024

Retail

performed by a separate wholly-owned subsidiary subsidiaries of the Company.

Credit

Total

October 28, Revenues

$176,430

$669

$177,099

Depreciation

2,040

-

2,040

Interest and other income

(5,821)

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

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

Three Months Ended

Income before taxes

Nine Months Ended **May 4, 2024**

October 28,

April 29, 2023

October 29,

Capital expenditures

2022

THE CATO CORPORATION

October 28

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND **OCTOBER 29, 2022**

April 29, 2023

14 11

Payroll

Retail

NOTE 6 – STOCK-BASED SHARE BASED COMPENSATION:

As of October 28, 2023, May 4, 2024, the Company had two

135 **153**

long-term compensation plans pursuant to Company which stock-based compensation had was

Total

outstanding or could be granted. The the 2018 Incentive Compensation Plan and 2013

Revenues

120

$157,595 $191,434

Incentive Compensation Plan are for the granting of various

$661 616

forms of equity-based awards, including restricted stock and stock options for grant to officers,

411

$158,256 directors and key employees. Effective May 24, 2018,

Revenues

shares for grant were no longer available under the 2013 Incentive Compensation Plan.

389 134

$531,243

The following table presents the number of options and shares of restricted stock initially

Postage

authorized and available for grant under each of this plan as the plans as of October 28, 2023: May 4,

111 **102**

$533,177 192,050

107

Depreciation

321

2,504 2,357

299 101

-

Other expenses

Weighted

Average

Number of

Grant Date Fair

Shares

Value Per Share

Restricted stock awards at January 28, 2023 February 3, 2024

1,059,433 1,123,873

THE CATO CORPORATION

$

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

16.10 11.32

15 12

4.76

NOTE 6 – STOCK BASED-COMPENSATION SHARE BASED COMPENSATION (CONTINUED):

Vested

The Company's Employee Stock Purchase Plan allows eligible full-time employees to purchase a limited number of shares of the Company's Class A Common Stock during each semi-annual offering period at a

(217,238) (232,696)

13.97

13.22

15

Forfeited or expired

% discount through through payroll deductions. deductions. During the nine three months ended October 28, May 4, 2024 and April 29, 2023, and October 29,

(109,705) (2,812)

11.94

11.81 the Company sold

NOTE 7 – FAIR VALUE MEASUREMENTS:

Restricted stock awards at October 28, 2023 May 4, 2024

50,540 33,317

The following tables set forth information regarding the Company's financial assets and liabilities that are measured at fair value (in thousands) as of October 28, 2023 May 4, 2024 and January 28, February 3, 2024:

1,146,992 1,278,265

$8,504 22,194

11.31 8.97 [redacted]

shares to employees at an average discount of $

1.23 0.86

and $

1.73 1.32

per share, respectively, under under the Employee Stock Stock Purchase Plan. The The compensation expense recognized recognized for the

15

% discount given under the Employee Stock Purchase Plan was approximately $

62,000

and $

49,000

for under the nine Employee Stock Purchase Plan was approximately $

29,000

for each of the three months ended October May 28, 4, 2023 2024 and October April 29, 2022, respectively. 2023. These expenses are classified as a component of Selling, classified as a component of

Selling, general and administrative expenses. expenses in the Condensed Consolidated Statements of Income.

	October 28, 2023 May 4, 2024			
Description	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	
Assets:				
State/Municipal Bonds	$ 15,700 11,477	$ -	$ 15,700 11,477	$ -
Corporate Bonds	47,759 43,290	-	47,759 43,290	

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND

OCTOBER 29, 2022

16 13

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 May 4, 2024 and February 3, 2024. October 28, The state, municipal and corporate bonds and asset-backed securities have contractual 2023 maturities which range from seven days to 3.0 years. The U.S. Treasury/Agencies Notes and January 28, 2023. The state, municipal and corporate bonds Bonds have contractual maturities which range from four day s to 3.1 years. The U.S. Treasury Notes have contractual maturities which range from 79 days 2 months to 2.3 1.8 years. These securities are classified as available-for-sale available-for-sale and are recorded as Short-term investments and Other assets on the accompanying Condensed investments, Restricted cash and Other assets on the accompanying Condensed Consolidated Balance Sheets. These assets assets are carried at fair value value with unrealized gains and unrealized gains losses reported net of and losses taxes in reported net Accumulated other of taxes comprehensive income. in Accumulated other comprehensive income. The asset-backed asset-backed securities are bonds bonds comprised of auto loans and and bank credit cards that carry carry AAA ratings. The auto loan asset-backed securities are backed by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit

Quoted Prices in Active Markets for Identical Assets Level 1

Significant Other Observable Inputs Level 2

Significant Unobservable Inputs Level 3

Description

Assets:

State/Municipal Bonds $ 23,102 12,540 $ 23,102 12,540 $

Corporate Bonds 47,901 45,400

U.S. Treasury/Agencies Notes and Bonds 27,250 18,114 27,250 18,114

Cash Surrender Value of Life Insurance

card asset-backed securities are backed by revolving pools of credit card receivables generated

9,274 8,586

by account holders of cards from American Express, Citibank, JPMorgan Chase,

Capital One, and Discover.

9,274 8,586

Additionally, at October 28, 2023 May 4, 2024 the Company had $

valuation hierarchy. The Level 3 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance funds' net asset values, as recorded in Other noncurrent liabilities in the Condensed Consolidated Balance Sheet. These funds are designed to mirror mutual funds and money market funds that are observable and actively traded.

The following tables summarize the change in fair value of the Company's financial assets and liabilities measured using Level 3 inputs as of Level May 4, 2024 and February 3, inputs for the nine months ended October 28, 2023 and the year ended January 28, 2023 (in 2024 (dollars in thousands):

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
15
[redacted]
Fair Value
Measurements Using
Significant Unobservable
Asset Inputs (Level 3)
Cash Surrender Value
Beginning Balance at January 28, 2023 February 3, 2024
$
9,274 8,586
Redemptions
-
Additions
-
Total gains or (losses):
Included in interest and other income (or changes in net assets)
(236) 163
Ending Balance at May 4, 2024
$
8,749
Fair Value
Measurements Using
Significant Unobservable
Liability Inputs (Level 3)
Deferred Compensation
Beginning Balance at February 3, 2024
$
(8,654)
Redemptions
253
Additions
(63)
Total (gains) or losses
Included in interest and other comprehensive income (or changes in net assets)
- (198)
Ending Balance at October 28, 2023 May 4, 2024
$
9,038 (8,662)
Fair Value
Measurements Using
Significant Unobservable

Asset Inputs (Level 3)
Cash Surrender Value
Beginning Balance at January 28, 2023
$
9,274
Redemptions
(1,168)
Additions
-
Total gains or (losses)
Included in interest and other income (or changes in net assets)
480
Ending Balance at February 3, 2024
$
8,586
Fair Value
Measurements Using
Significant Unobservable

Fair Value
Measurements Using
Significant Unobservable
Asset Inputs (Level 3)
Cash Surrender Value
Beginning Balance at January 29, 2022
$
11,472
Redemptions
(1,718)
Additions
-
Total gains or (losses):
Included in interest and other income (or changes in net assets)
(480)
Included in other comprehensive income
-
Ending Balance at January 28, 2023
$
9,274
Fair Value
Measurements Using
Significant Unobservable
Liability Inputs (Level 3)
Deferred Compensation
Beginning Balance at January 29, 2022

$
(10,020)
Redemptions
1,142
Additions
(379)
Total (gains) or losses:
Included in interest and other income (or changes in net assets)
354
Included in other comprehensive income
-
Ending Balance at January 28, 2023
$
(8,903) (8,654)

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND
OCTOBER 29, 2022
19 16

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS:

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures", which modifies disclosure requirements for all public entities that are required to report segment information. The update will change the reporting of segments by adding significant segment expenses, other segment items, title and position of the chief operating decision maker ("COD") and how the COD uses the reported measures to make decisions. The update also requires all annual disclosure about a reportable segment's profit or loss and assets in interim periods. This guidance is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted, and the guidance is applicable retrospectively to all prior periods presented in the financial statements. The Company has reviewed recent accounting pronouncements is currently in the process of evaluating the potential impact of adoption of this new guidance on its consolidated financial statements and believe none will have a material related disclosures.

n

NOTE 9 – INCOME TAXES: beginning after December

The Company had an effective tax rate for the first nine months of 2023 of

60.42024 for all public business entities, with early adoption and retrospective application
% compared to
49.7pany is currently in the process of evaluating the potential ~~impact~~ of adoption of this new
% for the first nine months of 2022. The change in the effective tax rate for the first nine
months was quarter of 2024 of
5.6
% compared to an effective tax rate of
32.6
% for the first quarter of 2023. Income tax expense for the quarter decreased to $
0.6
million in 2024 from $
2.1

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
17

in tax expense is primarily due to increases in valuation
forwards and the impact of the foreign rate differential and the release of reserves for
uncertain tax positions, offset by decreases in Global Intangible Low-taxed Income (GILTI), lower
state income taxes, non-deductible officer's compensation, and foreign tax credits, as
percentages on a pre-tax loss.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND
OCTOBER 29, 2022
20

The Company offers its own proprietary credit card to customers. All credit activity is performed by the
Company's wholly-owned wholly-owned subsidiaries.
None No
ne of the credit credit card receivables are secured. During the three and nine months ended
October 28, 2023, the The Company
estimated customer credit losses of $
149,000
and
$
421,000
, respectively, compared to $
89,000 171,000
and $
261,000 121,000
for the three and nine months periods ended October May 4, 2024 and April
29, 2022, 2023, respectively. Sales purchased respectively, on the sales purchased by the
Company's proprietary credit card for the three and nine months ended October 28, 2023
were of $
5.7

million and
and $
17.4
million, respectively, compared to $
5.9
million and $
17.4 5.8
million for the three periods ended May 4, 2024 and nine months ended October 29, 2022 April 29, 2023, respectively.

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

Balance as of October 28, 2023 May 4, 2024	January 28, 2023 February 3, 2024
Proprietary Credit Card Receivables, net	
$ 11,066 10,972	$
$ 21,18 6,022 6,849	$ 8,523 8,143

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND

OCTOBER 29, 2022

NOTE 12 – LEASES: The Company determines whether an arrangement is a lease at inception. The Company has operating leases for stores, offices, warehouse space and equipment. Its Its leases have remaining lease terms of up to 10 years years based on the estimated likelihood , some of renewal. Some which include options to extend extend the lease term for up to five years, and some of which include options to terminate the lease within one year. The Company considers these options in in determining the lease term used to establish its right-of-use assets and ~~lease liabilities.~~

The Company's lease agreements do not contain any material residual value guarantees or material residual value guarantees or material restrictive covenants.

Three Months Ended
October 28, May 4, 2024
April 29, 2023

October 29, 2022

Operating lease cost (a)

$

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

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

Nine Months Ended

October 28, 2023

October 29, 2022

Operating lease cost (a)

$ 44 497

53,174

$

(a) Includes right-of-use asset amortization of ($

53,521

Variable lease cost (b)

0.4 0.3

$

) million for the three months ended October 28, 2023

1,642 May 4, 2024 and

$

October 29, 2022, April 29, 2023, respectively.

2,053 Primarily related relates to monthly percentage rent for stores not presented on the condensed

(a) Includes right-of-use asset amortization of ($

0.9

) million and ($

1.3

) million for the nine months ended October 28, 2023 and

October 29, 2022, respectively.

(b) Primarily related to monthly percentage rent for stores not presented on the condensed

consolidated balance sheets. sheet.

THE CATO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 2023 AND 19

OCTOBER 29, 2022

22 NOTE 12 – LEASES (CONTINUED):

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

Operating cash flow information:

Three Months Ended

October 28, May 4, 2024

April 29, 2023

October 29, 2022

Cash paid for amounts included in the measurement of lease liabilities

$

Nine Months Ended

October 28, 2023

October 29, 2022

Non-cash activity:

Cash paid for amounts included in the measurement of lease liabilities

Right-of-use assets obtained in exchange for lease obligations, net of rent violations

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

$

50,696

As of

$

October 28, May 4, 2024

51,182

April 29, 2023

October 29, 2022

Non-cash activity:

Maturities As of May 4, 2024, the maturities of lease obligations lease liabilities by fiscal year for the Company's operating leases are as follows (in as follows (in thousands):

1.8 2.1

Years Years

Fiscal Year

2.0 2.2

2023 2024 (a)

years Years

$

1,156 1,904

Weighted-average discount rate

16,144

3.30% 4.65%

2024

2.84% 3.20%

2024	49,756 49,240
2025	32,711 45,261
2026	19,525 29,329
2027	9,165 16,591
2028	7,784
Thereafter	1,836 690
Total lease payments	129,137 148,895
Less: Imputed interest	6,563 11,261
Present value of lease liabilities	$ 122,574 137,634

(a) Excluding the nine 3 months ended October 28, 2023 May 4, 2024.

23

20

THE CATO CORPORATION

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

FORWARD-LOOKING INFORMATION:

The following information should be read along with the unaudited Condensed Consolidated Financial Statements, including the accompanying Notes appearing in this report. Any of the following are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended: (1) statements in this

Form 10-Q that reflect projections or expectations of our future financial or economic performance; (2) statements that are not historical information; (3) statements of our beliefs, intentions, plans and objectives for future operations, including those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (4) statements relating to our operations or activities for our fiscal year ending February 3, 1, 2024 2025 ("fiscal 2023" 2024") and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures, and statements regarding the potential impact of the COVID-19 pandemic and related responses and mitigation efforts, as well as the potential impact of of supply chain disruptions, inflationary extreme weather conditions, inflationary pressures and other economic or market conditions on our business, results of operations and financial operations and financial condition and statements of plans or intentions regarding new store development new or store development strategy; closures; and (5) statements relating to our future future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as "will," "expects," "anticipates,"

words "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "could," "would," "should" and any variations or negative formations of such as "will," "expects," "anticipates," "approximates," "believes," "estimates," "hopes," "intends," "may," "plans," "could," "would," "should" and any variations or negative formations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking

statements included in this report are based on
information available to us as of the filing date of this report, but subject to known and unknown risks,

uncertainties and other factors that could cause actual results to differ materially from those contemplated differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or any actual or perceived deterioration in, or continuation of negative trends in, the conditions that
drive consumer
confidence and spending, including, but not limited to, prevailing social, economic, economic,
political and public
public health conditions and uncertainties, levels of unemployment, fuel, energy and food food costs, wage rates, tax tax rates, interest rates, home values, consumer net worth, the availability of of credit and inflation; changes in
in laws, regulations or government policies affecting our business, including but not limitedlimited to tariffs;
uncertainties regarding the impact of any any governmental action action regarding, or responses to,
to, the foregoing conditions; competitive factors and pricing pressures; our ability to predict and respond to rapidly to rapidly changing fashion trends and consumer demands; our ability to successfully implement our new store store development strategy to increase new store openings and our ability of of any such new stores to grow and and perform as expected; underperformance or other factors that may lead to, or affect the volume of, store closures; adverse weather, public health threats (including (including the global COVID-19 pandemic), acts of war pandemic) or aggression or similar conditions that may affect our merchandise supply chain, sales or operations;
inventory risks due to shifts in
market demand, including the ability to liquidate excess inventory at
anticipated margins; adverse developments or volatility affecting the financial services industry or developments or volatility affecting the broader financial services industry or broader financial markets; and other
factors discussed under “Risk Factors” in Part I, Item 1A of our annual Annual Report report on Form 10-K for the fiscal year ended January 28, 2023 fiscal year ended February 3, 2024 (“fiscal 2022”), as amended 2023”), as amended or supplemented, and in other reports we filefile with or furnish to the Securities and Exchange Commission Commission (“SEC”) from from time to time. We do not undertake, not undertake, and expressly decline, any obligation to update any such forward-looking information contained such forward-looking information contained in this report, whether as a result of new information, future
events, or otherwise.

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

24 21

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

The Company’s critical accounting policies and estimates are more fully described in “Management’s Discussion and Analysis of
Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal on Form 10-K for the fiscal year ended January February 28, 3, 2023. 2024. As The disclosed preparation of the Company’s financial statements in “Management’s conformity Discussion with and generally Analysis of Financial
Condition and Results of Operations,” the preparation of the Company’s financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”)
requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires in the exercise 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
Actual results inevitably will differ from
those estimates, and such differences may be material to the financial statements. The most significant statements. The most significant accounting estimates inherent in the preparation of the Company's financial
financial statements include the calculation of potential asset impairment, reserves income tax valuation allowances, reserves relating to self-insured health insurance, workers'
compensation, general and auto insurance liabilities,
uncertain tax positions, the allowance for customer credit losses, and inventory shrinkage.

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

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

25 22

RESULTS OF OPERATIONS:

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

Three Months Ended
Nine Months Ended **May 4, 2024**
October 28, April 29, 2023
October 29, 2022
October 28, 2023

October 29, 2022
Total retail sales
100.0
%
100.0
%
100.0
%
100.0
%
Other revenue
1.0
1.0
0.9
0.9
Total revenues
101.0
101.0
100.9
100.9
Cost of goods sold (exclusive of depreciation)
67.5 **64.2**
70.7
65.4
67.5 64.2
Selling, general and administrative (exclusive of depreciation)
39.4 **32.4**
35.1
35.1
31.8 32.5
Depreciation
1.6 **1.2**
1.6
1.4
1.5 1.2
Interest and other income
(1.0) **(3.3)**
(1.3)
(0.7)
(0.8) (0.5)
Income (loss) before income taxes
(6.6) **6.6**
(5.2)
(0.3)
1.0 3.5
Net income (loss)

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

2623

RESULTS OF OPERATIONS(CONTINUED):

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist readers in better understanding and evaluating our financial condition and results of operations. We recommend reading this MD&A in conjunction with our Condensed

Condensed Consolidated Financial Statements and the Notes to those statements included in the "Financial Statements"

"Financial Statements" section of this Quarterly Report on Form 10-Q, as well as our 2022 2023

Annual Report

on Form 10-K.

Recent Developments

Inflationary Cost Pressure and High Interest Rates

Despite The some pressure reduction on our customers' disposable income continued in inflationary the pressures first from last quarter year, of wages, fiscal operating supplies, 2024, due to prolonged and persistently high inflation rates, especially

related to housing and fuel, as well as high interest rates. These high interest rates have adversely affected the availability and cost of credit for our customers,
including revolving credit and service auto loans,cand; continue to be negatively impacted by the current inflationary environment. In addition, our customers' disposable income is impacted by increased costs related to fuel, food, housing, including rent,
and other consumable products relative to flattening wage rates, which negatively impact our customers' willingness to purchase discretionary items such as apparel, jewelry and shoes.
In response, the Federal Reserve began raising, and is committed to continue raising, interest rates until inflationary pressures subside to acceptable levels. Though the Federal Reserve has paused raising rates,
it has indicated it is committed to reducing inflation to its targeted levels. These high interest rates have adversely affected the availability and cost of credit for both businesses and our customers. customers' Increasing disposable costs related to revolving credit, auto loans and mortgages continue to negatively impact our customers' discretionary income. Our customers' willingness to purchase our products may continue to be negatively impacted by these inflationary pressures and high interest rates.
We believe believe high prices continued inflation and high interest rates rates negatively impacted impacted the first three quarters quarter of fiscal 2023 2024 and and will will likely continue to have a negative impact on consumer behavior and, by extension, our results of operations operations and financial condition during the remainder of fiscal 2023. 2024.

Merchandise Supply Chain

A significant amount of our merchandise is manufactured overseas, principally Southeast Asia, and traverses through the Panama Canal or the Suez Canal. The regional drought conditions experienced in the region surrounding the Panama Canal reduced the number of transits by approximately 37% and has also reduced the permissible draft of vessels transiting the Panama Canal, which reduced the volume and number of containers carried by container ships and increased our costs in the first quarter. During the second quarter,
the Panama Canal authority plans to increase the daily transits by 33% and increase the permissible draft of vessels depending on weather conditions. The hostilities affecting the region surrounding the Suez Canal are causing container ships to travel longer distances around the Cape of Good Hope, which is increasing lead times for merchandise and our costs to ship these goods as well as decreasing the pool of containers available.
Both of these situations have negatively impacted 2024. Though conditions in the Panama Canal could incrementally improve if weather conditions allow the easing of existing restrictions, we believe the totality of these conditions will likely continue to have a negative impact on our results of operations and financial condition for the foreseeable future.

Comparison of the Three and Nine First Quarter of 2024 Months ended October 28, 2023 with October 29, 2022 2023

Total retail sales for the first quarter third quarter were $156.7 million $175.3 million compared to last year's third first quarter sales of $174.9
million, a 10% decrease. The Company's sales decrease in the third quarter of fiscal 2023 was primarily due to an 8% decrease in same-store sales and closed stores, partially offset by sales from new stores. For the nine months ended October 28, 2023, total retail sales were $528.2 million compared to last year's comparable nine month sales of $574.9 million, 190.3 million. an 8% Sales decrease. The decreased decrease in primarily sales in due the first nine months of fiscal
2023 was due primarily to a 6% decrease in same-store sales and sales from stores that were closed stores, in the past 12 months, partially offset by sales from stores opened in the past 12 months. The decrease new stores. Same-store in same-store sales is primarily from fewer transactions due to the aforementioned pressures on our customers' disposable income, as well as lower average sales per transaction. 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. Stores that have been relocated or expanded are also included in the same-store sales calculation after they have been open more than 15 months. The method of calculating same-store sales varies across the retail industry. As a result, our same-store sales calculation may not be comparable to similarly titled measures reported by other companies.

E-commerce sales were less than 5% of total sales for the nine months ended October 28, 2023 and are included in the same-store sales calculation. Total revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable and layaway fees), were $158.3 million and $533.2 million for the three and nine months ended October 28, 2023, compared to $176.6 million and $580.2 million for the three and nine months ended October 29, 2022, respectively. The Company operated 1,245 stores at October 28, 2023 compared to 1,317 stores at the end of last year's third

quarter. During the first nine months of fiscal 2023, the Company opened nine stores and closed 44 stores. The Company currently expects to close approximately 110 stores in total in fiscal 2023.

Credit revenue of $0.7 million represented 0.4% of total revenues in the third quarter of fiscal 2023, compared to 2022 credit revenue of $0.6 million or 0.3% of total revenues. Credit revenue is comprised of interest earned on the Company's private label credit card portfolio and related fee income. Related expenses principally include payroll, postage and other administrative expenses and totaled $0.4 million in the third quarter of fiscal 2023, compared to last year's third quarter expense of $0.4 million.

Other revenue, a component of total revenues, was $1.6 million and $5.0 million for the three and nine months ended October 28, 2023, respectively, compared to $1.7 million and $5.4 million for the prior year's comparable three and nine month periods. The decrease in Other revenue for both the three and nine months was due to decreases in gift card breakage and e-commerce shipping revenue partially offset by increases in finance charges and late fees associated with the Company's proprietary credit card.

Cost of goods sold was $105.8 million, or 67.5% of retail sales and $345.5 million, or 65.4% of retail sales for the three and nine months ended October 28, 2023, respectively, compared to $123.8 million, or 70.7% of retail sales and $387.7 million, or 67.5% of retail sales for the comparable three and nine month periods of fiscal 2022. The overall decrease in cost of goods sold as a percent of retail sales for the third quarter and first nine months of fiscal 2023 resulted primarily from lower ocean freight costs and increased sales of regular priced goods, partially offset by deleveraging of occupancy and buying 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 costs include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold exclusive of depreciation) decreased by 0.6% to $50.9 million for the third quarter of fiscal 2023 and by 2.4% to $182.6 million for the first nine months of fiscal 2023, compared to $51.2 million and $187.1 million for the prior year's comparable three and nine months of fiscal 2022, respectively. Gross margin as presented may not be comparable to those of other entities.

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, bank and credit card processing fees. SG&A expenses were $61.8 million, or 39.4% of retail sales and $185.3 million, or 35.1% of retail sales for the third quarter and first nine months of fiscal 2023, respectively, compared to $61.4 million, or 35.1% of retail sales and $182.6 million, or 31.8% of retail sales for the prior year's comparable three and nine month periods, respectively. The increase in SG&A for the third quarter and first nine months of fiscal 2023 was primarily due to higher payroll and insurance expense.

Depreciation expense was $2.5 million, or 1.6% of retail sales and $7.4 million, or 1.4% of retail sales for the third quarter and first nine months of fiscal 2023, respectively, compared to $2.9 million, or 1.6% of retail sales and $8.4 million or 1.5% of retail sales for the comparable three and nine month periods of fiscal 2022,

respectively.
Interest and other income was $1.5 million, or 1.0% of retail sales and $3.8 million, or 0.7% of retail sales for the three and nine months ended October 28, 2023, respectively, compared to $2.3 million, or 1.3% of retail sales and $4.6 million, or 0.8% of retail sales for the comparable three and nine month periods of fiscal 2022,
respectively. The decrease for the third quarter and first nine months of fiscal 2023 compared to fiscal 2022 calculating

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

28 24

was same store primarily sales attributable varies to across the Company's retail industry. receipt As a result, our same store sales calculation may not be comparable to similarly titled measures reported by other companies. E-commerce sales were less than 5.0%
of sales for the first quarter of a fiscal Business 2024 Recovery and Grant from are included in the state same-store sales calculation. Total
revenues, comprised of retail sales and other revenue (principally finance charges and late fees on customer accounts receivable, shipping charged to customers for e-commerce purchases and layaway fees), were
$177.1 million for the first quarter ended May 4, 2024, compared to $192.1 million for the first quarter ended
April 29, 2023. The Company operated 1,171 stores at May 4, 2024 compared to 1,264 stores at the end of last fiscal year's first quarter. For the first three months of North
Carolina in 2022, partially offset by higher fiscal amounts 2024, the Company permanently closed seven stores. The Company currently anticipates closing approximately 75 stores in fiscal 2024.
Credit revenue of $0.7 million represented 0.4% of total revenues in the first quarter of fiscal 2024, compared to 2023 credit revenue of $0.6 million or 0.3% of total revenues. Credit revenue is comprised of interest earned on investments due to the Company's private label credit card portfolio and related fee income. higher interest rates. Related expenses include
Income tax principally payroll, postage and benefit was other administrative expenses, and $4.3 million totaled $0.4 million in and $0.8 the first quarter of
2024, compared to last year's first quarter expenses of $0.4 million.
Other revenue, a component of total revenues, was $1.8 million for the first quarter of fiscal 2024, compared to $1.7 million for the third quarter prior year's comparable first quarter. The slight increase was due to higher gift card breakage income and late charges, partially offset by lower e-commerce shipping revenue and first layaway fees.
Cost of goods nine months of fiscal
2023, sold was $112.5 respectively, million, or 64.2% of retail sales for the first quarter of fiscal 2024, compared to a $122.1 tax million, benefit or 64.2% of $4.7 million retail sales in the first quarter of fiscal 2023. 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 a in-bound tax freight expense are capitalized as inventory costs.
Buying and distribution costs include payroll, payroll-related costs and operating expenses for the buying departments and distribution center. Occupancy costs include rent, real estate taxes, insurance, common area maintenance, utilities and maintenance for stores and distribution facilities. Total gross margin dollars (retail sales less cost of goods sold exclusive of

depreciation) decreased by 8.0% to $3.0 62.8 million for the first quarter of fiscal 2024 compared to $68.2 million in the first quarter of fiscal 2023. Gross margin as presented may not be comparable three to those of other entities.

Selling, general and administrative expenses ("SG&A") primarily include corporate and store payroll, related payroll taxes and benefits, insurance, supplies, advertising, and nine month bank and credit card processing fees. periods SG&A expenses were 32.4% of retail sales for the first quarter of fiscal 2022, 2024, respectively. compared to For 32.5% of retail sales in the first quarter of fiscal 2023. SG&A expense is lower in the first quarter of fiscal 2024 compared to the first quarter of fiscal 2023 primarily due to lower equity compensation, advertising and store expenses, including payroll, partially offset by an increase in insurance expense.

Depreciation expense was $2.0 million, or 1.2% of retail sales for the first quarter of fiscal 2024, compared to $2.4 million, or 1.2% of retail sales for the first nine months quarter of fiscal 2023. The decrease in depreciation expense 2023, was attributable to older stores being fully depreciated.

Interest and other income was $5.8 million, or 3.3% of retail sales for the Company's effective first tax rate quarter was 60.4% of fiscal 2024,

nine months

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

25

income tax rate for the first quarter of fiscal 2024 was 5.6% compared to 32.6% for the first quarter of 2022. 2023. The change decrease in tax expense is primarily due to the 2023 year-to-date effective valuation allowance against net deferred tax rate was primarily due assets attributable to increases in U.S. federal net operating loss carryforwards and the impact of the foreign rate differential and the release of reserves for uncertain tax positions, offset by decreases in Global Intangible Low-taxed Income (GILTI), lower state income taxes, non-deductible officer's compensation, and foreign tax credits, as percentages on a pre-tax loss. taxes.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK:

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's regular operating requirements and expected and expected capital expenditures for the next for fiscal 2023 and the next 12 months.

Cash provided by operating activities during for the first nine three months of fiscal 2024 was primarily generated by earnings adjusted for depreciation and changes in working capital. The decrease in cash provided of $4.2 million for the first three months of fiscal 2024 as compared to the first three months of fiscal 2023 was $11.7 million as compared primarily attributable to $19.3 million provided the relative change in inventory from year-end to the first nine months of fiscal 2022. The decrease in cash provided first quarter for both years and of a $7.6 million for decrease to first quarter 2024 net the first nine months of fiscal 2023 as compared to the first nine months income for non-operating gain on sale of fiscal 2022 was assets held for investment.

primarily due to a net loss in 2023 At May 4, 2024, the Company had working capital of $65.8 million compared to net income in 2022, $55.1 million at February 3, 2024. The increase is primarily attributable to an increase in cash and higher cash equivalents, inventory, accounts receivable and lower current lease liability, partially offset by lower accounts payable and short-term accrued liabilities. investments.

At October May 28, 4, 2023, 2024, the Company had working an capital unsecured revolving credit agreement, which provides for borrowings of up to $35.0 million less the balance of any revocable letters of credit related to purchase commitments, and is committed through May 2027. The credit agreement contains various financial covenants and limitations, including the maintenance of specific $76.8 financial ratios. million On April compared 25, 2024, the Company amended the revolving credit agreement to $74.7 modify million a at
January 28, definition 2023.
The increase used in working capital was primarily attributable to a decrease in current lease liability and an increase in cash, partially offset by a decrease in inventory and short-term investments.
As of October 28, 2023, the Company has an unsecured revolving credit line, which provides for borrowings of up to $35.0 million, less the balance of any revocable letters of credit related to purchase commitments,
and is committed through May 2027. The revolving credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios. On October 24, 2023, the Company
amended the revolving credit agreement to link the calculation of the Company's EBITDAR coverage ratio to the amount of the Company's cash and investments. Though the effect of the amendment reduced calculating the
Company's minimum EBITDAR coverage ratio for the to quarter ended add back October 28, certain 2023 and income tax is expected receivables included to do in the calculation of so going forward, the Company was in compliance with the
amended credit agreement for ratio. For the quarter ended October
due to no borrowings outstanding. outstanding borrowings.

Expenditures for property and equipment totaled $10.3 3.3 million in the first nine three months of fiscal 2023, 2024, compared to $14.4 6.2 million in last fiscal year's first nine three months. The decrease in expenditures for property and and equipment was primarily due to finishing lower projects related capital to investments in the distribution center information technology and information technology. For the distribution center, as well as no new store openings in the first quarter of fiscal 2024. For the full fiscal 2024 year, the
Company expects to invest approximately $9.0 million in capital expenditures, including distribution center automation projects.

Net cash provided by investing activities totaled $14.6 million in the first three months of fiscal 2023 2024
compared to $15.3 million provided in the comparable period of fiscal 2023. The decrease is primarily due year, to an increase in purchases of short-term investments and a decrease in sales of short-term investments, partially offset by the sale of other assets and a decrease in capital expenditures.

Net cash used in financing activities totaled $5.6 million in the first Company three months expects of fiscal to 2024 and invest fiscal
2023.

On May 23, 2024, the Board of approximately Directors maintained the quarterly dividend at $12.0
million for capital expenditures. 0.17 per share.

Net cash provided by investing activities totaled $6.1 million in the first nine months of fiscal 2023 compared to $0.2 million net cash provided in the comparable period As of 2022. May The 4, increase 2024, in net cash provided in
2023 was primarily due to a decrease in capital expenditures.

Net cash used in financing activities totaled $12.7 million in the first nine months of fiscal 2023 compared to
$22.2 million used in the comparable period of fiscal 2022. The decrease in net cash used in fiscal 2023 was primarily due to lower stock repurchases.

On November 16, 2023, the Board of Directors maintained the quarterly dividend at $0.17 per share.

As of October 28, 2023, the Company had 909,653 478,238 shares remaining in open authorizations under its share repurchase program.

The Company does not use derivative financial instruments.

The Company's investment portfolio was primarily invested in corporate bonds and tax-exempt and taxable governmental debt securities held in managed accounts with underlying ratings of A or better at May 4, 2024
and February 3, 2024. October 28, The state, municipal and corporate bonds and asset-backed securities have contractual 2023 maturities which range from seven days to 3.0 years. The U.S. Treasury/Agencies Notes and January 28, 2023. The state, municipal and corporate bonds Bonds have contractual maturities which range from four days to 3.1 years. The U.S. Treasury Notes have contractual maturities which range from 79
days 2 months to 2.3 1.8 years. These securities are classified as available-for-
classified as available-for-sale sale and are recorded as Short-term investments and Other assets on the accompanying Condensed

investments, Restricted cash and Other assets on the accompanying Condensed Consolidated Balance Sheets.

These assets assets are carried at fair value value with unrealized gains and unrealized gains losses reported net of and losses taxes in reported net Accumulated other of taxes comprehensive income. in Accumulated
other comprehensive income. The asset-backed asset-backed securities are bonds bonds comprised of auto loans and and bank credit cards that carry carry AAA ratings. The auto loan asset-backed securities are backed
by static pools of auto loans that were originated and serviced by captive auto finance units, banks or finance companies. The bank credit
card asset-backed securities are backed by revolving pools of credit card receivables generated by account holdershofders cards from American Express, Citibank, JPMorgan Chase,
Capital One, and Discover.

Additionally, at May 4, 2024, the Company had $0.1 million of at corporate equities and deferred compensation plan assets October of $8.7 28, million. 2023, At February 3, 2024, the Company had $0.8 $1.1 million of corporate equities and deferred deferred compensation plan assets of $9.0 million $8.6 million. All At January 28, 2023, the Company had $0.9 million of corporate equities and deferred compensation plan assets of $9.3 million. All of these assets are recorded within within Other
assets in the
Condensed Consolidated Balance Sheets. See Note 7, Fair Value Measurements.

RECENT ACCOUNTING PRONOUNCEMENTS:

See Note 8, Recent Accounting Pronouncements.

THE CATO CORPORATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

30 27

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

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

ITEM 4. CONTROLS AND PROCEDURES:

We carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as of October 28, 2023. May 4, 2024. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of May October 28, 4, 2024, 2023, our disclosure disclosure controls and procedures, as as defined in Rule 13a-15(e), under the Securities Exchange Act of
1934 (the "Exchange Act"), were effective to ensure that information we are required to disclose in Rule 13a-15(e), under the Securities Exchange
Act of 1934 (the "Exchange Act"), were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer,
as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) has occurred during the Company's fiscal quarter ended October 28, 2023 May 4, 2024 that has that has materially affected,
or is reasonably likely to materially affect, the Company's internal control over financial reporting.

THE CATO CORPORATION

PART II OTHER INFORMATION

31 28

ITEM 1. LEGAL PROCEEDINGS:

Not Applicable. Applicable

ITEM 1A. RISK FACTORS:

In addition to the other information in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended January February 28, 3, 2023. 2024. These risks could materially affect our business, financial condition or future results; however, they are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

THE CATO CORPORATION

PART II OTHER INFORMATION

32

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

The following table summarizes the Company's purchases of its common stock for the three months ended October 28, 2023 May 4, 2024:

ISSUER PURCHASES OF EQUITY SECURITIES

Total Number of
Maximum Number
Shares Purchased as
(or Approximate Dollar
Total Number
Average
Part of Publicly
Value) of Shares that may
Fiscal
of Shares
Price Paid
Announced Plans or
Yet be Purchased Under
Period
Purchased
per Share (1)
Programs (2)
The Plans or Programs (2)
August 2023 February 2024
-
$
-
-
September 2023 March 2024
- 134,209
- 5.41
- 134,209
October 2023 April 2024

- 297,206
- 5.05
- 297,206
Total
- 431,415
$
- 5.16
- 431,415
909,653 478,238
(1)
Prices include trading costs.
(2)
As of February July 29, 2023, 3, 2024, the Company's share share repurchase program had 909,653 shares remaining in remaining in open authorizations. During the third first quarter ended October May 28, 4, 2023, 2024, the Company repurchased and retired 431,415 shares under this program for approximately $2,227,608 did not or an average market repurchase or retire any shares under this program. price of $5.16 per share. As of October 28, 2023, May 4, 2024, the Company had 478,238 shares remaining in open
909,653 shares remaining in open authorizations. There is no specified expiration date for the Company's repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

Not Applicable. Applicable

ITEM 4. MINE SAFETY DISCLOSURES:

Not Applicable. No matters requiring disclosure.

ITEM 5. OTHER INFORMATION:

During the three months ended October 28, 2023, May 4, 2024, none of the Company's directors or officers (as defined in defined in
Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended)
adopted
or terminated
a "Rule "Rule10b5-1
10b5-1 trading arrangement" or a "
non-Rule
10b5-1
trading arrangement" (as (as such terms are defined in Item 408
Item 408 of Regulation S-K).

ITEM 6. EXHIBITS:

Exhibit No.
Item
3.1
Registrant's Amended and Restated Certificate of Incorporation,
incorporated by reference to Exhibit 3.1 to Form 10-Q of the Registrant
for the quarter ended May 2, 2020.
3.2
Registrant's Amended and Restated By-Laws, incorporated by
reference to Exhibit 3.1 3.2 to Form 10-Q 10-Q of the Registrant for the quarter ended May

2, 2020.
3.2
Registrant's Amended and Restated By-Laws, incorporated by reference to Exhibit 3.2 to Form 10-Q of the Registrant for the quarter ended May 2, 2020. May 2, 2020.
10.1**
Second Fourth Amendment, dated as of August 9, 2023, to Credit April Agreement, dated as 25, 2024, to Credit Agreement, dated as of May 19 2022, among the Registrant, the banks party thereto and Wells Fargo Bank, National Association.
10.2*
Third Amendment, dated as of October 24, 2023, to Credit Agreement, dated as of May 19 2022, among the Registrant, the banks party thereto and Wells Fargo Bank, National Association.
31.1*
Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2*
Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1*
Section 1350 Certification of Principal Executive Officer.
32.2*
Section 1350 Certification of Principal Financial Officer.
101.1* 101.INS
The following materials Inline XBRL Instance Document

THE CATO CORPORATION
PART II OTHER INFORMATION
34

* Submitted electronically herewith.

** Included herein solely to correct an incorrect hyperlink in the Exhibit Index to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 29, 2023.

THE CATO CORPORATION
PART II OTHER INFORMATION
35 30

SIGNATURES

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

THE CATO CORPORATION

November 21, 2023 May 30, 2024
/s/ John P. D. Cato
Date
John P. D. Cato
Chairman, President and
Chief Executive Officer
November 21, 2023 May 30, 2024
/s/ Charles D. Knight

Date
Charles D. Knight
Executive Vice President
Chief Financial Officer

1

Execution Versic SECOND FOURTH AMENDMENT AMENDMENT TO AGREEMENT THIS SECOND FC

CREDIT

WHEREAS

, the Borrower ha Agent amend certain

provisions of the (

WHEREAS

, the Required Ba h amendments to the

Credit Agreement rms and conditions and conditions set f

NOW, THEREFO

, in consideration and for hereinafter other set forth, and nd

valuable consider

the receipt receipt ereby acknowledged,

the parties hereto agree as follows:

ARTICLE I AMENDMENTS TO CREDIT AGREEMENT

1.1 Amendment to to D

. The Coverage definition of EBITDAR set forth in Section 1.01 of the Credit Agreement is hereby amended clause "(a)" to clause "(b)".

1.2 Amendment to Definition of Minimum EBITDAR

. The definition definition of Minimum EBITDA

Agreement is hereby amended and restat