

CATO CORP  
Form 10-K  
April 02, 2013

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

b

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

**For the fiscal year ended February 2, 2013**

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**  
*State of Incorporation*

**56-0484485**  
*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  
Preferred Share Purchase Rights

New York Stock Exchange  
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  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

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

Indicate by check mark whether the registrant has submitted electronically 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  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  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

The aggregate market value of the Registrant's Class A Common Stock held by non-affiliates of the Registrant as of July 28, 2012, the last business day of the Company's most recent second quarter, was \$ 799,367,185 based on the last reported sale price per share on the New York Stock Exchange on that date.

As of February 2, 2013, there were 27,543,376 shares of Class A common stock and 1,743,525 shares of Class B common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement relating to the 2013 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**

**TABLE OF CONTENTS**

		<b>Page</b>
<b>PART I</b>		
Item 1.	Business.....	3 – 8
Item 1A.	Risk Factors.....	8 – 15
Item 1B.	Unresolved Staff Comments.....	15
Item 2.	Properties.....	15
Item 3.	Legal Proceedings.....	15
Item 3A.	Executive Officers of the Registrant.....	16
Item 4.	Mine Safety Disclosures.....	16
<b>PART II</b>		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	17 – 19
Item 6.	Selected Financial Data.....	20
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.....	21 – 28
Item 7A.		29

	Quantitative and Qualitative Disclosures about Market Risk.....	
Item 8.	Financial Statements and Supplementary Data.....	30 – 56
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	57
Item 9A.	Controls and Procedures.....	57
Item 9B.	Other Information.....	57
<b>PART III</b>		
Item 10.	Directors, Executive Officers and Corporate Governance.....	57
Item 11.	Executive Compensation.....	58
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	58
Item 13.	Certain Relationships and Related Transactions, and Director Independence.....	59
Item 14.	Principal Accountant Fees and Services.....	59
<b>PART IV</b>		
Item 15.	Exhibits and Financial Statement Schedules.....	59 – 69

### 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 1, 2014 (“fiscal 2013”) and beyond, including, but not limited to, statements regarding expected amounts of capital expenditures and store openings, relocations, remodels and closures; and (5) statements relating to our future contingencies. When possible, we have attempted to identify forward-looking statements by using words such as “expects,” “anticipates,” “approximates,” “believes,” “estimates,” “hopes,” “intends,” “may,” “plans,” “should” and variations of such words and similar expressions. We can give no assurance that actual results or events will not differ materially from those expressed or implied in any such forward-looking statements. Forward-looking statements included in this report are based on information available to us as of the filing date of this report, but subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: any actual or perceived deterioration in, or uncertainties regarding, prevailing U.S. and global economic, political or financial market conditions; changes in other factors that drive consumer or corporate confidence and spending, including, but not limited to, levels of unemployment, fuel, energy and food costs, wage rates, tax rates, home values, consumer net worth and the availability of credit; uncertainties regarding the impact of any governmental responses to the foregoing conditions; competitive factors and pricing pressures; our ability to predict fashion trends; consumer apparel and accessory buying patterns; adverse weather or similar conditions that may affect our sales or operations; inventory risks due to shifts in market demand; and other factors discussed under “Risk Factors” in Part I, Item 1A of this annual report on Form 10-K for the fiscal year ended February 2, 2013 (“fiscal 2012”), as amended or supplemented, and in other reports we file with or furnish to the Securities and Exchange Commission (“SEC”) from time to time. We do not undertake, and expressly decline, any obligation to update any such forward-looking information contained in this report, whether as a result of new information, future events, or otherwise.

As used herein, the terms “we,” “our,” “us” (or similar terms), the “Company” or “Cato” include The Cato Corporation and 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](http://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 corporate governance materials contemplated by SEC or New York Stock Exchange regulations. The information contained on our website, [www.catocorp.com](http://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 the SEC.

---

## PART I

### Item 1. *Business:*

#### General

The Company, founded in 1946, operated 1,310 fashion specialty stores at February 2, 2013, in 31 states, principally in the southeastern United States, under the names “Cato,” “Cato Fashions,” “Cato Plus,” “It’s Fashion,” “It’s Fashion Metro” and “Versona Accessories.” The Cato concept seeks to offer quality fashion apparel and accessories at low prices, every day in junior/missy, plus sizes and girls sizes 7 to 16. The Cato concept’s stores 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 Accessories concept offers quality fashion jewelry and accessories accented by key apparel items 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 9% of retail sales in fiscal 2012. 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, girls sizes 7 to 16, 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 team 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 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 1,500 suppliers, most of its merchandise is purchased from approximately 100 primary vendors. In fiscal 2012, purchases from the Company's largest vendor accounted for approximately 4% 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 purchases most of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments. This enables the Company to react to merchandise trends in a more timely fashion. 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, and 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 generally. 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 and social media as its primary advertising media. The Company's total advertising expenditures were approximately 0.7%, 0.8% and 0.7% of retail sales for fiscal years 2012, 2011 and 2010, respectively.

### **Store Operations**

The Company's store operations management team consists of one director of stores, five territorial managers, 17 regional managers and 141 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 2008.

---

### Store Development

<u>Fiscal Year</u>	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
2008.....	1,318.	65	102	1,281
2009.....	1,281.	35	45	1,271
2010.....	1,271.	37	26	1,282
2011.....	1,282.	38	32	1,288
2012.....	1,288.	34	12	1,310

In fiscal 2012 the Company relocated nine stores.

The Company expects to open 65 new stores during fiscal 2013. The expected new store openings include 40 Cato stores, five It's Fashion stores, five It's Fashion Metro stores (including the conversion of approximately two existing It's Fashion stores) and 15 Versona Accessories stores. The Company anticipates closing up to 15 stores by year end, including the two conversions. In addition, the Company also expects to relocate 15 stores and remodel 10 stores.

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 4.5%, 4.8% and 5.2% of retail sales in fiscal 2012, 2011 and 2010 respectively. The Company's net bad debt expense was 4.3%, 5.3% and 6.6% of credit sales in fiscal 2012, 2011 and 2010 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 for 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 customer picks up the merchandise or upon default of the layaway purchase. Recognition of restocking fees occurs in the accounting period when the customer defaults on the layaway purchase. Layaway sales represented approximately 4.8% of retail sales in 2012 and 4.7% in each of the two fiscal years, 2011 and 2010 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 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 or Deceptive 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, initially and annually, to its customers, the Company’s privacy policy as it relates to a customer’s non-public personal information.

---

## Associates

As of February 2, 2013, the Company employed approximately 9,600 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 and respond to changing merchandise trends and consumer preferences in a timely manner. Accordingly, any failure by us to anticipate, identify 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.

***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. As a result of this competition, including close-out sales and going-out-of-business sales by other women's apparel retailers, we may experience pricing pressures, increased marketing expenditures, as well as loss of market share, which could materially and adversely affect our business, results of operations and financial condition.

***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.

---

***Because we source a significant portion of our merchandise directly and indirectly from overseas, we are subject to risks associated with international operations, and 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. Any 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, and continued increases 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. 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. Furthermore, 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 and environmental practices, 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 that could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business."

***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 the 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 are experiencing 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.

---

***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.

***The failure, disruption or security breach 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. Any disruption 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. In addition, any security breach or other problem that results in the unauthorized disclosure of confidential customer information, such as personally identifiable information and payment information, or other confidential information regarding our associates, vendors or other third parties with whom we do business, could adversely affect our standing with these constituents and expose us to the risk of litigation and liability. Any such occurrences could result in reputational damage or loss of business or goodwill and could adversely affect our business, results of operations and financial condition.

***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, 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.

---

***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, 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, 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.

***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, results, and financial condition.

***Our business operations subject us to legal compliance and litigation risks that could result in increased costs or liabilities, divert our management's attention or otherwise adversely affect our business.***

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. Our business is also subject to 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 or may arise in the ordinary course of our business and include, among other issues, employment issues, commercial disputes, intellectual property issues, product-oriented matters, tax, customer relations and personal injury claims. International activities subject us to a number of 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 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. 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 design 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.

***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 will 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.

***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 are entering into collaborative efforts to converge U.S. Generally Accepted Accounting Principles with International Financial Reporting Standards. These 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.

Proposed changes to lease accounting standards may require lessees to capitalize operating leases in their financial statements in the future. If adopted, this change will have a major impact on the Company as a retailer with numerous leased locations. Such a change would require Cato 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. This change 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. This and other future changes to accounting rules or regulations may adversely affect our reported

results of operations and financial position.

***The Company's ability to successfully integrate new businesses into its existing business, to the extent it enters new lines of business in the future, will affect the Company's financial condition and results of operations.***

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 failure of our expansion into e-commerce operations could significantly disrupt our business and lead to reduced sales, growth prospects and reputational damage.***

Expanding our operations to incorporate an e-commerce business is an important part of our growth strategy. Many of our competitors already have e-commerce businesses that are substantially larger and more developed than ours, which places us at a competitive disadvantage. Our e-commerce operations will be subject to numerous risks, including rapid changes in technology, website downtime and other technical failures, security breaches, consumer privacy concerns, changes in state tax laws and government regulation of internet activities. Our failure to successfully respond to these risks and uncertainties could impact our e-commerce sales, increase our costs, diminish our growth prospects, and damage our brand, which could negatively impact our results of operations and financial position.

***Government enacted health care reform could adversely affect our business and results of operations.***

In March 2010, the United States government enacted health care reform legislation, known as the Patient Protection and Affordable Care Act. This legislation expands the Company's responsibility for providing employees with insurance coverage that meets minimum eligibility and coverage requirements or, alternatively, beginning in 2014, the legislation imposes penalties for failure to offer this coverage. The legislation also includes provisions that will impact the number of individuals with insurance coverage, the types of coverage and level of health benefits that will be required. The Company is still assessing the legislation's potential impact on the Company's health care expenses. However, due to the extent we are required to provide health insurance benefits to our employees that are more extensive than the health insurance benefits we currently provide and to a potentially larger proportion of our employees, or pay penalties if we elect not to provide these benefits, our expenses will increase. If we are unable to offset these cost increases by raising our prices or cutting other costs, such increased expenses could materially and adversely affect our results of operations.

#### **Risks Relating To 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 April 2, 2013, John P. D. Cato, Chairman, President and Chief Executive Officer, beneficially controlled approximately 39% 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. 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 in 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. This includes a 60,000 square foot addition to the general offices which was completed in the fall of 2012. 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. In December 2012, the Company completed a land purchase of approximately 295 acres

in York County, South Carolina, just south of Charlotte.

**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 April 2, 2013 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
John P. D. Cato.....	62	Chairman, President and Chief Executive Officer
John R. Howe.....	50	Executive Vice President, Chief Financial Officer
Sally Almason.....	59	Executive Vice President, Merchandising Cato and Versona concepts
Michael T. Greer.....	50	Executive Vice President, Director of Stores
Gordon Smith.....	57	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 currently a director of Harris Teeter Supermarkets, Inc.

*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.

*Sally Almason* has been employed by the Company since 1995. Since November 2010, she has served as Executive Vice President, Merchandising Cato and Versona concepts. From 2009 to 2010, she has served as Executive Vice President, General Merchandise Manager for the Cato concept. From 2004 to 2009, she served as Senior Vice President, General Merchandise Manager for the Cato concept. From 1995 to 2004, she served as Vice President, Divisional Merchandise Manager for the Cato concept.

*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 2012 and 2011.

	Price		Dividend
	High	Low	
<b><u>2012</u></b>			
First quarter .....	\$29.19	\$25.93	\$ 0.23
Second quarter .....	31.71	27.50	0.25
Third quarter .....	31.75	27.50	0.25
Fourth quarter .....	29.99	26.08	2.25

	Price		Dividend
	High	Low	
<b><u>2011</u></b>			
First quarter .....			