

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 August 4, 2001

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 0-3747

THE CATO CORPORATION AND SUBSIDIARIES

(Exact name of registrant as specified in its charter)

Delaware 56-0484485

(State or other jurisdiction of incorporation) (I.R.S. Employer
Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975

(Address of principal executive offices)
(Zip Code)

(704) 554-8510

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

As of August 21, 2001, there were 19,662,031 shares of Class A Common Stock and
5,563,483 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

AUGUST 4, 2001

TABLE OF CONTENTS

	Page No. ----
PART I - FINANCIAL INFORMATION (UNAUDITED)	
Condensed Consolidated Statements of Income For the Three Months and Six Months Ended August 4, 2001 and July 29, 2000	2
Condensed Consolidated Balance Sheets At August 4, 2001, July 29, 2000 and February 3, 2001	3
Condensed Consolidated Statements of Cash Flows For the Six Months Ended August 4, 2001 and July 29, 2000	4
Notes to Condensed Consolidated Financial Statements For the Three Months and Six Months Ended August 4, 2001 and July 29, 2000	5 - 7
Management's Discussion and Analysis of Financial Condition and Results of Operations	8 - 10
PART II - OTHER INFORMATION	11 - 12

PART I FINANCIAL INFORMATION

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	AUGUST 4, 2001 (UNAUDITED)	July 29, 2000 (Unaudited)	AUGUST 4, 2001 (UNAUDITED)	July 29, 2000 (Unaudited)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES				
Retail sales	\$ 172,444	\$ 163,375	\$ 352,792	\$ 325,529
Other income (principally finance, late, and layaway charges)	4,957	5,307	10,340	10,393
Total revenues	177,401	168,682	363,132	335,922
COSTS AND EXPENSES				
Cost of goods sold	118,093	110,015	234,484	215,338
Selling, general and administrative	39,898	38,744	82,126	75,876
Depreciation	2,534	2,378	5,150	4,756
Interest	10	10	21	17
Total expenses	160,535	151,147	321,781	295,987
INCOME BEFORE INCOME TAXES	16,866	17,535	41,351	39,935
Income tax expense	5,903	6,137	14,473	13,977
NET INCOME	\$ 10,963	\$ 11,398	\$ 26,878	\$ 25,958
BASIC EARNINGS PER SHARE	\$.43	\$.46	\$ 1.06	\$ 1.04
DILUTED EARNINGS PER SHARE	\$.42	\$.45	\$ 1.03	\$ 1.02
DIVIDENDS PER SHARE	\$.135	\$.10	\$.26	\$.20

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	AUGUST 4, 2001 (UNAUDITED)	July 29, 2000 (Unaudited)	February 3, 2001
	-----	-----	-----
(DOLLARS IN THOUSANDS)			
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 21,990	\$ 18,997	\$ 25,201
Short-term investments	66,553	61,084	57,911
Accounts receivable - net	46,489	44,434	46,972
Merchandise inventories	77,496	71,899	79,161
Deferred income taxes	1,554	3,898	1,579
Prepaid expenses	4,633	2,108	4,665
	-----	-----	-----
Total Current Assets	218,715	202,420	215,489
Property and equipment - net	92,436	75,900	85,819
Other assets	9,084	8,097	9,434
	-----	-----	-----
Total	\$ 320,235	\$ 286,417	\$ 310,742
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 53,121	\$ 49,233	\$ 59,681
Accrued expenses	23,005	21,499	24,378
Income taxes	6,530	7,091	5,706
	-----	-----	-----
Total Current Liabilities	82,656	77,823	89,765
Deferred income taxes	5,386	5,550	5,386
Other noncurrent liabilities	7,447	7,978	7,834
Shareholders' Equity			
Preferred stock, \$100 par value per share, 100,000 shares authorized, none issued	--	--	--
Class A common stock, \$.033 par value per share, 50,000,000 shares authorized; issued 24,880,750 shares, 24,239,294 shares and 24,643,420 shares at August 4, 2001, July 29, 2000, and February 3, 2001, respectively	830	808	821
Convertible Class B common stock, \$.033 par value per share, 15,000,000 shares authorized; issued 5,563,483 shares, 5,364,317 shares and 5,364,317 shares at August 4, 2001, July 29, 2000 and February 3, 2001, respectively	186	179	179
Additional paid-in capital	80,392	72,517	76,778
Retained earnings	195,550	167,769	175,275
Accumulated other comprehensive losses	(837)	(1,647)	(884)
Unearned compensation - restricted stock awards	(541)	(837)	(689)
	-----	-----	-----
	275,580	238,789	251,480
Less Class A common stock in treasury, at cost (5,220,719 shares at August 4, 2001, 4,759,148 shares at July 29, 2000, and 4,759,148 shares at February 3, 2001)	(50,834)	(43,723)	(43,723)
	-----	-----	-----
Total Shareholders' Equity	224,746	195,066	207,757
	-----	-----	-----
Total	\$ 320,235	\$ 286,417	\$ 310,742
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED	
	AUGUST 4, 2001 (UNAUDITED)	July 29, 2000 (Unaudited)
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	\$ 26,878	\$ 25,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,150	4,756
Amortization of investment premiums	84	76
Compensation expense related to restricted stock awards	148	147
Loss on disposal of property and equipment	152	549
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	483	1,024
Merchandise inventories	1,665	(2,402)
Other assets	382	(77)
Accrued income taxes	824	2,361
Accounts payable and other liabilities	(8,295)	(7,824)
Net cash provided by operating activities	27,471	24,568
INVESTING ACTIVITIES		
Expenditures for property and equipment	(11,919)	(11,867)
Purchases of short-term investments	(25,163)	(8,423)
Sales of short-term investments	16,484	4,304
Net cash used in investing activities	(20,598)	(15,986)
FINANCING ACTIVITIES		
Dividends paid	(6,603)	(5,071)
Purchases of treasury stock	(7,111)	(15,449)
Proceeds from employee stock purchase plan	211	223
Proceeds from stock options exercised	3,419	323
Net cash used in financing activities	(10,084)	(19,974)
Net decrease in cash and cash equivalents	(3,211)	(11,392)
Cash and cash equivalents at beginning of period	25,201	30,389
Cash and cash equivalents at end of period	\$ 21,990	\$ 18,997

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 4, 2001
AND JULY 29, 2000

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the Company), and all amounts shown at August 4, 2001 and July 29, 2000 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of the interim period may not be indicative of the entire year.

The interim financial statements should be read in conjunction with the financial statements and notes thereto, included in the Company's Annual Report in Form 10-K for the fiscal year ended February 3, 2001.

The Company's short-term investments are classified as available-for-sale securities, and therefore, are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a component of other comprehensive income.

Total comprehensive income for the second quarter and six months ended August 4, 2001 was \$11,319,000 and \$26,925,000, respectively. Total comprehensive income for the second quarter and six months ended July 29, 2000 was \$11,615,000 and \$26,112,000, respectively. Total comprehensive income is composed of net income and net unrealized gains and losses on available-for-sale securities.

Merchandise inventories are stated at the lower of cost (first-in, first-out method) or market as determined by the retail inventory method.

In the second quarter of fiscal 2001, the Company repurchased 190,000 shares of Class A common stock and accepted 9,071 shares of Class A common stock related to a stock option exercise for a total of \$3,136,219, or an average price of \$15.75 per share. For the six months ended August 4, 2001, the Company repurchased 452,500 shares of Class A common stock and accepted 9,071 shares of Class A common stock for \$7,110,594, or an average price of \$15.41 per share. For the six months ended July 29, 2000, the Company repurchased 1,468,800 shares of Class A common stock for \$15,449,238 or an average price of \$10.52 per share.

In May 2001, the Board of Directors increased the quarterly dividend by 8% from \$.125 per share to \$.135 per share.

The provisions for income taxes are based on the Company's estimated annual effective tax rate.

THE CATO CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 4, 2001
 AND JULY 29, 2000

 NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS:

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. SFAS 142 will be effective for fiscal years beginning after December 15, 2001. The Company intends to adopt the provisions of SFAS No. 142 during its fiscal year 2002. The impact of this pronouncement on the Company's financial results is currently being evaluated.

NOTE 3 - EARNINGS PER SHARE:

Earnings per share is calculated by dividing net income by the weighted-average number of Class A and Class B common shares outstanding during the respective periods. The weighted-average shares outstanding is used in the basic earnings per share calculation, while the weighted-average shares and equivalents outstanding is used in the diluted earnings per share calculation.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	AUGUST 4, 2001	July 29, 2000	AUGUST 4, 2001	July 29, 2000
Weighted-average shares outstanding	25,338,372	24,805,846	25,312,414	25,054,790
Dilutive effect of stock options	669,707	393,335	674,021	369,442
Weighted-average shares and equivalents outstanding	26,008,079	25,199,181	25,986,435	25,424,232

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the six months ended August 4, 2001 and July 29, 2000 were \$14,119,000 and \$12,189,000, respectively.

THE CATO CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS AND SIX MONTHS ENDED AUGUST 4, 2001
 AND JULY 29, 2000

 NOTE 5 - FINANCING ARRANGEMENTS:

At August 4, 2001, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the six months ended August 4, 2001 or the fiscal year ended February 3, 2001.

NOTE 6 - REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The following schedule summarizes certain segment information (in thousands):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	AUGUST 4, 2001	July 29, 2000	AUGUST 4, 2001	July 29, 2000
Revenues:				
Retail	\$ 174,089	\$ 165,287	\$ 356,474	\$ 329,279
Credit	3,312	3,395	6,658	6,643
Total	\$ 177,401	\$ 168,682	\$ 363,132	\$ 335,922
	=====	=====	=====	=====
Income before taxes:				
Retail	\$ 15,958	\$ 16,352	\$ 39,533	\$ 37,765
Credit	908	1,183	1,818	2,170
Total	\$ 16,866	\$ 17,535	\$ 41,351	\$ 39,935
	=====	=====	=====	=====

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

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	AUGUST 4, 2001	July 29, 2000	AUGUST 4, 2001	July 29, 2000
Total retail sales	100.0 %	100.0 %	100.0 %	100.0 %
Total revenues	102.9	103.2	102.9	103.2
Cost of goods sold	68.5	67.3	66.5	66.1
Selling, general and administrative	23.1	23.7	23.3	23.3
Income before income taxes	9.8	10.7	11.7	12.3
Net income	6.4	7.0	7.6	8.0

COMPARISON OF SECOND QUARTER AND FIRST SIX MONTHS OF 2001 WITH 2000.

Total retail sales for the second quarter were \$172.4 million compared to last year's second quarter sales of \$163.4 million, a 6% increase. Same-store sales were flat in the second quarter. For the six months ended August 4, 2001, total retail sales were \$352.8 million compared to last year's first six months sales of \$325.5 million, an 8% increase, and same-store sales increased 2% for the comparable six month period. The increase in retail sales for the first six months of 2001 resulted from the Company's continued everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. The Company operated 895 stores at August 4, 2001 compared to 825 stores at the end of last year's second quarter.

Other income for the second quarter and first six months of 2001 decreased 7% and 1%, respectively, over the prior year's comparable periods. The decrease in the current year resulted primarily from reduced finance and late charge income on the Company's customer accounts receivable.

Cost of goods sold were 68.5% and 66.5% of total retail sales for the second quarter and first six months of 2001, respectively, compared to 67.3% and 66.1% for last year's comparable three and six month periods. The increase in cost of goods sold as a percent of retail sales for the first six months of 2001 resulted from more markdowns in the second quarter.

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

OPERATING RESULTS - CONTINUED

Selling, general and administrative (SG&A) expenses were \$39.9 million and \$82.1 million for the second quarter and first six months of this year, compared to \$38.7 million and \$75.9 million for last year's comparable three and six month periods, respectively. SG&A expenses as a percentage of retail sales declined 60 basis points for the second quarter of 2001 and were flat for the first six months of 2001, as compared to the prior year as expenses remained well controlled and under plan. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses attributable to the Company's store development activities.

LIQUIDITY AND CAPITAL RESOURCES

At August 4, 2001, the Company had working capital of \$136.1 million, compared to \$124.6 million at July 29, 2000 and \$125.7 million at February 3, 2001. Cash provided by operating activities was \$27.5 million for the six months ended August 4, 2001, compared to \$24.6 million for last year's comparable six month period. The increase resulted primarily from an increase in inventory turnover and net income offset by a decrease in accounts receivables, accrued income taxes and accounts payable and other liabilities. At August 4, 2001, the Company had cash, cash equivalents, and short-term investments of \$88.5 million, compared to \$80.1 million at July 29, 2000 and \$83.1 million at February 3, 2001.

Net cash used in investing activities totaled \$20.6 million for the first six months of 2001 compared to \$16.0 million for the comparable period of 2000. Cash was used to fund capital expenditures for new, relocated and remodeled stores and for investments in new technology for an enterprise-wide information system for merchandising, distribution and finance. Additionally, the increase in cash used was in part related to an increase in the purchase of short-term investments offset by an increase in the sale of short-term investments in fiscal 2001 as compared to fiscal 2000.

Expenditures for property and equipment totaled \$11.9 million for both the six months ended August 4, 2001 and July 29, 2000. The Company expects total capital expenditures to be approximately \$26 million for the current fiscal year. The Company intends to open approximately 85 new stores, close 10 stores and relocate 24 stores during the current fiscal year. For the six months ended August 4, 2001, the Company opened 40 new stores, relocated 8 stores, and closed 4 stores.

Net cash used in financing activities totaled \$10.1 million for the first six months of 2001 compared to \$20.0 million for the comparable period of 2000. The decrease was due primarily to a reduction in its share buyback program and an increase in stock options exercised, which were partially offset by an increase in dividends paid in fiscal 2001 as compared to fiscal 2000.

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

LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

At August 4, 2001, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios with which the Company was in compliance. There were no borrowings outstanding during the six months ended August 4, 2001, or the fiscal year ended February 3, 2001.

In May 2001, the Board of Directors increased the quarterly dividend by 8% from \$.125 per share to \$.135 per share.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". In June 2000, the FASB issued SFAS No. 138, which amended certain provisions of SFAS 133. The Company adopted SFAS 133 and the corresponding amendments under SFAS 138 on February 4, 2001. Management believes that the adoption of this statement has no impact on the Company's consolidated results of operations and financial position.

At August 4, 2001, July 29, 2000, and February 3, 2001, the Company's investment portfolio was primarily invested in governmental debt securities with maturities of up to 36 months. These securities are classified as available-for-sale, and are recorded on the balance sheet at fair value with unrealized gains and losses reported as accumulated other comprehensive losses.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures and other operating requirements during fiscal 2001.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. SFAS 142 will be effective for fiscal years beginning after December 15, 2001. The Company intends to adopt the provisions of SFAS No. 142 during its fiscal year 2002. The impact of this pronouncement on the Company's financial results is currently being evaluated.

Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in the Form 10-Q and located elsewhere herein regarding the Company's financial position and business strategy may constitute forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 24, 2001.

ELECTION OF DIRECTORS:

Mr. Thomas E. Cato	-	For 71,295,047 ;	Abstaining 2,277,802
Mr. George S. Currin	-	For 73,129,005 ;	Abstaining 443,844
Mr. A. F. (Pete) Sloan	-	For 73,168,872 ;	Abstaining 403,977

RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS

For 73,552,411 ; Abstaining 1,835 ; Against 18,604

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) None

(B) No Reports on Form 8-K were filed during the quarter ended August 4, 2001.

PART II OTHER INFORMATION (CONTINUED)

THE CATO CORPORATION

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

September 12, 2001 ----- Date	/s/ Wayland H. Cato, Jr. ----- Wayland H. Cato, Jr. Chairman of the Board
September 12, 2001 ----- Date	/s/ John P. Derham Cato ----- John P. Derham Cato President, Vice Chairman of the Board and Chief Executive Officer
September 12, 2001 ----- Date	/s/ Michael O. Moore ----- Michael O. Moore Executive Vice President Chief Financial Officer and Secretary
September 12, 2001 ----- Date	/s/ Robert M. Sandler ----- Robert M. Sandler Senior Vice President Controller