

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 April 29, 2000

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 May 16, 2000, there were 19,451,671 shares of Class A Common Stock and 5,364,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

APRIL 29, 2000

TABLE OF CONTENTS

	Page No. ----
PART I - FINANCIAL INFORMATION (UNAUDITED)	
Condensed Consolidated Statements of Income	2
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements For the Three Months Ended April 29, 2000 and May 1, 1999	5 - 6
Management's Discussion and Analysis of Financial Condition and Results of Operations	7 - 9
PART II - OTHER INFORMATION	10 - 11

PART I FINANCIAL INFORMATION

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED	
	APRIL 29, 2000 (UNAUDITED)	May 1, 1999 (Unaudited)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	
REVENUES		
Retail sales	\$162,154	\$153,047
Other income (principally finance and layaway charges)	5,086	4,827
Total revenues	167,240	157,874
COSTS AND EXPENSES		
Cost of goods sold	105,324	100,017
Selling, general and administrative	37,132	34,922
Depreciation	2,377	2,023
Interest	7	6
Total expenses	144,840	136,968
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	22,400	20,906
Income tax expense	7,840	7,317
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	14,560	13,589
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX (\$79)	--	147
NET INCOME	\$ 14,560	\$ 13,736
BASIC EARNINGS PER SHARE	\$.58	\$.52
DILUTED EARNINGS PER SHARE	\$.57	\$.51
DIVIDENDS PER SHARE	\$.10	\$.055

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	APRIL 29, 2000 (UNAUDITED)	May 1, 1999 (Unaudited)	January 29, 2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 18,021	\$ 42,861	\$ 30,389
Short-term investments	61,095	53,273	56,886
Accounts receivable - net	44,476	43,254	45,458
Merchandise inventories	84,468	76,396	69,497
Deferred income taxes	4,014	3,475	4,093
Prepaid expenses	2,581	2,646	2,494
	-----	-----	-----
Total Current Assets	214,655	221,905	208,817
Property and Equipment - net	72,353	56,779	69,338
Other Assets	7,723	6,280	7,634
	-----	-----	-----
Total	\$ 294,731	\$ 284,964	\$ 285,789
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 67,867	\$ 66,895	\$ 54,707
Accrued expenses	17,308	17,456	24,392
Income taxes	9,589	7,530	4,730
	-----	-----	-----
Total Current Liabilities	94,764	91,881	83,829
Deferred Income Taxes	5,544	5,801	5,806
Other Noncurrent Liabilities	8,718	7,001	7,374
Stockholders' Equity:			
Class A Common Stock, issued 24,212,819 shares, 24,101,474 shares and 24,173,480 shares at April 29, 2000, May 1, 1999, and January 29, 2000, respectively	807	803	805
Convertible Class B Common Stock, issued 5,364,317 shares, 5,264,317 shares and 5,364,317 shares at April 29, 2000, May 1, 1999 and January 29, 2000 respectively	179	176	179
Additional paid-in capital	72,324	70,147	71,974
Retained earnings	158,893	132,625	146,881
Accumulated Other Comprehensive Loss	(1,864)	(191)	(1,801)
Unearned Compensation - Restricted Stock Awards	(911)	--	(984)
	-----	-----	-----
Total Stockholders' Equity	229,428	203,560	217,054
Less Class A Common Stock in treasury, at cost (4,759,148 shares at April 29, 2000, 2,874,000 shares at May 1, 1999, and 3,290,348 shares at January 29, 2000, respectively)	(43,723)	(23,279)	(28,274)
	-----	-----	-----
Total Stockholders' Equity	185,705	180,281	188,780
	-----	-----	-----
Total	\$ 294,731	\$ 284,964	\$ 285,789
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED	
	APRIL 29, 2000 (UNAUDITED)	May 1, 1999 (Unaudited)
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	\$ 14,560	\$ 13,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,377	2,023
Amortization of investment premiums	44	44
Compensation expense related to restricted stock award	73	--
Loss on disposal of property and equipment	199	141
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	982	1,282
Merchandise inventories	(14,971)	(15,284)
Other assets	(176)	(382)
Accrued income taxes	4,859	7,333
Accounts payable and other liabilities	7,237	11,723
	-----	-----
Net cash provided by operating activities	15,184	20,616
	-----	-----
INVESTING ACTIVITIES		
Expenditures for property and equipment	(5,591)	(4,203)
Purchases of short-term investments	(5,048)	(14,903)
Sales of short-term investments	732	3,088
	-----	-----
Net cash used in investing activities	(9,907)	(16,018)
	-----	-----
FINANCING ACTIVITIES		
Dividends paid	(2,549)	(1,477)
Purchases of treasury stock	(15,449)	(4,577)
Proceeds from employee stock purchase plan	223	237
Proceeds from stock options exercised	130	12
	-----	-----
Net cash used in financing activities	(17,645)	(5,805)
	-----	-----
Net Decrease in Cash and Cash Equivalents	(12,368)	(1,207)
Cash and Cash Equivalents at Beginning of Period	30,389	44,068
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 18,021	\$ 42,861
	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED APRIL 29, 2000 AND MAY 1, 1999

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 April 29, 2000 and May 1, 1999 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 there to, included in the Company's Annual Report in Form 10-K for the fiscal year ended January 29, 2000.

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 quarters ended April 29, 2000 and May 1, 1999 was \$14,497,000 and \$13,321,000, respectively. Total comprehensive income is composed of net income and net unrealized 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 first quarter of fiscal 2000, the Company repurchased 1,468,800 shares of Class A Common Stock for \$15,449,000, or an average price of \$10.52 per share. In the first quarter of fiscal 1999, the Company repurchased 569,000 shares of Class A Common Stock for \$4,577,000, or an average price of \$8.04 per share. In March 1999, the Company transferred 63,000 shares of Class A Common Stock from treasury stock to its Employee Stock Ownership Plan as the contribution for the fiscal year ended January 30, 1999.

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

Effective for fiscal 1999, the Company changed its policy for recognizing revenues related to layaway sales to comply with the Securities and Exchange Commissions Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). Revenues for layaway sales and related fees are recognized when the layaway merchandise is delivered to the customer. Previously, revenues were recognized at the time of the sale. The Company accounted for the adoption of SAB 101 as a change in accounting principle and recorded a cumulative effect in the first quarter of fiscal 1999. The cumulative effect of this accounting change resulted in an increase in net income of \$147,000, net of income tax of \$79,000, or \$.01 per share. This increase was driven by the release of the Company's layaway reserve, which slightly exceeded the associated margin on previously recognized layaway sales. The proforma effects of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

THE CATO CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED APRIL 29, 2000 AND MAY 1, 1999

 NOTE 2 - 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	
	APRIL 29, 2000	MAY 1, 1999
	-----	-----
Weighted-average shares outstanding	25,303,734	26,659,565
Dilutive effect of stock options	334,854	248,834
	-----	-----
Weighted-average shares and equivalents outstanding	25,638,588	26,908,399
	=====	=====

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the three months ended April 29, 2000 and May 1, 1999 were \$3,446,000 and \$181,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At April 29, 2000, 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. The Company was in compliance with all financial covenants and ratios and there were no borrowings outstanding under the agreement at April 29, 2000, May 1, 1999 or January 29, 2000.

NOTE 5 - REPORTABLE SEGMENT INFORMATION:

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

Three Months Ended April 29, 2000	Retail	Credit	Total
-----	-----	-----	-----
Total Revenues	\$ 163,991	\$ 3,249	\$ 167,240
Income before taxes and cumulative effect of accounting change	21,413	987	22,400
	-----	-----	-----
Three Months Ended May 1, 1999			
-----	-----	-----	-----
Total Revenues	\$ 155,015	\$ 2,859	\$ 157,874
Income before taxes and cumulative effect of accounting change	20,010	896	20,906

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	
	APRIL 29, 2000	May 1, 1999
Total retail sales	100.0 %	100.0 %
Total revenues	103.1	103.2
Cost of goods sold	64.9	65.4
Selling, general and administrative	22.9	22.8
Income before income taxes and cumulative effect of accounting change	13.8	13.7
Net income	9.0	9.0

COMPARISON OF FIRST QUARTER OF 2000 WITH 1999.

OPERATING RESULTS

Total retail sales for the first quarter were \$162.2 million, an increase of 6% over sales of \$153.0 million for the first quarter last year. Same-store sales decreased 1% in this year's first quarter. The increase in total retail sales for the first quarter resulted from the Company's increase in store development activity. The Company operated 817 stores at April 29, 2000 compared to 753 stores at the end of last year's first quarter.

Other income for the first quarter of 2000 increased 5%, over the prior year's comparable periods. The increase in the current year resulted primarily from increased finance and late charge fee income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

Cost of goods sold were 64.9% of total retail sales for the current year's first quarter, compared to 65.4% for last year's first three months. The decrease in cost of goods sold as a percent of retail sales resulted primarily from much improved merchandise offerings, more timely and aggressive markdowns and tighter merchandise planning and control.

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 \$37.1 million, or 22.9% of retail sales, for this year's first quarter compared to \$34.9 million, or 22.8% of retail sales, in last year's first quarter. Expenses remained well controlled and were under planned levels.

Effective for fiscal 1999, the Company changed its policy for recognizing revenues related to layaway sales to comply with the Securities and Exchange Commissions Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). Revenues for layaway sales and related fees are recognized when the layaway merchandise is delivered to the customer. Previously, revenues were recognized at the time of the sale. The Company accounted for the adoption of SAB 101 as a change in accounting principle and recorded a cumulative effect in the first quarter of fiscal 1999. The cumulative effect of this accounting change resulted in an increase in net income of \$147,000, net of income tax of \$79,000, or \$.01 per share. This increase was driven by the release of the Company's layaway reserve, which slightly exceeded the associated margin on previously recognized layaway sales. The proforma effects of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

At April 29, 2000, the Company had working capital of \$119.9 million, compared to \$130.0 million at May 1, 1999 and \$125.0 million at January 29, 2000. Cash provided by operating activities was \$15.2 million for the three months ended April 29, 2000, compared to \$20.6 million for last year's comparable three month period. The decrease resulted primarily from a decrease in accounts payable and other liabilities and accrued income taxes offset by an increase in net income. At April 29, 2000, the Company had cash, cash equivalents, and short-term investments of \$79.1 million, compared to \$96.1 million at May 1, 1999 and \$87.3 million at January 29, 2000.

Net cash used in investing activities totaled \$9.9 million for the first three months of 2000 compared to \$16.0 million for the comparable period of 1999. Cash was used primarily to fund capital expenditures for new, relocated and remodeled stores and for new technology for systems. The decrease in cash used was primarily related to a decrease in purchases of short-term investments in fiscal 2000 as compared to fiscal 1999.

Expenditures for property and equipment totaled \$5.6 million for the three months ended April 29, 2000, compared to \$4.2 million of expenditures in last year's first three months. The Company expects total capital expenditures to be approximately \$32 million for the current fiscal year. The Company intends to open approximately 100 new stores, close 10 stores and to relocate 28 stores during the current fiscal year. For the three months ended April 29, 2000, the Company had opened 12 new stores, relocated 9 stores, and closed four stores.

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

Net cash used in financing activities totaled \$17.6 million for the first three months of 2000 compared to \$5.8 million for the comparable period of 1999. The increase was due primarily from its share buyback program and an increase in dividends paid in fiscal 2000 as compared to fiscal 1999.

At April 29, 2000, 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. The Company was in compliance with all financial covenants and ratios and there were no borrowings outstanding under the agreement at April 29, 2000, May 1, 1999 or January 29, 2000.

In February 2000, the Board of Directors increased the quarterly dividend by 33% from \$.075 per share to \$.10 per share.

The Company does not use derivative financial instruments in its investment portfolio. At April 29, 2000, May 1, 1999 and January 29, 2000, the Company's investment portfolio was 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 income.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flow 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 2000.

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

None

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 April 29, 2000.

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

June 6, 2000

/s/ Wayland H. Cato, Jr.

Date-----
Wayland H. Cato, Jr.
Chairman of the Board

June 6, 2000

/s/ John P. Derham Cato

Date-----
John P. Derham Cato
Vice Chairman of the Board
President and Chief Executive Officer

June 6, 2000

/s/ Michael O. Moore

Date-----
Michael O. Moore
Executive Vice President
Chief Financial Officer and Secretary

June 6, 2000

/s/ Robert M. Sandler

Date-----
Robert M. Sandler
Senior Vice President
Controller

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND INCOME STATEMENT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS		
	FEB-03-2001	
	APR-29-2000	
		18,021
		61,095
		49,613
		5,137
		84,468
	214,655	
		133,136
		60,783
	294,731	
94,764		0
	0	0
		0
		986
		184,719
294,731		
		162,154
	167,240	
		105,324
		105,324
		0
		913
		7
	22,400	
		7,840
14,560		
		0
		0
		0
		14,560
		0.58
		0.57