

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 July 31, 1999

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 16, 1999, there were 21,236,013 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

JULY 31, 1999

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	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	
	JULY 31, 1999 (UNAUDITED)	August 1, 1998 (Unaudited)	JULY 31, 1999 (UNAUDITED)	August 1, 1998 (Unaudited)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES				
Retail sales	\$ 148,500	\$ 132,573	\$ 301,883	\$ 268,747
Other income (principally finance and layaway charges)	4,990	4,603	9,862	9,473
Total revenues	153,490	137,176	311,745	278,220
COSTS AND EXPENSES				
Cost of goods sold	99,974	93,864	200,143	183,043
Selling, general and administrative	36,118	32,410	71,040	65,500
Depreciation	2,109	1,909	4,132	3,774
Interest	5	65	11	131
Total expenses	138,206	128,248	275,326	252,448
INCOME BEFORE INCOME TAXES	15,284	8,928	36,419	25,772
Income taxes	5,350	3,293	12,747	9,020
NET INCOME	\$ 9,934	\$ 5,635	\$ 23,672	\$ 16,752
BASIC EARNINGS PER SHARE	\$.37	\$.20	\$.89	\$.61
DILUTED EARNINGS PER SHARE	\$.37	\$.20	\$.88	\$.59
DIVIDENDS PER SHARE	\$.075	\$.045	\$.13	\$.09

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	JULY 31, 1999 (UNAUDITED)	August 1, 1998 (Unaudited)	January 30, 1999
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 41,802	\$ 54,403	\$ 44,068
Short-term investments	53,365	38,167	42,141
Accounts receivable - net	43,974	41,902	44,536
Merchandise inventories	67,374	63,063	61,112
Deferred income taxes	3,837	2,905	3,372
Prepaid expenses	2,022	2,023	2,374
	-----	-----	-----
Total Current Assets	212,374	202,463	197,603
Property and Equipment - net	60,262	49,748	54,740
Other Assets	6,408	6,177	6,170
	-----	-----	-----
Total	\$ 279,044	\$ 258,388	\$ 258,513
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 52,156	\$ 51,813	\$ 52,391
Accrued expenses	20,773	18,537	20,991
Income taxes	5,534	3,956	197
	-----	-----	-----
Total Current Liabilities	78,463	74,306	73,579
Deferred Income Taxes	5,801	5,296	5,922
Other Noncurrent Liabilities	7,154	6,187	6,778
Stockholders' Equity:			
Class A Common Stock, issued 24,109,961 shares, 23,891,040 shares and 24,070,519 shares at July 31, 1999, August 1, 1998 and January 30, 1999, respectively	803	796	802
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at July 31, 1999, August 1, 1998 and January 30, 1999, respectively	176	176	176
Additional paid-in capital	70,216	67,092	69,878
Retained earnings	139,710	115,946	120,590
	-----	-----	-----
	210,905	184,010	191,446
Less Class A Common Stock in treasury, at cost (2,873,948 shares at July 31, 1999, 1,523,000 shares at August 1, 1998, and 2,368,000 shares at January 30, 1999)	23,279	11,411	19,212
	-----	-----	-----
Total Stockholders' Equity	187,626	172,599	172,234
	-----	-----	-----
Total	\$ 279,044	\$ 258,388	\$ 258,513
	=====	=====	=====

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED	
	JULY 31, 1999 (UNAUDITED)	August 1, 1998 (Unaudited)
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	\$ 23,672	\$ 16,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,132	3,774
Amortization of investment premiums	89	50
Loss on disposal of property and equipment	295	580
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	562	5,284
Merchandise inventories	(6,262)	1,163
Other assets	114	(421)
Accrued income taxes	5,337	1,915
Accounts payable and other liabilities	455	82
	-----	-----
Net cash provided by operating activities	28,394	29,179
	-----	-----
INVESTING ACTIVITIES		
Expenditures for property and equipment	(9,950)	(4,301)
Purchases of short-term investments	(15,306)	(19,479)
Sales of short-term investments	2,320	9,273
	-----	-----
Net cash used in investing activities	(22,936)	(14,507)
	-----	-----
FINANCING ACTIVITIES		
Dividends paid	(3,465)	(2,459)
Purchase of treasury stock	(4,577)	(2,310)
Proceeds from employee stock purchase plan	247	183
Proceeds from stock options exercised	71	2,673
	-----	-----
Net cash used in financing activities	(7,724)	(1,913)
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(2,266)	12,759
Cash and Cash Equivalents at Beginning of Year	44,068	41,644
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 41,802	\$ 54,403
	=====	=====

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR SIX MONTHS ENDED JULY 31, 1999 AND AUGUST 1, 1998

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 July 31, 1999 and August 1, 1998 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 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 July 31, 1999 was \$9,262,000 and \$22,585,000 respectively. Total comprehensive income for the second quarter and six months ended August 1, 1998 was \$5,814,000 and \$16,861,000, respectively. Total comprehensive income is composed of net income and unrealized losses on available-for-sale securities.

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

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. 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.

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

THE CATO CORPORATION
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR SIX MONTHS ENDED JULY 31, 1999 AND AUGUST 1, 1998

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		SIX MONTHS ENDED	
	JULY 31, 1999	August 1, 1998	JULY 31, 1999	August 1, 1998
Weighted-average shares outstanding	26,496,155	27,707,347	26,577,860	27,603,502
Dilutive effect of stock options	505,125	869,504	400,484	820,046
Weighted-average shares and equivalents outstanding	<u>27,001,280</u>	<u>28,576,851</u>	<u>26,978,344</u>	<u>28,423,548</u>

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the six months ended July 31, 1999 and August 1, 1998 was \$11,100 and \$81,000, respectively. Income tax payments, net of refunds received, for the six months ended July 31, 1999 and August 1, 1998 were \$7,641,000 and \$7,193,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At July 31, 1999, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until May 2001. 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 July 31, 1999 or August 1, 1998.

THE CATO CORPORATION
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR SIX MONTHS ENDED JULY 31, 1999 AND AUGUST 1, 1998

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		SIX MONTHS ENDED	
	JULY 31, 1999	August 1, 1998	JULY 31, 1999	August 1, 1998
Revenues:				
Retail	\$ 150,624	\$ 134,376	\$ 306,020	\$ 272,656
Credit	2,866	2,800	5,725	5,564
Total	<u>\$ 153,490</u>	<u>\$ 137,176</u>	<u>\$ 311,745</u>	<u>\$ 278,220</u>
Income before taxes:				
Retail	\$ 14,320	\$ 8,013	\$ 34,559	\$ 24,078
Credit	964	915	1,860	1,694
Total	<u>\$ 15,284</u>	<u>\$ 8,928</u>	<u>\$ 36,419</u>	<u>\$ 25,772</u>

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 percentages of total retail sales:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 31, 1999	August 1, 1998	JULY 31, 1999	August 1, 1998
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	103.3	103.5	103.2	103.5
Cost of goods sold	67.3	70.8	66.3	68.1
Selling, general and administrative	24.3	24.4	23.5	24.4
Income before income taxes	10.3	6.8	12.0	9.6
Net income	6.7	4.3	7.8	6.2

COMPARISON OF SECOND QUARTER AND FIRST SIX MONTHS OF 1999 WITH 1998.

OPERATING RESULTS

Total retail sales for the second quarter were \$148.5 million compared to last year's second quarter sales of \$132.6 million, a 12% increase. Same-store sales increased 5% in this year's second quarter. For the six months ended July 31, 1999, total retail sales were \$301.9 million compared to last year's first six months sales of \$268.7 million, a 12% increase, and same-store sales increased 6% for the comparable six month period. The increase in retail sales for the first six months of 1999 resulted from the Company's continued everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. The Company operated 770 stores at July 31, 1999 compared to 701 stores at the end of last year's second quarter.

Other income for the second quarter and first six months of 1999 increased 8% and 4%, respectively, over the prior year's comparable periods. The increase in the current year resulted primarily from increased finance and late charge income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

Cost of goods sold were 67.3% and 66.3% of total retail sales for the second quarter and first six months of 1999, respectively, compared to 70.8% and 68.1% for last year's comparable three and six month periods. The decrease in cost of goods sold as a percent of retail sales resulted by maintaining timely and aggressive markdowns on slow moving merchandise, eliminating unprofitable promotions and improving inventory flow.

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 \$36.1 million and \$71.0 million for the second quarter and first six months of this year, respectively, compared to \$32.4 million and \$65.5 million for last year's comparable three and six month periods, respectively. Expenses remained well controlled and were under planned levels.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1999, the Company had working capital of \$133.9 million, compared to \$128.2 million at August 1, 1998 and \$124.0 million at January 30, 1999. Cash provided from operating activities was \$28.4 million for the six months ended July 31, 1999, compared to \$29.2 million for last year's comparable six month period. The Company had no borrowings under its revolving credit agreement at July 31, 1999 or August 1, 1998. At July 31, 1999, the Company had cash, cash equivalents, and short-term investments of \$95.2 million, compared to \$92.6 million at August 1, 1998 and \$86.2 million at January 30, 1999.

At July 31, 1999, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until May 2001. 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 July 31, 1999 or August 1, 1998.

Expenditures for property and equipment totaled \$10.0 million for the six months ended July 31, 1999, compared to \$4.3 million in the first six months of 1998. 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 to relocate 22 stores during the current fiscal year. For the six months ended July 31, 1999, the Company had opened 39 new stores, relocated 13 stores, and closed 1 store.

In May 1999, the Board of Directors increased the quarterly dividend by 36% from \$.055 per share to \$.075 per share.

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.

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

LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

The Company developed a two phase approach to address the Year 2000 issue, which involves the exposure to risks in its information technology (IT) systems, as well as potential risks in other non-IT systems with embedded technology. Phase 1 was an analysis to identify and fix all internally developed programs. Phase 2 is the identification and correction to all programs purchased from external sources. The Company has completed Phase 1, and Phase 2 will be completed in the third fiscal quarter of 1999 with continued testing of compliance throughout 1999. The Company expects to spend approximately \$525,000 in 1998 and 1999 on hardware, software and consulting to ensure proper processing of transactions relating to the Year 2000 and beyond. The Company has initiated formal communications with its third-party suppliers and vendors to determine the extent to which the Company is vulnerable to those third-parties' failure to remediate their own Year 2000 issue. Although lack of compliance for Year 2000 issues by third-party suppliers and vendors could have an adverse effect on the Company's business, results of operations and financial condition, the Company expects its Year 2000 compliance efforts to significantly reduce the risk of business interruption and the level of uncertainty the Year 2000 issue may have on its computer systems. A contingency plan will be established upon the completion of Phase 2 to address these issues.

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 THE RIGHTS OF THE COMPANY'S SECURITY HOLDERS

None

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

Not Applicable

ITEM 4. RESULT OF VOTES OF SECURITY HOLDERS

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 20, 1999.

ELECTION OF DIRECTORS:

Mr. Wayland H Cato, Jr	-	For 70,384,788 ;	Abstaining 1,370,723
Mr. Edgar T. Cato	-	For 70,384,788 ;	Abstaining 1,370,723
Mr. Howard A. Severson	-	For 70,384,713 ;	Abstaining 1,370,798
Mr. Robert W. Bradshaw	-	For 71,108,224 ;	Abstaining 647,287
Mr. Grant L. Hamrick	-	For 71,502,397 ;	Abstaining 253,114

RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS

For 71,735,518 ; Abstaining 1,893 ; Against 18,100

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibit 27 - Financial Data Schedule (for SEC use only)

(B) No Reports on Form 8-K were filed during the quarter ended July 31, 1999.

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 9, 1999

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

September 9, 1999

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

September 9, 1999

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

THIS 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

6-MOS	JAN-29-2000	
	JUL-31-1999	
		41,802
		53,365
		49,049
		5,075
		67,374
	212,374	
		115,991
		55,729
	279,044	
	78,463	
		0
	0	
		0
		979
		186,647
279,044		
		301,883
	311,745	
		200,143
		200,143
		0
		1,963
		11
		36,419
		12,747
	23,672	
		0
		0
		0
		23,672
		0.89
		0.88