

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 May 5, 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 May 22, 2001, there were 19,871,175 shares of Class A common stock and
5,364,317 shares of Class B common stock outstanding.

THE CATO CORPORATION

FORM 10-Q

MAY 5, 2001

TABLE OF CONTENTS

	Page No. ----
PART I - FINANCIAL INFORMATION (UNAUDITED)	
Condensed Consolidated Statements of Income For the Three Months Ended May 5, 2001 and April 29, 2000	2
Condensed Consolidated Balance Sheets At May 5, 2001, April 29, 2000 and February 3, 2001	3
Condensed Consolidated Statements of Cash Flows For the Three Months Ended May 5, 2001 and April 29, 2000	4
Notes to Condensed Consolidated Financial Statements For the Three Months Ended May 5, 2001 and April 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	
	MAY 5, 2001 (UNAUDITED)	April 29, 2000 (Unaudited)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	
REVENUES		
Retail sales	\$ 180,347	\$ 162,154
Other income (principally finance, late, and layaway charges)	5,383	5,086
Total revenues	185,730	167,240
COSTS AND EXPENSES		
Cost of goods sold	116,391	105,324
Selling, general and administrative	42,228	37,132
Depreciation	2,616	2,377
Interest	11	7
Total expenses	161,246	144,840
INCOME BEFORE INCOME TAXES	24,484	22,400
Income tax expense	8,569	7,840
NET INCOME	\$ 15,915	\$ 14,560
BASIC EARNINGS PER SHARE	\$.63	\$.58
DILUTED EARNINGS PER SHARE	\$.61	\$.57
DIVIDENDS PER SHARE	\$.125	\$.10

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	MAY 5, 2001 (UNAUDITED)	April 29, 2000 (Unaudited)	February 3, 2001 -----
(DOLLARS IN THOUSANDS)			
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 38,622	\$ 18,021	\$ 25,201
Short-term investments	61,232	61,095	57,911
Accounts receivable - net	46,373	44,476	46,972
Merchandise inventories	93,506	84,468	79,161
Deferred income taxes	1,746	4,014	1,579
Prepaid expenses	5,112	2,581	4,665
	-----	-----	-----
Total Current Assets	246,591	214,655	215,489
Property and equipment - net	88,204	72,353	85,819
Other assets	9,115	7,723	9,434
	-----	-----	-----
Total	\$ 343,910	\$ 294,731	\$ 310,742
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 76,695	\$ 67,867	\$ 59,681
Accrued expenses	24,684	17,308	24,378
Income taxes	11,219	9,589	5,706
	-----	-----	-----
Total Current Liabilities	112,598	94,764	89,765
Deferred income taxes	5,386	5,544	5,386
Other noncurrent liabilities	7,515	8,718	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 24,892,623 shares, 24,212,819 shares and 24,643,420 shares at May 5, 2001, April 29, 2000, and February 3, 2001 respectively	829	807	821
Convertible Class B common stock, \$.033 par value per share, 15,000,000 shares authorized; issued 5,364,317 shares at May 5, 2001, April 29, 2000 and February 3, 2001 respectively	179	179	179
Additional paid-in capital	78,902	72,324	76,778
Retained earnings	188,006	158,893	175,275
Accumulated other comprehensive losses	(1,193)	(1,864)	(884)
Unearned compensation - restricted stock awards	(615)	(911)	(689)
	-----	-----	-----
	266,108	229,428	251,480
Less Class A common stock in treasury, at cost (5,021,648 shares at May 5, 2001, 4,759,148 shares at April 29, 2000, and 4,759,148 shares at February 3, 2001, respectively)	(47,697)	(43,723)	(43,723)
	-----	-----	-----
Total Shareholders' Equity	218,411	185,705	207,757
	-----	-----	-----
Total	\$ 343,910	\$ 294,731	\$ 310,742
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED	
	MAY 5, 2001 (UNAUDITED)	April 29, 2000 (Unaudited)
	(DOLLARS IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	\$ 15,915	\$ 14,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,616	2,377
Amortization of investment premiums	45	44
Compensation expense related to restricted stock awards	73	73
Loss on disposal of property and equipment	57	199
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	599	982
Merchandise inventories	(14,345)	(14,971)
Other assets	(128)	(176)
Accrued income taxes	5,513	4,859
Accounts payable and other liabilities	16,834	7,237
Net cash provided by operating activities	27,179	15,184
INVESTING ACTIVITIES		
Expenditures for property and equipment	(5,058)	(5,591)
Purchases of short-term investments	(5,971)	(5,048)
Sales of short-term investments	2,296	732
Net cash used in investing activities	(8,733)	(9,907)
FINANCING ACTIVITIES		
Dividends paid	(3,184)	(2,549)
Purchases of treasury stock	(3,975)	(15,449)
Proceeds from employee stock purchase plan	199	223
Proceeds from stock options exercised	1,935	130
Net cash used in financing activities	(5,025)	(17,645)
Net increase (decrease) in cash and cash equivalents	13,421	(12,368)
Cash and cash equivalents at beginning of period	25,201	30,389
Cash and cash equivalents at end of period	\$ 38,622	\$ 18,021

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MAY 5, 2001 AND APRIL 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 May 5, 2001 and April 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 there to, 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 quarters ended May 5, 2001 and April 29, 2000 was \$15,606,000 and \$14,497,000, 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 first quarter of fiscal 2001, the Company repurchased 262,500 shares of Class A common stock for \$3,974,000, or an average price of \$15.14 per share. 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.

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 ENDED MAY 5, 2001 AND APRIL 29, 2000

 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	
	MAY 5, 2001	April 29, 2000
	-----	-----
Weighted-average shares outstanding (basic)	25,286,456	25,303,734
Dilutive effect of stock options	634,217	334,854
	-----	-----
Weighted-average shares and equivalents outstanding (diluted)	25,920,673	25,638,588
	=====	=====

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the three months ended May 5, 2001 and April 29, 2000 were \$3,481,000 and \$3,446,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At May 5, 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 three months ended May 5, 2001 or the fiscal year ended February 3, 2001.

THE CATO CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS ENDED MAY 5, 2001 AND APRIL 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	
	MAY 5, 2001	April 29, 2000
	-----	-----
Revenues:		
Retail	\$ 182,384	\$ 163,991
Credit	3,346	3,249
	-----	-----
Total	\$ 185,730	\$ 167,240
	=====	=====
Income before income taxes:		
Retail	\$ 23,574	\$ 21,413
Credit	910	987
	-----	-----
Total	\$ 24,484	\$ 22,400
	=====	=====

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 Condensed Consolidated Statements of Income as a percentage of total retail sales:

	THREE MONTHS ENDED	
	MAY 5, 2001	April 29, 2000
Total retail sales	100.0 %	100.0 %
Total revenues	103.0	103.1
Cost of goods sold	64.5	64.9
Selling, general and administrative	23.4	22.9
Income before income taxes	13.6	13.8
Net income	8.8	9.0

COMPARISON OF FIRST QUARTER OF 2001 WITH 2000.

Total retail sales for the first quarter were \$180.3 million, an increase of 11% over sales of \$162.2 million for the first quarter last year. Same-store sales increased 4% in this year's first quarter. The increase in retail sales for the first quarter resulted from the Company's continued everyday low price strategy, improved merchandise offerings, and an increase in store development activity. The Company operated 872 stores at May 5, 2001 compared to 817 stores at the end of last year's first quarter.

Other income for the first quarter of 2001 increased 6%, 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 layaway fees.

Cost of goods sold were 64.5% of total retail sales for the current year's first quarter, compared to 64.9% 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.

Selling, general and administrative (SG&A) expenses were \$42.2 million, or 23.4% of retail sales, for this year's first quarter compared to \$37.1 million, or 22.9% of retail sales, in last year's first quarter. 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.

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

LIQUIDITY AND CAPITAL RESOURCES

At May 5, 2001, the Company had working capital of \$134.0 million, compared to \$119.9 million at April 29, 2000 and \$125.7 million at February 3, 2001. Cash provided by operating activities was \$27.2 million for the three months ended May 5, 2001, compared to \$15.2 million for last year's comparable three month period. The increase resulted primarily from an increase in accounts payable and other liabilities, accrued income taxes and an increase in net income. At May 5, 2001, the Company had cash, cash equivalents, and short-term investments of \$99.9 million, compared to \$79.1 million at April 29, 2000 and \$83.1 million at February 3, 2001.

Net cash used in investing activities totaled \$8.7 million for the first three months of 2001 compared to \$9.9 million for the comparable period of 2000. Cash was used primarily 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. The decrease in cash used was primarily related to an increase in the sale of short-term investments in fiscal 2001 as compared to fiscal 2000.

Expenditures for property and equipment totaled \$5.1 million for the three months ended May 5, 2001, compared to \$5.6 million of expenditures in last year's first three months. The Company expects total capital expenditures to be approximately \$31 million for the current fiscal year. The Company intends to open approximately 85 new stores, close 10 stores and to relocate 25 stores during the current fiscal year. For the three months ended May 5, 2001, the Company had opened 14 new stores, relocated 4 stores, and closed one store.

Net cash used in financing activities totaled \$5.0 million for the first three months of 2001 compared to \$17.6 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.

At May 5, 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 three months ended May 5, 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.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 May 5, 2001, April 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 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 2001.

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 May 5, 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

June 13, 2001

/s/ Wayland H. Cato, Jr.

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

June 13, 2001

/s/ John P. Derham Cato

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

June 13, 2001

/s/ Michael O. Moore

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

June 13, 2001

/s/ Robert M. Sandler

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