UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[NO FEE REQUIRED]
For the fiscal year ended January 29, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[NO FEE REQUIRED]

REGISTRANT: THE CATO CORPORATION
COMMISSION FILE NUMBER O-3747

State of Incorporation: Delaware	I.R.S. Employer Identification Number: 56-0484485
Address of Principal Executive Offices: 8100 Denmark Road Charlotte, North Carolina 28273-5975	Registrant's Telephone Number: 704/554-8510
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:	SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE	CLASS A COMMON STOCK

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 [X] 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. [X]

As of March 24, 2000, there were 20,028,732 shares of Class A Common Stock and 5,364,317 shares of Convertible Class B Common Stock outstanding. The aggregate market value of the Registrant's Class A Common Stock held by Non-affiliates of the Registrant as of March 24, 2000 was approximately $160,608,853 based on the last reported sale price per share on the NASDAQ National Market System on that date.

Documents incorporated by reference:

Portions of the proxy statement dated April 26, 2000, relating to the 2000 annual meeting of shareholders are incorporated by reference into the following part of this annual report:

Part III - Items 10, 11, 12 and 13

THE CATO CORPORATION
FORM 10-K
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PART I

ITEM 1. BUSINESS:

GENERAL

The Company, founded in 1946, operated 809 women's fashion specialty stores at January 29, 2000 under the names "Cato," "Cato Fashions," "Cato Plus" and "It's Fashion!" in 21 states, principally in the Southeast. The Company offers quality fashion apparel and accessories at everyday low prices in junior/missy and plus sizes. Additionally, the Company offers clothing and accessories for girls ages 7 - 16 in selected locations. With the objective of offering head-to-toe dressing for its customers, the Company's stores feature a broad assortment of apparel and accessories, including casual and dressy sportswear, dresses, careerwear, coats, hosiery, shoes, costume jewelry, handbags and millinery. 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 specifications. Most stores range in size from 3,000 to 6,000 square feet and are located primarily in strip shopping centers anchored by national discount stores. The Company emphasizes 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 represented 20% of retail sales in fiscal 1999. See Note 12 to the Consolidated Financial Statements, "Reportable Segment Information" for a discussion of segment information.

BUSINESS

The Company's primary objective is to be the leading fashion specialty retailer for fashion conscious low-to-middle income females 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 women's specialty stores.
The key elements of the Company's business strategy are:

Merchandise Assortment. The Company's stores offer a wide assortment of apparel and accessory items in regular and large sizes and emphasize color, product coordination and selection.

Value Pricing. The Company offers quality merchandise that is generally priced below comparable merchandise offered by department stores and higher-end specialty apparel chains but is generally more fashionable than merchandise offered by discount stores. The Company has positioned itself as the everyday low price leader in its segment.

ITEM 1. BUSINESS: (CONTINUED)

Strip Shopping Center Locations. The Company locates its stores principally in strip centers convenient to customers anchored by national discount stores, such as Wal-Mart and Kmart, 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 and a layaway plan to make the purchase of its merchandise more convenient.

Expansion. The Company plans to open new stores and relocate existing stores in rural, middle and metro markets in northern, midwestern and western adjacent states, as well as continuing to "fill-in" existing southeastern core geography.

MERCHANDISING

Merchandising

The Company offers a broad selection of popular-priced apparel and accessories to suit the various lifestyles of the fashion conscious low-to-middle income female, ages 18 to 50. In addition, the Company offers consistent product quality and fit.

The Company's merchandise lines include dressy, career and casual sportswear, dresses, coats, shoes, lingerie, hosiery, costume jewelry, handbags and millinery. Clothing and accessories for girls ages 7 - 16 are offered in selected stores. Most of the Company's merchandise is sold under its private labels.

The collaboration of the merchandising team with an expanded in-house product development and new direct sourcing function has enhanced merchandise offerings delivering quality private label products at lower costs. Product development and the direct sourcing operation provide research on emerging fashion and color trends, technical services and direct sourcing capabilities.

ITEM 1. BUSINESS: (CONTINUED)

As a part of its merchandising strategy, members of the Company's merchandising staff frequently visit selected stores, monitor the merchandise offerings of other retailers, regularly communicate with store operations associates and frequently confer with key vendors. The Company tests most new fashion-sensitive items in selected stores to aid it in determining their appeal before making a substantial purchasing commitment. The Company also takes aggressive markdowns on slow-selling merchandise and 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 1999, purchases from the Company's largest vendor accounted for approximately 7% of the Company's total purchases. No other vendor accounted for more than 3% of 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 specifications. The Company purchases most of its merchandise from domestic importers and vendors, which typically minimizes the time necessary to purchase and obtain shipments in order to enable the Company to react to merchandise trends in a more timely fashion. Although a significant portion of the Company's merchandise is manufactured overseas, principally in the Far East, any economic, political or social unrest in that region is not expected to have a material adverse effect on the Company's ability to obtain adequate supplies of merchandise.

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 computerized merchandise control system provides current information on the sales activity of each merchandise style in the Company's stores. Point-of-sale terminals in the stores collect and transmit sales and inventory information to the Company's central computer, 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 allocated by the merchandise distribution staff for shipment to individual stores. The flow of merchandise from receipt at the distribution center to shipment is controlled by an on-line computer system. Shipments are made by common carrier, and each store receives at least one shipment per week.

ITEM 1. BUSINESS: (CONTINUED)

Advertising

The Company uses direct mail, radio and in-store advertising as its primary advertising media. The Company uses radio advertising throughout its trade areas. The Company's total advertising expenditures were approximately .9% of retail sales in fiscal 1999.

STORE OPERATIONS

The Company's store operations management team consists of two directors of stores, two territorial managers, fourteen regional managers and seventy-eight district managers. Regional managers receive a salary plus a bonus based on achieving targeted goals for sales, payroll expense, shrinkage control and store profitability. District managers receive a salary plus a bonus based on achieving targeted objectives for district sales increases and shrinkage control. Stores are staffed with a manager, two assistant managers and additional part-time sales associates depending on the size of the stores and seasonal personnel needs. Store managers receive a salary and all other store personnel are paid on an hourly basis. Store managers and assistant managers are eligible for monthly and semi-annual bonuses based on achieving targeted goals for their store's sales increases and shrinkage control.

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 manager is promoted from within or recruited from outside the Company. All district managers receive at a minimum a one-week orientation program at the Company's home office.

STORE LOCATIONS

Most of the Company's stores are located in the Southeast in small to medium-sized towns, with populations of 10,000 to 50,000 and retail trade areas of 25,000 to 100,000. Stores range in size from 3,000 to 6,000 square feet and average approximately 4,300 square feet.

ITEM 1. BUSINESS: (CONTINUED)

All of the Company's stores are leased. Approximately 93% are located in strip shopping centers, 1% in downtown locations and 6% in enclosed shopping malls. Where lease terms are acceptable and a potential location meets the Company's demographic and other site-selection criteria, the Company locates stores in strip shopping centers anchored by major discount stores, such as Wal-Mart and Kmart 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 and relocating other 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 1995.

STORE DEVELOPMENT

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
1995................	646	37	12	671
1996................	671	28	44	655
1997................	655	55	17	693
1998................	693	52	13	732
1999................	732	83	6	809

The Company plans to open approximately 100 new stores and to relocate approximately 28 existing stores in fiscal 2000. Additionally, the Company plans to remodel approximately 100 stores in fiscal 2000.

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 and to close underperforming stores or relocate them to more desirable locations in their existing markets.

CREDIT AND LAYAWAY

Credit Card Program

The Company offers its own credit card, which accounted for approximately 15% of retail sales in fiscal 1999. The Company's net bad debt expense in fiscal 1999 was 4.5% of credit sales.

ITEM 1. BUSINESS: (CONTINUED)

Customers applying for the Company's credit card are approved for credit if they have a satisfactory credit record and meet a minimum income test. 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 charges a finance charge.

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. In fiscal 1999, the Company changed its method of accounting for layaway sales. This change is the result of the issuance of Staff Accounting Bulletin No.101, "Revenue Recognition in Financial Statements" ("SAB 101"). Under the new accounting method the Company defers recognition of layaway sales and its related fees to the accounting period when the customer picks up layaway merchandise. Layaway sales represented approximately 5% of retail sales in fiscal 1999.

MANAGEMENT INFORMATION SYSTEMS

The Company's 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 best seller/worst seller 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 stockkeeping unit. 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.

The Company developed a two phase approach to address the Year 2000 issue, which involved 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 was the identification and correction to all programs purchased from external sources. The Company successfully completed Phase 1 and Phase 2 on schedule at a cost of $575,000. Following the arrival of the Year 2000, the Company has not experienced any significant issues and there has been no interruption in business nor any material financial impact due to 2000 issues.

ITEM 1. BUSINESS: (CONTINUED)

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 local apparel specialty stores, mass merchandise chains, discount store chains and, to some degree, with major department stores. To the extent that the Company opens stores in larger cities and metropolitan areas, competition is expected to be more intense in those markets.

REGULATION

A variety of laws affect the revolving credit program offered by the Company. The Federal Consumer Credit Protection Act (Truth-in Lending) and Regulation Z promulgated thereunder require written disclosure of information relating to such financing, including the amount of the annual percentage rate and the finance charge. 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 discrimination against any credit applicant based on certain specified grounds. 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 provisions of the Fair Debt Collection Practices Act, which regulates the manner in which the Company collects payments on revolving credit accounts.

ASSOCIATES

As of January 29, 2000, the Company employed approximately 8,500 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 that its associate relations are good.

ITEM 2. PROPERTIES:

The Company's distribution center and general offices are located in a Company-owned building of approximately 492,000 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 74,000 square feet.

Substantially all of the Company's retail stores are leased from unaffiliated parties. Most of the leases have an initial term of five years, with two to three five-year renewal options. Substantially all of the leases provide for fixed rentals plus a percentage of sales in excess of a specified volume.

ITEM 3. LEGAL PROCEEDINGS:

There are no material pending legal proceedings to which the registrant or its subsidiaries is a party, or to which any of their property is subject.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS:

MARKET & DIVIDEND INFORMATION

The Company's Class A Common Stock trades in the over-the-counter market under the NASDAQ National Market System symbol CACOA. Below is the market range and dividend information for the four quarters of fiscal 1999 and 1998.

1999	Price HIGH	Price LOW	DIVIDEND
First quarter	$ 11 7/16	$ 7 9/16	$ .055
Second quarter	13 15/16	10 1/2	.075
Third quarter	15 9/16	10 7/8	.075
Fourth quarter	13 3/8	10 1/4	.075

1998	Price HIGH	Price LOW	DIVIDEND
First quarter	$ 15 1/8	$ 10 1/2	$ .045
Second quarter	19 1/8	13 1/8	.045
Third quarter	15 1/2	7 1/2	.05
Fourth quarter	15 5/8	7 11/16	.05

As of March 24, 2000 the approximate number of holders of the Company's Class A Common stock was 3,600 and there were 12 record holders of the Company's Class B Common Stock.

ITEM 6. SELECTED FINANCIAL DATA:

	Fiscal Year				
	1999	1998	1997	1996	1995
	(Dollars in thousands, except per share data and selected operating data)				
STATEMENT OF OPERATIONS DATA:					
Retail sales	$ 585,085	$ 524,381	$ 496,851	$ 477,011	$ 476,638
Other income	19,948	19,283	15,597	14,498	13,357
Total revenues	605,033	543,664	512,448	491,509	489,995
Cost of goods sold	403,655	371,005	354,627	344,919	341,144
Gross margin percent	31.0%	29.2%	28.6%	27.7%	28.4%
Selling, general and administrative	140,741	128,207	124,676	121,837	122,961
Selling, general and administrative percent	24.0%	24.4%	25.1%	25.5%	25.8%
Depreciation	8,639	7,638	7,713	8,330	7,785
Interest	23	19	25	25	30
Closed store expense	--	--	--	5,500	--
Income before income taxes and cumulative effect of accounting change	51,975	36,795	25,407	10,898	18,075
Income tax expense	18,191	12,878	8,006	3,869	6,055
Income before cumulative effect of accounting change	33,784	23,917	17,401	7,029	12,020
Cumulative effect of accounting change, net of taxes	147	--	--	--	--
Net income	$ 33,931	$ 23,917	$ 17,401	$ 7,029	$ 12,020
Basic earnings per share	$ 1.28	$ .87	$ .62	$ .25	$ .42
Diluted earnings per share	$ 1.26	$ .85	$ .62	$ .25	$ .42
Cash dividends paid per share	$ .28	$ .19	$ .16	$ .16	$ .16
SELECTED OPERATING DATA:					
Stores open at end of year	809	732	693	655	671
Average sales per store	$ 756,000	$ 740,000	$ 748,000	$ 710,000	$ 721,000
Average sales per square foot of selling space	$ 177	$ 169	$ 163	$ 153	$ 158
Comparable store sales increase (decrease)	4%	2%	4%	(2)%	(5)%
BALANCE SHEET DATA:					
Cash and investments	$ 87,275	$ 86,209	$ 69,487	$ 50,105	$ 47,894
Working capital	124,988	124,024	113,327	105,373	102,169
Total assets	285,789	258,513	241,437	218,243	209,895
Total stockholders' equity	$ 188,780	$ 172,234	$ 157,516	$ 151,903	$ 149,682

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

RESULTS OF OPERATIONS

The table below sets forth certain financial data of the Company expressed as a percentage of retail sales for the years indicated:

	Fiscal Year Ended		
	JANUARY 29, 2000	January 30, 1999	January 31, 1998
Retail sales	100.0%	100.0%	100.0%
Other income	3.4	3.7	3.1
Total revenues	103.4	103.7	103.1
Cost of goods sold	69.0	70.8	71.4
Selling, general and administrative	24.0	24.4	25.1
Depreciation	1.5	1.5	1.5
Selling, general, administrative and depreciation	25.5	25.9	26.6
Income before income taxes and cumulative effect of accounting change	8.9	7.0	5.1
Net income	5.8%	4.6%	3.5%

FISCAL 1999 COMPARED TO FISCAL 1998

Retail sales increased by 12% to $585.1 million in fiscal 1999 from $524.4 million in fiscal 1998. Comparable store sales increased 4% from the prior year. Total revenues, comprised of retail sales and other income (principally finance charges and late fees on customer accounts receivable, interest income and layaway fees), increased by 11% to $605.0 million in fiscal 1999 from $543.7 million in fiscal 1998. The Company operated 809 stores at January 29, 2000, compared to 732 stores operated at January 30, 1999.

The increase in retail sales in fiscal 1999 resulted from the Company's continuation of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1999, the Company increased its number of stores 11% by opening 83 new stores, relocating 21 stores while closing 6 existing stores.

Other income in fiscal 1999 increased $.7 million or 3% over fiscal 1998. The increase resulted primarily from increased earnings from higher finance charges, late fee income and income from cash equivalents and short-term investments partially offset by decreased layaway service charges.

Cost of goods sold was $403.7 million, or 69.0% of retail sales, in fiscal 1999, compared to $371.0 million, or 70.8% of retail sales, in fiscal 1998. The decrease in cost of goods sold as a percent of retail sales resulted primarily by maintaining timely and aggressive markdowns on slow moving merchandise, eliminating unprofitable promotions and improving inventory flow. Total gross margin dollars (retail sales less cost of goods sold) increased by 18% to $181.4 million in fiscal 1999 from $153.4 million in fiscal 1998.

Selling, general and administrative expenses (SG&A) were $140.7 million in fiscal 1999, compared to $128.2 million in fiscal 1998, an increase of 10%. As a percent of retail sales, SG&A was 24.0% compared to 24.4% in the prior year. 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.

Depreciation expense was $8.6 million in fiscal 1999 compared to $7.6 million in fiscal 1998. The 13% increase in fiscal 1999 resulted primarily from the Company's store development.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS: (CONTINUED)

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 and 1997 are immaterial to the financial statements.

FISCAL 1998 COMPARED TO FISCAL 1997

Retail sales increased by 6% to $524.4 million in fiscal 1998 from $496.9 million in fiscal 1997. Comparable store sales increased 2% from the prior year. Total revenues increased by 6% to $543.7 million in fiscal 1998 from $512.4 million in fiscal 1997. The Company operated 732 stores at January 30, 1999, compared to 693 stores operated at January 31, 1998.

The increase in retail sales in fiscal 1998 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1998, the Company increased its number of stores 6% by opening 52 new stores, relocating 18 stores while closing 13 existing stores.

Other income in fiscal 1998 increased $3.7 million or 24% over fiscal 1997. The increase resulted primarily from increased earnings on cash equivalents and short-term investments and from higher finance charge income partially offset by decreased layaway service charges.

Cost of goods sold was $371.0 million, or 70.8% of retail sales, in fiscal 1998, compared to $354.6 million, or 71.4% of retail sales, in fiscal 1997. The decrease in cost of goods sold as a percent of retail sales resulted primarily from maintaining timely and aggressive markdowns on slow moving merchandise, eliminating unprofitable promotions and improving inventory flow. Total gross margin dollars increased by 8% to $153.4 million in fiscal 1998 from $142.2 million in fiscal 1997.

SG&A expenses were $128.2 million in fiscal 1998, compared to $124.7 million in fiscal 1997, an increase of 3%. As a percent of retail sales, SG&A was 24.4% compared to 25.1% in the prior year. 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, CAPITAL RESOURCES AND MARKET RISK

At January 29, 2000, the Company had working capital of $125.0 million compared to $124.0 million at January 30, 1999. Cash provided by operating activities was $44.5 million in fiscal 1999, compared to $40.9 million in fiscal 1998. The increase in cash provided by operating activities in fiscal 1999 resulted primarily from an increase in net income, depreciation, accounts payable, other liabilities and accrued income taxes. At January 29, 2000, the Company had $87.3 million in cash, cash equivalents and short-term investments, compared to $86.2 million at January 30, 1999.

At January 29, 2000, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2002. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios with which the Company was in compliance. The Company feels the terms of the revolving credit agreement will continue to support the Company's future working capital needs through the next twelve months. There were no borrowings outstanding under the agreement at January 29, 2000.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS: (CONTINUED)

The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment. The operating leases are for a term of seven years but may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor.

Expenditures for property and equipment totaled $24.0 million, $13.5 million and $7.4 million in fiscal 1999, 1998 and 1997, respectively. The expenditures for fiscal 1999 were primarily for store development, store remodels and investments in new technology for merchandising, distribution and finance. In fiscal 2000, the Company is planning to spend approximately $32 million for capital expenditures. This includes expenditures to open 100 new stores, close 10 stores and relocate 28 stores. In addition, the Company plans to remodel 100 stores and has provided for investments in technology including an enterprise-wide system scheduled to be implemented by fall 2001.

During 1999, the Company repurchased 985,400 shares of Class A Common Stock for $9.6 million, or an average price of $9.71 per share. Over the course of fiscal 1999, the Company increased its quarterly dividend from $.055 per share to $.075 per share. In February 2000, the Board of Directors further increased the quarterly dividend by 33% from $.075 per share to $.10 per share and approved a resolution to purchase an additional 2,000,000 shares of stock.

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 over the next twelve months.

The Company does not use derivative financial instruments in its investment portfolio. At 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 developed a two phase approach to address the Year 2000 issue, which involved 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 was the identification and correction to all programs purchased from external sources. The Company successfully completed Phase 1 and Phase 2 on schedule at a cost of $575,000. Following the arrival of the Year 2000, the Company has not experienced any significant issues and there has been no interruption in business nor any material financial impact due to 2000 issues.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. SFAS 133 is effective for the Company's fiscal 2001. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

As previously described, during 1999 the Securities and Exchange Commission issued SAB 101, "Revenue Recognition in Financial Statements". The Company adopted SAB 101 in fiscal 1999 and changed its policy for recognizing revenues related to layaway sales. The cumulative effect of this change in accounting principle was an increase in net income of $147,000, net of income tax of $79,000, or $.01 per share.

The Annual Report 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 Annual Report 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS: (CONTINUED)

Annual Report 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

The response to this Item is submitted in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT:

The directors and executive officers of the Company and their ages as of March 31, 2000 are as follows:

NAME	AGE	POSITION
Wayland H. Cato, Jr. *	77	Chairman of the Board
John P. Derham Cato.........	49	Vice Chairman of the Board, President and Chief Executive Officer
Edgar T. Cato...............	75	Former Vice Chairman of the Board, Co-Founder and Director
Michael O. Moore............	49	Executive Vice President, Chief Financial Officer and Secretary
Howard A. Severson..........	52	Executive Vice President, Chief Real Estate and Store Development Officer, Assistant Secretary and Director
B. Allen Weinstein..........	53	Executive Vice President, Chief Merchandising Officer of the Cato Division
David P. Kempert............	50	Executive Vice President, Chief Store Operations Officer of the Cato Division
C. David Birdwell...........	60	Executive Vice President, President and General Manager of the It's Fashion! Division
Stephen R. Clark............	57	Senior Vice President, Human Resources and Assistant Secretary
Clarice Cato Goodyear *.....	53	Special Assistant to the Chairman and President and Assistant Secretary and Director
Thomas E. Cato..............	45	Vice President, Divisional Merchandise Manager and Director
Robert W. Bradshaw, Jr. *...	66	Director
George S. Currin *..........	63	Director
Paul Fulton +*	65	Director
Grant L. Hamrick +*.........	61	Director
James H. Shaw +*............	71	Director
A.F. (Pete) Sloan +*.......	70	Director

+ Members of Compensation Committee
* Members of Audit Committee

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT: (CONTINUED)

Wayland H. Cato, Jr. is Chairman of the Board and has been a director of the Company since 1946. From 1991 to May 1999, he served as Chairman of the Board and Chief Executive Officer. From 1970 until 1991, he served as the Chairman of the Board, President and Chief Executive Officer. From 1960 until 1970, he served as President and Chief Executive Officer of the Company.

John P. Derham Cato has been employed as an officer of the Company since 1981 and has been a director of the Company since 1986. Since May 1999, Mr. John Cato has served as Vice Chairman of the Board, President and Chief Executive Officer. From June 1997 to May 1999, he served as Vice Chairman of the Board, President and Chief Operating Officer. From August 1996 to June 1997, he served as Vice Chairman of the Board and Chief Operating Officer. From 1992 to August 1996, he served as Executive Vice President and as President and General Manager of the It's Fashion! Division. Mr. John Cato is a son of Mr. Wayland H. Cato, Jr.

Edgar T. Cato is the Former Vice Chairman of the Board and Co-Founder of the Company, and has been a director of the Company since 1946. Mr. Edgar T. Cato is the brother of Mr. Wayland H. Cato, Jr.

Michael O. Moore joined the Company as Executive Vice President, Chief Financial Officer and Secretary in July 1998. From 1997 to 1998, he was Vice President - Chief Financial Officer of The Party Experience, a specialty retailer of party goods. From 1994 to 1997, he was employed by Davids Bridal, a specialty retailer of bridalwear and related merchandise, as Executive Vice President - Chief Financial Officer. From 1984 to 1994, he was employed by Bloomingdales where his most recent position was Senior Vice President - Chief Financial Officer.

Howard A. Severson has been employed by the Company since 1985 and has served as a director of the Company since 1995. Since January 1993, he has served as Executive Vice President, Assistant Secretary and Chief Real Estate and Store Development Officer. From August 1989 through January 1993, Mr. Severson served as Senior Vice President - Chief Real Estate Officer.

B. Allen Weinstein joined the Company as Executive Vice President, Chief Merchandising Officer of the Cato Division in August 1997. From 1995 to 1997, he was Senior Vice President - Merchandising of Catherines Stores Corporation. From 1981 to 1995, he served as Senior Vice President of Merchandising for Beall's, Inc.

David P. Kempert joined the Company in August 1989. He currently serves as Executive Vice President, Chief Store Operations Officer of the Cato Division. From 1982 until 1989, he was employed by The Gap Stores, an apparel specialty chain, where his most recent position was Zone Vice President of the Northeast Region.

C. David Birdwell joined the Company as Executive Vice President, President and General Manager of the It's Fashion! Division in October 1996. From 1994 to 1996, he was employed as President/General Merchandise Manager of Allied Stores, a family apparel chain headquartered in Savannah, Georgia. In 1993, he was Executive Vice President/General Merchandise Manager of Ambers, Inc., based in Dallas, Texas. From 1989 to 1992, he was employed as a Chartered Financial Consultant with Jefferson Pilot, based in Greensboro, North Carolina. From 1985 to

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT: (CONTINUED)

1989, he was President/CEO of Maxway Stores, a discount chain headquartered in Sanford, North Carolina.

Stephen R. Clark has been an officer of the Company since 1994. He currently serves as Senior Vice President, Human Resources and Assistant Secretary. From 1990 until 1994, he was employed by Gantos, a women's specialty apparel retailer, as Vice President, Human Resources.

Clarice Cato Goodyear has been employed by the Company since 1975 and has served as a director and officer of the Company since 1979. Since July 1993, she has served as Special Assistant to the Chairman and Chief Executive Officer and President and as Assistant Secretary. From March 1987 through July 1993, Ms. Goodyear held senior administrative, operational services and human resources positions in the Company; she served as Executive Vice President, Chief Administrative Officer and Assistant Secretary from May 1992 through July 1993. Ms. Goodyear is a daughter of Mr. Wayland H. Cato, Jr.

Thomas E. Cato has been employed by the Company since 1977, has served as an officer since 1986 and has been a director of the Company since 1993. Since February 1987, he has served as Vice President, Divisional Merchandise Manager. Mr. Thomas Cato is a son of Mr. Wayland H. Cato, Jr

Robert W. Bradshaw, Jr. has been a director of the Company since 1994. Since 1961, he has been engaged in the private practice of law with Robinson, Bradshaw & Hinson, P.A. and is a Shareholder of the firm.

George S. Currin has been a director of the Company since 1973. Since 1989, he has served as Chairman and Managing Director of Fourth Stockton Company and Chairman of Currin-Patterson Properties LLC, both privately held real estate investment companies.

Paul Fulton has been a director of the Company since 1994. Since March 2000, he has served as Chairman of the Board of Directors of Bassett Furniture Industries, Inc. From July 1997 to March 2000, he served as Chairman and Chief Executive Officer of Bassett Furniture Industries, Inc. From January 1994 until 1997, Mr. Fulton served as Dean of the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. From July 1988 to December 1993, Mr. Fulton served as President of Sara Lee Corporation. Mr. Fulton is currently a director of Sonoco Products, Bank of America Corporation, Lowes Companies, Inc., Bassett Furniture Industries, Inc.

Grant L. Hamrick has been a director of the Company since 1994. Mr. Hamrick was Senior Vice President and Chief Financial Officer for American City Business Journals, Inc. from 1989 until his retirement in 1996. From 1961 to 1985, Mr. Hamrick was employed by the public accounting firm Price Waterhouse and served as Managing Partner of the Charlotte, North Carolina Office.

James H. Shaw has been a director of the Company since 1989. Mr. Shaw was Chairman of Consolidated Ivey's, a regional department store chain, from 1988 until his retirement in 1989, Chairman and Chief Executive Officer of J.B. Ivey & Company from 1986 to 1988 and Chairman and Chief Executive Officer of Ivey's Carolinas from 1983 to 1986.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT: (CONTINUED)

A.F. (Pete) Sloan has been a director of the Company since 1994. Mr. Sloan was Chairman of the Board of Lance, Inc. where he was employed from 1955 until his retirement in 1990.

ITEM 11. EXECUTIVE COMPENSATION:

Incorporated by reference to Registrant's proxy statement for 2000 annual stockholders' meeting.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

Incorporated by reference to Registrant's proxy statement for 2000 annual stockholders' meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Incorporated by reference to Registrant's proxy statement for 2000 annual stockholders' meeting.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K:

(a) 1. & 2. LIST OF FINANCIAL STATEMENTS AND SCHEDULE

The response to this portion of Item 14 is submitted as a separate section of this report.

(a) 3. LIST OF EXHIBITS

See Exhibit Index at page 40 of this annual report.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended January 29, 2000.

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 14(A), (1) AND (2), (C) AND (D)

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LIST OF FINANCIAL STATEMENTS

CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULE

YEAR ENDED JANUARY 29, 2000

THE CATO CORPORATION

CHARLOTTE, NORTH CAROLINA

ITEM 14(A) 1. AND 2. LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE:

THE CATO CORPORATION

The following consolidated financial statements of The Cato Corporation are included in Item 8:

Independent Auditors' Report..........................Page 24
Consolidated Statements of Income.....................Page 25
Consolidated Balance Sheets...........................Page 26
Consolidated Statements of Cash Flows.................Page 27
Consolidated Statements of Stockholders' Equity.......Page 28
Notes to Consolidated Financial Statements............Pages 29 - 38

The following consolidated financial statement schedule of the Cato Corporation is included in Item 14 (d):

SCHEDULE II - Valuation and qualifying accounts...................Page 39

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
THE CATO CORPORATION

We have audited the accompanying consolidated balance sheets of The Cato Corporation and subsidiaries (the Company) as of January 29, 2000 and January 30, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 29, 2000. Our audits also included the financial statement schedule listed in the index at Item 14(A). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statements schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 29, 2000 and January 30, 1999, and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
March 13, 2000

The Cato Corporation
Consolidated Statements of Income

	Fiscal Year Ended		
	JANUARY 29, 2000	January 30, 1999	January 31, 1998
	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	$ 585,085	$ 524,381	$ 496,851
Other income (principally finance, late and layaway charges)	19,948	19,283	15,597
Total revenues	605,033	543,664	512,448
COSTS AND EXPENSES			
Cost of goods sold	403,655	371,005	354,627
Selling, general and administrative	140,741	128,207	124,676
Depreciation	8,639	7,638	7,713
Interest	23	19	25
Total operating expenses	553,058	506,869	487,041
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	51,975	36,795	25,407
Income tax expense	18,191	12,878	8,006
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	$ 33,784	$ 23,917	$ 17,401
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX ($79)	147	--	--
NET INCOME	$ 33,931	$ 23,917	$ 17,401
BASIC EARNINGS PER SHARE	$ 1.28	$ .87	$ .62
BASIC AVERAGE SHARES	26,486,407	27,522,582	28,058,934
DILUTED EARNINGS PER SHARE	$ 1.26	$ .85	$ .62
DILUTED AVERAGE SHARES	26,953,948	28,181,585	28,132,384
DIVIDENDS PER SHARE	$ .28	$ .19	$ .16

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Balance Sheets

	JANUARY 29, 2000	January 30, 1999
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 30,389	$ 44,068
Short-term investments	56,886	42,141
Accounts receivable, net of allowance for doubtful accounts of $5,101 at January 29, 2000 and $4,201 at January 30, 1999	45,458	44,536
Merchandise inventories	69,497	61,112
Deferred income taxes	4,093	3,372
Prepaid expenses	2,494	2,374
Total Current Assets	208,817	197,603
Property and Equipment - net	69,338	54,740
Other Assets	7,634	6,170
Total Assets	$ 285,789	$ 258,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 54,707	$ 52,391
Accrued expenses	24,392	20,991
Income taxes	4,730	197
Total Current Liabilities	83,829	73,579
Deferred Income Taxes	5,806	5,922
Other Noncurrent Liabilities (primarily deferred rent)	7,374	6,778
Stockholders' 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; 24,173,480 shares issued at January 29, 2000 and 24,070,519 shares issued at January 30, 1999	805	802
Convertible Class B Common Stock, $.033 par value per share, 15,000,000 shares authorized; 5,364,317 shares issued at January 29, 2000 and 5,264,317 issued at January 30, 1999	179	176
Additional paid-in capital	71,974	69,878
Retained earnings	146,881	120,366
Accumulated Other Comprehensive Income (Loss)	(1,801)	224
Unearned Compensation - Restricted Stock Awards	(984)	--
	217,054	191,446
Less Class A Common Stock in treasury, at cost (3,290,348 shares at January 29, 2000 and 2,368,000 shares at January 30, 1999)	(28,274)	(19,212)
Total Stockholders' Equity	188,780	172,234
Total Liabilities and Stockholders' Equity	$ 285,789	$ 258,513

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	JANUARY 29, 2000	January 30, 1999	January 31, 1998
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	$ 33,931	$ 23,917	$ 17,401
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,639	7,638	7,713
Amortization of investment premiums	187	123	95
Provision for doubtful accounts	4,850	4,081	3,675
Deferred income taxes	175	38	496
Compensation expense related to restricted stock awards	196	--	--
Loss on disposal of property and equipment	727	942	1,196
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(5,772)	(1,431)	(7,669)
Merchandise inventories	(8,385)	3,114	(258)
Other assets	(1,584)	(765)	(148)
Accrued income taxes	4,712	(463)	760
Accounts payable and other liabilities	6,845	3,705	15,674
Net cash provided by operating activities	44,521	40,899	38,935
INVESTING ACTIVITIES			
Expenditures for property and equipment	(23,964)	(13,519)	(7,377)
Purchases of short-term investments	(22,544)	(24,624)	(24,553)
Sales of short-term investments	4,496	10,717	30,122
Net cash used in investing activities	(42,012)	(27,426)	(1,808)
FINANCING ACTIVITIES			
Dividends paid	(7,416)	(5,204)	(4,510)
Purchases of treasury stock	(9,572)	(10,112)	(8,188)
Proceeds from employee stock purchase plan	447	336	234
Proceeds from stock options exercised	353	3,931	388
Net cash used in financing activities	(16,188)	(11,049)	(12,076)
Net Increase (Decrease) in Cash and Cash Equivalents	(13,679)	2,424	25,051
Cash and Cash Equivalents at Beginning of Year	44,068	41,644	16,593
Cash and Cash Equivalents at End of Year	$ 30,389	$ 44,068	$ 41,644

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Statements of Stockholders' Equity

	CLASS A COMMON STOCK	CONVERTIBLE CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED COMPRE-HENSIVE INCOME (LOSS)	UNEARNED COMPEN-SATION RESTRICTED STOCK AWARDS	TREASURY STOCK	TOTAL STOCK-HOLDERS' EQUITY
				(Dollars in thousands)				
BALANCE-- FEBRUARY 1, 1997	$778	$176	$63,272	$ 88,762	$ (106)	$	$ (979)	$151,903
(*)Comprehensive income:								
Net income				17,401				17,401
Unrealized losses on available for sale securities, net of deferred income tax benefit of $5					(10)			(10)
Dividends paid ($.16 per share)				(4,510)				(4,510)
Class A Common Stock sold through employee stock purchase plan-- 47,194 shares	2		232					234
Class A Common Stock sold through stock option plans-- 89,050 shares	3		385					388
Income tax benefit from stock options exercised			298					298
Purchase of treasury shares-- 1,196,500 shares							(8,188)	(8,188)
BALANCE-- JANUARY 31, 1998	783	176	64,187	101,653	(116)		(9,167)	157,516
(*)Comprehensive income:								
Net income				23,917				23,917
Unrealized gains on available for sale securities, net of deferred income taxes of $174					340			340
Dividends paid ($.19 per share)				(5,204)				(5,204)
Class A Common Stock sold through employee stock purchase plan-- 37,122 shares	1		335					336
Class A Common Stock sold through stock option plans-- 530,750 shares	18		3,913					3,931
Income tax benefit from stock options exercised			1,381					1,381
Purchase of treasury shares-- 1,006,500 shares							(10,112)	(10,112)
Contribution of treasury stock to Employee Stock Purchase Plan - 10,000 shares			62				67	129
Balance-- January 30, 1999	802	176	69,878	120,366	224		$(19,212)	172,234
(*)Comprehensive income:								
Net income				33,931				3,931
Unrealized losses on available for sale securities, net of deferred income tax benefit of $1,091					(2,025)			(2,025)
Dividends paid ($.28 per share)				(7,416)				(7,416)
Class A Common Stock sold through employee stock purchase plan-- 53,811 shares	2		445					447
Class A Common Stock sold through stock option plans-- 49,150 shares	1		352					353
Income tax benefit from stock options exercised			100					100
Purchase of treasury shares--985,400 shares							(9,572)	(9,572)
Contribution of treasury stock to Employee Stock Purchase Plan-- 63,052 shares			22				510	532
Unearned compensation - Restricted Stock Awards		3	1,177			(984)		196
Balance-- January 29, 2000	$805	$179	$71,974	$146,881	$(1,801)	$(984)	$(28,274)	$188,780

(*)Total comprehensive income for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 was $31,906, $24,257 and $17,391, respectively.

See notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION -- The consolidated financial statements include the accounts of The Cato Corporation and its wholly-owned subsidiaries ("the Company"). All significant intercompany accounts and transactions have been eliminated.

DESCRIPTION OF BUSINESS AND FISCAL YEAR -- The Company has two business segments - -- the operation of women's fashion specialty stores and a credit card division. The apparel specialty stores stores operate under the names Cato, Cato Fashions, Cato Plus and It's Fashion! and are located primarily in strip shopping centers in the Southeast. The Company's fiscal year ends on the Saturday nearest January 31. Fiscal years 1999, 1998 and 1997 each included fifty-two weeks.

USE OF ESTIMATES -- The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include the allowance for doubtful accounts receivable, reserves relating to workers' compensation, general and auto insurance liabilities and reserves for inventory markdowns.

CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS -- Cash equivalents consist of highly liquid investments with original maturities of three months or less. Investments with original maturities beyond three months are classified as short-term investments. The fair values of short-term investments are based on quoted market prices.

The Company's short-term investments are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts and realized gains and losses are included in other income.

CONCENTRATION OF CREDIT RISK -- Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash equivalents and accounts receivable. The Company places its cash equivalents with high credit qualified institutions and, by practice, limits the amount of credit exposure to any one institution. Concentrations of credit risks with respect to accounts receivable are limited due to the dispersion across different geographies of the Company's customer base.

SUPPLEMENTAL CASH FLOW INFORMATION -- Income tax payments, net of refunds received, for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998 were $13,895,000, $13,394,000 and $6,754,000, respectively.

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

PROPERTY AND EQUIPMENT -- Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred; renewals and betterments are capitalized. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets, which are as follows:

CLASSIFICATION	ESTIMATED USEFUL LIVES
Land improvements	10 years
Buildings	30-40 years
Leasehold improvement	5-10 years
Fixtures and equipment	3-10 years

RETAIL SALES -- Revenues from retail sales, net of returns, are recognized upon delivery of the merchandise to the customer and exclude sales taxes.

ADVERTISING -- Advertising costs are expensed in the period in which they are incurred. Advertising expense was $5,109,000, $5,755,000 and $7,334,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

THE CATO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EARNINGS PER SHARE -- Basic earnings per share excludes dilution of stock options and is computed by dividing net earnings by the weighted-average number of Class A and Class B common shares outstanding for the respective periods. The weighted-average number of shares used in the basic earnings per share computations was 26,486,407, 27,522,582 and 28,058,934 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 467,541, 659,003 and 73,450 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 26,953,948, 28,181,585 and 28,132,384 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

INCOME TAXES -- The Company files a consolidated federal income tax return. Income taxes are provided based on the asset and liability method of accounting, whereby deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

STORE OPENING AND CLOSING COSTS -- Costs relating to the opening of new stores or the relocating or expanding of existing stores are expensed as incurred. The Company evaluates all long-lived assets, including certain identifiable intangibles related to those assets, for impairment. Impairment losses are recognized when expected future cash flows from the use of the assets are less than the assets' carrying values.

CLOSED STORE LEASE OBLIGATIONS -- At the time stores are closed, provision is made for the rentals required to be paid over the remaining lease terms. Rentals due the Company under non-cancelable subleases are offset against the related obligations in the year the sublease is signed. There is no offset for assumed sublease revenues.

FAIR VALUE OF FINANCIAL INSTRUMENTS -- The Company's carrying values of financial instruments, other than short-term investments, approximate their fair values due to their short terms to maturity and/or their variable interest rates.

RECENT ACCOUNTING PRONOUNCEMENTS -- In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") which addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. SFAS 133 is effective for the Company's fiscal 2001. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

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 and 1997 are immaterial to the financial statements.

RECLASSIFICATIONS -- Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with presentation for fiscal 1999.

2. SHORT-TERM INVESTMENTS:

Short-term investments at January 29, 2000 include the following:

SECURITY TYPE	COST	UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
		(In thousands)	
Obligations of federal, state and political subdivisions	$59,657	$(2,771)	$56,886
Total	$59,657	$(2,771)	$56,886

THE CATO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Short-term investments at January 30, 1999 include the following:

SECURITY TYPE	COST	UNREALIZED GAINS	ESTIMATED FAIR VALUE
	(In thousands)		
Obligations of federal, state and political subdivisions	$41,796	$ 345	$42,141
Total	$41,796	$ 345	$42,141

The accumulated unrealized losses at January 29, 2000 of ($1,801,000), net of an income tax benefit of $970,000, and the accumulated unrealized gains at January 30, 1999 of $224,000, net of an income tax expense of $121,000, are reflected in other comprehensive income.

The amortized cost and estimated fair value of debt securities at January 29, 2000, by contractual maturity, are shown below:

SECURITY TYPE	COST	ESTIMATED FAIR VALUE
	(In thousands)	
Due in one year or less	$11,882	$11,721
Due in one year through three years	47,775	45,165
Total	$59,657	$56,886

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	JANUARY 29, 2000	January 30, 1999
	(In thousands)	
Customer accounts - principally deferred payment accounts	$47,702	$46,913
Miscellaneous trade receivables	2,857	1,824
Total	50,559	48,737
Less allowance for doubtful accounts	5,101	4,201
Accounts receivable - net	$45,458	$44,536

Finance charge and late charge revenue on customer deferred payment accounts totaled $11,870,000, $11,113,000 and $8,262,000 for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively, and the provision for doubtful accounts was $4,850,000, $4,081,000 and $3,675,000, for the fiscal ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively. The provision for doubtful accounts is classified as a component of selling, general and administrative expenses.

4. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	JANUARY 29, 2000	January 30, 1999
	(In thousands)	
Land and improvements	$ 1,739	$ 1,709
Buildings	15,806	15,784
Leasehold improvements	23,145	19,190
Fixtures and equipment	75,566	66,817
Construction in progress	12,195	3,449
Total	128,451	106,949
Less accumulated depreciation	59,113	52,209
Property and equipment - net	$ 69,338	$ 54,740

5. ACCRUED EXPENSES:

Accrued expenses consist of the following:

	JANUARY 29, 2000	JANUARY 30, 1999
	(In thousands)	
Accrued bonus and retirement savings plan contributions	$ 9,502	$ 6,371
Accrued payroll and related items	3,735	2,705
Closed store lease obligations	1,878	2,168
Property and other taxes	2,925	2,266
Accrued health care plan	1,981	2,068
Other	4,371	5,413
Total accrued expenses	$ 24,392	$ 20,991

6. FINANCING ARRANGEMENTS:

At January 29, 2000, the Company had an unsecured revolving credit agreement which provided for borrowings of up to $35 million. The revolving credit agreement is committed until July 2002. 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 under the agreement at January 29, 2000 or January 30, 1999.

The Company had approximately $4,594,000 and $5,524,000 at January 29, 2000 and January 30, 1999, respectively, of outstanding irrevocable letters of credit relating to purchase commitments.

7. STOCKHOLDERS' EQUITY:

The holders of Class A Common Stock are entitled to one vote per share, whereas the holders of Class B Common Stock are entitled to ten votes per share. Each share of Class B Common Stock may be converted at any time into one share of Class A Common Stock. Subject to the rights of the holders of any shares of Preferred Stock that may be outstanding at the time, in the event of liquidation, dissolution or winding up of the Company, holders of Class A Common Stock are entitled to receive a preferential distribution of $1.00 per share of the net assets of the Company. Cash dividends on the Class B Common Stock cannot be paid unless cash dividends of at least an equal amount are paid on the Class A Common Stock.

The Company's charter provides that shares of Class B Common Stock may be transferred only to certain "Permitted Transferees" consisting generally of the lineal descendants of holders of Class B Stock, trusts for their benefit, corporations and partnerships controlled by them and the Company's employee benefit plans. Any transfer of Class B Common Stock in violation of these restrictions, including a transfer to the Company, results in the automatic conversion of the transferred shares of Class B Common Stock held by the transferee into an equal number of shares of Class A Common Stock.

In October 1993, the Company registered 250,000 shares of Class A Common Stock available for issuance under an Employee Stock Purchase Plan (the "Plan"). In May 1998, the shareholders approved an amendment to the Plan to increase the maximum number of Class A shares of Common Stock authorized to be issued from 250,000 to 500,000 shares. Under the terms of the Plan, substantially all employees may purchase Class A Common Stock through payroll deductions of up to 10% of their salary. The Class A Common Stock is purchased at the lower of 85% of market value on the first or last business day of a six-month payment period. Additionally, each April 15, employees are given the opportunity to make a lump sum purchase of up to $10,000 worth of Class A Common Stock at 85% of market value. The number of shares purchased by participants through the plan were 53,811 shares, 37,122 shares and 47,194 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

The Company has an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan for key employees of the Company. Total shares issuable under the plans are 3,900,000, of which 825,000 shares are issuable under the Incentive to Consolidated Financial Statements Stock Option Plan and 3,075,000 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of

THE CATO CORPORATION
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the shares under option must be at least 100 percent of the fair market value of Class A Common Stock at the date of the grant and must be exercisable not later than 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

In August 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan, of which 1,000,000 shares are issuable. No awards shall be granted after July 31, 2004, and shares must be exercisable not later than 10 years after the date of the grant unless otherwise expressly authorized by the Board of Directors.

In August 1999, the Board of Directors granted under the 1999 Incentive Compensation Plan, restricted stock awards of 100,000 shares of Class B Common Stock, with a per share fair value of $11.81 to a key executive. These stock awards vest over four years and the unvested portion is included in stockholders' equity as unearned compensation at January 29, 2000 in the accompanying financial statements. The charge to compensation expense for these stock awards in 1999 was $196,000.

Option plan activity for the three fiscal years ended January 29, 2000 is set forth below:

	OPTIONS OUTSTANDING	RANGE OF OPTION PRICES	WEIGHTED AVERAGE PRICE
Outstanding options, February 1, 1997	2,831,750	$ 1.42 - $ 9.31	$ 7.41
Granted	1,023,000	5.03 - 9.25	8.10
Exercised	(89,050)	1.42 - 7.69	4.36
Cancelled	(979,968)	6.97 - 8.25	7.51
Outstanding options, January 31, 1998	2,785,732	1.50 - 9.31	7.73
Granted	302,000	10.66 - 14.59	13.03
Exercised	(530,750)	1.50 - 9.31	7.38
Cancelled	(95,000)	4.94 - 12.56	7.63
Outstanding options, January 30, 1999	2,461,982	1.50 - 14.59	8.45
Granted	670,000	9.36 - 13.25	12.51
Exercised	(48,950)	1.50 - 8.25	7.25
Cancelled	(110,250)	3.21 - 12.69	8.23
Outstanding options, January 29, 2000	2,972,782	$ 1.50 - $14.59	$ 9.39

The following tables summarize stock option information at January 29, 2000:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.50 - $ 7.63	814,682	2.39 years	$ 7.42
$ 7.69 - $ 8.25	1,169,900	6.88 years	$ 8.08
$ 9.25 - $ 14.59	988,200	9.17 years	$ 12.57
$ 1.50 - $ 14.59	2,972,782	6.41 years	$ 9.39

RANGE OF EXERCISE PRICES	OPTIONS EXERCISABLE NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.50 - $ 7.63	778,082	$ 7.53
$ 7.69 - $ 8.25	575,000	$ 8.00
$ 9.25 - $ 14.59	69,400	$ 12.41
$1.50 - $ 14.59	1,422,482	$ 7.96

Outstanding options at January 29, 2000 covered 717,000 shares of Class B Common Stock and 2,255,782 shares of Class A Common Stock. Outstanding options at January 30, 1999 covered 517,000 shares of Class B Common Stock and

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1,944,982 shares of Class A Common Stock. Options available to be granted under the option plans were 526,018 shares at January 29, 2000 and 184,368 shares at January 30, 1999.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for its stock options plans. Accordingly, no compensation expense has been recognized for stock-based compensation where the option price of the stock approximated the fair market value of the stock on the date of grant. Had compensation expense for fiscal 1999, 1998 and 1997 stock options granted been determined consistent with Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted earnings per share amounts for fiscal 1999, 1998 and 1997 would approximate the following proforma amounts (dollars in thousands, except per share data):

	AS REPORTED	PROFORMA
Net Income-- Fiscal 1999	$33,931	$32,329
Basic Earnings Per Share	$ 1.28	$ 1.22
Diluted Earnings Per Share	$ 1.26	$ 1.20
Net Income-- Fiscal 1998	$23,917	$22,822
Basic Earnings Per Share	$ .87	$ .83
Diluted Earnings Per Share	$ .85	$ .81
Net Income-- Fiscal 1997	$17,401	$16,476
Basic Earnings Per Share	$ .62	$ .59
Diluted Earnings Per Share	$ .62	$ .59

The weighted-average fair value of each option granted during fiscal 1999, 1998 and 1997 is estimated as $6.12, $6.71 and $4.02 per share, respectively. The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following assumptions for grants issued in 1999, 1998 and 1997, respectively: expected dividend yield of 2.62%, 2.20% and 1.49%; expected volatility of 62.10%, 66.44% and 58.14%, adjusted for expected dividends; risk-free interest rate of 6.40%, 5.07% and 5.44%; and an expected life of 5 years, 5 years and 5 years. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

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

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which requires the components of comprehensive income to be disclosed in the financial statements. Total comprehensive income is composed of net income and unrealized gains or losses on available-for-sale securities. Total comprehensive income for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 is as follows:

	FISCAL YEAR ENDED		
	JANUARY 29, 2000	JANUARY 30, 1999	JANUARY 31, 1998
		(In thousands)	
Net income	$ 33,931	$ 23,917	$ 17,401
Unrealized gains (losses) on available for sale securities, net of taxes	(2,025)	340	(10)
Total comprehensive income	$ 31,906	$ 24,257	$ 17,391

The following schedule summarizes the activity in other comprehensive income for the year ended January 29, 2000 (in thousands):

	PRE-TAX	TAX EXPENSE (BENEFIT)	NET OF TAX
Net unrealized (losses) arising during the year	$ (3,116)	$ (1,091)	$ (2,025)
Other comprehensive income (loss)	$ (3,116)	$ (1,091)	$ (2,025)

8. EMPLOYEE BENEFIT PLANS:

The Company has a defined contribution retirement savings plan (401(k)) which covers all employees who meet minimum age and service requirements. The 401(k) plan allows participants to contribute up to 16% of their annual compensation. The Company is obligated to make a minimum contribution to cover plan administrative expenses and further Company contributions, at the discretion of the Board of Directors. The Company's contributions for the years ended January 29, 2000, January 30, 1999 and January 31, 1998 were approximately $2,145,000, $1,606,000 and $1,177,000, respectively.

The Company has an Employee Stock Ownership Plan (ESOP), which covers substantially all employees who meet minimum age and service requirements. The Board of Directors determines contributions to the ESOP. The contributions for the fiscal years ended January 29, 2000, January 30, 1999 and January 31, 1998 were $1,913,000, $531,000 and $130,000, respectively.

The Company is self-insured with respect to employee health, workers compensation and general liability claims. Employee health claims are funded through a VEBA trust to which the Company makes periodic contributions. The Company has stop-loss insurance coverage for individual claims in excess of $220,000. Contributions to the VEBA trust were $5,214,000, $4,177,000 and $3,854,000 in fiscal 1999, 1998 and 1997, respectively.

9. LEASES:

The Company has operating lease arrangements for store facilities and equipment. Facility leases generally are for periods of five years with renewal options, and most provide for additional contingent rentals based on a percentage of store sales in excess of stipulated amounts. Equipment leases are generally for three-to seven-year periods. The Company has a master lease agreement with a lessor to lease $19.5 million of store fixtures, point-of-sale devices and warehouse equipment, which do not meet criteria for capital lease accounting, and are being accounted for as operating leases with terms of seven years. However, these leases may be cancelled annually upon proper notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value from the lessor. If the Company cancelled the leases at January 29, 2000, the purchase price for the equipment would be approximately $8,815,000.

The minimum rental commitments under non-cancelable operating leases are (in thousands):

FISCAL YEAR	
2000	$ 30,032
2001	24,409
2002	14,456
2003	5,886
2004	803
Thereafter	834
Total minimum lease payments	$ 76,420

The following schedule shows the composition of total rental expense for all leases:

	Fiscal Year Ended		
	JANUARY 29, 2000	January 30, 1999	January 31, 1998
	(In thousands)		
Minimum rentals	$ 32,453	$ 30,313	$ 29,660
Contingent rent	257	270	226
Total rental expense	$ 32,710	$ 30,583	$ 29,886

10. INCOME TAXES:

The provision for income taxes consists of the following:

	Fiscal Year Ended JANUARY 29, 2000	January 30, 1999	January 31, 1998
	(In thousands)		
Current income taxes:			
Federal	$ 17,826	$ 12,502	$ 6,825
State	190	338	685
Total	18,016	12,840	7,510
Deferred income taxes:			
Federal	81	(190)	205
State	94	228	291
Total	175	38	496
Total income tax expense	$ 18,191	$ 12,878	$ 8,006

Significant components of the Company's deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999 are as follows:

	JANUARY 29, 2000	January 30, 1999
	(In thousands)	
Deferred tax assets:		
Bad debt reserve	$ 1,969	$ 1,623
Inventory valuation	1,411	1,134
Unrealized losses on short-term investments	970	--
Reserves	1,108	958
Total deferred tax assets	5,458	3,715
Deferred tax liabilities:		
Tax over book depreciation	6,527	6,326
Unrealized gains on short-term investments	--	121
Other, net	644	(182)
Total deferred tax liabilities	7,171	6,265
Net deferred tax liabilities	$ 1,713	$ 2,550

The reconciliation of the Company's effective income tax rate with the statutory rate is as follows:

	Fiscal Year Ended JANUARY 29, 2000	January 30, 1999	January 31, 1998
Federal income tax rate	35.0%	35.0%	35.0%
State income taxes	0.5	1.2	2.9
Other	(0.5)	(1.2)	(6.4)
Effective income tax rate	35.0%	35.0%	31.5%

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11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial results have been restated for the effects of SAB 101 and are as follows (in thousands, except per share data):

FISCAL 1999	FIRST	SECOND	THIRD	FOURTH
Retail sales	$ 153,047	$ 148,782	$ 127,367	$ 155,889
Total revenues	157,874	153,809	132,357	160,993
Cost of goods sold	100,017	100,100	90,247	113,291
Income before income taxes and cumulative effect of accounting change	20,906	15,477	5,418	10,174
Income before cumulative effect of accounting change	13,589	10,060	3,522	6,613
Cumulative effect of accounting change, net of tax	147	--	--	--
Net income	13,736	10,060	3,522	6,613
Basic earnings per share (before cumulative effect of accounting change)	$ .51	$ .38	$ .13	$ .25
Basic earnings per share	$ .52	$ .38	$ .13	$ .25
Diluted earnings per share (before cumulative effect of accounting change)	$ .51	$ .37	$ .13	$ .25
Diluted earnings per share	$ .51	$ .37	$ .13	$ .25
FISCAL 1998				
Retail sales	$ 136,174	$ 132,573	$ 113,834	$ 141,800
Total revenues	141,044	137,176	118,600	146,844
Cost of goods sold	89,179	93,864	81,364	106,598
Income before income taxes	16,844	8,928	4,322	6,701
Net income	11,117	5,635	2,809	4,356
Basic earnings per share	$ .40	$ .20	$ .10	$ .16
Diluted earnings per share	$ .39	$ .20	$ .10	$ .16

The restatement for the effects of SAB 101 for fiscal 1999 resulted in a decrease in net income before cumulative effect of accounting change of $149,000 with no per share effect in the first quarter; an increase in net income of $126,000 with no per share effect in the second quarter; and a decrease in net income of $442,000 with a decrease of $.02 per share in the third quarter.

12. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's fashion specialty retail stores in 21 states, principally in the Southeast. The Company offers its own credit card to its customers, and all credit authorizations, payment processing, and collection efforts are performed by a separate division of the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes. The Company does not allocate certain corporate expenses or income taxes to the segments.

The following schedule summarizes certain segment information (in thousands):

FISCAL 1999	RETAIL	CREDIT	TOTAL
Revenues	$ 592,855	$ 12,178	$ 605,033
Depreciation	8,603	36	8,639
Interest expense	23	--	23
Income before taxes	47,347	4,628	51,975
Total assets	224,501	61,288	285,789
Capital expenditures	23,807	157	23,964
FISCAL 1998	RETAIL	CREDIT	TOTAL
Revenues	$ 532,330	$ 11,334	$ 543,664
Depreciation	7,613	25	7,638
Interest expense	19	--	19
Income before taxes	33,044	3,751	36,795
Total assets	200,946	57,567	258,513
Capital expenditures	13,459	60	13,519

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INDEPENDENT AUDITORS REPORT

FISCAL 1997	RETAIL	CREDIT	TOTAL
Revenues	$ 503,914	$ 8,534	$ 512,448
Depreciation	7,685	28	7,713
Interest expense	25	--	25
Income before taxes	24,535	872	25,407
Total assets	197,871	43,566	241,437
Capital expenditures	7,377	--	7,377

13. COMMITMENTS AND CONTINGENCIES:

Workers compensation and general liability claims are settled through a claims administrator and are limited by stop-loss insurance coverage for individual claims in excess of $250,000 and $100,000, respectively. The Company paid claims of $1,074,000, $1,347,000 and $970,000 in fiscal 1999, 1998 and 1997, respectively. The Company had no outstanding letters of credit relating to such claims at January 29, 2000, and $1,600,000 at January 30, 1999. See Note 6 for letters of credit related to purchase commitments, Note 8 for 401(k) plan contribution obligations and Note 9 for lease commitments.

The Company is a defendant in legal proceedings considered to be in the normal course of business and none of which, singularly or collectively, are considered to be material to the Company as a whole.

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders
of The Cato Corporation

We have audited the accompanying consolidated balance sheets of The Cato Corporation and subsidiaries (the Company) as of January 29, 2000 and January 30, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility if to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 29, 2000 and January 30, 1999 and the results of its operations and its cash flows for each of the three years in the period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
March 13, 2000

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts (a)		Reserve for Rental Commitments (b)
	(In thousands)		
Balance at February 1, 1997	$ 3,401		$ 917
Additions charged to costs and expenses	3,675		2,001
Additions (Deductions) charged to other accounts	853	(d)	-
Deductions	(4,228)	(c)	(1,015)
Balance at January 31, 1998	3,701		1,903
Additions charged to costs and expenses	4,081		1,799
Additions (Deductions) charged to other accounts	856	(d)	-
Deductions	(4,437)	(c)	(1,776)
Balance at January 30, 1999	4,201		1,926
Additions charged to costs and expenses	4,850		998
Additions (Deductions) charged to other accounts	936	(d)	-
Deductions	(4,886)	(c)	(1,153)
Balance at January 29, 2000	$ 5,101		$ 1,771

(a) Deducted from trade accounts receivable.

(b) Provision for the difference between costs and revenues from non-cancelable subleases over the lease terms of closed stores.

(c) Uncollectible accounts written off.

(d) Recoveries of amounts previously written off.

EXHIBIT INDEX

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Cato has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Cato Corporation

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

Date: April 26, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

/s/ Wayland H. Cato, Jr.	/s/ Robert W. Bradshaw, Jr.
Wayland H. Cato, Jr. (Director)	Robert W. Bradshaw, Jr. (Director)
/s/ John P. Derham Cato	/s/ George S. Currin
John P. Derham Cato (Director)	George S. Currin (Director)
/s/ Edgar T. Cato	/s/ Paul Fulton
Edgar T. Cato (Director)	Paul Fulton (Director)
/s/ Howard A. Severson	/s/ Grant L. Hamrick
Howard A. Severson (Director)	Grant L. Hamrick (Director)
/s/ Clarice Cato Goodyear	/s/ James H. Shaw
Clarice Cato Goodyear (Director)	James H. Shaw (Director)
/s/ Thomas E. Cato	/s/ A.F. (Pete) Sloan
Thomas E. Cato (Director)	A.F. (Pete) Sloan (Director)

EXHIBIT 10

EMPLOYMENT AGREEMENT

Approved by Board of Directors
8/26/99

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made as of May 20, 1999, between THE CATO CORPORATION, a Delaware corporation with its principal place of business in Charlotte, North Carolina (the "Company"), and JOHN P. DERHAM CATO, an individual residing at 8225 Bar Harbor Lane, Charlotte, North Carolina 28210 ("Employee").

BACKGROUND STATEMENT

Employee is currently employed by the Company as its Vice-Chairman of the Board of Directors, President and Chief Operating Officer. The Board of Directors recognizes that Employee has made substantial contributions to the growth and success of the Company and desires to promote Employee to Vice-Chairman of the Board of Directors, President and Chief Executive Officer of the Company.

AGREEMENT

In consideration of the mutual agreements herein contained, the Company and Employee hereby agree as follows:

1. Employment. The Company hereby agrees to employ Employee as Vice-Chairman, President and Chief Executive Officer of the Company for the Term of Employment as herein set forth, and Employee hereby agrees to continue to serve the Company in such capacity for such term.

2. Term of Employment. The "Term of Employment," as used herein, will commence on the date hereof and, unless sooner terminated as hereinafter provided, shall terminate on May 31, 2002; provided, however, that in the event that a Change in Control (as defined below) occurs at a time when the remaining Term of Employment is less than one year, the Term of Employment will be automatically extended until the first anniversary of the Change in Control.

3. Employment During the Term. During the Term of Employment, Employee shall devote his full professional time to the business of the Company, shall use his best efforts to promote the interests of the Company and shall serve as Vice-Chairman, President and Chief Executive Officer and in such other senior executive capacities as the Board of Directors of the Company shall hereafter designate from time to time.

4. Vacation. Employee shall be entitled to annual vacations in accordance with the vacation policy and practices of the Company.

5. Compensation.

(a) Base Salary. As compensation for Employee's services hereunder and for his covenants set forth in Sections 9, 10, and 11 below, the Company shall pay to Employee a base salary of $600,000 per annum. Such salary may be increased, but not decreased, by the

Company from time to time based on the Compensation Committee's and the Board of Directors' review of Employee's performance, in accordance with the Company's performance-appraisal practices and guidelines. Such compensation shall be payable in accordance with the Company's payroll practices for executive employees.

(b) Bonus Plan. In addition, Employee shall be eligible to participate in the Company's annual incentive bonus plan, and other compensation plans of the Company, as they shall be administered by the Board of Directors of the Company and the relevant committees thereof (referred to herein as the "Bonus Plans"). Employee will be eligible to receive an annual incentive bonus of up to 150% of his base salary, depending on the achievement of performance goals established by the Compensation Committee.

(c) Equity Awards. As soon as is reasonably practical and after the adoption of stock option and other plans pursuant to which such awards may be made, the Company will make the following equity awards to Employee:

(i) Options. Non-Qualified Stock Options to acquire 200,000 shares of the Company's common stock (options for 100,000 shares of which have been granted as of the date hereof under the 1987 Non-Qualified Stock Option Plan, and options for an additional 100,000 shares will be granted under the 1999 Incentive Compensation Plan), exercisable at fair market value on the date of grant, to vest over five years and be exercisable over 10 years as the Compensation Committee shall provide; and

(ii) Restricted Stock. Two grants of restricted stock (subject to 4-year cliff vesting) as follows:

(A) 100,000 shares, subject to such restrictions and contingent on such performance goals as the Compensation Committee shall provide.

(B) 100,000 shares, to be awarded if and when, during the Employee's employment hereunder but not later than August 18, 2004, the Company's daily share price (calculated using the average of the high and low price for the day) shall average at least $20 per share during any period of 90 consecutive days and the price per share on the 90th consecutive day shall be at least $20.00.

6. Benefits. Employee shall be entitled to participate in all health, accident, disability, medical, life and other insurance programs and other welfare benefit plans maintained by the Company for the benefit of Employee and/or other executive employees of the Company in accordance with the Company's policies.

7. Termination. The Employee's employment may be terminated under any of the circumstances listed in (b) through (f) below.

(a) Termination Benefits Generally. In the event of any termination of employment, the Employee will be entitled to receive his salary and benefits through the date of termination, plus the additional compensation specified below. Except to the extent specified to the contrary below, with respect to the Company's compensation and benefit plans (including, without limitation, the 1999 Incentive Compensation Plan), the Employee's rights and benefits shall be as specified in such plans and the awards made thereunder.

(b) Death. The employment will terminate upon the death of Employee.

(c) Disability. The Company or the Employee may terminate the employment on account of Disability. For purposes of this Employment Agreement, "Disability" shall mean Employee's absence from continuous full-time employment with the Company for a period of at least 180 consecutive days by reason of a mental or physical illness. The Company shall have the right to have Employee examined at such reasonable times by such physicians satisfactory to Employee as the Company may designate, and Employee will make himself available for and submit to such examination as and when requested. Except as otherwise provided in this Section 7(d), the inability of Employee to perform his duties hereunder, whether by reason of injury, illness (physical or mental), or otherwise shall not result in the termination of Employee's employment hereunder, and he shall be entitled to continue to receive his base salary and other benefits as provided herein.

In the event of a termination on account of Disability, (1) the Employee will be entitled to receive his annual base salary for one year following such termination (any amounts provided to the Employee pursuant to any Company-funded disability plans or insurance will be credited against the Company's obligation to make such salary continuation payments), and (2) the Company will continue to provide Employee, for one year following such termination (but not after the date that Employee secures other employment), with the welfare benefit plans in which the Employee was entitled to participate before the termination.

(d) Cause. Cause shall mean (i) failure (other than by reason of incapacity due to physical or mental illness) to perform his material duties hereunder, (ii) gross negligence or misfeasance in the performance of his duties, (iii) failure to follow reasonable directives of the Board of Directors, (iv) conviction of Employee of a felony or plea of no contest to a felony, or (v) perpetuation of a material dishonest act or fraud against the Company or any affiliate thereof.

(e) Without Cause. The Company may terminate the Employee without Cause.

In the event of a termination without Cause, whether during or after the Term of Employment, or upon the normal expiration of the Term of Employment, (1) Employee will be entitled to receive his annual base salary for the longer of (i) the remainder of the Term of Employment or (ii) one year, provided that with respect to such post-termination period after the first anniversary of the termination, the salary amounts paid to Employee shall be reduced by the amounts the Employee actually earns during such period from another employer; (2) the Company will continue to provide Employee with the welfare benefit plans in which the Employee was entitled to participate before the termination, for the longer of (i) the remainder of the Term of Employment, or (ii) one year, but not after the date that Employee secures other employment; (3) all unvested stock options held by the Employee will immediately vest in full, and will remain exercisable for a period of up to 90 days after the Date of Termination (but in no event beyond the original expiration date of such stock options); and (4) the unexpired Restriction Period with respect to the restricted stock awards referred to in Section 5(c)(ii), if awarded, will lapse, and such restricted stock will become unrestricted common stock.

In addition, if such termination without Cause occurs during the Term of Employment, (1) the Employee will be entitled to receive a prorated incentive bonus award for the year in which the termination occurs.

(f) Change of Control. For purposes of this Employment Agreement, "a Change in Control" of the Company shall mean:

(A) an acquisition (other than directly from the Company) by a Person (as defined below) (excluding the Company or an employee benefit plan of the Company or an entity controlled by the Company's shareholders) that results in such Person beneficially owning shares of the Company's voting securities with total voting power exceeding the total voting power of the Company's voting securities beneficially owned by the current holders of the Company's Class B Common Stock and persons who would be "Permitted Transferees" as such term is defined in the Company's certificate of incorporation.

(B) at any time during the term of this Employment Agreement there is a change in the composition of the Board of Directors of the Company resulting in a majority of the directors of the Company who are in office on the date hereof ("Incumbent Company Directors") no longer constituting a majority of the directors of the Company; provided that, in making such determination, persons who are elected to serve as directors of the Company and who are approved by all of the directors in office on the date of such election (other than in connection with an actual or threatened proxy contest) shall be treated as Incumbent Company Directors; or

(C) consummation of a complete liquidation or dissolution of the Company or a merger, consolidation or sale of all or substantially all of the Company's assets or stock (collectively a "Business Combination") other than a Business Combination in which the shareholders of the Company, as a group, receive stock having fifty percent (50%) or more of the aggregate voting power in the entity resulting from the Business Combination.

Notwithstanding the foregoing, a transaction in which Employee is a material participant in the acquiring Person or entity effecting the transaction shall not constitute a Change in Control. For the purpose of this paragraph, the term "beneficially owned" shall have the meaning set forth in Rule l3d-3 promulgated under the Securities Exchange Act of 1934, and the term "Person" shall have the meaning set forth in Sections 3(a)(2) and 13(d)(3) of the Exchange Act.

If the Company terminates the Employee without cause at any time after the occurrence of a Change in Control, or if the Employee voluntary terminates his employment following a Change in Control and the simultaneous or subsequent occurrence of any of the following:

(A) Employee is required to maintain his principal office at a location more than 20 miles from Charlotte, N.C.;

(B) Employee ceases to be, either in title or in fact, the chief executive officer of the Company;

(C) Employee's base salary is reduced; or

(D) Employee's maximum bonus opportunity is reduced,

the Company will pay to the Employee an amount equal to 2.99 times his "base amount," as defined in Section 280G of the Internal Revenue Code, and will continue to provide Employee with the welfare benefit plans in which Employee was entitled to participate before the termination, for the longer of (i) the remainder of the Term of Employment or (ii) one year, but not after the date that Employee secures other employment; provided, however, that the amount of any benefits accruing to Employee by virtue of such Change in Control under stock option, restricted stock or other benefit plans that is considered (for purposes of Section 280G) to be payments contingent upon a change in control will be credited against the payment required hereunder. In no event shall the Employee be entitled to receive any amount of compensation and benefits as a result of such Change in Control that would not be deductible by the Company pursuant to Section 280G.

(g) Date and Notice of Termination. Any termination of Employee's employment by the Company or by Employee (other than termination because of death) shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Employment Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Employment Agreement relied upon and, unless the termination is without Cause pursuant to Section 7(e), shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so indicated.

"Date of Termination" shall mean (i) if Employee's employment is terminated by his death, the date of his death, and (ii) if Employee's employment is terminated pursuant to a Notice of Termination, the date specified in the Notice of Termination; provided that, if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date which is finally determined to be the Date of Termination, either by mutual written agreement of the parties, by a binding and final arbitration award or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected).

8. Business Expenses. The Company agrees that during his employment with the Company, the Company will reimburse Employee for actual travel and other out-of-pocket expenses reasonably incurred by him in connection with the performance of his duties hereunder and accounted for in accordance with the policies and procedures currently established by the Company.

9. Competition. Employee agrees that during his employment with the Company and for a period of two years after the date of termination of employment, he will not, directly or indirectly, as owner, employee, consultant or otherwise, engage in business on behalf of any of the following:

Approved by Board of Directors
8/26/99

Charming Shoppes, Maurices, The Dress Barn, Deb Shops, Paul Harris Stores, United Retail Group, Goody's Family Clothing, One Price Clothing, Fashion Cents, Simply Fashions, or Catherines Stores

The foregoing restriction shall not prohibit the ownership of less than 1% of the shares of an entity whose shares are traded on a national securities exchange or over NASDAQ.

10. No Solicitation. Employee agrees that during the two-year period following the termination of his employment with the Company, he will not directly or indirectly solicit or recruit any person to leave the employment of the Company, or recommend to any other person or business the hiring of any person then employed with the Company.

11. Confidentiality. Employee agrees that, during the Term of Employment and thereafter, he will not, without the written consent of the Company, disclose to anyone not entitled thereto, any confidential information relating to the business, sales, financial condition or products of the Company or any affiliate thereof. Employee also recognizes and acknowledges that he has a common law obligation not to disclose trade secrets and other proprietary information of the Company. Employee further agrees that, should he leave the active service of the Company, he will not take with him or retain, without the written authorization of the Board of Directors, any papers, files or other documents or copies thereof or other confidential information of any kind belonging to the Company pertaining to its business, sales, financial condition or products. Employee understands and agrees that the rights and obligations set forth in this Section 11 are perpetual and, in any case, shall extend beyond the period of his employment.

12. Injunctive Relief. Without limiting the remedies available to the Company, Employee acknowledges that a breach of the covenants contained in Sections 9, 10 and 11 herein may result in material irreparable injury to the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled to obtain a temporary restraining order or a preliminary injunction restraining Employee from engaging in activities prohibited by Sections 9, 10 and 11 or such other relief as may be required to specifically enforce any of the covenants in such Sections.

13. Successors. This Employment Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns and upon Employee and his legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company to expressly assume and agree to perform this Employment Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

14. Amendments. This Employment Agreement, which contains the entire contractual understanding between the parties, may not be changed orally but only by a written instrument signed by the parties hereto.

Approved by Board of Directors
8/26/99

15. Governing Law. This Employment Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina.

16. Waiver. The waiver of breach of any term or condition of this Employment Agreement shall not be deemed to constitute the waiver of any other breach of the same or any other term or condition.

17. Severability. In the event that any provision or portion of this Employment Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Employment Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent provided by law.

18. Notices. Any notices or other communications required or permitted hereunder shall be deemed sufficiently given if sent by registered mail, postage prepaid, as follows:

(a) If to Employee:

(b) If to the Company:
The Cato Corporation
8100 Denmark Road
Charlotte, NC 28273

or to such other address as shall have been specified in writing by either party to the other. Any such notice or communication shall be deemed to have been given on the second day (excluding any days U.S. Post Offices are not open) after the date so mailed.

Approved by Board of Directors
8/26/99

IN WITNESS WHEREOF, the Company has caused this Employment Agreement to be executed by its duly authorized representative, and Employee has hereunto set his hand as of the date first above written.

THE CATO CORPORATION

By:

Wayland H. Cato, Jr., Chairman

A. F. "Pete" Sloan
Chairman, Compensation Committee

ATTEST:

- ------------------------------
Michael O. Moore, Secretary

John P. Derham Cato

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY	STATE OF INCORPORATION	NAME UNDER WHICH SUBSIDIARY DOES BUSINESS
CHW LLC	Delaware	CHW LLC
Providence Insurance Company, Limited	A Bermudian Company	Providence Insurance Company, Limited
CatoSouth LLC	North Carolina	CatoSouth LLC
Cato of Texas L.P.	Texas	Cato of Texas L.P.
Cato Southwest, Inc.	Delaware	Cato Southwest, Inc.
CaDel LLC	Delaware	CaDel LLC
CatoWest LLC	Nevada	CatoWest LLC
Cedar Hill National Bank	A Nationally Chartered Bank	Cedar Hill National Bank
Catocorp.com, LLC	Delaware	Catocorp.com, LLC

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-96283) pertaining to The Cato Corporation Incentive Compensation Plan, in the Registration Statement (Form S-8 No. 33-41314) pertaining to The Cato Corporation Employee Incentive Stock Option Plan, in the Registration Statement (Form S-8 No. 33-41315) pertaining to The Cato Corporation Non-qualified Stock Option Plan, and in the Registration Statement (Form S-8 No. 33-69844) pertaining to the Cato Corporation Employee Stock Purchase Plan, of our report dated March 13, 2000, with respect to the consolidated financial statements and financial statement schedule of The Cato Corporation included in the Annual Report on Form 10-K for the year ended January 29, 2000.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 26, 2000

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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.

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YEAR
JAN-29-2000
JAN-29-2000
30,389
56,886
50,059
5,101
69,497
208,817
128,451
59,113
285,789
83,829
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0
984
188,780
285,789
585,085
605,033
403,655
403,655
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4,850
23
52,201
18,270
33,931
0
0
0
33,931
1.28
1.26