

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

FORM 10-K

☒ 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 30, 1999

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 0-3747

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:

NONE

SECURITIES REGISTERED PURSUANT
TO SECTION 12(g) OF THE ACT:

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. ☒

As of March 26, 1999, there were 21,198,119 shares of Class A Common Stock and
5,264,317 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 26, 1999 was approximately \$153,581,255 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 22, 1999, relating to the 1999
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 732 women's apparel specialty stores at January 30, 1999 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 21% of retail sales in fiscal 1998.

BUSINESS

The Company's primary objective is to be the leading women's apparel 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 our 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 small to medium sized towns and selected metropolitan areas in northern, midwestern and western fringe 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 and casual sportswear, dresses, careerwear, 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 will enhance merchandise offerings in order to deliver quality private label products at lower costs. The product development office provides 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 personnel 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 1998, purchases from the Company's largest vendor accounted for approximately 6% of the Company's total purchases. No other vendor accounted for more than 4% 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 historical and current 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.

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ITEM 1. BUSINESS: (CONTINUED)

Advertising

The Company uses direct mail, newspapers, radio and in-store advertising as its primary advertising media. Newspaper advertisements typically promote specific items or image. The Company uses radio advertising throughout its trade areas. The Company's total advertising expenditures were approximately 1.2% of retail sales in fiscal 1998.

STORE OPERATIONS

The Company's store operations management team consists of two executive vice presidents, a senior vice president, eleven regional vice presidents, three regional assistant vice presidents and sixty-seven district managers. Regional vice presidents and assistant vice presidents 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 personnel 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 in size approximately 4,300 square feet.

ITEM 1. BUSINESS: (CONTINUED)

All of the Company's stores are leased. Approximately 92% are located in strip shopping centers, 1% in downtown locations and 7% 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 1994.

STORE DEVELOPMENT

Fiscal Year -----	Number of Stores Beginning of Year -----	Number Opened -----	Number Closed -----	Number of Stores End of Year -----
1994.....	575	80	9	646
1995.....	646	37	12	671
1996.....	671	28	44	655
1997.....	655	55	17	693
1998.....	693	52	13	732

The Company intends to open approximately 75 new stores and to relocate approximately 24 existing stores in fiscal 1999. Additionally, the Company plans to remodel 200 stores over the next two years.

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 16% of retail sales in fiscal 1998. The Company's net bad debt expense in fiscal 1998 was 4.3% 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. Layaway sales represented approximately 6% of retail sales in fiscal 1998.

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.

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.

EMPLOYEES

As of January 30, 1999, the Company employed approximately 7,000 full-time and part-time employees. The Company also employs additional

part-time employees during the peak retailing seasons. The Company is not a party to any collective bargaining agreements and considers that its employee 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.

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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. RESULTS OF VOTES OF SECURITY HOLDERS:

None.

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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 1998 and 1997.

	Price		
1998	HIGH	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
	Price		
1997	HIGH	LOW	DIVIDEND
-----	-----	-----	-----
First quarter	\$ 6 1/4	\$ 3 63/64	\$.04
Second quarter	7 5/8	4 1/8	.04
Third quarter	10	7	.04
Fourth quarter	12	7	.04

As of March 26, 1999 the approximate number of holders of the Company's Class A Common stock was 3,626 and there were 12 record holders of the Company's Class B Common Stock.

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ITEM 6. SELECTED FINANCIAL DATA:

The Cato Corporation
Selected Financial Data

Fiscal Year Ended

JANUARY 30, 1999	January 31, 1998	February 1, 1997	February 3, 1996	January 28, 1995
-----	-----	-----	-----	-----

(Dollars in thousands, except per share and selected operating data)

STATEMENT OF OPERATIONS DATA:

Retail sales	\$524,381	\$496,851	\$477,011	\$476,638	\$463,737
Other income	19,283	15,597	14,498	13,357	12,449
Total revenues	543,664	512,448	491,509	489,995	476,186
Cost of goods sold	371,005	354,627	344,919	341,144	324,309
Gross margin percent	29.2%	28.6%	27.7%	28.4%	30.1%
Selling, general and administrative	127,986	124,439	121,600	122,699	116,144
Selling, general and administrative percent	24.4%	25.0%	25.4%	25.7%	25.0%
Depreciation	7,638	7,713	8,330	7,785	6,844
Interest	240	262	262	292	377
Closed store expense	--	--	5,500	--	--
Income before income taxes	36,795	25,407	10,898	18,075	28,512
Income tax expense	12,878	8,006	3,869	6,055	10,407
Net income	\$ 23,917	\$ 17,401	\$ 7,029	\$ 12,020	\$ 18,105
Basic earnings per share	\$.87	\$.62	\$.25	\$.42	\$.64
Diluted earnings per share	\$.85	\$.62	\$.25	\$.42	\$.63
Cash dividends paid per share	\$.19	\$.16	\$.16	\$.16	\$.145

SELECTED OPERATING DATA:

Stores open at end of year	732	693	655	671	646
Average sales per store	\$740,000	\$748,000	\$710,000	\$721,000	\$749,000
Average sales per square foot of selling space	\$ 169	\$ 163	\$ 153	\$ 158	\$ 172
Comparable store sales increase (decrease)	2%	4%	(2)%	(5)%	1%

BALANCE SHEET DATA:

Cash and investments	\$ 86,209	\$ 69,487	\$ 50,105	\$ 47,894	\$ 46,226
Working capital	124,024	113,327	105,373	102,169	94,581
Total assets	258,513	241,437	218,243	209,895	201,322
Total stockholders' equity	\$172,234	\$157,516	\$151,903	\$149,682	\$141,508

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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 30, 1999	January 31, 1998	February 1, 1997
Retail sales	100.0%	100.0%	100.0%
Other income	3.7	3.1	3.0
Total revenues	103.7	103.1	103.0
Cost of goods sold	70.8	71.4	72.3
Selling, general and administrative	24.4	25.0	25.4
Depreciation	1.5	1.5	1.7
Closed store expense	--	--	1.2
Selling, general, administrative, depreciation and closed store expense	25.9	26.5	28.3
Income before income taxes	7.0	5.1	2.3
Net income	4.6%	3.5%	1.5%

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. Same-store sales increased 2% 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 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 and late fee income partially offset by decreased layaway service charges.

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

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 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 8% to \$153.4 million in fiscal 1998 from \$142.2 million in fiscal 1997.

Selling, general, and administrative expenses (SG&A) were \$128.0 million in fiscal 1998, compared to \$124.4 million in fiscal 1997, an increase of 3%. As a percent of retail sales, SG&A was 24.4% compared to 25.0% of retail sales in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses brought about by the Company's store development activities.

FISCAL 1997 COMPARED TO FISCAL 1996

Retail sales increased by 4% to \$496.9 million in fiscal 1997 from \$477.0 million in fiscal 1996. Same-store sales increased 4% from the prior year. Total revenues increased by 4% to \$512.4 million in fiscal 1997 from \$491.5 million in fiscal 1996. The Company operated 693 stores at January 31, 1998,

compared to 655 stores operated at February 1, 1997.

The increase in retail sales in fiscal 1997 resulted from the Company's adoption of an everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. In fiscal 1997, the Company increased its selling square footage approximately 3% by opening 55 new stores, relocating or expanding 16 stores while closing 17 existing stores.

Other income in fiscal 1997 increased 8% over fiscal 1996. 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 \$354.6 million, or 71.4% of retail sales, in fiscal 1997, compared to \$344.9 million, or 72.3% of retail sales, in fiscal 1996. The decrease in cost of goods sold as a percent of retail sales resulted primarily from much improved merchandise offerings, more timely markdowns and tighter merchandise planning and control. Total gross margin dollars increased by 8% to \$142.2 million in fiscal 1997 from \$132.1 million in fiscal 1996.

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

SG&A expenses were \$124.4 million in fiscal 1997, compared to \$121.6 million in fiscal 1996, an increase of 2%. As a percent of retail sales, SG&A was 25.0% compared to 25.4% of retail sales in the prior year. The overall increase in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses brought about by the Company's store development activities.

Depreciation expense was \$7.7 million in fiscal 1997, compared to \$8.3 million in fiscal 1996. The 7% decrease in fiscal 1997 resulted primarily from fixed asset dispositions relating to the prior year's store closings.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

At January 30, 1999, the Company had working capital of \$124.0 million compared to \$113.3 million at January 31, 1998. Cash provided by operating activities was \$40.9 million in fiscal 1998, compared to \$38.9 million in fiscal 1997. The increase in cash provided by operating activities in fiscal 1998 resulted primarily from an increase in net income and accounts payable and other liabilities, and a decrease in merchandise inventories. At January 30, 1999, the Company had \$86.2 million in cash, cash equivalents and short-term investments, compared to \$69.5 million at January 31, 1998.

At January 30, 1999, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until May 2001. The credit agreement contains various financial covenants and limitations, including maintenance of specific financial ratios and a limitation on capital expenditures of \$25 million per year (or \$60 million during the length of the agreement). The Company feels the terms of the revolving credit agreement support the Company's future working capital needs. There were no borrowings outstanding under the agreement at January 30, 1999.

The Company has an 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 \$13.5 million, \$7.4 million and \$8.4 million in fiscal 1998, 1997 and 1996, respectively. The expenditures for fiscal 1998 were primarily for store development and new technology for merchandising, distribution and finance. For fiscal 1999, the Company intends to open approximately 75 new stores, close 10 stores, relocate 24 stores, and is currently planning approximately \$24 million of capital expenditures, primarily for store development and further system implementations for merchandising, distribution and finance. The Company plans to remodel 200 stores over the next two years.

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

During 1998, the Company repurchased 1,006,500 shares of Class A Common Stock for \$10.1 million, or an average price of \$10.05 per share. Over the course of fiscal 1998, the Company increased its quarterly dividend from \$.04 per share to \$.05 per share. In February 1999, the Board of Directors increased the quarterly dividend by 10% from \$.05 per share to \$.055 per share and approved a resolution to purchase an additional 1,000,000 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.

The Company does not use derivative financial instruments in its investment portfolio. The Company's investment policy requires investments in instruments that meet high credit quality standards, limits the investment holding period of an instrument to a maximum of 3 years, and limits the amount of credit exposure to any one issue, issuer and type of instrument. At January 30, 1999, all of the Company's investment portfolio was invested in governmental debt securities with maturities of 1 to 33 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 other comprehensive income. Based on the current portfolio, an immediate change in interest rates would not have a material impact on the Company's financial condition.

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

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

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which provides guidance on the capitalization of certain software development costs. Adoption of SOP 98-1 is effective for fiscal 1999, and management is currently evaluating the effect this statement may have on the financial statements.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), which provides guidance on the accounting for start-up costs. The Company adopted SOP 98-5 in fiscal 1998, and the effect on the financial statements was immaterial.

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 2000. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

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

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES:

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS:

The directors and executive officers of the Company and their ages as of March 31, 1999 are as follows:

NAME ----	AGE ---	POSITION -----
Wayland H. Cato, Jr. * ++.....	76	Chairman of the Board and Chief Executive Officer
John P. Derham Cato.....	48	Vice Chairman of the Board, President and Chief Operating Officer
Edgar T. Cato.....	74	Former Vice Chairman of the Board, Co-Founder and Director
Michael O. Moore.....	48	Executive Vice President, Chief Financial Officer and Secretary
Howard A. Severson.....	51	Executive Vice President, Chief Real Estate and Store Development Officer, Assistant Secretary and Director
B. Allen Weinstein.....	52	Executive Vice President and Chief Merchandising Officer of the Cato Division
David P. Kempert.....	49	Executive Vice President and Chief Store Operations Officer of the Cato Division
C. David Birdwell.....	59	Executive Vice President, President and General Manager of the It's Fashion! Division
Stephen R. Clark.....	56	Senior Vice President, Human Resources and Assistant Secretary
Clarice Cato Goodyear * ++.....	52	Special Assistant to the Chairman and President, Assistant Secretary and Director
Thomas E. Cato.....	44	Vice President, Divisional Merchandise Manager and Director
Robert W. Bradshaw, Jr. * +.....	65	Director
George S. Currin * +.....	62	Director
Paul Fulton * +	64	Director
Grant L. Hamrick * +.....	60	Director
James H. Shaw * +.....	70	Director

* Members of Compensation Committee
+ Members of Audit and Stock Option Committees
++ Members of Audit Committee

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS: (CONTINUED)

Wayland H. Cato, Jr. is Chairman of the Board and has been a director of the Company since 1946. Since 1960, he has served as the Company's Chief Executive Officer.

John P. Derham Cato has been employed as an officer of the Company since 1981 and has served as a director since 1986. He currently serves as Vice Chairman of the Board, President and Chief Operating Officer. 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 an officer of the Company since 1985. He currently serves as Executive Vice President, Chief Real Estate and Store Development Officer and Assistant Secretary and has been a director since March 1995. Prior to joining the Company, Mr. Severson served for five years as the Director of Real Estate for Minnesota Fabric Company, a Charlotte based retail fabric store chain.

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 1985 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 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.

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS: (CONTINUED)

Clarice Cato Goodyear has been employed by the Company since 1975 and has served as a director and officer of the Company since 1979. She currently serves as Special Assistant to the Chairman 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 since 1993. He currently serves 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, officer and director of the firm. The law firm serves as General Counsel to the Company.

George S. Currin has been a director of the Company since 1973. From 1978 to 1989, Mr. Currin was the President and Chief Executive Officer and a director of Southeastern Savings Bank, Inc. Since 1989, he has served as Chairman and Managing Director of Fourth Stockton Company and Chairman of Currin - Patterson Properties LLC.

Paul Fulton has been a director of the Company since 1994. He currently serves as Chairman and Chief Executive Officer for 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 America Corporation, Lowe's Companies, Inc., Bassett Furniture Industries, Inc. and Hudson's Bay Company.

Grant L. Hamrick has been a director of the Company since 1994. 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. From 1989 until his retirement in 1996, Mr. Hamrick served as Senior Vice President and Chief Financial Officer for American City Business Journals, Inc.

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.

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. Mr. Sloan is currently a director of Bassett Furniture Industries, Inc. and Richfood Holdings, Inc.

ITEM 11. EXECUTIVE COMPENSATION:

Incorporated by reference to Registrant's proxy statement for 1999 annual stockholders' meeting.

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

Incorporated by reference to Registrant's proxy statement for 1999 annual stockholders' meeting.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Incorporated by reference to Registrant's proxy statement for 1999 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 46 of this annual report.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended January 30, 1999.

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 30, 1999

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 - 44

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

SCHEDULE II - Valuation and qualifying accounts.....	Page 45
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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 30, 1999 and January 31, 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 30, 1999. Our audits also included the financial statement schedule listed in the index at Item 14(A). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 30, 1999 and January 31, 1998, and the results of its operations and its cash flows for each of the three years in the period ended January 30, 1999, in conformity with generally accepted accounting principles. 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 therein.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
March 12, 1999

The Cato Corporation
Consolidated Statements of Income

	Fiscal Year Ended		
	JANUARY 30, 1999	January 31, 1998	February 1, 1997

	(Dollars in thousands, except per share data)		
REVENUES			
Retail sales	\$524,381	\$496,851	\$477,011
Other income (principally finance and layaway charges)	19,283	15,597	14,498

	-----	-----	-----
Total revenues	543,664	512,448	491,509
	-----	-----	-----
COSTS AND EXPENSES			
Cost of goods sold	371,005	354,627	344,919
Selling, general and administrative	127,986	124,439	121,600
Depreciation	7,638	7,713	8,330
Interest	240	262	262
Closed store expense	--	--	5,500
	-----	-----	-----
Total operating expenses	506,869	487,041	480,611
	-----	-----	-----
INCOME BEFORE INCOME TAXES	36,795	25,407	10,898
Income tax expense	12,878	8,006	3,869
	-----	-----	-----
NET INCOME	\$ 23,917	\$ 17,401	\$ 7,029
	=====	=====	=====
BASIC EARNINGS PER SHARE	\$.87	\$.62	\$.25
	=====	=====	=====
DILUTED EARNINGS PER SHARE	\$.85	\$.62	\$.25
	=====	=====	=====
DIVIDENDS PER SHARE	\$.19	\$.16	\$.16
	=====	=====	=====

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Balance Sheets

	JANUARY 30, 1999	January 31, 1998
	-----	-----
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 44,068	\$ 41,644
Short-term investments	42,141	27,843
Accounts receivable, net of allowance for doubtful accounts of \$4,201 at January 30, 1999 and \$3,701 at January 31, 1998	44,536	47,186
Merchandise inventories	61,112	64,226
Deferred income taxes	3,372	2,958
Prepaid expenses	2,374	1,686
	-----	-----
Total Current Assets	197,603	185,543
Property and Equipment - net	54,740	49,801
Other Assets	6,170	6,093
	-----	-----
Total Assets	\$258,513	\$241,437
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 52,391	\$ 52,931
Accrued expenses	20,991	17,244
Income taxes	197	2,041
	-----	-----
Total Current Liabilities	73,579	72,216
Deferred Income Taxes	5,922	5,296
Other Noncurrent Liabilities (primarily deferred rent)	6,778	6,409
	-----	-----
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; 24,070,519 shares issued at January 30, 1999 and 23,502,647 shares issued at January 31, 1998	802	783
Convertible Class B Common Stock, \$.033 par value per share, 15,000,000 shares authorized; 5,264,317 shares issued and outstanding at January 30, 1999 and January 31, 1998	176	176
Additional paid-in capital	69,878	64,187
Retained earnings	120,590	101,537
	-----	-----
	191,446	166,683
Less Class A Common Stock in treasury, at cost (2,368,000 shares at January 30, 1999 and 1,371,500 shares at January 31, 1998)	19,212	9,167
	-----	-----
Total Stockholders' Equity	172,234	157,516
	-----	-----
Total Liabilities and Stockholders' Equity	\$258,513	\$241,437
	=====	=====

See notes to consolidated financial statements.

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The Cato Corporation
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	JANUARY 30, 1999	January 31, 1998	February 1, 1997
	-----	-----	-----
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 23,917	\$ 17,401	\$ 7,029
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,638	7,713	8,330
Amortization of investment premiums	123	95	183
Provision for doubtful accounts	4,081	3,675	3,585
Deferred income taxes	38	496	(771)
Loss on disposal of property and equipment	942	1,196	412
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(1,431)	(7,669)	(6,985)
Merchandise inventories	3,114	(258)	(5,528)
Other assets	(765)	(148)	(51)
Accrued income taxes	(463)	760	251
Accounts payable and other liabilities	3,705	15,674	9,176
	-----	-----	-----
Net cash provided by operating activities	40,899	38,935	15,631
	-----	-----	-----
INVESTING ACTIVITIES			
Expenditures for property and equipment	(13,519)	(7,377)	(8,371)
Purchases of short-term investments	(24,624)	(24,553)	(23,312)
Sales of short-term investments	10,717	30,122	11,164
	-----	-----	-----
Net cash used in investing activities	(27,426)	(1,808)	(20,519)
	-----	-----	-----
FINANCING ACTIVITIES			
Dividends paid	(5,204)	(4,510)	(4,558)
Purchases of treasury stock	(10,112)	(8,188)	(756)
Proceeds from employee stock purchase plan	336	234	279
Proceeds from stock options exercised	3,931	388	333
	-----	-----	-----
Net cash used in financing activities	(11,049)	(12,076)	(4,702)

	-----	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	2,424	25,051	(9,590)
Cash and Cash Equivalents at Beginning of Year	41,644	16,593	26,183
	-----	-----	-----
Cash and Cash Equivalents at End of Year	\$ 44,068	\$ 41,644	\$ 16,593
	=====	=====	=====

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	TREASURY STOCK

	(Dollars in thousands)				
BALANCE -- FEBRUARY 3, 1996	\$ 773	\$ 176	\$ 62,665	\$ 86,291	\$ 223
*Comprehensive income:					
Net income				7,029	
Unrealized losses on available for sale securities, net of deferred income tax benefit of \$58,000				(106)	
Dividends paid (\$.16 per share)				(4,558)	
Class A Common Stock sold through employee stock purchase plan -- 51,506 shares	2		277		
Class A Common Stock sold through stock option plans -- 110,250 shares	3		330		
Purchase of treasury shares-- 135,000 shares					756
	-----	-----	-----	-----	-----
BALANCE -- FEBRUARY 1, 1997	778	176	63,272	88,656	979
*Comprehensive income:					
Net income				17,401	
Unrealized losses on available for sale securities, net of deferred income taxes of \$5,000				(10)	
Dividends paid (\$.16 per share)				(4,510)	
Class A Common Stock sold through employee stock purchase plan -- 47,194 shares	2		232		
Class A Common Stock sold through stock option plans -- 89,050 shares	3		385		
Income tax benefit from stock options exercised			298		
Purchase of treasury shares -- 1,196,500 shares					8,188
	-----	-----	-----	-----	-----
BALANCE -- JANUARY 31, 1998	783	176	64,187	101,537	9,167
*Comprehensive income:					
Net income				23,917	
Unrealized gains on available for sale securities, net of deferred income taxes of \$174,000				340	
Dividends paid (\$.19 per share)				(5,204)	
Class A Common Stock sold through employee stock purchase plan -- 37,122 shares	1		335		
Class A Common Stock sold through stock option plans -- 530,750 shares	18		3,913		
Income tax benefit from stock options exercised			1,381		
Purchase of treasury shares -- 1,006,500 shares					10,112
Contribution of treasury stock to Employee Stock Purchase Plan -- 10,000 shares			62		(67)
	-----	-----	-----	-----	-----
BALANCE -- JANUARY 30, 1999	\$ 802	\$ 176	\$ 69,878	\$120,590	\$ 19,212
	=====	=====	=====	=====	=====

*Total comprehensive income for the years ended January 30, 1999, January 31, 1998 and February 1, 1997 was \$24,257, \$17,391 and \$6,923, 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 balances and transactions have been eliminated.

Description of Business and Fiscal Year -- The Company has principally two segments of business -- operation of women's apparel specialty stores and a credit card division. The Company's 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 ended January 30, 1999, January 31, 1998 and February 1, 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.

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 held at January 30, 1999 and January 31, 1998 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 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.

Accounts Receivable -- Accounts receivable include customer trade accounts, customer layaway receivables and miscellaneous trade receivables. Customer receivables related to layaway sales are reflected net of a reserve for unrealized profit. Net layaway receivables totaled approximately \$308,000 and \$1,749,000 at January 30, 1999 and January 31, 1998, respectively.

Supplemental Cash Flow Information -- Interest paid during the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997 was \$193,000, \$255,000 and \$308,000, respectively. Income tax payments, net of refunds received, for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997 were \$13,394,000, \$6,754,000 and \$4,324,000, respectively.

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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 of property and equipment 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 improvements	5 - 10 years
Fixtures and equipment	3 - 10 years

Retail Sales -- Revenues from retail sales (including layaway transactions)

are recognized at the time of the sale, net of returns, and exclude sales taxes.

Advertising -- Advertising costs are expensed in the period in which they are incurred. Advertising expense was \$5,755,000, \$7,334,000 and \$8,898,000 for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively.

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 27,522,582, 28,058,934 and 28,499,843 for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 659,003, 73,450 and 69,732 for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 28,181,585, 28,132,384 and 28,569,575 for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively.

Income Taxes -- The Company and its subsidiaries file 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.

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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 March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which provides guidance on the capitalization of certain software development costs. Adoption of SOP 98-1 is effective for fiscal 1999, and management is currently evaluating the effect this statement may have on the financial statements.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"), which provides guidance on the accounting for start-up costs. The Company adopted SOP 98-5 in fiscal 1998, and the effect on the financial statements was immaterial.

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 2000. The Company has not yet completed its analysis of any potential impact of SFAS 133 on its financial statements.

Reclassifications -- Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with classifications used for the 1998 fiscal year.

2. SHORT-TERM INVESTMENTS:

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

SECURITY TYPE	COST	UNREALIZED GAINS	ESTIMATED FAIR VALUE
(In thousands)			
Obligations of states and political subdivisions	\$ 41,796	\$ 345	\$ 42,141
Corporate debt securities	--	--	--
Total	\$ 41,796	\$ 345	\$ 42,141

Short-term investments at January 31, 1998 include the following:

SECURITY TYPE	COST	UNREALIZED (LOSSES)	ESTIMATED FAIR VALUE
(In thousands)			
Obligations of states and political subdivisions	\$ 26,012	\$ (94)	\$ 25,918
Corporate debt securities	2,000	(75)	1,925
Total	\$ 28,012	\$ (169)	\$ 27,843

The unrealized gains at January 30, 1999 of \$224,000, net of an income tax expense of \$121,000, and the unrealized losses at January 31, 1998 of \$116,000, net of an income tax benefit of \$53,000, are reflected in other comprehensive income.

The amortized cost and estimated fair value of debt securities at January 30, 1999, by contractual maturity, are shown below:

SECURITY TYPE	COST	ESTIMATED FAIR VALUE
(In thousands)		

Due in one year or less	\$ 7,148	\$ 7,112
Due in one year through three years	34,648	35,029
	-----	-----
Total	\$ 41,796	\$ 42,141
	=====	=====

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	JANUARY 30, 1999	January 31, 1998
	-----	-----
	(In thousands)	
Customer accounts - principally deferred payment accounts	\$ 46,913	\$ 48,948
Miscellaneous trade receivables	1,824	1,939
	-----	-----
Total	48,737	50,887
Less allowance for doubtful accounts	4,201	3,701
	-----	-----
Accounts receivable - net	\$ 44,536	\$ 47,186
	=====	=====

Finance charge and late charge revenue on customer deferred payment accounts totaled \$11,113,000, \$8,262,000 and \$6,937,000 for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively, and the provision for doubtful accounts was \$4,081,000, \$3,675,000 and \$3,585,000, for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, 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 30, 1999	January 31, 1998
	-----	-----
	(In thousands)	
Land and improvements	\$ 1,709	\$ 1,661
Buildings	15,784	15,445
Leasehold improvements	19,190	17,484
Fixtures and equipment	66,817	61,635
Construction in progress	3,449	298
	-----	-----
Total	106,949	96,523
Less accumulated depreciation	52,209	46,722
	-----	-----
Property and equipment - net	\$ 54,740	\$ 49,801
	=====	=====

5. ACCRUED EXPENSES:

Accrued expenses consist of the following:

	JANUARY 30, 1999	January 31, 1998
(In thousands)		
Accrued bonus and retirement savings plan contributions	\$ 6,371	\$ 3,761
Accrued payroll and related items	2,705	2,492
Closed store lease obligations	2,168	2,901
Property and other taxes	2,266	1,451
Accrued health care	2,068	938
Other	5,413	5,701
Total accrued expenses	\$ 20,991	\$ 17,244

6. FINANCING ARRANGEMENTS:

At January 30, 1999, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until May 2001. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios. There were no borrowings outstanding under the agreement at January 30, 1999 or January 31, 1998.

The Company had approximately \$5,524,000 and \$7,641,000 at January 30, 1999 and January 31, 1998, respectively, of outstanding irrevocable letters of credit relating to purchase commitments. Upon satisfaction of the terms of the letters of credit, the Company is obligated to pay the issuing bank the dollar amount of the commitment.

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 37,122 shares and 47,194 shares for the years ended January 30, 1999 and January 31, 1998, respectively.

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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 Stock Option Plan and 3,075,000 shares are issuable under the Non-Qualified Stock Option Plan. The purchase price of 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.

Option plan activity for the three fiscal years ended January 30, 1999 is set forth below:

	OPTIONS OUTSTANDING	RANGE OF OPTION PRICES		WEIGHTED AVERAGE PRICE
Outstanding options, February 3, 1996	3,017,800	\$ 1.42 -	\$ 8.42	\$ 7.28
Granted	76,000	4.94 -	9.31	6.70
Exercised	(110,250)	1.42 -	7.69	3.03
Cancelled	(151,800)	2.09 -	7.81	7.61
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

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The following tables summarize information about stock options outstanding at January 30, 1999:

Options Outstanding			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 1.50 - \$ 7.63	838,782	3.49 years	\$ 7.35
\$ 7.96 - \$ 8.25	1,293,000	7.86 years	\$ 8.08
\$ 9.25 - \$ 14.59	330,200	9.64 years	\$ 12.69

\$ 1.50 - \$ 14.59	2,461,982	6.61 years	\$ 8.45
	=====		

Options Exercisable		
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
\$ 1.50 - \$ 7.63	777,782	\$ 7.52
\$ 7.96 - \$ 8.25	414,400	\$ 7.95
\$ 9.25 - \$ 14.59	4,000	\$ 9.31

\$ 1.50 - \$ 14.59	1,196,182	\$ 7.68
	=====	

Outstanding options at January 30, 1999 covered 517,000 shares of Class B Common Stock and 1,944,982 shares of Class A Common Stock. Outstanding options at January 31, 1998 covered 317,000 shares of Class B Common Stock and 2,468,732 shares of Class A Common Stock. Options available to be granted under the option plans were 184,368 shares at January 30, 1999 and 391,368 shares at January 31, 1998.

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 1998, 1997 and 1996 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 1998, 1997 and 1996 would approximate the following proforma amounts (dollars in thousands, except per share data):

	AS REPORTED	PROFORMA
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
Net Income-- Fiscal 1996	\$ 7,029	\$ 6,668
Basic Earnings Per Share	\$.25	\$.23
Diluted Earnings Per Share	\$.25	\$.23

The fair value of each option granted during fiscal 1998, 1997 and 1996 is estimated as \$6.71, \$4.02 and \$3.34 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 1998, 1997 and 1996, respectively: expected dividend yield of 2.20%, 1.49% and 2.67%; expected volatility of 66.44%, 58.14% and 59.24%, adjusted for expected dividends; risk-free interest rate of 5.07%, 5.44% and 6.69%; and an expected life of 5 years, 5 years and 4 years. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts.

In February 1999, the Board of Directors increased the quarterly dividend by 10% from \$.05 per share to \$.055 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 30, 1999, January 31, 1998 and February 1, 1997 is as follows:

	Fiscal Year Ended		
	JANUARY 30, 1999	January 31, 1998	February 1, 1997
	(In thousands)		
Net income	\$23,917	\$17,401	\$7,029
Unrealized gains (losses) on available for sale securities, net of taxes	340	(10)	(106)
Total comprehensive income	\$24,257 =====	\$17,391 =====	\$6,923 =====

The following schedule summarizes the activity in other comprehensive income for the year ended January 30, 1999 (in thousands):

	Pre-tax	Tax Expense	Net of Tax
Net unrealized gains arising during the year	\$ 299	\$ 99	\$ 200
Add: Reclassification adjustments for losses included in net income	215	75	140
Other comprehensive income	\$ 514	\$ 174	\$ 340

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 and further Company contributions, at the discretion of the Board of Directors, based on a formula of percentages of pre-tax profits. The Company's contributions for the years ended January 30, 1999, January 31, 1998 and February 1, 1997 were approximately \$1,606,000, \$1,177,000 and \$798,000, 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 30, 1999 and January 31, 1998 were \$531,000 and \$130,000, respectively. No contribution was made to the ESOP for the year ended February 1, 1997. 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 \$200,000. Contributions to the VEBA trust were \$4,177,000, \$3,854,000 and \$3,200,000 in fiscal 1998, 1997 and 1996, 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 an agreement with a lessor to lease \$19.5 million of store fixtures, point-of-sale devices and warehouse equipment. These leases, which do not meet criteria for capital lease accounting, are being accounted for as operating leases and have 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, the purchase price for the equipment would be approximately \$11,381,000.

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The minimum commitments relating to future payments under non-cancelable operating leases are (in thousands):

FISCAL YEAR

1999	\$ 27,501
2000	20,582
2001	16,889
2002	12,350
2003	6,408
Thereafter	2,787
Total minimum lease payments	\$ 86,517

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

Fiscal Year Ended

JANUARY 30, 1999	January 31, 1998	February 1, 1997
---------------------	---------------------	---------------------

(In thousands)

Minimum rentals	\$ 30,313	\$ 29,660	\$ 30,028
Contingent rent	270	226	218
	-----	-----	-----
Total rental expense	\$ 30,583	\$ 29,886	\$ 30,246
	=====	=====	=====

10. INCOME TAXES:

The provision for income taxes consists of the following:

Fiscal Year Ended

JANUARY 30, 1999	January 31, 1998	February 1, 1997
---------------------	---------------------	---------------------

(In thousands)

Current income taxes:			
Federal	\$ 12,502	\$ 6,825	\$ 4,056
State	338	685	584
	-----	-----	-----
Total	12,840	7,510	4,640
	-----	-----	-----
Deferred income taxes:			
Federal	(190)	205	(477)
State	228	291	(294)
	-----	-----	-----
Total	38	496	(771)
	-----	-----	-----
Total income tax expense	\$ 12,878	\$ 8,006	\$ 3,869
	=====	=====	=====

Significant components of the Company's deferred tax assets and liabilities as of January 30, 1999 and January 31, 1998 are as follows:

JANUARY 30, 1999	January 31, 1998
---------------------	---------------------

(In thousands)

Deferred tax assets:		
Bad debt reserve	\$ 1,623	\$ 1,432
Inventory valuation	1,134	1,197
Unrealized losses on short-term investments	--	53

Reserves	958	1,202
	-----	-----
Total deferred tax assets	3,715	3,884
	-----	-----
Deferred tax liabilities:		
Tax over book depreciation	6,326	6,426
Unrealized gains on short-term investments	121	--
Other, net	(182)	(204)
	-----	-----
Total deferred tax liabilities	6,265	6,222
	-----	-----
Net deferred tax liabilities	\$ 2,550	\$ 2,338
	=====	=====

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

	Fiscal Year Ended		
	JANUARY 30, 1999	January 31, 1998	February 1, 1997
	-----	-----	-----
Federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes	1.2	2.9	4.0
Other	(1.2)	(6.4)	(3.5)
	-----	-----	-----
Effective income tax rate	35.0 %	31.5 %	35.5 %
	=====	=====	=====

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial results are as follows (in thousands, except per share data):

FISCAL 1998	FIRST	SECOND	THIRD	FOURTH
	-----	-----	-----	-----
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
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
	-----	-----	-----	-----
FISCAL 1997				
	-----	-----	-----	-----
Retail sales	\$123,251	\$120,901	\$109,886	\$142,813
Total revenues	127,500	124,451	113,743	146,754
Cost of goods sold	83,056	85,954	80,028	105,589
Net income	8,020	3,776	1,390	4,215
Basic earnings per share	\$.28	\$.13	\$.05	\$.15
Diluted earnings per share	\$.28	\$.13	\$.05	\$.15

12. STORE CLOSINGS:

In the normal course of business, the Company routinely closes those stores which fail to demonstrate the ability to consistently generate an acceptable return on investment and contribution to corporate overhead. Although such closings generally occur throughout the year as a result of management's ongoing profitability analysis, in the fourth quarter of fiscal 1996 the Company, in an effort to better align store operations with the current apparel industry environment, decided to close 40 underperforming stores by the end of the fiscal year. All of these stores were closed by late January 1997. The costs of closing these stores included the write-off of leasehold improvements and store fixtures that will not be utilized at other stores, employee severance pay and the remaining non-cancelable lease payments. Total costs were \$5,500,000, of which \$242,000 and \$998,000 was unpaid and accrued at January 30, 1999 and January 31, 1998, respectively. The remaining accrued lease payments at January 30, 1999 will be paid over the remaining lease terms which range from 2 to 23 months.

13. REPORTABLE SEGMENT INFORMATION:

The Company has two reportable segments: retail and credit. The Company operates its women's apparel 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 1998	Retail	Credit	Total

Revenues	\$ 532,330	\$ 11,334	\$ 543,664
Depreciation	7,613	25	7,638
Interest expense	192	48	240
Income before taxes	33,044	3,751	36,795
Total assets	200,946	57,567	258,513
Capital expenditures	13,459	60	13,519

FISCAL 1997			

Revenues	\$ 503,914	\$ 8,534	\$ 512,448
Depreciation	7,685	28	7,713
Interest expense	262	--	262
Income before taxes	24,535	872	25,407
Total assets	197,871	43,566	241,437
Capital expenditures	7,377	--	7,377

FISCAL 1996			

Revenues	\$ 484,292	\$ 7,217	\$ 491,509
Depreciation	8,277	53	8,330
Interest expense	262	--	262
Income (loss) before taxes	11,160	(262)	10,898
Total assets	180,361	37,882	218,243
Capital expenditures	8,371	--	8,371

14. 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 \$1,347,000, \$970,000 and \$1,158,000 in fiscal 1998, 1997 and 1996, respectively. The Company had approximately \$1,600,000 at January 30, 1999 and \$1,832,000 at January 31, 1998, respectively, of outstanding letters of credit relating to such claims. 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.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts (a)	Reserve for Rental Commitments (b)
	-----	-----
	(In thousands)	
Balance at February 3, 1996	\$ 3,401	\$ 659
Additions charged to costs and expenses	3,585	926
Additions (Deductions) charged to other accounts	896 (d)	-
Deductions	(4,481) (c)	(668)
	-----	-----
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
	=====	=====

- (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.

DESIGNATION OF EXHIBIT	PAGE
21	Subsidiaries of the Registrant..... 47
23	Consent of Independent Auditors..... 48
27	Financial Data Schedule (For SEC use only).....

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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.

 Wayland H. Cato, Jr.
 Chairman of the Board and
 Chief Executive Officer

By /s/ Michael O. Moore

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

By /s/ Robert M. Sandler

 Robert M. Sandler
 Senior Vice President
 Controller

Date: April 22, 1999

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.

 Wayland H. Cato, Jr.
 (Director)

/s/ Robert W. Bradshaw, Jr.

 Robert W. Bradshaw, Jr.
 (Director)

/s/ John P. Derham Cato

 John P. Derham Cato
 (Director)

/s/ George S. Currin

 George S. Currin
 (Director)

/s/ Edgar T. Cato

 Edgar T. Cato
 (Director)

/s/ Paul Fulton

 Paul Fulton
 (Director)

/s/ Howard A. Severson

 Howard A. Severson
 (Director)

/s/ Grant L. Hamrick

 Grant L. Hamrick
 (Director)

/s/ Clarice Cato Goodyear

 Clarice Cato Goodyear
 (Director)

/s/ James H. Shaw

 James H. Shaw
 (Director)

/s/ Thomas E. Cato

 Thomas E. Cato
 (Director)

/s/ A.F. (Pete) Sloan

 A.F. (Pete) Sloan
 (Director)

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

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 33-41314 on Form S-8 pertaining to The Cato Corporation Employee Incentive Stock Option Plan, in Registration Statement No. 33-41315 on Form S-8 pertaining to The Cato Corporation Non-Qualified Stock Option Plan, and in the Registration Statement No. 33-69844 on Form S-8 pertaining to The Cato Corporation Employee Stock Purchase Plan, of our report dated March 12, 1999, appearing in the Annual Report on Form 10-K of The Cato Corporation and subsidiaries for the year ended January 30, 1999.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 22, 1999

<ARTICLE> 5

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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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