

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 29, 2000  
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OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-3747  
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THE CATO CORPORATION AND SUBSIDIARIES  
-----  
(Exact name of registrant as specified in its charter)

Delaware	56-0484485
-----	-----
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975  
-----  
(Address of principal executive offices) (Zip Code)

(704) 554-8510  
-----  
(Registrant's telephone number, including area code)

Not Applicable  
-----  
(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes  No

As of August 15, 2000, there were 19,480,146 shares of Class A Common Stock and  
5,364,317 shares of Class B Common Stock outstanding.

## THE CATO CORPORATION

FORM 10-Q

JULY 29, 2000

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## PART I FINANCIAL INFORMATION

THE CATO CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 29, 2000 (UNAUDITED)	July 31, 1999 (Unaudited)	JULY 29, 2000 (UNAUDITED)	July 31, 1999 (Unaudited)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES				
Retail sales	\$163,375	\$148,782	\$325,529	\$301,829
Other income (principally finance and layaway charges)	5,307	5,027	10,393	9,854
Total revenues	168,682	153,809	335,922	311,683
COSTS AND EXPENSES				
Cost of goods sold	110,015	100,100	215,338	200,117
Selling, general and administrative	38,744	36,118	75,876	71,040
Depreciation	2,378	2,109	4,756	4,132
Interest	10	5	17	11
Total expenses	151,147	138,332	295,987	275,300
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	17,535	15,477	39,935	36,383
Income tax expense	6,137	5,417	13,977	12,734
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	11,398	10,060	25,958	23,649
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX (\$79)	--	--	--	147
NET INCOME	\$ 11,398	\$ 10,060	\$ 25,958	\$ 23,796
BASIC EARNINGS PER SHARE	\$ .46	\$ .38	\$ 1.04	\$ .90
DILUTED EARNINGS PER SHARE	\$ .45	\$ .37	\$ 1.02	\$ .88
DIVIDENDS PER SHARE	\$ .10	\$ .075	\$ .20	\$ .13

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

	JULY 29, 2000 (UNAUDITED)	July 31, 1999 (Unaudited)	January 29, 2000
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 18,997	\$ 41,802	\$ 30,389
Short-term investments	61,084	53,365	56,886
Accounts receivable - net	44,434	43,673	45,458
Merchandise inventories	71,899	68,187	69,497
Deferred income taxes	3,898	3,837	4,093
Prepaid expenses	2,108	2,022	2,494
	-----	-----	-----
Total Current Assets	202,420	212,886	208,817
Property and Equipment - net	75,900	60,262	69,338
Other Assets	8,097	6,408	7,634
	-----	-----	-----
Total	\$ 286,417	\$ 279,556	\$ 285,789
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts payable	\$ 49,233	\$ 52,156	\$ 54,707
Accrued expenses	21,499	21,095	24,392
Income taxes	7,091	5,600	4,730
	-----	-----	-----
Total Current Liabilities	77,823	78,851	83,829
Deferred Income Taxes	5,550	5,801	5,806
Other Noncurrent Liabilities	7,978	7,154	7,374
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; issued 24,239,294 shares, 24,109,961 shares and 24,173,480 shares at July 29, 2000, July 31, 1999, and January 29, 2000, respectively	808	803	805
Convertible Class B Common Stock, \$.033 par value per share, 15,000,000 shares authorized; issued 5,364,317 shares, 5,264,317 shares and 5,364,317 shares at July 29, 2000, July 31, 1999 and January 29, 2000 respectively	179	176	179
Additional paid-in capital	72,517	70,216	71,974
Retained earnings	167,769	140,698	146,881
Accumulated Other Comprehensive Loss	(1,647)	(864)	(1,801)
Unearned Compensation - Restricted Stock Awards	(837)	--	(984)
	-----	-----	-----
	238,789	211,029	217,054
Less Class A Common Stock in treasury, at cost (4,759,148 shares at July 29, 2000, 2,873,948 shares at July 31, 1999, and 3,290,348 shares at January 29, 2000, respectively)	(43,723)	(23,279)	(28,274)
	-----	-----	-----
Total Stockholders' Equity	195,066	187,750	188,780
	-----	-----	-----
Total	\$ 286,417	\$ 279,556	\$ 285,789
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED	
	JULY 29, 2000 (UNAUDITED)	July 31, 1999 (Unaudited)
	(DOLLARS IN THOUSANDS)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 25,958	\$ 23,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,756	4,132
Amortization of investment premiums	76	89
Compensation expense related to restricted stock award	147	--
Loss on disposal of property and equipment	549	295
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	1,024	863
Merchandise inventories	(2,402)	(7,075)
Other assets	(77)	114
Accrued income taxes	2,361	5,403
Accounts payable and other liabilities	(7,824)	777
	-----	-----
Net cash provided by operating activities	24,568	28,394
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Expenditures for property and equipment	(11,867)	(9,950)
Purchases of short-term investments	(8,423)	(15,306)
Sales of short-term investments	4,304	2,320
	-----	-----
Net cash used in investing activities	(15,986)	(22,936)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(5,071)	(3,465)
Purchases of treasury stock	(15,449)	(4,577)
Proceeds from employee stock purchase plan	223	247
Proceeds from stock options exercised	323	71
	-----	-----
Net cash used in financing activities	(19,974)	(7,724)
	-----	-----
Net Decrease in Cash and Cash Equivalents	(11,392)	(2,266)
Cash and Cash Equivalents at Beginning of Period	30,389	44,068
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 18,997	\$ 41,802
	=====	=====

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 29, 2000  
AND JULY 31, 1999

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NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the Company), and all amounts shown at July 29, 2000 and July 31, 1999 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of the interim period may not be indicative of the entire year.

The interim financial statements should be read in conjunction with the financial statements and notes there to, included in the Company's Annual Report in Form 10-K for the fiscal year ended January 29, 2000.

The Company's short-term investments are classified as available-for-sale securities, and therefore, are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a component of other comprehensive income.

Total comprehensive income for the second quarter and six months ended July 29, 2000 was \$11,615,000 and \$26,112,000, respectively. Total comprehensive income for the second quarter and six months ended July 31, 1999 was \$9,262,000 and \$22,585,000, respectively. Total comprehensive income is composed of net income and net unrealized gains and losses on available-for-sale securities.

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

In the first quarter of fiscal 2000, the Company repurchased 1,468,800 shares of Class A Common Stock for \$15,449,000, or an average price of \$10.52 per share. In the first quarter of fiscal 1999, the Company repurchased 569,000 shares of Class A Common Stock for \$4,577,000, or an average price of \$8.04 per share. In March 1999, the Company transferred 63,000 shares of Class A Common Stock from treasury stock to its Employee Stock Ownership Plan as the contribution for the fiscal year ended January 30, 1999.

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

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

THE CATO CORPORATION  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 29, 2000  
 AND JULY 31, 1999

NOTE 1 - GENERAL CONTINUED:

slightly exceeded the associated margin on previously recognized layaway sales. The proforma effect of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

NOTE 2 - EARNINGS PER SHARE:

Earnings per share is calculated by dividing net income by the weighted-average number of Class A and Class B common shares outstanding during the respective periods. The weighted-average shares outstanding is used in the basic earnings per share calculation, while the weighted-average shares and equivalents outstanding is used in the diluted earnings per share calculation.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 29, 2000	July 31, 1999	JULY 29, 2000	July 31, 1999
Weighted-average shares outstanding	24,805,846	26,496,155	25,054,790	26,577,860
Dilutive effect of stock options	393,335	505,125	369,442	400,484
Weighted-average shares and equivalents outstanding	25,199,181	27,001,280	25,424,232	26,978,344

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Income tax payments, net of refunds received, for the six months ended July 29, 2000 and July 31, 1999 were \$12,189,000 and \$7,641,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At July 29, 2000, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios. The Company was in compliance with all financial covenants and ratios and there were no borrowings outstanding under the agreement at July 29, 2000, July 31, 1999 or January 29, 2000.

THE CATO CORPORATION  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 29, 2000  
 AND JULY 31, 1999

NOTE 5 - REPORTABLE SEGMENT INFORMATION:

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 29, 2000	July 31, 1999	JULY 29, 2000	July 31, 1999
Revenues:				
Retail	\$ 165,287	\$ 150,943	\$ 329,279	\$ 305,958
Credit	3,395	2,866	6,643	5,725
Total	\$ 168,682	\$ 153,809	\$ 335,922	\$ 311,683
	=====	=====	=====	=====
Income before taxes:				
Retail	\$ 16,352	\$ 14,513	\$ 37,765	\$ 34,523
Credit	1,183	964	2,170	1,860
Total	\$ 17,535	\$ 15,477	\$ 39,935	\$ 36,383
	=====	=====	=====	=====



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

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's unaudited Condensed Consolidated Statements of Income as a percentage of total retail sales:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 29, 2000	July 31, 1999	JULY 29, 2000	July 31, 1999
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	103.2	103.4	103.2	103.3
Cost of goods sold	67.3	67.3	66.1	66.3
Selling, general and administrative	23.7	24.3	23.3	23.5
Income before income taxes	10.7	10.4	12.3	12.1
Net income	7.0	6.8	8.0	7.9

COMPARISON OF SECOND QUARTER AND FIRST SIX MONTHS OF 2000 WITH 1999.

OPERATING RESULTS

Total retail sales for the second quarter were \$163.4 million compared to last year's second quarter sales of \$148.8 million, a 10% increase. Same-store sales increased 3% in the second quarter. For the six months ended July 29, 2000, total retail sales were \$325.5 million compared to last year's first six months sales of \$301.8 million, an 8% increase, and same-store sales increased 1% for the comparable six month period. The increase in retail sales for the first six months of 2000 resulted from the Company's continued everyday low pricing strategy, improved merchandise offerings, and an increase in store development activity. The Company operated 825 stores at July 29, 2000 compared to 770 stores at the end of last year's second quarter.

Other income for the second quarter and first six months of 2000 increased 6% and 5%, respectively, over the prior year's comparable periods. The increase in the current year resulted primarily from increased finance and late charge income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

Cost of goods sold were 67.3% and 66.1% of total retail sales for the second quarter and first six months of 2000, respectively, compared to 67.3% and 66.3% for last year's comparable three and six month periods. The decrease in cost of goods sold as a percent of retail sales for the first six months of 2000 resulted from the maintenance of timely and aggressive markdowns on slow moving merchandise and the improvement of inventory flow.

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

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OPERATING RESULTS - CONTINUED

Selling, general and administrative (SG&A) expenses were \$38.7 million and \$75.9 million for the second quarter and first six months of this year, compared to \$36.1 million and \$71.0 million for last year's comparable three and six month periods, respectively. SG&A expenses as a percentage of retail sales for the second quarter and first six months of 2000 declined 60 and 20 basis points, respectively, over the prior year as expenses remained well controlled and under plan.

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 effect of retroactive application of the accounting change on fiscal 1998 is immaterial to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

At July 29, 2000, the Company had working capital of \$124.6 million, compared to \$134.0 million at July 31, 1999 and \$125.0 million at January 29, 2000. Cash provided by operating activities was \$24.6 million for the six months ended July 29, 2000, compared to \$28.4 million for last year's comparable six month period. The decrease resulted primarily from a decrease in accounts payable and other liabilities and accrued income taxes offset by a decrease in merchandise inventories and an increase in net income. At July 29, 2000, the Company had cash, cash equivalents, and short-term investments of \$80.1 million, compared to \$95.2 million at July 31, 1999 and \$87.3 million at January 29, 2000.

Net cash used in investing activities totaled \$16.0 million for the first six months of 2000 compared to \$22.9 million for the comparable period of 1999. Cash was used primarily to fund capital expenditures for new, relocated and remodeled stores and for new technology for systems. The decrease in cash used was primarily related to a decrease in purchases of short-term investments in fiscal 2000 as compared to fiscal 1999.

Expenditures for property and equipment totaled \$11.9 million for the six months ended July 29, 2000, compared to \$10.0 million of expenditures in last year's first six months. The Company expects total capital expenditures to be approximately \$24 million for the current fiscal year. The Company intends to open approximately 65 new stores, close 20 stores and to relocate 37

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

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LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

stores during the current fiscal year. For the six months ended July 29, 2000, the Company had opened 22 new stores, relocated 18 stores, remodeled 41 stores and closed six stores.

Net cash used in financing activities totaled \$20.0 million for the first six months of 2000 compared to \$7.7 million for the comparable period of 1999. The increase was due primarily from its share buyback program and an increase in dividends paid in fiscal 2000 as compared to fiscal 1999.

At July 29, 2000, the Company had an unsecured revolving credit agreement which provides for borrowings of up to \$35 million. The revolving credit agreement is committed until July 2003. The credit agreement contains various financial covenants and limitations, including the maintenance of specific financial ratios. The Company was in compliance with all financial covenants and ratios and there were no borrowings outstanding under the agreement at July 29, 2000, July 31, 1999 or January 29, 2000.

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

The Company does not use derivative financial instruments in its investment portfolio. At July 29, 2000, July 31, 1999 and January 29, 2000, the Company's investment portfolio was invested in governmental debt securities with maturities of up to 36 months. These securities are classified as available-for-sale, and are recorded on the balance sheet at fair value with unrealized gains and losses reported as accumulated other comprehensive loss.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flows from operations and borrowings available under its revolving credit agreement, will be adequate to fund the Company's proposed capital expenditures and other operating requirements during fiscal 2000.

Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in the Form 10-Q and located elsewhere herein regarding the Company's financial position and business strategy may constitute forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct.

## PART II OTHER INFORMATION

## THE CATO CORPORATION

## ITEM 1. LEGAL PROCEEDINGS

None

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 25, 2000.

## ELECTION OF DIRECTORS:

Ms. Clarice Cato Goodyear	-	For 69,806,798	;	Abstaining 1,910,195
Mr. John P. Derham Cato	-	For 69,883,916	;	Abstaining 1,833,077
Mr. Paul Fulton	-	For 69,885,836	;	Abstaining 1,831,157
Mr. James Shaw	-	For 69,885,686	;	Abstaining 1,831,307

## RATIFICATION OF DELOITTE &amp; TOUCHE LLP AS INDEPENDENT AUDITORS

For 71,711,330 ; Abstaining 1,998 ; Against 3,665

## RATIFICATION OF THE AMENDMENT TO THE 1987 NON-QUALIFIED STOCK OPTION PLAN

For 63,233,822 ; Abstaining 328,225 ; Against 5,911,547

## RATIFICATION OF THE ADOPTION OF THE 1999 INCENTIVE COMPENSATION PLAN

For 62,842,970 ; Abstaining 328,104 ; Against 6,302,521

## ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (A) Exhibit 27 - Financial Data Schedule (for SEC use only)
- (B) No Reports on Form 8-K were filed during the quarter ended July 29, 2000.

## PART II OTHER INFORMATION (CONTINUED)

## THE CATO CORPORATION

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

## THE CATO CORPORATION

September 7, 2000

/s/ Wayland H. Cato, Jr.

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

September 7, 2000

/s/ John P. Derham Cato

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

September 7, 2000

/s/ Michael O. Moore

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

September 7, 2000

/s/ Robert M. Sandler

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

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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6-MOS		
	FEB-03-2001	
	JUL-29-2000	
		18,997
		61,084
		49,627
		5,193
		71,899
	202,420	
		138,122
		62,222
		286,417
	77,823	
		0
	0	
		0
		987
		194,079
286,417		
		325,529
	335,922	
		215,338
		215,338
		0
		1,725
		10
		39,935
		13,977
	25,958	
		0
		0
		0
		25,958
		1.04
		1.02