

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 October 30, 1999

OR

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

For the transition period from _____ to _____

Commission file number 0-3747

THE CATO CORPORATION AND SUBSIDIARIES

(Exact name of registrant as specified in its charter)

Delaware

56-0484485

(State or other jurisdiction
of incorporation)

(I.R.S. Employer
Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975

(Address of principal executive offices)
(Zip Code)

(704) 554-8510

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

As of November 16, 1999, there were 21,192,639 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

OCTOBER 30, 1999

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|---|----------------------------------|------------------------------------|----------------------------------|
| | OCTOBER 30, 1999 (UNAUDITED) | October 31, 1998 Unaudited | OCTOBER 30, 1999 (UNAUDITED) | October 31, 1998 Unaudited |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) | | | |
| REVENUES | | | | |
| Retail sales | \$128,514 | \$113,834 | \$430,397 | \$382,581 |
| Other income (principally finance and layaway charges) | 5,037 | 4,766 | 14,900 | 14,239 |
| Total revenues | 133,551 | 118,600 | 445,297 | 396,820 |
| COSTS AND EXPENSES | | | | |
| Cost of goods sold | 90,761 | 81,364 | 290,904 | 264,407 |
| Selling, general and administrative | 34,485 | 30,977 | 105,525 | 96,477 |
| Depreciation | 2,202 | 1,883 | 6,334 | 5,657 |
| Interest | 5 | 54 | 16 | 185 |
| Total expenses | 127,453 | 114,278 | 402,779 | 366,726 |
| INCOME BEFORE INCOME TAXES | 6,098 | 4,322 | 42,518 | 30,094 |
| Income taxes | 2,134 | 1,513 | 14,881 | 10,533 |
| NET INCOME | \$ 3,964 | \$ 2,809 | \$ 27,637 | \$ 19,561 |
| BASIC EARNINGS PER SHARE | \$.15 | \$.10 | \$ 1.04 | \$.71 |
| DILUTED EARNINGS PER SHARE | \$.15 | \$.10 | \$ 1.02 | \$.69 |
| DIVIDENDS PER SHARE | \$.075 | \$.05 | \$.205 | \$.14 |

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | OCTOBER 30, 1999 (UNAUDITED) | October 31, 1998 (Unaudited) | January 30, 1999 |
|--|------------------------------------|------------------------------------|---------------------|
| | ----- | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 26,502 | \$ 36,785 | \$ 44,068 |
| Short-term investments | 54,347 | 39,875 | 42,141 |
| Accounts receivable - net | 45,438 | 43,148 | 44,536 |
| Merchandise inventories | 89,027 | 87,327 | 61,112 |
| Deferred income taxes | 3,969 | 2,905 | 3,372 |
| Prepaid expenses | 1,520 | 2,140 | 2,374 |
| | ----- | ----- | ----- |
| Total Current Assets | 220,803 | 212,180 | 197,603 |
| Property and Equipment - net | 67,032 | 52,073 | 54,740 |
| Other Assets | 6,524 | 6,150 | 6,170 |
| | ----- | ----- | ----- |
| Total | \$294,359 | \$270,403 | \$258,513 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 62,209 | \$ 63,984 | \$ 52,391 |
| Accrued expenses | 23,852 | 20,494 | 20,991 |
| Income taxes | 5,422 | 2,322 | 197 |
| | ----- | ----- | ----- |
| Total Current Liabilities | 91,483 | 86,800 | 73,579 |
| Deferred Income Taxes | 5,801 | 5,417 | 5,922 |
| Other Noncurrent Liabilities | 7,413 | 6,452 | 6,778 |
| Stockholders' Equity: | | | |
| Class A Common Stock, issued 24,163,587 shares, 23,979,238 shares and 24,070,519 shares at October 30, 1999, October 31, 1998 and January 30, 1999, respectively | 805 | 799 | 802 |
| Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at October 30, 1999, October 31, 1998 and January 30, 1999, respectively | 176 | 176 | 176 |
| Additional paid-in capital | 70,640 | 67,817 | 69,878 |
| Retained earnings | 141,440 | 117,609 | 120,590 |
| | ----- | ----- | ----- |
| | 213,061 | 186,401 | 191,446 |
| Less Class A Common Stock in treasury, at cost (2,883,948 shares at October 30, 1999, 1,822,500 shares at October 31, 1998, and 2,368,000 shares at January 30, 1999, respectively) | 23,399 | 14,667 | 19,212 |
| | ----- | ----- | ----- |
| Total Stockholders' Equity | 189,662 | 171,734 | 172,234 |
| | ----- | ----- | ----- |
| Total | \$294,359 | \$270,403 | \$258,513 |
| | ===== | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTHS ENDED | |
|---|------------------------------------|------------------------------------|
| | OCTOBER 30, 1999 (UNAUDITED) | October 31, 1998 (Unaudited) |
| | (DOLLARS IN THOUSANDS) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 27,637 | \$ 19,561 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 6,334 | 5,657 |
| Amortization of investment premiums | 138 | 83 |
| Loss on disposal of property and equipment | 405 | 638 |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Accounts receivable | (902) | 4,038 |
| Merchandise inventories | (27,915) | (23,101) |
| Other assets | 500 | (511) |
| Accrued income taxes | 5,225 | 281 |
| Accounts payable and other liabilities | 13,846 | 14,475 |
| | ----- | ----- |
| Net cash provided by operating activities | 25,268 | 21,121 |
| | ----- | ----- |
| INVESTING ACTIVITIES | | |
| Expenditures for property and equipment | (19,032) | (8,567) |
| Purchases of short-term investments | (20,013) | (22,032) |
| Sales of short-term investments | 5,619 | 10,431 |
| | ----- | ----- |
| Net cash used in investing activities | (33,426) | (20,168) |
| | ----- | ----- |
| FINANCING ACTIVITIES | | |
| Dividends paid | (5,454) | (3,829) |
| Purchase of treasury stock | (4,697) | (5,567) |
| Proceeds from employee stock purchase plan | 436 | 331 |
| Proceeds from stock options exercised | 307 | 3,253 |
| | ----- | ----- |
| Net cash used in financing activities | (9,408) | (5,812) |
| | ----- | ----- |
| Net Decrease in Cash and Cash Equivalents | (17,566) | (4,859) |
| Cash and Cash Equivalents at Beginning of Period | 44,068 | 41,644 |
| | ----- | ----- |
| Cash and Cash Equivalents at End of Period | \$ 26,502 | \$ 36,785 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR NINE MONTHS ENDED OCTOBER 30, 1999 AND OCTOBER 31, 1998

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of The Cato Corporation and its wholly-owned subsidiaries (the Company) and all amounts shown at October 30, 1999 and October 31, 1998 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of the interim period may not be indicative of the entire year.

The 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 10K for the fiscal year ended January 30, 1999.

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 third quarter and nine months ended October 30, 1999 was \$3,719,000 and \$26,305,000 respectively. Total comprehensive income for the third quarter and nine months ended October 31, 1998 was \$3,033,000 and \$19,894,000, respectively. Total comprehensive income is composed of net income and net unrealized losses on available for sale securities.

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

In March 1999, the Company transferred 63,000 shares of Class A Common Stock from treasury stock to its Employee Stock Ownership Plan as the contribution for the fiscal year ended January 30, 1999. In the first nine months of fiscal 1999, the Company repurchased 579,000 shares of Class A Common Stock for \$4,697,000, or an average price of \$8.11 per share.

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

THE CATO CORPORATION
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR NINE MONTHS ENDED OCTOBER 30, 1999 AND OCTOBER 31, 1998

NOTE 2 - EARNINGS PER SHARE:

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

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|---------------------|---------------------|---------------------|---------------------|
| | OCTOBER 30, 1999 | October 31, 1998 | OCTOBER 30, 1999 | October 31, 1998 |
| Weighted-average shares outstanding | 26,523,490 | 27,433,823 | 26,559,736 | 27,546,942 |
| Dilutive effect of stock options | 579,744 | 508,592 | 469,030 | 729,375 |
| Weighted-average shares and equivalents outstanding | 27,103,234 | 27,942,415 | 27,028,766 | 28,276,317 |

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the nine months ended October 30, 1999 and October 31, 1998 was \$16,000 and \$121,000, respectively. Income tax payments, net of refunds received, for the nine months ended October 30, 1999 and October 31, 1998 were \$10,020,799 and \$10,308,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At October 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 July 2002. 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 October 30, 1999 or October 31, 1998.

THE CATO CORPORATION
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR NINE MONTHS ENDED OCTOBER 30, 1999 AND OCTOBER 31, 1998

NOTE 5 - REPORTABLE SEGMENT INFORMATION:

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

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|----------------------|---------------------|---------------------|---------------------|---------------------|
| | OCTOBER 30, 1999 | October 31, 1998 | OCTOBER 30, 1999 | October 31, 1998 |
| Revenues: | | | | |
| Retail | \$ 130,633 | \$ 115,806 | \$ 436,653 | \$ 388,463 |
| Credit | 2,918 | 2,794 | 8,644 | 8,357 |
| Total | \$ 133,551 | \$ 118,600 | \$ 445,297 | \$ 396,820 |
| Income before taxes: | | | | |
| Retail | \$ 4,930 | \$ 3,215 | \$ 39,490 | \$ 27,293 |
| Credit | 1,168 | 1,107 | 3,028 | 2,801 |
| Total | \$ 6,098 | \$ 4,322 | \$ 42,518 | \$ 30,094 |

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

 RESULTS OF OPERATIONS

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

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | OCTOBER 30, 1999 | October 31, 1998 | OCTOBER 30, 1999 | October 31, 1998 |
| Total retail sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Total revenues | 103.9 | 104.2 | 103.5 | 103.7 |
| Cost of goods sold | 70.6 | 71.5 | 67.6 | 69.1 |
| Selling, general and administrative | 26.8 | 27.2 | 24.5 | 25.2 |
| Income before income taxes | 4.8 | 3.8 | 9.9 | 7.9 |
| Net income | 3.1 | 2.5 | 6.4 | 5.1 |

COMPARISON OF THIRD QUARTER AND FIRST NINE MONTHS OF 1999 WITH 1998.

OPERATING RESULTS

Total retail sales for the third quarter were \$128.5 million compared to last year's third quarter sales of \$113.8 million, a 13% increase. Same-store sales increased 5% in this year's third quarter. For the nine months ended October 30, 1999, total retail sales were \$430.4 million compared to last year's first nine months sales of \$382.6 million, a 13% increase, and same-store sales increased 6% for the comparable nine month period. The increase in retail sales for the first nine months of 1999 resulted from the Company's continued everyday low pricing strategy, improved merchandise content, and an increase in store development activity. The Company operated 794 stores at October 30, 1999 compared to 723 stores at the end of last year's third quarter.

Other income for the third quarter and first nine months of 1999 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.

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

OPERATING RESULTS - CONTINUED

Cost of goods sold were 70.6% and 67.6% of total retail sales for the third quarter and first nine months of 1999, compared to 71.5% and 69.1% for last year's comparable three and nine month periods, respectively. The decrease in cost of goods sold as a percent of retail sales resulted primarily from much improved merchandise offerings, more timely and aggressive markdowns and tighter merchandise planning and control.

Selling, general and administrative (SG&A) expenses were \$34.5 million and \$105.5 million for the third quarter and first nine months of this year, compared to \$31.0 million and \$96.5 million for last year's comparable three and nine month periods, respectively. SG&A expenses for the third quarter and first nine months of 1999 declined 40 and 70 basis points respectively over the prior year as expenses remained well controlled and under plan.

LIQUIDITY AND CAPITAL RESOURCES

At October 30, 1999, the Company had working capital of \$129.3 million, compared to \$125.4 million at October 31, 1998 and \$124.0 million at January 30, 1999. Net cash provided from operating activities was \$25.3 million for the nine months ended October 30, 1999, compared to \$21.1 million for last year's comparable nine month period.

Net cash used in investing activities totaled \$33.4 million for the first nine months of 1999 compared to \$20.2 million for the comparable period of 1998. Cash was used primarily to fund capital expenditures for new, relocated and remodeled stores and for new technology for systems.

Net cash used in financing activities totaled \$9.4 million for the first nine months of 1999 compared to \$5.8 million for the comparable period of 1998. The increase was due primarily from reduced proceeds from stock options exercised and an increase in dividends paid.

The Company had no borrowings under its revolving credit agreement at October 30, 1999 or October 31, 1998. At October 30, 1999, the Company had cash, cash equivalents, and short-term investments of \$80.8 million, compared to \$76.7 million at October 31, 1998 and \$86.2 million at January 30, 1999.

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

LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

At October 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 July 2002. 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 October 30, 1999 or October 31, 1998.

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 was the identification and correction to all programs purchased from external sources. The Company has completed Phase 1 and Phase 2 with continued testing of compliance throughout 1999. The Company expenditures approximated \$575,000 in 1999 for hardware, software and consulting to ensure proper processing of transactions relating to the Year 2000 and beyond. The Company has completed 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. The company has developed contingency plans for each area within the organization that could be affected by Year 2000 issues in the event of internal interruptions or failures on the part of third-party suppliers and vendors.

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

PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN THE RIGHTS OF THE COMPANY'S SECURITY HOLDERS

None

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

Not Applicable

ITEM 4. RESULT OF VOTES OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) None

(B) No Reports on Form 8-K were filed during the quarter ended October 30, 1999.

PART II OTHER INFORMATION (CONTINUED)

THE CATO CORPORATION

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

THE CATO CORPORATION

December 9, 1999

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

December 9, 1999

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

December 9, 1999

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND INCOME STATEMENT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| | | |
|---------|-------------|---------|
| 6-MOS | | |
| | JAN-29-2000 | |
| | OCT-30-1999 | |
| | | 26,502 |
| | | 54,347 |
| | | 50,464 |
| | | 5,026 |
| | | 89,027 |
| | 220,803 | |
| | | 124,804 |
| | | 57,772 |
| | 294,359 | |
| 91,483 | | 0 |
| | 0 | 0 |
| | | 981 |
| | 188,681 | |
| 294,359 | | |
| | | 430,397 |
| | 445,297 | |
| | | 290,904 |
| | | 290,904 |
| | | 0 |
| | 2,869 | |
| | 16 | |
| | 42,518 | |
| | 14,881 | |
| 27,637 | | |
| | 0 | |
| | 0 | |
| | | 0 |
| | 27,637 | |
| | | 1.04 |
| | | 1.02 |