

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 28, 1995

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 of other jurisdiction (I.R.S. Employer
of incorporation or organization) 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 10, 1995 there were 23,162,959 shares of Class A Common
Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

October 28, 1995

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	October 28, 1995	October 29, 1994	October 28, 1995	October 29, 1994
(In thousands, except per share data)				
REVENUES				
Retail sales.....	\$ 105,825	\$ 109,111	\$ 335,025	\$ 329,412
Other income (principally finance and layaway charges) ..	3,506	3,101	9,911	9,194
Total revenues.....	109,331	112,212	344,936	338,606
COST AND EXPENSES				
Cost of goods sold, including occupancy, distribution and buying	80,097	77,505	237,629	225,306
Selling, general and administrative.....	29,504	28,454	87,815	83,782
Depreciation.....	1,917	1,762	5,795	5,127
Interest.....	56	83	212	243
Total operating expenses.....	111,574	107,804	331,451	314,458
INCOME (LOSS) BEFORE INCOME TAXES.....				
	(2,243)	4,408	13,485	24,148
Income taxes(benefit) ..	(751)	1,609	4,516	8,814
NET INCOME (LOSS).....	\$ (1,492)	\$ 2,799	\$ 8,969	\$ 15,334
EARNINGS (LOSS) PER SHARE.....				
	\$ (0.05)	\$ 0.10	\$ 0.31	\$ 0.52
DIVIDENDS PER SHARE.....				
	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.105

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

	October 28, 1995	October 29, 1994	January 28, 1995
(In thousands)			
ASSETS			
Current Assets			
Cash and cash equivalents.....	\$ 17,448	\$ 9,507	\$ 23,963
Short - term investments.....	23,830	23,098	22,263
Accounts receivable - net.....	37,425	40,488	37,926
Merchandise inventories.....	82,085	83,573	54,674
Deferred income taxes.....	1,768	1,870	2,053
Prepaid expenses.....	2,381	2,001	2,602
Total Current Assets.....	164,937	160,537	143,481
Property and Equipment.....	53,051	51,271	53,146

Other Assets.....	4,957	4,560	4,695
Total.....	<u>\$ 222,945</u>	<u>\$ 216,368</u>	<u>\$ 201,322</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Notes payable.....	\$ -	\$ 10,400	\$ -
Accounts payable.....	52,507	52,147	36,159
Accrued expenses.....	11,289	10,152	11,832
Income taxes.....	-	-	909
Total Current Liabilities.....	63,796	72,699	48,900
Deferred Income Taxes.....	4,192	3,482	4,192
Other Noncurrent Liabilities.....	7,243	263	6,722
Stockholders' Equity:			
Class A Common Stock, issued 23,202,959 shares, 23,127,144 shares and 23,132,327 shares at October 28, 1995, October 29, 1994 and January 28, 1995, respectively	773	770	770
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at October 28, 1995, October 29, 1994 and January 28, 1995.....	176	176	176
Preferred Stock, none issued.....	-	-	-
Additional paid - in capital.....	62,660	62,246	62,278
Retained earnings.....	84,328	76,732	78,284
	147,937	139,924	141,508
Less Class A Common Stock in treasury, at cost (40,000 shares at October 28, 1995).....	223	-	-
Total Stockholders' Equity.....	147,714	139,924	141,508
Total.....	<u>\$ 222,945</u>	<u>\$ 216,368</u>	<u>\$ 201,322</u>

See notes to unaudited consolidated financial statements.

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THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	October 28, 1995	October 29, 1994
	(In thousands)	
OPERATING ACTIVITIES		
Net income.....	\$ 8,969	\$ 15,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	5,795	5,127
Loss on disposal of assets.....	-	352
Amortization of investment premiums.....	159	438
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable.....	501	(3,674)
(Increase) in merchandise inventories.....	(27,411)	(27,759)
(Increase) in other assets.....	(41)	(304)
(Decrease) in accrued income taxes.....	(909)	-
Increase in accounts payable and other liabilities.....	16,566	15,058
Net cash provided by operating activities.....	3,629	4,572

INVESTING ACTIVITIES

Expenditures for property and equipment.....	(5,940)	(21,715)
Proceeds from sale of assets.....	-	378
Purchases of short-term investments.....	(5,990)	(10,239)
Sales of short-term investments.....	5,036	6,594
	-----	-----
Net cash used in investing activities.....	(6,894)	(24,982)
	-----	-----

FINANCING ACTIVITIES

Cash dividends paid.....	(3,412)	(2,978)
Proceeds from employee stock purchase plan.....	379	429
Purchase of treasury stock.....	(223)	-
Proceeds from stock options exercised.....	6	65
Borrowings under credit agreement...	-	10,400
	-----	-----
Net cash provided by (used in) financing activities.....	(3,250)	7,916
	-----	-----
Net decrease in Cash and Cash Equivalents.....	(6,515)	(12,494)
Cash and Cash Equivalents at Beginning of Year.....	23,963	22,001
	-----	-----
Cash and Cash Equivalents at End of Period.....	\$ 17,448	\$ 9,507
	=====	=====

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 1995 AND
OCTOBER 29, 1994

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at October 28, 1995 and October 29, 1994 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain reclassifications have been made to the consolidated financial statements as of October 29, 1994 to conform with classifications used as of October 28, 1995.

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 an adjustment to retained earnings.

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

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

NOTE 2 - EARNINGS (LOSS) PER SHARE:

Earnings (loss) per share is calculated by dividing net income by the weighted average number of Class A and Class B common shares and common stock equivalents outstanding during the respective periods. Common stock equivalents represent the dilutive effect of the assumed exercise of

outstanding stock options. The number of shares used in the computations were 28,570,582 shares and 28,612,012 shares for the three months and nine months ended October 28, 1995, respectively, and 29,020,713 shares and 29,283,581 shares for the three months and nine months ended October 29, 1994, respectively.

THE CATO CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE MONTHS AND NINE MONTHS ENDED OCTOBER 28, 1995 AND
 OCTOBER 29, 1994

NOTE 3 - SHORT-TERM INVESTMENTS:

Short-term investments at October 28, 1995 and October 29, 1994 include the following (in thousands):

Security Type	October 28, 1995			October 29, 1994		
	Cost	Unrealized Gain (Loss)	Estimated Fair Value	Cost	Unrealized Gain (Loss)	Estimated Fair Value
Obligations of states and political subdivisions	\$ 18,481	\$ 36	\$ 18,517	\$ 17,272	\$ (2)	\$ 17,270
Corporate debt securities	2,000	(40)	1,960	2,000	(80)	1,920
Subtotal	20,481	(4)	20,477	19,272	(82)	19,190
Equity securities	3,426	(73)	3,353	4,548	(640)	3,908
Total	<u>\$ 23,907</u>	<u>\$ (77)</u>	<u>\$ 23,830</u>	<u>\$ 23,820</u>	<u>\$ (722)</u>	<u>\$ 23,098</u>

The amortized cost and estimated fair value of debt and marketable equity securities at October 28, 1995 and October 29, 1994, by contractual maturity, are shown below (in thousands):

Security Type	October 28, 1995		October 29, 1994	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in one year or less	\$ 16,704	\$ 16,719	\$ 14,441	\$ 14,388
Due in one year through three years	3,777	3,758	4,831	4,802
Subtotal	20,481	20,477	19,272	19,190
Equity securities	3,426	3,353	4,548	3,908
Total	<u>23,907</u>	<u>23,830</u>	<u>23,820</u>	<u>23,098</u>

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the nine months ended October 28, 1995 and October 29, 1994 was \$234,000 and \$143,000, respectively. Income tax payments for the nine months ended October 28, 1995 and October 29, 1994 were \$5,412,000 and \$8,511,000, respectively.

NOTE 5 - LEASES:

In the nine months ended October 28, 1995, the Company entered into lease agreements with a lessor to lease approximately \$9,502,000 of store fixtures, POS devices and warehouse equipment. The operating lease is for a term of seven years but may be canceled annually upon 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.

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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 Consolidated Statements of Operations as percentages of total retail sales:

	Three Months Ended		Nine Months Ended	
	Oct. 28, 1995	Oct. 29, 1994	Oct. 28, 1995	Oct. 29, 1994
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	103.4	102.8	102.8	103.0
Cost of goods sold, including occupancy, distribution and buying	75.7	71.0	70.9	68.4
Selling, general and administrative	27.9	26.1	26.2	25.4
Income (loss) before income taxes	(2.1)	4.0	4.0	7.3
Net (loss) income	(1.4)	2.6	2.7	4.7

Comparison of Third Quarter and First Nine Months of 1995 and 1994.

OPERATING RESULTS

Total retail sales for the third quarter decreased 3% from last year's third quarter to \$105.8 million from \$109.1 million last year. Same-store sales decreased 8% in this year's third quarter. For the nine months ended October 28, 1995, total retail sales increased 2% over the prior year's first nine months, and same-store sales decreased 6% for the comparable nine-month period. The Company operated 671 stores at October 28, 1995, compared to 636 stores operated at the end of last year's third quarter. Sales from new, relocated or expanded stores opened within the last twelve months were responsible for the increase in retail sales for this year's first nine months.

Other income for the third quarter and first nine months of 1995 increased 13% and 8%, respectively, over the prior year's comparable periods. The increase in the current year resulted primarily from increased earnings from cash equivalents and short-term investments partially offset by decreased layaway service charges.

Cost of goods sold, including occupancy, distribution and buying expenses were 75.7% and 70.9% of total retail sales for the third quarter and first nine months of this year, respectively, compared to 71.0% and 68.4% for last year's third quarter and first nine months, respectively. The

increase in cost of goods sold as a percent of retail sales resulted primarily from higher levels of promotional markdowns brought about by sales not reaching planned levels. Competitive pressures from widespread discounting and inventory liquidation has continued to prevail throughout the ladies apparel retail sector. The Company has been very aggressive in taking markdowns in order to turn inventory and keep inventory levels in line with the sales results being achieved.

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

OPERATING RESULTS - CONTINUED

Selling, general and administrative (SG&A) expenses were \$29.5 million, or 27.9% of total retail sales and \$87.8 million, or 26.2% of total retail sales for the third quarter and first nine months of this year, respectively. SG&A expenses were \$28.5 million, or 26.1% of total retail sales, and \$83.8 million, or 25.4% of total retail sales for last year's comparable three and nine month periods, respectively. The Company has continued to maintain a conservative cost structure and is continuing to closely monitor all operating expenses to keep them in line with the sales levels achieved.

LIQUIDITY AND CAPITAL RESOURCES

At October 28, 1995, the Company had working capital of \$101.1 million, compared to \$87.8 million at October 29, 1994 and \$94.6 million at January 28, 1995. Cash provided by operating activities was \$3.6 million for the nine months ended October 28, 1995, compared to \$4.6 million in the prior year's first nine months. The Company had no borrowings under its \$35 million revolving credit and term loan agreement at October 28, 1995, compared to \$10.4 million of borrowings at end of last year's third quarter. At October 28, 1995, the Company had cash, cash equivalents and short-term investments of \$41.3 million, compared to \$32.6 million at October 29, 1994 and \$46.2 million at January 28, 1995.

In this year's first nine months, the Company entered into an agreement with a lessor to lease \$9.5 million of store fixtures, POS devices, and warehouse equipment. The operating lease is for a term of seven years but may be canceled annually upon notice to the lessor. Upon notice of cancellation, the Company would be obligated to purchase the equipment at a prescribed termination value. Additionally, the Company has the option to leasing up to \$5.5 million more of qualifying assets during the current fiscal year.

Expenditures for property and equipment totaled \$5.9 million for the nine months ended October 28, 1995, compared to \$21.7 million of expenditures in last year's first nine months. The Company expects net capital expenditures to be approximately \$8.4 million for current fiscal year. The Company intends to open approximately 37 new stores in the current fiscal year and to relocate or expand an additional 28 stores. Additional expenditures are planned for materials handling equipment for the Company's distribution facilities and to upgrade management information systems. For the nine months ended October 28, 1995, the Company had opened 29 new stores, relocated or expanded 25 stores and closed 4 stores.

The Company believes that its cash, cash equivalents and short-term investments, together with cash flow from operations and borrowings available under a \$35 million revolving credit and term loan agreement, will be adequate to fund the Company's proposed capital expenditures and other operating requirements.

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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. RESULT OF VOTES OF SECURITY HOLDERS

None

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) The Company filed a report on Form 8-K dated August 24, 1995 relating to a change in the Registrant's Certifying Accountant from Ernst & Young LLP to Deloitte & Touche LLP.

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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 4, 1995

Date

/s/ Wayland H. Cato, Jr.

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

December 4, 1995

Date

/s/ Alan E. Wiley

Alan E. Wiley
Executive Vice President-
Secretary, Chief Financial and
Administrative Officer

The 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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9-MOS		
	FEB-03-1996	
	OCT-28-1995	
		17,448
		23,830
		40,550
		3,125
		82,085
	164,937	
		53,051
		37,524
		222,945
	63,796	
		0
		949
	0	
		0
		146,988
222,945		
		335,025
	344,936	
		237,629
		237,629
		0
		2,270
		212
		13,485
		4,516
	8,969	
		0
		0
		0
		8,969
		.31
		0