

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

FORM 10-Q

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

For the quarterly period ended May 3, 1997

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 X No

As of May 16, 1997, there were 23,219,572 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

MAY 3, 1997

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED	
	MAY 3, 1997	May 4, 1996
	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
REVENUES		
Retail sales	\$123,251	\$120,028
Other income (principally finance and layaway charges)	4,249	3,511
	-----	-----
Total revenues	127,500	123,539
	-----	-----
COSTS AND EXPENSES		
Cost of goods sold, including occupancy, distribution and buying	83,056	79,774
Selling, general and administrative	30,732	29,655
Depreciation	1,941	2,074
Interest	63	65
	-----	-----
Total expenses	115,792	111,568
	-----	-----
INCOME BEFORE INCOME TAXES	11,708	11,971
Income taxes	3,688	4,250
	-----	-----
NET INCOME	\$ 8,020	\$ 7,721
	=====	=====
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	\$ 0.28	\$ 0.27
	=====	=====
DIVIDENDS PER SHARE	\$ 0.04	\$ 0.04
	=====	=====

See accompanying notes to consolidated financial statements.

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THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	MAY 3, 1997 (UNAUDITED)	May 4, 1996 (Unaudited)	February 1, 1997
	-----	-----	-----
	(IN THOUSANDS)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 25,017	\$ 21,756	\$ 16,593
Short-term investments	34,790	34,816	33,512
Accounts receivable - net	45,693	39,538	43,192
Merchandise inventories	75,171	69,547	63,968
Deferred income taxes	2,014	1,825	2,014
Prepaid expenses	4,317	4,652	2,181
	-----	-----	-----
Total Current Assets	187,002	172,134	161,460
Property and Equipment	50,939	55,118	51,333
Other Assets	5,390	5,186	5,450
	-----	-----	-----
Total	\$243,331	\$232,438	\$218,243
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 53,272	\$ 48,824	\$ 38,276
Accrued expenses	15,575	10,591	16,232
Income taxes	5,238	4,352	1,579
	-----	-----	-----
Total Current Liabilities	74,085	63,767	56,087
Deferred Income Taxes	3,851	4,491	3,851
Other Noncurrent Liabilities	6,490	7,551	6,402
Stockholders' Equity:			
Class A Common Stock, issued 23,394,572 shares, 23,301,275 shares and 23,366,403 shares at May 3, 1997, May 4, 1996 and February 1, 1997, respectively	779	776	778
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at May 3, 1997, May 4, 1996 and February 1, 1997, respectively	176	176	176
Preferred Stock, none	--	--	--
Additional paid-in capital	63,391	63,026	63,272
Retained earnings	95,538	92,874	88,656
	-----	-----	-----
Total Stockholders' Equity	159,884	156,852	152,882
Less Class A Common Stock in treasury, at cost (175,000 shares at May 3, 1997 and February 1, 1997, respectively, and 40,000 shares at May 4, 1996)	979	223	979
	-----	-----	-----
Total Stockholders' Equity	158,905	156,629	151,903
	-----	-----	-----
Total	\$243,331	\$232,438	\$218,243
	=====	=====	=====

See accompanying notes to consolidated financial statements

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THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED	
-----	-----
MAY 3, 1997	May 4, 1996
-----	-----
(IN THOUSANDS)	

OPERATING ACTIVITIES

Net income	\$ 8,020	\$ 7,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,941	2,074
Amortization of investment premiums	27	35
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(2,501)	254
Merchandise inventories	(11,203)	(11,107)
Other assets	(2,076)	(2,258)
Accrued income taxes	3,659	3,024
Accounts payable and other liabilities	14,636	12,580
	-----	-----
Net cash provided by operating activities	12,503	12,323
	-----	-----
INVESTING ACTIVITIES		
Expenditures for property and equipment	(1,756)	(2,836)
Purchases of short-term investments	(3,080)	(14,140)
Sales of short-term investments	1,775	1,000
	-----	-----
Net cash used in investing activities	(3,061)	(15,976)
	-----	-----
FINANCING ACTIVITIES		
Dividends paid	(1,138)	(1,138)
Proceeds from employee stock purchase plan	114	154
Proceeds from stock options exercised	6	210
	-----	-----
Net cash used in financing activities	(1,018)	(774)
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	8,424	(4,427)
Cash and Cash Equivalents at Beginning of Year	16,593	26,183
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 25,017	\$ 21,756
	=====	=====

See accompanying notes to consolidated financial statements

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MAY 3, 1997 AND MAY 4, 1996

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of The Cato Corporation (the Company) and all amounts shown at May 3, 1997 and May 4, 1996 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 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 PER COMMON AND COMMON EQUIVALENT SHARE:

Earnings 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 earnings per common and common equivalent share computations were 28,505,046 shares for the three months ended May 3, 1997 and 28,918,042 shares for the three months ended May 4, 1996.

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during each of the three months ended May 3, 1997 and May 4, 1996 was \$61,000. Income tax payments, net of refunds received, for the three months ended May 3, 1997 and May 4, 1996 were \$1,133,000 and \$1,249,000, respectively.

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THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MAY 3, 1997 AND MAY 4, 1996

NOTE 4 - FINANCING ARRANGEMENTS:

In February 1996, the Company entered into a new unsecured revolving credit agreement which provides for borrowings of up to \$20 million and an additional letter of credit facility of \$15 million. The revolving credit agreement is committed until May 1999 and the letter of credit facility is renewable annually. The revolving credit agreement contains various financial covenants, including the maintenance of specific financial ratios. The agreement replaced an unsecured revolving credit and term loan agreement, which was committed until May 1998, and provided \$35 million of available borrowings and a \$15 million letter of credit facility.

In May 1997, the unsecured revolving credit agreement was extended until May 2000 and the letter of credit facility renewed for an additional year.

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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 Income as percentages of total retail sales:

	THREE MONTHS ENDED	
	MAY 3,	May 4,
	1997	1996
Total retail sales	100.0%	100.0%
Total revenues	103.5	102.9

Cost of goods sold, including occupancy, distribution and buying	67.4	66.5
Selling, general and administrative	24.9	24.7
Income before income taxes	9.5	10.0
Net income	6.5	6.4

COMPARISON OF FIRST QUARTER 1997 WITH 1996.

OPERATING RESULTS

Total retail sales for the first quarter increased 3% over last year's first quarter to \$123.3 million from \$120.0 million. Same-store sales for the first quarter increased 3%. The increase in retail sales for the first quarter resulted from the Company's store development activity. The Company operated 669 stores at May 3, 1997 compared to 682 stores operated at the end of last year's first quarter.

Other income for the first quarter increased 21% over last year's first quarter. The increase in the current year resulted primarily from increased finance charge income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution and buying expenses were 67.4% of total retail sales for the current year's first quarter, compared to 66.5% for last year's first three months. The increase in cost of goods sold as a percent of retail sales resulted primarily from a planned decrease in initial mark-up in this year's first quarter.

Selling, general and administrative (SG&A) expenses were \$30.7 million, or 24.9% of retail sales, for this year's first quarter, compared to \$29.7 million, or 24.7% of retail sales, in last year's first quarter. Expenses remained well controlled and were under planned levels.

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

LIQUIDITY AND CAPITAL RESOURCES

At May 3, 1997, the Company had working capital of \$112.9 million, compared to \$108.4 million at May 4, 1996 and \$105.4 million at February 1, 1997. Cash provided by operating activities was \$12.5 million for the three months ended May 3, 1997, compared to \$12.3 million for last year's comparable three-month period. The Company had no borrowings under its revolving credit agreement at May 3, 1997 or May 4, 1996. At May 3, 1997, the Company had cash, cash equivalents, and short-term investments of \$59.8 million, compared to \$56.6 million at May 4, 1996 and \$50.1 million at February 1, 1997.

In February 1996, the Company entered into a new unsecured revolving credit agreement which provides for borrowings of up to \$20 million and an additional letter of credit facility of \$15 million. The revolving credit agreement is committed until May 1999 and the letter of credit facility is renewable annually. The revolving credit agreement contains various financial covenants, including the maintenance of specific financial ratios. The agreement replaced an unsecured revolving credit and term loan agreement, which was committed until May 1998, and provided \$35 million of available borrowings and a \$15 million letter of credit facility.

In May 1997, the unsecured revolving credit agreement was extended until May 2000 and the letter of credit facility renewed for an additional year.

Expenditures for property and equipment totaled \$1.8 million for the three months ended May 3, 1997, compared to \$2.8 million of expenditures in last

year's first three months. The Company expects total capital expenditures to be approximately \$8.7 million for the current fiscal year. The Company intends to open approximately 55 new stores and to relocate or expand 20 stores during the current fiscal year. For the three months ended May 3, 1997, the Company had opened 16 new stores, relocated or expanded 4 stores, and closed 2 stores.

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.

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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. 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) Exhibits

27 Financial Data Schedule (for SEC use only)

(B) No Reports on Form 8-K were filed during the quarter ended May 3, 1997.

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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

June 9, 1997

/s/ Wayland H. Cato, Jr.

Date

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

June 9, 1997

/s/ Alan E. Wiley

Date

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

<ARTICLE> 5

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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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