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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED, EFFECTIVE OCTOBER 7, 1996]
For the fiscal year ended February 1, 1997

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 O-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:	SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE	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. [X]

As of March 28, 1997, there were 23,195,153 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 28, 1997 was approximately $107,440,806 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 25, 1997, relating to the 1997 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 536 women's apparel specialty stores at February 1, 1997 under the names "Cato," "Cato Fashions" and "Cato Plus" in 20 states, principally in non-metropolitan markets in the South and Southeast. The Company's merchandising strategy is to provide a wide variety of value-priced merchandise in misses, junior and large sizes for the fashion conscious low- to middle-income female customer, aged 18 to 50. Additionally, the Company offers clothing and accessories for girls ages 4 - 14 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 4,000 to 6,000 square feet and are located primarily in strip shopping centers anchored by major 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 30% of retail sales in fiscal 1996. In addition to its Cato Stores, the Company operated 119 off-price family apparel and accessories stores at February 1, 1997 under the name "It's Fashion!" These stores are managed separately from the Cato stores with respect to merchandising and store operations but use the same administration, distribution and financial systems as the Cato stores.

Business

The Company's 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.

Strip Shopping Center Locations. The Company locates its stores principally in strip centers convenient to our customers anchored by major 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 or expand existing stores in small to medium-sized towns and selected metropolitan areas, principally in the South and Southeast.

Merchandising

Merchandising

The Company offers a broad selection of apparel and accessories to suit the various lifestyles of the fashion conscious low-to middle-income female, aged 18 to 50. In addition, the Company features a value pricing strategy, product quality and consistent merchandise flow providing color and product coordination.

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 4 - 14 are offered in selected stores. Most of the Company's merchandise is sold under its private labels.

In fiscal 1996, approximately 29% of Cato stores' retail sales represented merchandise for large size customers. This merchandise is marketed in its stores under two formats: as a distinct display area in "Cato" and "Cato Fashions" stores and as a separate department in the combined "Cato Fashions" and "Cato Plus" stores.

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 1996, purchases from the Company's largest vendor accounted for approximately 9% 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 affect 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.

Advertising

The Company uses direct mail, local newspapers, radio and in-store promotional advertising as its primary advertising media. Weekly newspaper advertisements typically promote specific items or merchandise at promotional prices. The Company uses radio advertising in selected broadcast areas that include high concentrations of its stores. The Company's total advertising expenditures were approximately 2% of retail sales in fiscal 1996.

Store Operations

The Company's store operations management team consists of an executive vice president and senior vice president, nine regional vice presidents and 48 district managers. Regional 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 South and 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. Approximately 120 stores, operating under the name "Cato" or "Cato Fashions," average approximately 4,000 square feet. Substantially all of the remaining stores are combination "Cato Fashions" and "Cato Plus" stores, ranging in size from 4,000 to 6,000 square feet. These combination stores have two distinct signs and selling areas but use a common sales staff and service desk.

All of the Company's stores are leased. Approximately 91% are located in strip shopping centers, 1% in downtown locations and 8% 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, expanding certain existing 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 for its Cato stores since fiscal 1992.

Cato Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year
1992................	431	33	26	438
1993................	438	65	13	490
1994................	490	57	9	538
1995................	538	19	7	550
1996................	550	18	32	536

The Company intends to open approximately 55 new stores and to relocate or expand approximately 20 existing stores in fiscal 1997. The Company anticipates that 25 of the 55 new stores to be opened in fiscal 1997 will be off-price "Its Fashion!" stores.

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 21% of retail sales in fiscal 1996. The Company's net bad debt expense in fiscal 1996 was 3.6% 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 based on the allowable rates in the customer's state of residence.

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 nine 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 9% of retail sales in fiscal 1996.

It's Fashion! Stores

The Company operated 119 off-price stores at February 1, 1997 in 11 states in the South and Southeast under the name "It's Fashion!" These stores are smaller than the Cato stores, ranging in size from 3,000 to 4,000 square feet, and offer limited selections of first-quality family apparel and accessories at prices ranging from 20% to 60% off regular retail prices. The Company's credit and layaway plans are not available in these stores. Most of the merchandise for these stores is purchased at close-out prices from manufacturers with excessive inventories due to overruns or order cancellations. The It's Fashion! stores are managed separately from the Cato stores with respect to merchandising and store operations but use the same administrative, distribution and financial systems as the Cato stores. Sales from It's Fashion! stores represented 13% of the Company's retail sales during fiscal 1996. As part of its planned expansion program, the Company currently intends to open approximately 25 new It's Fashion! stores in fiscal 1997.

It's Fashion! Store Development

Fiscal Year	Number of Stores Beginning of Year	Number Opened	Number Closed	Number of Stores End of Year

1992................	56	12	1	67
1993................	67	21	3	85
1994................	85	23	0	108
1995................	108	18	5	121
1996................	121	10	12	119

Item 1. Business: (continued)

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.

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. Many of the Company's competitors have substantially greater financial, marketing and other resources than the Company.

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. In addition, various state laws regulate collection practices, require certain disclosures to credit customers and limit the finance charges, late fees and other charges which may be imposed by the Company.

Item 1. Business: (continued)

Employees

As of February 1, 1997, the Company employed approximately 6,800 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.

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.

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 1996 and 1995.

	Price		
1996	High	Low	Dividend
First quarter	$ 10 1/8	$ 7	$ .04
Second quarter	9	5 9/16	.04
Third quarter	7 1/8	4 5/8	.04
Fourth quarter	5 5/8	3 3/4	.04

	Price		
1995	High	Low	Dividend

First quarter	$ 8 1/4	$ 5	$ .04
Second quarter	8 7/8	7 1/8	.04
Third quarter	8 1/4	5 1/8	.04
Fourth quarter	7 3/4	5 3/4	.04

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As of March 28, 1997 the approximate number of holders of the Company's Class A Common stock was 4,700 and there were 15 record holders of the Company's Class B Common Stock.

Item 6. Selected Financial Data:

The Cato Corporation
Selected Financial Data

	Fiscal Year Ended				
	February 1, 1997	February 3, 1996	January 28, 1995	January 29, 1994	January 30, 1993
	(In thousands, except per share and selected operating data)				
Statement of Operations Data:					
Retail sales	$477,011	$476,638	$463,737	$407,878	$331,262
Other income	14,498	13,357	12,449	12,021	9,494
Total revenues	491,509	489,995	476,186	419,899	340,756
Cost of goods sold, including occupancy, distribution and buying	344,919	341,144	324,309	275,090	220,663
Gross margin percent, including occupancy, distribution and buying	27.7%	28.4%	30.1%	32.6%	33.4%
Selling, general and administrative	121,600	122,699	116,144	100,760	85,667
Depreciation	8,330	7,785	6,844	5,465	4,148
Interest	262	292	377	250	1,213
Closed store expense	5,500	--	--	--	--
Income before income taxes	10,898	18,075	28,512	38,334	29,065
Income tax expense	3,869	6,055	10,407	13,532	10,597
Net income	$ 7,029	$ 12,020	$ 18,105	$ 24,802	$ 18,468
Earnings per common and common equivalent share (1)	$ .25	$ .42	$ .62	$ .84	$ .71
Cash dividends paid per share (1)	$ .16	$ .16	$ .145	$ .088	$ .04
Selected Operating Data:					
Stores open at end of period	655	671	646	575	505
Average sales per store	$710,000	$721,000	$749,000	$744,000	$663,000
Average sales per square foot of selling space	$ 153	$ 158	$ 172	$ 187	$ 173
Comparable store sales increase (decrease)	(2)%	(5)%	1%	8%	19%
Balance Sheet Data:					
Working capital	$105,373	$102,169	$ 94,581	$ 91,569	$ 53,862
Total assets	218,243	209,895	201,322	178,603	122,225
Total stockholders' equity	$151,903	$149,682	$141,508	$127,533	$ 78,216

(1) All per share amounts reflect a three-for-two stock split effected June 28, 1993

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 periods indicated:

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
Retail sales	100.0%	100.0%	100.0%
Other income	3.0	2.8	2.7
Total revenues	103.0	102.8	102.7
Cost of goods sold, including occupancy, distribution and buying	72.3	71.6	69.9
Selling, general and administrative	25.4	25.7	25.0
Depreciation	1.7	1.6	1.6
Closed store expense	1.2	-	-
Selling, general, administrative, depreciation and closed store expense	28.3	27.3	26.6
Income before income taxes	2.3	3.8	6.1
Net income	1.5%	2.5%	3.9%

Fiscal 1996 Compared to Fiscal 1995

Retail sales were flat at $477.0 million in fiscal 1996, which included fifty-two weeks, compared to $476.6 million in fiscal 1995, which included fifty-three weeks. Same-store sales decreased 2% from fiscal 1995. Total revenues, comprised of retail sales and other income (principally finance charges on customer accounts receivable, interest income and layaway fees), increased 0.3% to $491.5 million in fiscal 1996 from $490.0 million in fiscal 1995. The Company operated 655 stores at February 1, 1997, compared to 671 stores operated at February 3, 1996.

The increase in retail sales in fiscal 1996 resulted primarily from the Company's store development activity. In fiscal 1996, the Company's selling square footage declined by approximately 3% by opening 28 new stores, relocating 17 stores and expanding 2 stores while closing 44 existing stores.

Other income in fiscal 1996 increased by 8.5% over fiscal 1995. The increase resulted primarily from higher finance charge income and by increased earnings on cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution and buying, was $344.9 million, or 72.3% of retail sales, in fiscal 1996, compared to $341.1 million, or 71.6% of retail sales, in fiscal 1995. The increase in cost of goods sold as a percent of retail sales resulted primarily from weak comp store sales requiring further markdowns in fiscal 1996 and a decrease in merchandise margins. Total gross margin dollars (retail sales less cost of goods sold) decreased by 2.5% to $132.1 million in fiscal 1996 from $135.5 million in fiscal 1995.

Selling, general and administrative expenses (SG&A) were $121.6 million in fiscal 1996, compared to $122.7 million in fiscal 1995, a decrease of 0.9%. As a percent of retail sales, SG&A was 25.4% compared to 25.7% of retail sales in the prior year. The overall decrease in SG&A resulted primarily from decreased selling-related expenses and decreased infrastructure expenses.

Depreciation expense was $8.3 million in fiscal 1996, compared to $7.8 million in fiscal 1995. The 7% increase in fiscal 1996 resulted primarily from additions to property and equipment from the Company's store development activities.

The Company closed 40 underperforming stores by the end of the fiscal year. The costs of closing these stores totaled $5.5 million and included asset write-offs, severance pay and the remaining noncancelable lease payments.

Fiscal 1995 Compared to Fiscal 1994

Retail sales increased by 3% to $476.6 million in fiscal 1995, which included fifty-three weeks, from $463.7 million in fiscal 1994, which included fifty-two weeks. Same-store sales decreased 5% from the prior year on a fifty-two week basis. Total revenues increased by 3% to $490.0 million in fiscal 1995 from $476.2 million in fiscal 1994. The Company operated 671 stores at February 3, 1996, compared to 646 stores operated at January 28, 1995.

The increase in retail sales in fiscal 1995 resulted from the Company's store development activity. In fiscal 1995, the Company increased its selling square footage approximately 5% by opening 37 new stores, relocating or expanding 29 stores while closing 12 existing stores. The decrease in same-store sales in fiscal 1995 resulted primarily from competitive pressures and a general price compression in the women's apparel retail sector.

Other income in fiscal 1995 increased 7% over fiscal 1994. 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, including occupancy, distribution and buying, was $341.1 million, or 71.6% of retail sales, in fiscal 1995, compared to $324.3 million, or 69.9% of retail sales, in fiscal 1994. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher levels of markdowns taken in fiscal 1995. Inventory levels throughout the year were higher than needed for the sales levels achieved, resulting in markdowns above plan and erosion of merchandise margins. The extremely competitive and promotional environment prevailing throughout the women's apparel retail sector produced a price compression resulting in a 5%

decrease in the average unit selling price for the year. Total gross margin dollars decreased by 3% to $135.5 million in fiscal 1995 from $139.4 million in fiscal 1994.

SG&A expenses were $122.7 million in fiscal 1995, compared to $116.1 million in fiscal 1994, an increase of 6%. As a percent of retail sales, SG&A was 25.7% 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 by increased infrastructure expenses brought about by the Company's store development activities.

Depreciation expense was $7.8 million in fiscal 1995, compared to $6.8 million in fiscal 1994. The 14% increase in fiscal 1995 resulted primarily from additions to property and equipment for the expansion of the Company's distribution facility and for store development.

Liquidity and Capital Resources

At February 1, 1997, the Company had working capital of $105.4 million compared to $102.2 million at February 3, 1996. Cash provided by operating activities was $15.6 million in fiscal 1996, compared to $14.9 million in fiscal 1995. The increase in cash provided by operating activities in fiscal 1996 resulted primarily from an increase in accounts payable and other liabilities which was partially offset by the build-up of inventory and receivable levels and a decrease in net income. At February 1, 1997, the Company had $50.1 million in cash, cash equivalents and short-term investments, compared to $47.9 million at February 3, 1996.

In February 1996, the Company entered into a new unsecured revolving credit agreement. The facility 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 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 agreement replaced a revolving credit and term loan agreement which was committed until May 1998, and provided for borrowings of up to $35 million and an additional annually renewable letter of credit facility of $15 million. The Company feels the terms of the new revolving credit agreement better support the Company's future working capital needs and the agreement contains more flexibility as to financial covenant requirements.

In fiscal 1994, the Company entered into an agreement with a lessor to lease up to $25 million of new store fixtures, point-of-sale devices and warehouse equipment. In January 1995, the Company leased $10 million of assets under this agreement and in fiscal 1995 the Company leased an additional $9.5 million of qualifying assets. 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 $8.4 million, $9.4 million and $25.5 million in fiscal 1996, 1995 and 1994, respectively. The expenditures for fiscal 1996 included, in addition to store development expenditures, costs relating to the installation of new point-of-sale terminals in the Company's stores. The Company is currently planning modest store development in fiscal 1997, pending more favorable business trends. The Company intends to open approximately 55 new stores, to relocate or expand 20 stores, and is currently planning approximately $8.7 million of capital expenditures for fiscal 1997.

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.

Form 10-K 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-K 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.

PART III

Item 10. Directors and Executive Officers:

The directors and executive officers of the Company and their ages as of March 31, 1997 are as follows:

Name	Age	Position
Wayland H. Cato, Jr. * ++.........	74	Chairman of the Board of Directors and Chief Executive Officer
Edgar T. Cato.....................	72	Vice Chairman of the Board of Directors
John P. Derham Cato...............	46	Vice Chairman and Chief Operating Officer and Director
Linda McFarland Jenkins...........	49	President and Chief Merchandising Officer of the Cato Division and Director
Alan E. Wiley.....................	50	Senior Executive Vice President, Secretary, Chief Financial and Administrative Officer and Director
Howard A. Severson................	49	Executive Vice President, Assistant Secretary, Chief Real Estate and Store Development Officer and Director
Clarice Cato Goodyear * ++.......	50	Executive Vice President and Assistant Secretary and Director
C. David Birdwell.................	57	Executive Vice President, President and General Manager of the It's Fashion! Division
David P. Kempert..................	47	Executive Vice President and Chief Store Operations Officer of the Cato Division
Patrick J. McIntyre...............	52	Senior Vice President, Chief Information Officer
Stephen R. Clark..................	54	Senior Vice President, Human Resources and Assistant Secretary
Thomas E. Cato....................	42	Vice President, Divisional Merchandise Manager Accessories and Shoes and Director
Robert W. Bradshaw, Jr. * +.......	63	Director
George S. Currin * +..............	60	Director
Paul Fulton * + ...	62	Director
Grant L. Hamrick * +..............	58	Director
James H. Shaw * +.................	68	Director
A.F. (Pete) Sloan * + ...	67	Director

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

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

Edgar T. Cato is the Vice Chairman of the Board of Directors and has been a director of the Company since 1946. Mr. Edgar T. Cato is the brother of Mr. Wayland H. Cato, Jr.

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 and Chief Operating Officer. Mr. John Cato is a son of Mr. Wayland H. Cato, Jr.

Linda McFarland Jenkins joined the Company in June 1990. She currently serves as President and Chief Merchandising Officer of the Cato Division and has been a director since 1991. Prior to joining the Company, she was Senior Vice President - General Merchandise Manager of J.B. Ivey & Company, a Charlotte, North Carolina based regional department store chain, where she was employed for 11 years.

Alan E. Wiley joined the Company in July 1992. He currently serves as Senior Executive Vice President, Secretary, Chief Financial and Administrative Officer and has been a director since 1994. From 1981 through 1990 he held senior administrative and financial positions with British American Tobacco, U.S. in various companies of their specialty retail division. From 1990 until joining the Company, he was President and majority stockholder of Gibbs-Louis, Inc., an Orlando, Florida based women's specialty store chain. In May 1992, Gibbs-Louis, Inc. filed a petition pursuant to the U.S. Bankruptcy Code and was liquidated in June 1992.

Howard A. Severson has been an officer of the Company since 1985. He currently serves as Executive Vice President, Assistant Secretary, Chief Real Estate and Store Development Officer 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.

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 Executive Vice President and Assistant Secretary. Ms. Goodyear is a daughter of Mr. Wayland H. Cato, Jr.

C. David Birdwell joined the Company as Executive Vice President, President and General Manager of the It's Fashion! Division in October 1996. Prior to joining the Company, Mr. Birdwell served for eight years as President/General Merchandise Manager of Allied Stores, a family apparel chain headquartered in Savannah, Georgia.

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.

Patrick J. McIntyre has been an officer of the Company since 1988. He currently serves as Senior Vice President, Chief Information Officer. He was previously employed for seven years as Vice President of Management Information Services at The Higbee Company, a Cleveland, Ohio based regional department store chain.

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.

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 Accessories and Shoes. 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 as 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. From July 1988 to December 1993, Mr. Fulton served as President of Sara Lee Corporation. Since January 1994, Mr. Fulton has served as Dean of the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. Mr. Fulton is currently a director of Sonoco Products, NationsBank Corporation, Lowe's Companies, Inc., Bassett Furniture Industries, Inc., and Winston Hotels, Inc.

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 Lance, Inc., Bassett Furniture Industries, Inc., PCA International, Inc., and Richfood, Inc.

Item 11. Executive Compensation:

Incorporated by reference to Registrant's proxy statement for 1997 annual stockholders' meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management:

Incorporated by reference to Registrant's proxy statement for 1997 annual stockholders' meeting.

Item 13. Certain Relationships and Related Transactions:

Incorporated by reference to Registrant's proxy statement for 1997 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 43 of this annual report.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended February 1, 1997.

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 FEBRUARY 1, 1997

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:

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

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 (the Company) as of February 1, 1997 and February 3, 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for the fiscal years then ended. Our audit also included the financial statement schedule listed in the Index at Item 14(a) as it relates to the fiscal years ended February 1, 1997 and February 3, 1996. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. The financial statements and financial statement schedule of the Company for the year ended January 28, 1995 were audited by other auditors whose report dated March 10, 1995 expressed an unqualified opinion on those statements and schedule.

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 February 1, 1997 and February 3, 1996, and the results of its operations and its cash flows for the fiscal years then ended 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 14, 1997

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND STOCKHOLDERS
THE CATO CORPORATION

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows of The Cato Corporation for the year ended January 28, 1995. Our audit also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of The Cato Corporation for the year ended January 28, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Charlotte, North Carolina
March 10, 1995

The Cato Corporation
Consolidated Statements of Income

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
	(In thousands, except per share data)		
Revenues			
Retail sales	$477,011	$476,638	$463,737
Other income (principally finance and layaway charges)	14,498	13,357	12,449
Total revenues	491,509	489,995	476,186
Costs and Expenses			
Cost of goods sold, including occupancy, distribution and buying	344,919	341,144	324,309
Selling, general and administrative	121,600	122,699	116,144
Depreciation	8,330	7,785	6,844
Interest	262	292	377
Closed store expense	5,500	--	--
Total operating expenses	480,611	471,920	447,674

	--------	--------	--------
Income Before Income Taxes	10,898	18,075	28,512
Income tax expense	3,869	6,055	10,407
	--------	--------	--------
Net Income	$ 7,029	$ 12,020	$ 18,105
	========	========	========
Earnings Per Common and Common Equivalent Share	$ .25	$ .42	$ .62
	========	========	========
Dividends Per Share	$ .16	$ .16	$ .145
	========	========	========

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Balance Sheets

	February 1, 1997	February 3, 1996
	(In thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 16,593	$ 26,183
Short-term investments	33,512	21,711
Accounts receivable, net of allowance for doubtful accounts of $3,401,000 at February 1, 1997 and February 3, 1996	43,192	39,792
Merchandise inventories	63,968	58,440
Deferred income taxes	2,014	1,825
Prepaid expenses	2,181	2,486
	--------	--------
Total Current Assets	161,460	150,437
Property and Equipment	51,333	54,364
Other Assets	5,450	5,094
	========	========
Total Assets	$218,243	$209,895
	========	========
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 38,276	$ 36,482
Accrued expenses	16,232	10,458
Income taxes	1,579	1,328
	--------	--------
Total Current Liabilities	56,087	48,268
Deferred Income Taxes	3,851	4,491
Other Noncurrent Liabilities (primarily deferred rent)	6,402	7,454
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; 23,366,403 shares issued at February 1, 1997 and 23,204,647 shares issued at February 3, 1996	778	773
Convertible Class B Common Stock, $.033 par value per share, 15,000,000 shares authorized; 5,264,317 shares issued and outstanding at February 1, 1997 and February 3, 1996	176	176
Additional paid-in capital	63,272	62,665
Retained earnings	88,656	86,291
	--------	--------
	152,882	149,905
Less Class A Common Stock in treasury, at cost (175,000 shares at February 1, 1997 and 40,000 shares at February 3, 1996)	979	223
	--------	--------

Total Stockholders' Equity	151,903	149,682
Total Liabilities and Stockholders' Equity	$218,243	$209,895

See notes to consolidated financial statements.

The Cato Corporation
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
	(In thousands)		
Operating Activities			
Net income	$ 7,029	$ 12,020	$ 18,105
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,330	7,785	6,844
Amortization of investment premiums	183	280	235
Deferred income taxes	(771)	216	575
Loss on disposal of property and equipment	412	--	352
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(3,400)	(1,866)	(1,112)
Merchandise inventories	(5,528)	(3,766)	1,140
Other assets	(51)	(283)	(1,040)
Accrued income taxes	251	419	909
Accounts payable and other liabilities	9,176	93	7,386
Net cash provided by operating activities	15,631	14,898	33,394
Investing Activities			
Expenditures for property and equipment	(8,371)	(9,415)	(25,484)
Proceeds from sale of property and equipment	--	--	378
Purchases of short-term investments	(23,312)	(10,442)	(11,882)
Sales of short-term investments	11,164	11,566	9,145
Net cash used in investing activities	(20,519)	(8,291)	(27,843)
Financing Activities			
Dividends paid	(4,558)	(4,554)	(4,115)
Purchase of treasury stock	(756)	(223)	--
Proceeds from employee stock purchase plan	279	381	435
Proceeds from stock options exercised	333	9	91
Net cash used in financing activities	(4,702)	(4,387)	(3,589)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,590)	2,220	1,962
Cash and Cash Equivalents at Beginning of Year	26,183	23,963	22,001
Cash and Cash Equivalents at End of Year	$ 16,593	$ 26,183	$ 23,963

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
			(In thousands)		
Balance -- January 29, 1994	$ 769	$ 176	$ 61,753	$ 64,835	$ -
Net income				18,105	
Dividends paid ($.145 per share)				(4,115)	
Class A Common Stock sold through employee stock purchase plan -- 41,769 shares	1		434		
Class A Common Stock sold through stock option plans -- 12,350 shares	-		91		
Unrealized losses on available for sale securities, net of deferred income tax benefit of $311,000				(541)	
Balance -- January 28, 1995	770	176	62,278	78,284	-
Net income				12,020	
Dividends paid ($.16 per share)				(4,554)	
Class A Common Stock sold through employee stock purchase plan -- 68,720 shares	3		378		
Class A Common Stock sold through stock option plans -- 3,600 shares	-		9		
Purchase of treasury shares -- 40,000 shares					223
Unrealized gains on available for sale securities, net of deferred income taxes of $311,000				541	
Balance -- February 3, 1996	773	176	62,665	86,291	223
Net income				7,029	
Dividends paid ($.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
Unrealized losses on available for sale securities, net of deferred income tax benefit of $58,000				(106)	
Balance -- February 1, 1997	$ 778	$ 176	$ 63,272	$ 88,656	$ 979

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 Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Description of Business and Fiscal Year -- The Company has principally one segment of business -- operation of women's apparel specialty stores. 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 non-metropolitan markets in the South and Southeastern United States. The Company's fiscal year ends on the Saturday nearest January 31. Fiscal years ending February 1, 1997 and January 28, 1995 each included fifty-two weeks. Fiscal year ending February 3, 1996 included fifty-three 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 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 value of short-term investments are based on quoted market prices.

The Company's short-term investments held at February 1, 1997 and February 3, 1996 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 an adjustment to retained earnings. 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 $2,862,000 and $2,679,000 at February 1, 1997 and February 3, 1996, respectively.

Supplemental Cash Flow Information -- Interest paid during the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995 was $308,000, $375,000 and $202,000, respectively. Income tax payments, net of refunds received, for the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995 were $4,324,000, $5,577,000 and $8,495,000, respectively.

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.

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 $8,898,000, $8,803,000 and $9,046,000 for the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995, respectively.

Earnings Per Common and Common Equivalent Share -- Earnings per share have been computed based on 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 28,651,438, 28,597,323 and 29,113,091 for the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995, respectively.

Income Taxes -- The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are provided based on the 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. Prior to fiscal 1996, upon the closing or relocation of a store, costs determined to be unrecoverable, such as the book value of certain fixtures and equipment, were charged to expense. In fiscal 1996, the Company adopted Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," (SFAS 121). SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets. Under provisions of the Statement, impairment losses are recognized when expected future cash flows are less than the assets' carrying value. There was no material effect on the financial statements resulting from the adoption of SFAS 121.

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.

Recent Accounting Pronouncements -- In fiscal 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," (SFAS 125). This Statement requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered in accordance with the criteria provided in the Statement. Based on current circumstances, the Company believes the application of the new rules will not have a material impact on the financial statements.

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.

Reclassifications -- Certain reclassifications have been made to the consolidated financial statements for prior fiscal years to conform with classifications used for the 1996 fiscal year.

2. Short-Term Investments:

Short-term investments at February 1, 1997 include the following:

Security Type	Cost	Unrealized (Losses)	Estimated Fair Value
		(In thousands)	
Obligations of states and political subdivisions	$30,249	$ (85)	$30,164
Corporate debt securities	2,000	(20)	1,980
Subtotal	32,249	(105)	32,144
Equity securities	1,427	(59)	1,368
Total	$33,676	$(164)	$33,512

Short-term investments at February 3, 1996 include the following:

Security Type	Cost	Unrealized Gains	Unrealized (Losses)	Estimated Fair Value
		(In thousands)		
Obligations of states and political subdivisions	$17,285	$86	$ (5)	$17,366
Corporate debt securities	2,000	--	(44)	1,956
Subtotal	19,285	86	(49)	19,322
Equity securities	2,426	--	(37)	2,389
Total	$21,711	$86	$(86)	$21,711

The unrealized losses at February 1, 1997 of $106,000, net of an income tax benefit of $58,000, is included in stockholders' equity as an adjustment to retained earnings.

The amortized cost and estimated fair value of debt and marketable equity securities at February 1, 1997, by contractual maturity, are shown below:

Security Type	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$19,293	$19,125
Due in one year through three years	12,956	13,019
Subtotal	32,249	32,144
Equity securities	1,427	1,368
Total	$33,676	$33,512

3. Accounts Receivable:

Accounts receivable consist of the following:

	February 1, 1997	February 3, 1996
	(In thousands)	
Customer accounts - principally deferred payment accounts	$44,044	$41,331
Miscellaneous trade receivables	2,549	1,862
Total	46,593	43,193
Less allowance for doubtful accounts	3,401	3,401
Accounts receivable - net	$43,192	$39,792

Finance charge and late charge revenue on customer deferred payment accounts were $6,937,000, $6,535,000 and $6,324,000 for the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995, respectively, and the provision for doubtful accounts was $3,585,000, $2,918,000 and $2,888,000, for the fiscal years ended February 1, 1997, February 3, 1996 and January 28, 1995, 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:

	February 1, 1997	February 3, 1996
	(In thousands)	
Land and improvements	$ 1,661	$ 1,853
Buildings	15,445	15,481
Leasehold improvements	15,665	16,182
Fixtures and equipment	59,047	57,096
Construction in progress	251	2,449
Total	92,069	93,061
Less accumulated depreciation	40,736	38,697
Property and equipment - net	$51,333	$54,364

5. Accrued Expenses:

Accrued expenses consist of the following:

	February 1, 1997	February 3, 1996
	(In thousands)	
Accrued bonus and retirement savings plan contributions	$ 1,919	$ 1,742
Accrued payroll and related items	2,849	2,819
Closed store expense	4,689	687
Property and other taxes	1,159	1,207
Contingent rent	545	604
Advertising	1,136	253
Accrued credit expenses	394	384
Accrued data processing expenses	269	234
Accrued health care plan contributions	669	428
Other	2,603	2,100
Total accrued expenses	$16,232	$10,458

6. 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. There were no borrowings outstanding under the new agreement at February 1, 1997 nor the prior agreement at February 3, 1996.

The Company had approximately $4,877,000 and $4,305,000 at February 1, 1997 and February 3, 1996, 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 June 1993, the Company effected a three-for-two stock split in the form of a stock dividend. The split resulted in the issuance of 9,395,385 shares of Class A Common Stock to Class A and B shareholders. All references in the financial statements to average numbers of shares outstanding and related prices, per share amounts and stock option plan data reflect the split.

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"). 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 51,506 shares and 68,720 shares for the years ended February 1, 1997 and February 3, 1996, respectively.

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 February 1, 1997 is set forth below:

	Number of Shares	Weighted Average Price
Outstanding options, January 29, 1994	2,452,850	$ 8.19
Granted	584,500	10.59
Exercised	(12,350)	7.36
Cancelled	(32,700)	11.62
Outstanding options, January 28, 1995	2,992,300	8.62
Granted	883,250	7.67
Exercised	(3,600)	2.51
Cancelled	(854,150)	12.41
Outstanding options, February 3, 1996	3,017,800	7.28
Granted	76,000	6.70
Exercised	(110,250)	3.03
Cancelled	(151,800)	7.61
Outstanding options, February 1, 1997	2,831,750	$ 7.41

Exercisable at February 1, 1997	2,028,850	$ 7.34
	=========	======

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Outstanding options at February 1, 1997 covered 927,168 shares of Class B Common Stock and 1,904,582 shares of Class A Common Stock. Outstanding options at February 3, 1996 covered 927,918 shares of Class B Common Stock and 2,089,882 shares of Class A Common Stock. Options available to be granted under the option plans were 434,400 shares at February 1, 1997 and 358,600 shares at February 3, 1996.

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 for fiscal 1996 and 1995 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 earnings per common and common equivalent share amounts for fiscal 1996 and 1995 would approximate the following proforma amounts (dollars in thousands, except per share data):

- - --

	As Reported	Proforma
Net Income-- Fiscal 1996	$ 7,029	$ 6,668
Earnings per Common & Common Equivalent Share	$ .25	$ .23
Net Income-- Fiscal 1995	$ 12,020	$ 11,628
Earnings per Common & Common Equivalent Share	$ .42	$ .41

- - --

The fair value of each option granted during fiscal 1996 is estimated as $ 3.34 on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield 2.67%, expected volatility of 59.24%, adjusted for expected dividends; risk-free interest rate of 6.69%; and an expected life of 4 years. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to fiscal 1995 and additional awards in future years are anticipated.

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 February 1, 1997, February 3, 1996 and January 28, 1995 were approximately $798,000, $961,000 and $1,278,000, 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. No contributions were made to the ESOP for the years ended February 1, 1997, February 3, 1996 and January 28, 1995, respectively. 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 $100,000. Contributions to the VEBA trust were $3,200,000, $3,115,000 and $2,705,000 in fiscal 1996, 1995 and 1994, 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. During the years ended February 3, 1996 and January 28, 1995, the Company entered into an agreement with a lessor to lease $9.5 million and $10 million, respectively, of store fixtures, point-of-sale devices and warehouse equipment. These leases, which are being accounted for as operating leases, are for terms 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. If the Company cancelled the leases, the purchase price for the equipment would be approximately $15,918,000.

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

Fiscal Year	
1997	$26,854
1998	18,552
1999	13,917
2000	9,952
2001	7,064
2002 and thereafter	8,409
Total minimum lease payments	$84,748

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

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
	(In thousands)		
Minimum rentals	$30,028	$28,666	$24,817
Contingent rent	218	363	658
Total rental expense	$30,246	$29,029	$25,475

10. Income Taxes:

The provisions for income taxes consist of the following:

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
	(In thousands)		
Current income taxes:			
Federal	$ 4,056	$ 4,976	$ 9,681
State	584	863	151
Total	4,640	5,839	9,832
Deferred income taxes:			
Federal	(477)	861	518
State	(294)	(645)	57
Total	(771)	216	575
Total income tax expense	$ 3,869	$ 6,055	$10,407

Significant components of the Company's deferred tax assets and liabilities as of February 1, 1997 and February 3, 1996 are as follows:

	February 1, 1997	February 3, 1996
	(In thousands)	
Deferred tax assets:		
Bad debt reserve	$ 1,373	$ 1,362
Inventory valuation	938	709
Unrealized losses on short-term investments	58	--
Reserves	678	507
Total deferred tax assets	3,047	2,578
Deferred tax liabilities:		
Tax over book depreciation	5,113	5,425
Other, net	(229)	(181)
Total deferred tax liabilities	4,884	5,244
Net deferred tax liabilities	$ 1,837	$ 2,666

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

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
Federal income tax rate	35.0%	35.0%	35.0%
State income taxes	4.0	2.8	0.5
Other	(3.5)	(4.3)	1.0
Effective income tax rate	35.5%	33.5%	36.5%

11. Quarterly Financial Data (Unaudited):

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

Fiscal 1996	First	Second	Third	Fourth
Retail sales	$120,028	$112,747	$108,117	$136,119
Total revenues	123,539	115,955	111,491	140,524
Cost of goods sold, including occupancy, distribution and buying	79,774	80,549	81,467	103,129
Net income (loss)	7,721	2,339	(899)	(2,132)
Earnings (loss) per common and common equivalent share	$ .27	$ .08	$ (.03)	$ (.07)
Fiscal 1995				
Retail sales	$114,461	$114,739	$105,825	$141,613
Total revenues	117,755	117,850	109,331	145,059
Cost of goods sold, including occupancy, distribution and buying	75,276	82,256	80,097	103,515
Net income (loss)	7,498	2,963	(1,492)	3,051
Earnings (loss) per common and common equivalent share	$ .26	$ .10	$ (.05)	$ .11

12. Store Closings:

In the normal course of business, the Company routinely closes or relocates 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 noncancelable lease payments. Total costs were $5,500,000, of which $3,772,000 was unpaid and accrued at February 1, 1997. The accrued lease payments of $3,370,000 will be paid over the remaining lease terms which range from 1 to 48 months.

13. 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 $1,158,000, $967,000 and $845,000 in fiscal 1996, 1995 and 1994, respectively. The Company had approximately $1,832,000 at February 1, 1997 and February 3, 1996, 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 January 29, 1994	$ 3,162	$ 290
Additions charged to costs and expenses	2,888	825
Additions (Deductions) charged to other accounts	843 (d)	--
Deductions	(3,492)(c)	(700)
Balance at January 28, 1995	3,401	415
Additions charged to costs and expenses	2,918	1,199
Additions (Deductions) charged to other accounts	758 (d)	--
Deductions	(3,676)(c)	(955)
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

(a) Deducted from trade accounts receivable.

(b) Provision for the difference between costs and revenues from noncancelable subleases over the lease terms of closed stores.

(c) Uncollectible accounts written off.

(d) Recoveries of amounts previously written off.

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 of
Directors and
Chief Executive Officer

By /s/ Robert M. Sandler

Robert M. Sandler
Senior Vice President -
Controller

By /s/ Alan E. Wiley

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

Date: April 25, 1997

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/ Edgar T. Cato

Edgar T. Cato
(Director)

/s/ John P. Derham Cato

John P. Derham Cato
(Director)

/s/ Linda McFarland Jenkins

Linda McFarland Jenkins
(Director)

/s/ Alan E. Wiley

Alan E. Wiley
(Director)

/s/ Howard A. Severson

Howard A. Severson
(Director)

/s/ Clarice Cato Goodyear

Clarice Cato Goodyear
(Director)

/s/ Thomas E. Cato

Thomas E. Cato
(Director)

/s/ Robert W. Bradshaw, Jr.

Robert W. Bradshaw, Jr.
(Director)

/s/ George S. Currin

George S. Currin
(Director)

/s/ Paul Fulton

Paul Fulton
(Director)

/s/ Grant L. Hamrick

Grant L. Hamrick
(Director)

/s/ James H. Shaw

James H. Shaw
(Director)

/s/ A.F. (Pete) Sloan

A.F. (Pete) Sloan
(Director)

EXHIBIT INDEX

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State of Incorporation	Name under which Subsidiary does Business
CHW Corporation	Delaware	CHW Corporation
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

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-41314) pertaining to The Cato Corporation Employee Incentive Stock Option Plan, in the Registration Statement (Form S-8 No. 33-41315) pertaining to The Cato Corporation Non-qualified Stock Option Plan, and in the Registration Statement (Form S-8 No. 33-69844) pertaining to The Cato Corporation Employee Stock Purchase Plan, of our report dated March 14, 1997, with respect to the consolidated financial statements and financial statement schedule of The Cato Corporation included in the Annual Report on Form 10-K for the year ended February 1, 1997.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 23, 1997

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-41314) pertaining to The Cato Corporation Employee Incentive Stock Option Plan, in the Registration Statement (Form S-8 No. 33-41315) pertaining to The Cato Corporation Non-Qualified Stock Option Plan, and the Registration Statement (Form S-8 No. 33-69844) pertaining to The Cato Corporation Employee Stock Purchase Plan, of our report dated March 10, 1995, with respect to the consolidated financial statements and schedule of The Cato Corporation included in the Annual Report (Form 10-K) for the year ended February 1, 1997.

ERNST & YOUNG LLP

Charlotte, North Carolina
April 25, 1997

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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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