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 October 31, 1998

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 November 17, 1998, there were 22,191,738 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

OCTOBER 31, 1998

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCTOBER 31, 1998	November 1, 1997	OCTOBER 31, 1998	November 1, 1997
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES				
Retail sales	$ 113,834	$ 109,886	$ 382,581	$ 354,038
Other income (principally finance and layaway charges)	4,766	3,857	14,239	11,656
Total revenues	118,600	113,743	396,820	365,694
COSTS AND EXPENSES				
Cost of goods sold, including occupancy, distribution and buying	81,364	80,028	264,407	249,038
Selling, general and administrative	30,977	29,747	96,477	91,428
Depreciation	1,883	1,873	5,657	5,781
Interest	54	66	185	197
Total expenses	114,278	111,714	366,726	346,444
INCOME BEFORE INCOME TAXES	4,322	2,029	30,094	19,250
Income taxes	1,513	639	10,533	6,064
NET INCOME	$ 2,809	$ 1,390	$ 19,561	$ 13,186
BASIC EARNINGS PER SHARE	$ .10	$ .05	$ .71	$ .47
DILUTED EARNINGS PER SHARE	$ .10	$ .05	$ .69	$ .46
DIVIDENDS PER SHARE	$ .05	$ .04	$ .14	$ .12

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	OCTOBER 31, 1998 (UNAUDITED)	November 1, 1997 (Unaudited)	January 31, 1998
	(DOLLARS IN THOUSANDS)		
ASSETS			
Current Assets			
Cash and cash equivalents	$ 36,785	$ 18,189	$ 41,644
Short-term investments	39,875	33,774	27,843
Accounts receivable - net	43,148	47,453	47,186
Merchandise inventories	87,327	89,365	64,226
Deferred income taxes	2,905	2,014	2,958
Prepaid expenses	2,140	1,833	1,686
Total Current Assets	212,180	192,628	185,543
Property and Equipment - net	52,073	50,229	49,801
Other Assets	6,150	5,554	6,093
Total	$ 270,403	$ 248,411	$ 241,437
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	$ 63,984	$ 58,317	$ 52,931
Accrued expenses	20,494	17,475	17,244
Income taxes	2,322	4,225	2,041
Total Current Liabilities	86,800	80,017	72,216
Deferred Income Taxes	5,417	3,851	5,296
Other Noncurrent Liabilities	6,452	6,671	6,409
Stockholders' Equity:			
Class A Common Stock, issued 23,979,238 shares, 23,439,466 shares and 23,502,647 shares at October 31, 1998, November 1, 1997 and January 31, 1998, respectively	799	781	783
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at October 31, 1998, November 1, 1997 and January 31, 1998, respectively	176	176	176
Preferred Stock, none	-	-	-
Additional paid-in capital	67,817	63,677	64,187
Retained earnings	117,609	98,449	101,537
	186,401	163,083	166,683
Less Class A Common Stock in treasury, at cost (1,822,500 shares at October 31, 1998, 851,500 shares at November 1, 1997, and 1,371,500 shares at January 31, 1998, respectively)	14,667	5,211	9,167
Total Stockholders' Equity	171,734	157,872	157,516
Total	$ 270,403	$ 248,411	$ 241,437

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED	
	OCTOBER 31, 1998	November 1, 1997
	(DOLLARS IN THOUSANDS)	

OPERATING ACTIVITIES		
Net income	$ 19,561	$ 13,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,657	5,781
Amortization of investment premiums	83	75
Loss on disposal of property and equipment	638	-
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	4,038	(4,261)
Merchandise inventories	(23,101)	(25,397)
Other assets	(511)	244
Accrued income taxes	281	2,646
Accounts payable and other liabilities	14,475	22,179
Net cash provided by operating activities	21,121	14,453
INVESTING ACTIVITIES		
Expenditures for property and equipment	(8,567)	(5,303)
Purchases of short-term investments	(22,032)	(5,866)
Sales of short-term investments	10,431	5,529
Net cash used in investing activities	(20,168)	(5,640)
FINANCING ACTIVITIES		
Dividends paid	(3,829)	(3,393)
Purchase of treasury stock	(5,567)	(4,232)
Proceeds from employee stock purchase plan	331	229
Proceeds from stock options exercised	3,253	179
Net cash used in financing activities	(5,812)	(7,217)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,859)	1,596
Cash and Cash Equivalents at Beginning of Period	41,644	16,593
Cash and Cash Equivalents at End of Period	$ 36,785	$ 18,189

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS AND NINE MONTHS ENDED OCTOBER 31, 1998 AND
NOVEMBER 1, 1997

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 October 31, 1998 and November 1, 1997 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.

In the first quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). Total comprehensive income for the third quarter and nine months ended October 31, 1998 was $3,033,000 and $19,894,000 respectively. Total comprehensive income for the third quarter and nine months ended November 1, 1997 was $1,390,000 and $13,186,000, respectively. Total comprehensive income is composed of net income and unrealized gains or losses on available-for-sale securities.

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

In April 1998, the Company transferred 10,000 shares of Class A Common Stock from treasury stock to its Employee Stock Ownership Plan as the contribution for the fiscal year ended January 31, 1998. In July 1998, the Company repurchased 161,500 shares of Class A Common Stock for $2,310,000, or an average price of $14.30 per share. In the third quarter of fiscal 1998, the Company repurchased an additional 299,500 shares of Class A Common Stock for $3,257,000, or an average price of $10.87 per share.

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

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") was effective in the first quarter of fiscal 1998. Management is currently evaluating the effects of SFAS 131, if any, on the Company's financial reporting disclosures for the year ended January 30, 1999.

NOTE 2 - EARNINGS PER SHARE:

Earnings per share is calculated by dividing net income by the weighted-average number of Class A and Class B common shares outstanding during the respective periods. The weighted-average number of shares used in the basic and diluted earnings per share computations are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCTOBER 31, 1998	November 1, 1997	OCTOBER 31, 1998	November 1, 1997
Weighted-average shares outstanding	27,433,823	27,879,686	27,546,942	28,224,032
Dilutive effect of stock options	508,592	251,370	729,375	112,176
Weighted-average shares and equivalents outstanding	27,942,415	28,131,056	28,276,317	28,336,208

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the nine months ended October 31, 1998 and November 1, 1997 was $121,000 and $194,000, respectively. Income tax payments, net of refunds received, for the nine months ended October 31, 1998 and November 1, 1997 were $10,308,000 and $2,869,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

In May 1998, the Company's unsecured revolving credit agreement was amended to add the $15 million letter of credit facility to the $20 million revolving credit facility. The entire $35 million unsecured credit facility was extended to May 31, 2001 with no change in financial covenants or maintenance of specific financial ratios. There were no borrowings outstanding under the agreement at October 31, 1998 or November 1, 1997.

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

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RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCTOBER 31, 1998	November 1, 1997	OCTOBER 31, 1998	November 1, 1997
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	104.2	103.5	103.7	103.3
Cost of goods sold, including occupancy, distribution and buying	71.5	72.8	69.1	70.3
Selling, general and administrative	27.2	27.0	25.2	25.9
Income before income taxes	3.8	1.9	7.9	5.4
Net income	2.5	1.3	5.1	3.7

COMPARISON OF THIRD QUARTER AND FIRST NINE MONTHS OF 1998 WITH 1997.

OPERATING RESULTS

Total retail sales for the third quarter were $113.8 million compared to last year's third quarter sales of $109.9 million, a 4% increase. Same-store sales increased 1% in this year's third quarter. For the nine months ended October 31, 1998, total retail sales were $382.6 million compared to last year's first nine months sales of $354.0 million, an 8% increase, and same-store sales increased 5% for the comparable nine month period. The increase in retail sales for the first nine months of 1998 resulted from the Company's continued everyday low pricing strategy, improved merchandise content, and an increase in store development activity. The Company operated 723 stores at October 31, 1998 compared to 688 stores at the end of last year's third quarter.

Other income for the third quarter and first nine months of 1998 increased 24% and 22%, respectively, over the prior year's comparable periods. The increase in the current year resulted primarily from increased finance and late charge income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

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OPERATING RESULTS - CONTINUED

Cost of goods sold, including occupancy, distribution and buying expenses were 71.5% and 69.1% of total retail sales for the third quarter and first nine months of 1998, compared to 72.8% and 70.3% for last year's comparable three and nine month periods, respectively. The decrease in cost of goods sold as a percent of retail sales resulted primarily from much improved merchandise offerings, more timely and aggressive markdowns and tighter merchandise planning and control.

Selling, general and administrative (SG&A) expenses were $31.0 million and $96.5 million for the third quarter and first nine months of this year, compared to $29.7 million and $91.4 million for last year's comparable three and nine month periods, respectively. SG&A expense for the third quarter experienced a slight increase of 20 basis points over last year due to one-time expenses related to store development activities during the quarter.
SG&A expense for the nine months improved 70 basis points over the prior year.

LIQUIDITY AND CAPITAL RESOURCES

At October 31, 1998, the Company had working capital of $125.4 million, compared to $112.6 million at November 1, 1997 and $113.3 million at January 31, 1998. Cash provided from operating activities was $21.1 million for the nine months ended October 31, 1998, compared to $14.5 million for last year's comparable nine month period. The Company had no borrowings under its revolving credit agreement at October 31, 1998 or November 1, 1997. At October 31, 1998, the Company had cash, cash equivalents, and short-term investments of $76.7 million, compared to $52.0 million at November 1, 1997 and $69.5 million at January 31, 1998.

In May 1998, the Company's unsecured revolving credit agreement was amended to add the $15 million letter of credit facility to the $20 million revolving credit facility. The entire $35 million unsecured credit facility was extended to May 31, 2001 with no change in financial covenants or maintenance of specific financial ratios. There were no borrowings outstanding under the agreement at October 31, 1998 or November 1, 1997.

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LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

Expenditures for property and equipment totaled $8.6 million for the nine months ended October 31, 1998, compared to $5.3 million in the first nine months of 1997. The Company expects total capital expenditures to be approximately $13 million for the current fiscal year. The Company intends to open approximately 14 new stores, close approximately 6 stores, and relocate approximately 5 stores during the fourth quarter of fiscal 1998. For the nine months ended October 31, 1998, the Company had opened 38 new stores, relocated 13 stores, and closed 8 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.

The Company developed a two phase approach to address the Year 2000 issue. Phase 1 was an analysis to identify and fix all internally developed programs. Phase 2 is the identification and correction to all programs purchased from external sources. The Company has completed Phase 1, and Phase 2 is scheduled to be substantially complete by the end of its first fiscal quarter of 1999 with continued testing of compliance throughout 1999. The Company expects to spend approximately $525,000 in 1998 and 1999 on hardware, software and consulting to ensure proper processing of transactions relating to the Year 2000 and beyond. The Company has initiated formal communications with its third-party suppliers and vendors to determine the extent to which the Company is vulnerable to those third-parties' failure to remediate their own Year 2000 issue. Although lack of compliance for Year 2000 issues by third-party suppliers and vendors could have an adverse affect on the Company's business, results of operations and financial condition, the Company expects its Year 2000 compliance efforts to significantly reduce the risk of business interruption and the level of uncertainty the Year 2000 issue may have on its computer systems. A contingency plan has not been established, but a plan will be considered upon the completion of Phase 2.

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

PART II OTHER INFORMATION

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

None

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

None

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

Not Applicable

ITEM 4. RESULT OF VOTES OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) None

(B) No Reports on Form 8-K were filed during the quarter ended October 31, 1998.

PART II OTHER INFORMATION (CONTINUED)

THE CATO CORPORATION

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

THE CATO CORPORATION

December 9, 1998	/s/ Wayland H. Cato, Jr.
Date	Wayland H. Cato, Jr. Chairman of the Board of Directors and Chief Executive Officer
December 9, 1998	/s/ Michael O. Moore
Date	Michael O. Moore Executive Vice President Chief Financial Officer and Secretary

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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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