

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

FORM 10-Q

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

For the quarterly period ended May 4, 1996

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  
(State or other jurisdiction  
of incorporation)

56-0484485  
(I.R.S. Employer  
Identification No.)

8100 Denmark Road, Charlotte, North Carolina 28273-5975  
(Address of principal executive offices)  
(Zip Code)

(704) 554-8510  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year,  
if changed since last report)

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

Yes X No

As of May 17, 1996, there were 23,261,275 shares of Class A  
Common Stock and 5,264,317 shares of Class B Common Stock  
outstanding.

THE CATO CORPORATION

FORM 10-Q

May 4, 1996

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF  
INCOME

Three Months Ended

-----  
May 4, April 29,  
1996 1995

(In thousands, except per share data)

REVENUES		
Retail sales	\$ 120,028	\$ 114,461
Other income (principally finance and layaway charges)	3,511	3,294
Total revenues	123,539	117,755
COSTS AND EXPENSES		
Cost of goods sold, including occupancy, distribution and buying	79,774	75,276
Selling, general and administrative	29,655	29,188
Depreciation	2,074	1,939
Interest	65	78
Total expenses	111,568	106,481
INCOME BEFORE INCOME TAXES	11,971	11,274
Income taxes	4,250	3,776
NET INCOME	\$ 7,721	\$ 7,498
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	\$ 0.27	\$ 0.26
DIVIDENDS PER SHARE	\$ 0.04	\$ 0.04

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED BALANCE  
SHEETS

	May 4, 1996	April 29, 1995	February 3, 1996
(In thousands)			
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 21,756	\$ 26,378	\$ 26,183
Short-term investments	34,816	25,423	21,711
Accounts receivable - net	39,538	37,455	39,792
Merchandise inventories	69,547	70,101	58,440
Deferred income taxes	1,825	1,914	1,825
Prepaid expenses	4,652	2,686	2,486
Total Current Assets	172,134	163,957	150,437
Property and Equipment	55,118	52,857	54,364
Other Assets	5,186	4,780	5,094
Total	\$ 232,438	\$ 221,594	\$ 209,895
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 48,824	\$ 48,467	\$ 36,482
Accrued expense	10,591	9,372	10,458
Income taxes	4,352	4,365	1,328
Total Current Liabilities	63,767	62,204	48,268
Deferred Income Taxes	4,491	4,192	4,491
Other Noncurrent Liabilities	7,551	7,061	7,454
Stockholders' Equity:			
Class A Common Stock, issued 23,301,275 shares, 23,172,796 shares and 23,204,647 shares at May 4, 1996, April 29, 1995 and February 3, 1996, respectively	776	771	773
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares	176	176	176
Preferred Stock, none			
Additional paid-in capital	63,026	62,343	62,665
Retained earnings	92,874	84,847	86,291
Less Class A Common Stock in treasury, at cost (40,000 shares at May 4, 1996 and February 3, 1996)	223	-	223
Total Stockholders' Equity	156,629	148,137	149,682

Total	\$ 232,438	\$ 221,594	\$ 209,895
	=====	=====	=====

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	May 4, 1996	April 29, 1995
	(In thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 7,721	\$ 7,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,074	1,939
Amortization of investment premiums	35	50
Changes in operating assets and liabilities:		
Decrease in accounts receivable	254	471
Increase in merchandise inventories	(11,107)	(15,427)
Increase in other assets	(2,258)	(169)
Increase in accrued income taxes	3,024	3,456
Increase in accounts payable and other liabilities	12,580	10,256
	-----	-----
Net cash provided by operating activities	12,323	8,074
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Expenditures for property and equipment	(2,836)	(1,719)
Purchases of short-term investments	(14,140)	(3,419)
Sales of short-term investments	1,000	550
	-----	-----
Net cash used in investing activities	(15,976)	(4,588)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(1,138)	(1,137)
Proceeds from employee stock purchase plan	154	66
Proceeds from stock options exercised	210	-
	-----	-----
Net cash used in financing activities	(774)	(1,071)
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	(4,427)	2,415
Cash and Cash Equivalents at Beginning of Year	26,183	23,963
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 21,756	\$ 26,378
	=====	=====

See notes to unaudited consolidated financial statements.

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at May 4, 1996 and April 29, 1995 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 Company's short-term investments are classified as available for sale securities, and therefore, are carried at fair value, with unrealized gains and losses, net of income taxes, reported as an adjustment to retained earnings.

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

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

NOTE 2 - EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE:

Earnings per share is calculated by dividing net income by the weighted average number of Class A and Class B common shares and common stock equivalents outstanding during the respective periods. Common stock equivalents represent the dilutive effect of the assumed exercise of outstanding stock options. The number of shares used in the earnings per common and common equivalent share computations were 28,918,042 shares for the three months ended May 4, 1996 and 28,535,326 shares for the three months ended April 29, 1995.

THE CATO CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED MAY 4, 1996 AND APRIL 29, 1995

NOTE 3 - SHORT-TERM INVESTMENTS:

Short-term investments at May 4, 1996 and April 29, 1995 include the following (in thousands):

Security Type	May 4, 1996			April 29, 1995		
	Cost	Unrealized Gain (Loss)	Estimated Fair Value	Cost	Unrealized Gain (Loss)	Estimated Fair Value
Obligations of states and political subdivisions	\$30,885	-	\$30,885	\$19,386	\$(20)	\$19,366
Corporate debt securities	2,000	-	2,000	2,000	(130)	1,870
Total	32,885	-	32,885	21,386	(150)	21,236
Equity securities	1,931	-	1,931	4,548	(361)	4,187
Total	\$34,816	-	\$34,816	\$25,934	\$(511)	\$25,423

The amortized cost and estimated fair value of debt and marketable equity securities at May 4, 1996 and April 29, 1995, by contractual maturity, are shown below (in thousands):

Security Type	May 4, 1996		April 29, 1995	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in one year or less	\$29,513	\$29,513	\$18,880	\$18,718
Due in one year through three years	3,372	3,372	2,506	2,518
Subtotal	32,885	32,885	21,386	21,236

Equity securities	1,931	1,931	4,548	4,187
	-----	-----	-----	-----
Total	\$34,816	\$34,816	\$25,934	\$25,423
	=====	=====	=====	=====

THE CATO CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE MONTHS ENDED MAY 4, 1996 AND APRIL 29, 1995

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the three months ended May 4, 1996 and April 29, 1995 was \$61,000 and \$145,000, respectively. Income tax payments, net of refunds received, were \$1,249,000 and \$318,000 for the three months ended May 4, 1996 and April 29, 1995, respectively.

NOTE 5 - 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 replaces 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.

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

RESULTS OF OPERATIONS

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

	Three Months Ended	
	May 4,	April 29,
	1996	1995
	-----	-----
Total retail sales	100.0%	100.0%
Total revenues	102.9	102.9
Cost of goods sold, including occupancy, distribution and buying	66.5	65.8
Selling, general and administrative	24.7	25.5
Income before income taxes	10.0	9.8
Net income	6.4	6.5

Comparison of First Quarter of 1996 with 1995.

OPERATING RESULTS

Total retail sales for the first quarter increased 5% over last year's first quarter to \$120.0 million from \$114.5 million. Same-store sales were flat for the first quarter of 1996. The increase in retail sales for the first quarter resulted from the Company's store development activity. The Company operated 682 stores at May 4, 1996 compared to 657 stores operated at the end of last year's first quarter.

Other income for the first quarter increased 7% over last year's first quarter. The increase in the current year resulted primarily from increased finance charge income on the Company's customer accounts receivable and increased earnings from cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution, and buying expenses were 66.5% of total retail sales for the current year's first quarter, compared to 65.8% for last year's first three months. The increase in cost of goods sold as a percent of retail sales resulted primarily from higher levels of promotional markdowns taken in this year's first quarter.

Selling, general and administrative (SG&A) expenses were \$29.7 million, or 24.7% of retail sales, for this year's first quarter, compared to \$29.2 million, or 25.5% of retail sales, in last year's first quarter. The decrease in SG&A as a percent of retail sales reflects the Company's continued emphasis on

operating expense management.

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

LIQUIDITY AND CAPITAL RESOURCES

At May 4, 1996, the Company had working capital of \$108.4 million, compared to \$101.8 million at April 29, 1995 and \$102.2 million at February 3, 1996. Cash provided by operating activities was \$12.3 million for the three months ended May 4, 1996, compared to \$8.1 million for last year's comparable three-month period. The Company had no borrowings under its revolving credit agreement at May 4, 1996 or April 29, 1995. At May 4, 1996, the Company had cash, cash equivalents, and short-term investments of \$56.6 million, compared to \$51.8 million at April 29, 1995 and \$47.9 million at February 3, 1996.

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 replaces 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.

Expenditures for property and equipment totaled \$2.8 million for the three months ended May 4, 1996, compared to \$1.7 million of expenditures in last year's first three months. The Company expects total capital expenditures to be approximately \$9.6 million for current fiscal year. The Company is currently planning very modest store development in fiscal 1996, pending more favorable business trends. The Company intends to open approximately 20 new stores and to relocate or expand 15 stores during the current fiscal year. For the three months ended May 4, 1996, the Company had opened 11 new stores and relocated or expanded 4 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.

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 May 4, 1996.

PART II OTHER INFORMATION (CONTINUED)

THE CATO CORPORATION

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

THE CATO CORPORATION

June 7, 1996

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Date

/s/ Wayland H. Cato, Jr.

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

June 7, 1996

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Date

/s/ Alan E. Wiley

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

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

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3-MOS		
	FEB-01-1997	
	MAY-04-1996	
		21,756
		34,816
		43,925
		4,387
		69,547
	172,134	
		95,864
	40,746	
	232,438	
63,767		0
	0	
		0
		952
	155,677	
232,438		
		120,028
	123,539	
		79,774
	79,774	
	0	
	265	
	65	
	11,971	
	4,250	
7,721		
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	7,721	
	.27	
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