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

FORM 10-Q

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

For the quarterly period ended May 2, 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 May 15, 1998, there were 22,353,671 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

May 2, 1998

Table of Contents

PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	May 2, 1998	May 3, 1997
	(Dollars in thousands, except per share data)	
REVENUES		
Retail sales	$136,174	$123,251
Other income (principally finance and layaway charges)	4,870	4,249
Total revenues	141,044	127,500
COSTS AND EXPENSES		
Cost of goods sold, including occupancy, distribution and buying	89,179	83,056
Selling, general and administrative	33,090	30,732
Depreciation	1,865	1,941
Interest	66	63
Total expenses	124,200	115,792
INCOME BEFORE INCOME TAXES	16,844	11,708
Income taxes	5,727	3,688
NET INCOME	$ 11,117	$ 8,020
BASIC EARNINGS PER SHARE	$ .40	$ .28
DILUTED EARNINGS PER SHARE	$ .39	$ .28
DIVIDENDS PER SHARE	$ .045	$ .04

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	May 2, 1998 (Unaudited)	May 3, 1997 (Unaudited)	January 31, 1998
	(Dollars in thousands)		
ASSETS			
Current Assets			
Cash and cash equivalents	$ 39,038	$ 25,017	$ 41,644
Short-term investments	43,342	34,790	27,843
Accounts receivable - net	44,212	45,693	47,186
Merchandise inventories	72,968	75,171	64,226
Deferred income taxes	3,001	2,014	2,958
Prepaid expenses	4,034	4,317	1,686
Total Current Assets	206,595	187,002	185,543
Property and Equipment - net	49,821	50,939	49,801
Other Assets	6,176	5,390	6,093
Total	$262,592	$243,331	$241,437
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	$ 57,734	$ 53,272	$ 52,931
Accrued expenses	16,672	15,575	17,244
Income taxes	7,751	5,238	2,041
Total Current Liabilities	82,157	74,085	72,216
Deferred Income Taxes	5,296	3,851	5,296
Other Noncurrent Liabilities	6,503	6,490	6,409
Stockholders' Equity:			
Class A Common Stock, issued 23,672,371 shares, 23,394,572 shares and 23,502,647 shares at May 2, 1998, May 3, 1997 and January 31, 1998, respectively	788	779	783
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at May 2, 1998, May 3, 1997 and January 31, 1998, respectively	176	176	176
Preferred Stock, none	--	--	--
Additional paid-in capital	65,404	63,391	64,187
Retained earnings	111,368	95,538	101,537
	177,736	159,884	166,683
Less: Class A Common Stock in treasury, at cost (1,361,500 shares at May 2, 1998, 175,000 shares at May 3, 1997, and 1,371,500 shares at January 31, 1998, respectively)	9,100	979	9,167
Total Stockholders' Equity	168,636	158,905	157,516
Total	$262,592	$243,331	$241,437

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	May 2, 1998	May 3, 1997
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 11,117	$ 8,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,865	1,941
Amortization of investment premiums	22	27
Loss on disposal of property and equipment	342	-
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	2,974	(2,501)
Merchandise inventories	(8,742)	(11,203)
Other assets	(2,431)	(2,076)
Accrued income taxes	5,710	3,659
Accounts payable and other liabilities	4,455	14,636
Net cash provided by operating activities	15,312	12,503
INVESTING ACTIVITIES		
Expenditures for property and equipment	(2,227)	(1,756)
Purchases of short-term investments	(16,234)	(3,080)
Sales of short-term investments	600	1,775
Net cash used in investing activities	(17,861)	(3,061)
FINANCING ACTIVITIES		
Dividends paid	(1,216)	(1,138)
Proceeds from employee stock purchase plan	177	114
Proceeds from stock options exercised	982	6
Net cash used in financing activities	(57)	(1,018)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,606)	8,424
Cash and Cash Equivalents at Beginning of Period	41,644	16,593
Cash and Cash Equivalents at End of Period	$ 39,038	$ 25,017

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MAY 2, 1998 AND MAY 3, 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 May 2, 1998 and May 3, 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 quarters ended May 2, 1998 and May 3, 1997 was $11,047,000 and $8,020,000, respectively. Total comprehensive income is composed of net income and unrealized 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.

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") became 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.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MAY 2, 1998 AND MAY 3, 1997

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 earnings per share computations was 27,499,658 shares and 28,463,764 shares for the three months ended May 2, 1998 and May 3, 1997, respectively. The weighted-average number of shares representing the dilutive effect of stock options was 702,228 and 40,174 for the three months ended May 2, 1998 and May 3, 1997, respectively. The weighted-average number of shares used in the diluted earnings per share computations was 28,201,886 and 28,503,938 for the three months ended May 2, 1998 and May 3, 1997, respectively.

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the three months ended May 2, 1998 and May 3, 1997 was $35,000 and $61,000, respectively. Income tax payments, net of refunds received, for the three months ended May 2, 1998 and May 3, 1997 were $646,000 and $1,133,000, respectively.

NOTE 4 - FINANCING ARRANGEMENTS:

At May 2, 1998, the Company had an 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 2000 and the letter of credit facility is renewable annually. The revolving credit agreement contains various financial covenants, including the maintenance of specific financial ratios. There were no borrowings outstanding under the agreement at May 2, 1998 or May 3, 1997.

In May 1998, the unsecured credit agreement was amended to add the $15 million letter of credit facility to the $20 million revolving credit facility. The entire $35 million dollar unsecured credit facility was extended to May 2001 with no change in financial covenants or maintenance of specific financial ratios.

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 a percentage of total retail sales:

	Three Months Ended	
	May 2, 1998	May 3, 1997
Total retail sales	100.0%	100.0%
Total revenues	103.6	103.5
Cost of goods sold, including occupancy, distribution and buying	65.5	67.4
Selling, general and administrative	24.3	24.9
Income before income taxes	12.4	9.5
Net income	8.2	6.5

Comparison of First Quarter of 1998 with 1997.

OPERATING RESULTS

Total retail sales for the first quarter were $136.2 million compared to last year's first quarter sales of $123.3 million, an 11% increase. Same-store sales increased 7% in this year's first quarter. The increase in retail sales for the first quarter resulted from the Company's continued everyday low price strategy, improved merchandise content, and an increase in store development activity. The Company operated 697 stores at May 2, 1998 compared to 669 stores at the end of last year's first quarter.

Other income for the first quarter increased 15% over last year's first quarter. 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.

Cost of goods sold, including occupancy, distribution and buying expenses were 65.5% of total retail sales for the current year's first quarter, compared to 67.4% for last year's first three months. 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.

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

- - ---

OPERATING RESULTS - CONTINUED

Selling, general and administrative (SG&A) expenses were $33.1 million, or 24.3% of retail sales, for this year's first quarter compared to $30.7 million, or 24.9% of retail sales, in last year's first quarter. Expenses remained well controlled and were under planned levels.

LIQUIDITY AND CAPITAL RESOURCES

At May 2, 1998, the Company had working capital of $124.4 million, compared to $112.9 million at May 3, 1997 and $113.3 million at January 31, 1998. Cash provided by operating activities was $15.3 million for the three months ended May 2, 1998, compared to $12.5 million for last year's comparable three month period. The Company had no borrowings under its revolving credit agreement at May 2, 1998 or May 3, 1997. At May 2, 1998, the Company had cash, cash equivalents, and short-term investments of $82.4 million, compared to $59.8 million at May 3, 1997 and $69.5 million at January 31, 1998.

At May 2, 1998, the Company had an 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 2000 and the letter of credit facility is renewable annually. The revolving credit agreement contains various financial covenants, including the maintenance of specific financial ratios.

In May 1998, the unsecured credit agreement was amended to add the $15 million letter of credit facility to the $20 million revolving credit facility. The entire $35 million dollar unsecured credit facility was extended to May 2001 with no change in financial covenants or maintenance of specific financial ratios.

Expenditures for property and equipment totaled $2.2 million for the three months ended May 2, 1998, compared to $1.8 million of expenditures in last year's first three months. The Company expects total capital expenditures to be approximately $13 million for the current fiscal year. The Company intends to open approximately 65 new stores and to relocate or expand 20 stores during the current fiscal year. For the three months ended May 2, 1998, the Company had opened 10 new stores, relocated 7 stores, and closed 6 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 2, 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

June 11, 1998 /s/ Wayland H. Cato, Jr.

Date

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

June 11, 1998 /s/ Alan E. Wiley

Date

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

5

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.

1,000

3-MOS
JAN-30-1999
MAY-02-1998
39,038
43,342
48,887
4,675
72,968
206,595
97,904
48,083
262,592
82,157
0
0
0
964
167,672
262,592
136,174
141,044
89,179
89,179
0
949
66
16,844
5,727
11,117
0
0
0
11,117
0.40
0.39