

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 November 2, 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

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 No

As of November 19, 1996, there were 23,189,618 shares of Class A Common Stock
and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

NOVEMBER 2, 1996

TABLE OF CONTENTS

	Page No. ----
PART I - FINANCIAL INFORMATION (UNAUDITED)	
Consolidated Statements of Income (Loss)	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-6
Management's Discussion and Analysis of Financial Condition and Results of Operations	7-8
PART II - OTHER INFORMATION	9-10

PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	NOVEMBER 2, 1996	October 28, 1995	NOVEMBER 2, 1996	October 28, 1995
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES				
Retail sales	\$ 108,117	\$ 105,825	\$ 340,892	\$ 335,025
Other income (principally finance and layaway charges)	3,374	3,506	10,093	9,911
Total revenues	111,491	109,331	350,985	344,936
COSTS AND EXPENSES				
Cost of goods sold, including occupancy, distribution and buying	81,467	80,097	241,790	237,629
Selling, general and administrative	29,298	29,504	88,544	87,815
Depreciation	2,055	1,917	6,252	5,795
Interest	65	56	196	212
Total expenses	112,885	111,574	336,782	331,451
INCOME (LOSS) BEFORE INCOME TAXES	(1,394)	(2,243)	14,203	13,485
Income taxes (benefit)	(495)	(751)	5,042	4,516
NET INCOME (LOSS)	\$ (899)	\$ (1,492)	\$ 9,161	\$ 8,969
INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE	\$ (0.03)	\$ (0.05)	\$ 0.32	\$ 0.31
DIVIDENDS PER SHARE	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
CONSOLIDATED BALANCE SHEETS

	NOVEMBER 2, 1996 (UNAUDITED)	October 28, 1995 (Unaudited)	February 3, 1996
	-----	-----	-----
	(IN THOUSANDS)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 10,053	\$ 17,448	\$ 26,183
Short-term investments	34,646	23,830	21,711
Accounts receivable - net	38,893	37,425	39,792
Merchandise inventories	93,007	82,085	58,440
Deferred income taxes	1,825	1,768	1,825
Prepaid expenses	1,981	2,381	2,486
	-----	-----	-----
Total Current Assets	180,405	164,937	150,437
Property and Equipment	55,611	53,051	54,364
Other Assets	5,349	4,957	5,094
	-----	-----	-----
Total	\$ 241,365	\$ 222,945	\$ 209,895
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	\$ 59,350	\$ 52,507	\$ 36,482
Accrued expenses	12,590	11,289	10,458
Income taxes	1,865	-	1,328
	-----	-----	-----
Total Current Liabilities	73,805	63,796	48,268
Deferred Income Taxes	4,491	4,192	4,491
Other Noncurrent Liabilities	7,799	7,243	7,454
Stockholders' Equity:			
Class A Common Stock, issued 23,364,618 shares, 23,202,959 shares and 23,204,647 shares at November 2, 1996, October 28, 1995 and February 3, 1996, respectively	778	773	773
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at November 2, 1996, October 28, 1995 and February 3, 1996, respectively	176	176	176
Preferred Stock, none	-	-	-
Additional paid-in capital	63,263	62,660	62,665
Retained earnings	92,032	84,328	86,291
	-----	-----	-----
	156,249	147,937	149,905
Less: Class A Common Stock in treasury, at cost (175,000 shares at November 2, 1996, 40,000 shares at October 28, 1995 and February 3, 1996, respectively)	979	223	223
	-----	-----	-----
Total Stockholders' Equity	155,270	147,714	149,682
	-----	-----	-----
Total	\$ 241,365	\$ 222,945	\$ 209,895
	=====	=====	=====

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED	
	NOVEMBER 2, 1996	October 28, 1995
	(IN THOUSANDS)	
OPERATING ACTIVITIES		
Net income	\$ 9,161	\$ 8,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,252	5,795
Amortization of investment premiums	146	159
Changes in operating assets and liabilities:		
Decrease in accounts receivable	899	501
Increase in merchandise inventories	(34,567)	(27,411)
Decrease (Increase) in other assets	250	(41)
Increase (Decrease) in accrued income taxes	537	(909)
Increase in accounts payable and other liabilities	25,729	16,566
	-----	-----
Net cash provided by operating activities	8,407	3,629
	-----	-----
INVESTING ACTIVITIES		
Expenditures for property and equipment	(7,883)	(5,940)
Purchases of short-term investments	(19,555)	(5,990)
Sales of short-term investments	6,474	5,036
	-----	-----
Net cash used in investing activities	(20,964)	(6,894)
	-----	-----
FINANCING ACTIVITIES		
Dividends paid	(3,420)	(3,412)
Purchase of treasury stock	(756)	(223)
Proceeds from employee stock purchase plan	269	379
Proceeds from stock options exercised	334	6
	-----	-----
Net cash used in financing activities	(3,573)	(3,250)
	-----	-----
Net Decrease in Cash and Cash Equivalents	(16,130)	(6,515)
Cash and Cash Equivalents at Beginning of Year	26,183	23,963
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 10,053	\$ 17,448
	=====	=====

See accompanying notes to consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS AND NINE MONTHS ENDED NOVEMBER 2, 1996 AND OCTOBER 28, 1995

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 November 2, 1996 and October 28, 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 results of the interim period may not be indicative of the entire year.

The Company's short-term investments are classified as available for sale securities, and therefore, are carried at fair value, with unrealized gains and losses, net of income taxes, reported as an adjustment to retained earnings.

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

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

NOTE 2 - EARNINGS (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE:

Income (loss) 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 income (loss) per common and common equivalent share computations were applicable, 28,577,429 shares and 28,706,072 shares for the three months and nine months ended November 2, 1996, respectively, and 28,570,582 shares and 28,612,012 shares for the three months and nine months ended October 28, 1995, respectively.

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the nine months ended November 2, 1996 and October 28, 1995 was \$155,000 and \$234,000, respectively. Income tax payments for the nine months ended November 2, 1996 and October 28, 1995 were \$4,494,000 and \$5,412,000, respectively.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS AND NINE MONTHS ENDED NOVEMBER 2, 1996 AND OCTOBER 28, 1995

NOTE 4 - FINANCING ARRANGEMENTS:

In February 1996, the Company entered into a new unsecured revolving credit agreement which provides for borrowings of up to \$20 million and an additional letter of credit facility of \$15 million. The revolving credit agreement is committed until May 1999 and the letter of credit facility is renewable annually. The revolving credit agreement contains various financial covenants, including the maintenance of specific financial ratios. The agreement 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		NINE MONTHS ENDED	
	NOVEMBER 2, 1996	October 28, 1995	NOVEMBER 2, 1996	October 28, 1995
Total retail sales	100.0 %	100.0 %	100.0 %	100.0 %
Total revenues	103.1	103.3	103.0	103.0
Cost of goods sold, including occupancy, distribution and buying	75.3	75.7	70.9	70.9
Selling, general and administrative	27.1	27.9	26.0	26.2
Income (loss) before income taxes	(1.3)	(2.1)	4.2	4.1
Net (loss) income	(0.8)	(1.4)	2.7	2.7

COMPARISON OF THIRD QUARTER AND FIRST NINE MONTHS OF 1996 WITH 1995.

OPERATING RESULTS

Total retail sales for the third quarter were \$108.1 million compared to last year's third quarter sales of \$105.8 million, a 2% increase. Same-store sales decreased 2% in this year's third quarter. For the nine months ended November 2, 1996, total retail sales increased 2% over the prior year's first nine months, while same-store sales decreased 3% for the comparable nine month period. The increase in retail sales for the first nine months of 1996 resulted from the Company's store development activity. The Company operated 694 stores at November 2, 1996 compared to 671 stores at the end of last year's third quarter.

Other income for the third quarter decreased 4% compared to last year's third quarter. The decrease in the current quarter resulted primarily from reduced layaway charges. For the first nine months of 1996, other income increased 2% over last year's comparable period. 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 75.3% and 70.9% of total retail sales for the third quarter and first nine months of 1996, respectively, compared to 75.7% and 70.9% for last year's comparable three and nine month periods. The Company's merchandise margins for the third quarter and first nine months of 1996 continue to show the effect of sluggish sales. The Company has been aggressive in taking markdowns to keep inventory levels in line with below planned sales.

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

Selling, general and administrative (SG&A) expenses were \$29.3 million, or 27.1% of total retail sales and \$88.5 million, or 26.0% of total retail sales for the third quarter and first nine months of this year, respectively. SG&A expenses were \$29.5 million, or 27.9% of total retail sales and \$87.8 million, or 26.2% of total retail sales for last year's comparable three and nine months periods, respectively. SG&A expenses improved 80 basis points in the third quarter ended November 2, 1996, compared to last year's third quarter, a result of the Company's continued efforts to control operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

At November 2, 1996, the Company had working capital of \$106.6 million, compared to \$101.1 million at October 28, 1995 and \$102.2 million at February 3, 1996. Cash provided from operating activities was \$8.4 million for the nine months ended November 2, 1996, compared to \$3.6 million for last year's comparable nine month period. The Company had no borrowings under its revolving credit agreement at November 2, 1996 or October 28, 1995. At November 2, 1996, the Company had cash, cash equivalents, and short-term investments of \$44.7 million, compared to \$41.3 million at October 28, 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 \$7.9 million for the nine months ended November 2, 1996, compared to \$5.9 million of expenditures in last year's first nine months. The Company expects total capital expenditures to be approximately \$9.5 million for the current fiscal year. The Company intends to open 28 new stores and to relocate or expand 19 stores during the current fiscal year. For the nine months ended November 2, 1996, the Company had opened 27 new stores and relocated or expanded 18 stores and closed 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) Exhibit 27 - Financial Data Schedule (for SEC use only).

(B) No Reports on Form 8-K were filed during the quarter ended November 2, 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

December 6, 1996 /s/ Wayland H. Cato, Jr.

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

December 6, 1996 /s/ Alan E. Wiley

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

THIS 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

9-MOS		
	FEB-01-1997	
	NOV-02-1996	
		10,053
		34,646
		43,279
		4,386
		93,007
	180,405	
		100,278
		44,667
	241,365	
73,805		0
	0	
		0
		954
		154,316
241,365		
		340,892
	350,985	
		241,790
		241,790
		0
		2,641
		196
		14,203
		5,042
9,161		
		0
		0
		0
		9,161
		0.32
		0