
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street NW
Washington, D.C. 29549

Form 8-K

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

Date of Report (Date of earliest event reported): March 22, 2007

THE CATO CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction
of Incorporation)

1-31340

(Commission
File Number)

56-0484485

(I.R.S. Employer
Identification Number)

8100 Denmark Road, Charlotte, North Carolina

(Address of Principal Executive Offices)

28273-5975

(Zip Code)

(704) 554-8510

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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THE CATO CORPORATION

Item 2.02. Results of Operations and Financial Condition.

On March 22, 2007, The Cato Corporation issued a press release regarding its financial results for the fourth quarter and fiscal year ending February 3, 2007. A copy of this press release is furnished as Exhibit 99.1 hereto.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit 99.1 – Press Release issued March 22, 2007.

SIGNATURES

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 hereunto duly authorized.

THE CATO CORPORATION

March 23, 2007

Date

/s/ John P. D. Cato

John P. D. Cato
Chairman, President and
Chief Executive Officer

March 23, 2007

Date

/s/ Thomas W. Stoltz

Thomas W. Stoltz
Executive Vice President
Chief Financial Officer

Exhibit Index

Exhibit
Press Release issued March 22, 2007

Exhibit No.
99.1



The CATO Corporation

NEWS RELEASE

FOR IMMEDIATE RELEASE

CEO Approval _____

For Further Information Contact:

Thomas W. Stoltz
Executive Vice President
Chief Financial Officer
704-551-7201

**CATO REPORTS RECORD NET INCOME AND EPS FOR 2006
Provides 2007 Outlook**

Charlotte, NC (March 22, 2007) – The Cato Corporation (NYSE: CTR) today reported net income for the fourth quarter and year ended February 3, 2007. For the fourth quarter 2006, net income was \$12.7 million or \$.40 per diluted share as compared to net income of \$11.6 million or \$.37 per diluted share for the fourth quarter ended January 28, 2006. Fourth quarter 2006 net income increased 9% and earnings per diluted share increased 8% over the prior year. Full year 2006 net income was \$51.5 million or \$1.62 per diluted share as compared to \$44.8 million or \$1.41 per diluted share for 2005. For the year, net income and earnings per diluted share both increased 15% over 2005.

Sales for fiscal fourth quarter ended February 3, 2007 were \$230.7 million as compared to sales of \$220.5 million for the fourth quarter ended January 28, 2006, an increase of 5%. On an equivalent 14-week basis, comparable store sales decreased 6% from last year. The Company's sales for fiscal 2006 were \$862.8 million as compared to fiscal 2005 sales of \$821.6 million, a 5% increase. On an equivalent 53-week basis, comparable store sales decreased 2% from last year. The additional week in fiscal 2006 increased total sales by \$17.2 million for the year and fourth quarter.

“Our 2006 results benefited from better margins as well as several unusual and one-time income items,” said John Cato, Chairman, President and Chief Executive Officer. “In 2006 we continued to improve our merchandise offering and margins by increasing our directly sourced private label goods and consistently providing our customers better fashion with higher quality and exceptional value.”

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2006 HIGHLIGHTS

For 2006, gross margin increased 20 basis points to 33.6% of sales; selling, general and administrative expenses decreased 10 basis points to 24.6% of sales primarily due to a reduction in incentive compensation; and net income increased to 6.0% of sales from 5.5% in fiscal 2005. The Company's effective income tax rate decreased to 35.4% primarily due to higher tax credits and increased tax-exempt interest income.

As noted above, the Company's 2006 results included several unusual and one-time items that increased net income. Similar to other retailers that use the National Retail Federation 4-5-4 calendar, the Company's fiscal year 2006 included 53 weeks as compared to 52 weeks in 2005. During the year the Company received an insurance settlement related to hurricanes in the southeast in 2005 and a settlement related to excess credit card service fees the Company paid over a number of years. The after-tax effect of these items was an additional \$3.0 million in net income or \$.10 per diluted share.

During 2006, the Company returned \$18.2 million in dividends to shareholders. The Company's annualized dividend of \$.60 per share increased 15% in 2006, representing a yield of approximately 2.5% at the current share price. The Company also opened 58 stores and relocated 20 stores. The Company closed 26 stores including two stores that had been closed due to hurricane damage since September 2005.

2007 OUTLOOK

Due to the one-time items noted above and a return to a 52-week year, the Company expects 2007 to be a more challenging year for earnings growth. The Company estimates that 2007 net income will be in a range of \$51.5 million to \$53.3 million, a flat to 3.5% increase over 2006, or \$1.60 to \$1.66 per diluted share. This estimate reflects a 1% to 3% comparable store sales increase over 2006.

The Company expects that quarterly results will fluctuate more than usual due to the timing of the one-time items and 53rd week impact in 2006. The Company estimates quarterly results to be as

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follows:

- First quarter net income is estimated to be in the range of \$24.6 million to \$25.1 million, an increase of 18% to 21%, or \$0.77 to \$0.79 per diluted share. This estimate is based on comparable store sales of up 1% to up 3%.
- Second quarter net income is estimated to be in the range of \$12.7 million to \$13.1 million, an increase of 5% to 8%, or \$0.40 to \$0.41 per diluted share. This estimate is based on comparable store sales of up 1% to up 2%.
- Third quarter net income is estimated to be in the range of \$5.3 million to \$5.7 million, a decrease of 9% to 3%, or \$0.17 to \$0.18 per diluted share. This estimate is based on comparable store sales of up 1% to up 2%.
- Fourth quarter net income is estimated to be in the range of \$8.8 million to \$9.4 million, a decrease of 31% to 26%, or \$0.27 to \$0.29 per diluted share. This estimate is based on comparable store sales of up 2% to up 3%. Although the Company experienced weaker operational performance in the fourth quarter of 2006, the 53rd week and hurricane settlement had a significant positive impact on the fourth quarter results, creating the more difficult comparison for this year. Also, the reduction in the Company's effective tax rate was primarily reflected in the fourth quarter of 2006, which contributes to the percentage decrease estimated for fourth quarter 2007.

The 2007 net income estimates also reflect the following items:

- The Company expects to open 90 new stores during the year. The Company's estimate reflects the impact of closing 15 stores by year-end. At this time, no stores have been identified for closure.
- Capital expenditures are projected to be \$30 million, including \$13 million for store development and \$12 million for technology.
- Depreciation is expected to be approximately \$24 million for the year.
- The effective tax rate is expected to be approximately 35.7%.

The Cato Corporation is a leading specialty retailer of value-priced women's fashion apparel operating two divisions: "Cato" and "It's Fashion!". The Company offers exclusive merchandise with fashion and quality comparable to mall specialty stores at low prices, every day. As of

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February 3, 2007, the Company operated 1,276 stores in 31 states, compared to 1,244 stores in 31 states as of January 28, 2006. Additional information on The Cato Corporation is available at www.catocorp.com.

Statements in this press release not historical in nature including, without limitation, statements regarding the Company's expected financial results for fiscal 2007 and the first quarter of 2007, including various components of net income, comparable store sales, expected capital expenditures, and store openings and closings are considered "forward-looking" within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations that are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those contemplated by the forward-looking statements. Such factors include, but are not limited to, the following: general economic conditions; competitive factors and pricing pressures; the Company's ability to predict fashion trends; consumer apparel buying patterns; adverse weather conditions, and inventory risks due to shifts in market demand, as well as such other factors and considerations contained in the Company's Annual Report on Form 10-K and subsequently filed Quarterly Reports on Form 10-Q. The Company does not undertake to publicly update or revise the forward-looking statements even if experience or future changes make it clear that the projected results expressed or implied therein will not be realized. The Company is not responsible for any changes made to this press release by wire or internet services.

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THE CATO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE PERIODS ENDED FEBRUARY 3, 2007 AND JANUARY 28, 2006
(Dollars in thousands, except per share data)

	Quarter Ended				Twelve Months Ended			
	February 3, 2007	% Sales	January 28, 2006	% Sales	February 3, 2007	% Sales	January 28, 2006	% Sales
REVENUES								
Retail sales	\$ 230,712	100.0%	\$ 220,497	100.0%	\$ 862,813	100.0%	\$ 821,639	100.0%
Other income (principally finance, late fees and layaway charges)	3,385	1.5%	3,639	1.6%	13,072	1.5%	14,742	1.8%
Total revenues	<u>234,097</u>	<u>101.5%</u>	<u>224,136</u>	<u>101.6%</u>	<u>875,885</u>	<u>101.5%</u>	<u>836,381</u>	<u>101.8%</u>
GROSS MARGIN								
(Memo)	71,087	30.8%	70,271	31.9%	290,101	33.6%	274,684	33.4%
COSTS AND EXPENSES, NET								
Cost of goods sold	159,625	69.2%	150,226	68.1%	572,712	66.4%	546,955	66.6%
Selling, general and administrative	54,356	23.6%	51,828	23.5%	212,157	24.6%	203,156	24.7%
Depreciation	5,380	2.3%	5,118	2.3%	20,941	2.4%	20,275	2.5%
Interest expense	11	0.0%	10	0.0%	41	0.0%	183	0.0%
Interest and other income	(3,973)	-1.7%	(1,316)	-0.6%	(9,597)	-1.1%	(4,563)	-0.6%
Cost and expenses, net	<u>215,399</u>	<u>93.4%</u>	<u>205,866</u>	<u>93.3%</u>	<u>796,254</u>	<u>92.3%</u>	<u>766,006</u>	<u>93.2%</u>
Income Before Income Taxes	18,698	8.1%	18,270	8.3%	79,631	9.2%	70,375	8.6%
Income Tax Expense	6,002	2.6%	6,632	3.0%	28,181	3.2%	25,546	3.1%
Net Income	<u>\$ 12,696</u>	<u>5.5%</u>	<u>\$ 11,638</u>	<u>5.3%</u>	<u>\$ 51,450</u>	<u>6.0%</u>	<u>\$ 44,829</u>	<u>5.5%</u>
Basic Earnings Per Share	<u>\$ 0.41</u>		<u>\$ 0.37</u>		<u>\$ 1.64</u>		<u>\$ 1.44</u>	
Basic Weighted Average Shares	<u>31,326,640</u>		<u>31,049,631</u>		<u>31,281,163</u>		<u>31,117,214</u>	
Diluted Earnings Per Share	<u>\$ 0.40</u>		<u>\$ 0.37</u>		<u>\$ 1.62</u>		<u>\$ 1.41</u>	
Diluted Weighted Average Shares	<u>31,909,454</u>		<u>31,730,217</u>		<u>31,815,332</u>		<u>31,789,887</u>	

THE CATO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	February 3, 2007 (Unaudited)	January 28, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 24,833	\$ 21,734
Short-term investments	98,709	86,085
Accounts receivable — net	45,958	49,644
Merchandise inventories	115,918	103,370
Other current assets	<u>14,095</u>	<u>10,844</u>
Total Current Assets	299,513	271,677
Property and Equipment — net	128,461	124,104
Other Assets	<u>4,348</u>	<u>10,855</u>
TOTAL	<u>\$ 432,322</u>	<u>\$ 406,636</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	\$ 123,049	\$ 132,563
Noncurrent Liabilities	32,480	34,125
Stockholders' Equity	<u>276,793</u>	<u>239,948</u>
TOTAL	<u>\$ 432,322</u>	<u>\$ 406,636</u>