

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 October 29, 1994

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 or organization)

8100 DENMARK ROAD
CHARLOTTE, NORTH CAROLINA 28273-5975
(Address of principal executive offices)
(Zip Code)

56-0484485
(IRS Employer Identification Number)

(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 11, 1994, there were 23,127,144 shares of Class A Common Stock and 5,264,317 shares of Class B Common Stock outstanding.

THE CATO CORPORATION

FORM 10-Q

October 29, 1994

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	October 29, 1994	October 30, 1993	October 29, 1994	October 30, 1993

(In thousands, except per share data)

REVENUES:

Retail sales	\$109,111	\$ 94,598	\$329,412	\$ 284,042
Other income (principally finance and la.	3,101	2,926	9,194	8,545
Total revenues	112,212	97,524	338,606	292,587

COSTS AND EXPENSES:

Costs of goods sold, including occupancy, distribution and buying	77,505	64,567	225,306	186,274
Selling, general and administrative	28,537	24,760	84,025	72,119
Depreciation	1,762	1,341	5,127	3,789
Total operating expenses	107,804	90,668	314,458	262,182

INCOME BEFORE INCOME TAXES	4,408	6,856	24,148	30,405
Income taxes	1,609	2,420	8,814	10,733
NET INCOME	\$ 2,799	\$ 4,436	\$ 15,334	\$ 19,672
EARNINGS PER SHARE	\$ 0.10	\$ 0.15	\$ 0.52	\$ 0.66
DIVIDENDS PER SHARE	\$ 0.040	\$ 0.025	\$ 0.105	\$ 0.063

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS

	October 29, 1994	October 29, 1993	January 29, 1994
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(In thousands)

ASSETS

Current Assets:

Cash and cash equivalents	\$ 9,507	\$ 24,042	\$ 22,001
Short-term investments	23,098	11,262	20,613
Accounts receivable - net	40,488	36,086	36,814
Merchandise inventories	83,573	75,088	55,814
Deferred income taxes	1,870	1,966	1,607
Prepaid expenses	2,001	974	1,935
Total Current Assets	160,537	149,418	138,784
Property and Equipment	51,271	33,148	35,497
Other Assets	4,560	4,205	4,322
Total	\$ 216,368	\$186,771	\$ 178,603

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Notes payable.	\$ 10,400	\$ -	\$ -
Accounts payable.	52,147	48,601	34,547
Accrued expenses.	10,152	11,711	12,668
Income taxes	-	1,484	-
	-----	-----	-----
Total Current Liabilities.	72,699	61,796	47,215
Deferred Income Taxes	3,482	2,680	3,482
Other Noncurrent Liabilities.	263	511	373
Stockholders' Equity:			
Class A Common Stock, issued 23,127,144 shares, 23,075,358 shares and 23,078,208 shares at October 29, 1994, October 30, 1993 and January 29, 1994, respective.	770	769	769
Convertible Class B Common Stock, issued 5,264,317 shares at October 29, 1994, October 30, 1993 and January 29, 1994.	176	176	176
Preferred Stock, none issued.	-	-	-
Additional paid-in capital.	62,246	60,426	61,753
Retained earnings	76,732	60,413	64,835
	-----	-----	-----
Total Stockholders' Equity.	139,924	121,784	127,533
	-----	-----	-----
Total	\$ 216,368	\$186,771	\$ 178,603
	=====	=====	=====

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	October 29, 1994	October 30 1993
	-----	-----
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	\$ 15,334	\$ 19,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,127	3,789
Loss on disposal of assets.	352	-
Amortization of investment premiums	438	247
Changes in assets and liabilities:		
(Increase) in accounts receivable	(3,674)	(8,349)
(Increase) in merchandise inventor.	(27,759)	(41,346)
(Increase) in other assets	(304)	(216)
Increase in accrued income taxes	-	286
Increase in accounts payable and other liabi	15,058	21,090
	-----	-----
Net cash provided by (used in) operating.	4,572	(4,827)
	-----	-----
INVESTING ACTIVITIES:		
Expenditures for property and equipment	(21,715)	(13,049)
Proceeds from sale of assets.	378	-
Purchases of short-term investments	(10,239)	(22,749)
Sales of short-term investments	6,594	15,069
	-----	-----
Net cash used in investing activities	(24,982)	(20,729)
	-----	-----
FINANCING ACTIVITIES:		
Borrowings under credit agreement.	10,400	-
Cash dividends paid	(2,978)	(1,791)
Proceeds from employee stock purchase pl.	429	-
Proceeds from stock options exercised	65	1,425
Proceeds from issuance of common stock	-	24,262
Repayment of life insurance policy loans.	-	(203)
	-----	-----
Net cash provided by financing activitie.	7,916	23,693
	-----	-----
Net decrease in Cash and Cash Equivalent.	(12,494)	(1,863)
Cash and Cash Equivalents at Beginning o.	22,001	25,905
	-----	-----
Cash and Cash Equivalents at End of Peri.	\$ 9,507	\$ 24,042
	=====	=====

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THREE MONTHS AND NINE MONTHS ENDED OCTOBER 29, 1994 AND
 OCTOBER 30, 1993

 NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at October 29, 1994 and October 30, 1993 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain reclassifications have been made to the consolidated financial statements as of October 30, 1993 to conform with classifications used as of October 29, 1994.

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 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 share computations were 29,020,713 shares and 29,283,581 shares for the three months and nine months ended October 29, 1994, and 29,802,362 shares and 29,629,077 shares for the three months and nine months ended October 30, 1993.

NOTE 3 - SHORT-TERM INVESTMENTS:

In accordance with the guidelines set forth under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities", the Company has determined that short-term investments held by the Company should be classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as an adjustment to retained earnings. The adjustment to retained earnings for unrealized losses at October 29, 1994, totalled \$459,000. The differences between amortized cost and fair value were immaterial for the prior year's balance sheets presented. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization of premiums, accretion of discounts, investment earnings and realized gains and losses are included in other income.

The following is a summary of available-for-sale securities as of October 29, 1994: (In thousands)

Security Type	Cost	Unrealized Loss	Estimated Fair Value
-----	-----	-----	-----
Obligations of states and political subdivisions	\$17,272	\$(2)	\$17,270
Corporate debt securities	2,000	(80)	1,920
Subtotal	19,272	(82)	19,190
Equity securities	4,548	(640)	3,908
Total	\$23,820	\$(722)	\$23,098
	=====	=====	=====

The amortized cost and estimated fair value of debt and marketable equity securities at October 29, 1994, by contractual maturity, are shown below: (In thousands)

Security Type	Cost	Estimated Fair Value
-----	-----	-----
Due in one year or less	\$14,441	\$14,388
Due in one year through five years	4,831	4,802
Subtotal	19,272	19,190
Equity securities	4,548	3,908
Total	\$23,820	\$23,098
	=====	=====

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the nine months ended October 29, 1994 and October 30, 1993 was \$143,000 and \$253,000, respectively. Income tax payments for the nine months ended October 29, 1994 and October 30, 1993 were \$8,511,000 and \$10,450,000, respectively. The Company had noncash investing activities of \$722,000 in the nine months ended October 29, 1994, relating to unrealized losses on available-for-sale securities.

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	
	Oct. 29, 1994	Oct. 30, 1993	Oct. 29, 1994	Oct. 30, 1993
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	102.8	103.1	102.8	103.0
Cost of goods sold, including occupancy, distribution and buying	71.0	68.3	68.4	65.6
Selling, general and administrative	26.2	26.2	25.5	25.4
Income before income taxes	4.0	7.3	7.3	10.7
Net income	2.6	4.7	4.7	6.9

Comparison of Third Quarter and First Nine Months of 1994 and 1993.

OPERATING RESULTS

Total retail sales for the third quarter increased 15% over last year's third quarter to \$109.1 million from \$94.6 million last year. Same-store sales increased 1% over the prior year's third quarter. For the nine months ended October 29, 1994, total retail sales increased 16% over the prior year's first nine months, and same-store sales increased 2% over the comparable nine-month period. The Company operated 636 stores at October 29, 1994, compared to 558 stores operated at the end of last year's third quarter. Sales from new, relocated or expanded stores opened within the last year were primarily responsible for the increase in sales recorded for this year's third quarter and first nine months.

Other income increased 6% for the third quarter and 8% for this year's first nine months over last year's corresponding periods. The increases in the current year resulted primarily from increased finance charge income on the Company's accounts receivable portfolio and increased earnings from cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution and buying expenses, were 71.0% and 68.4% of total retail sales for the third quarter and first nine months compared to 68.3% and 65.6% for last year's comparable three- and nine-month periods. The increase in cost of goods sold as a percent of retail sales resulted primarily

from increased promotional markdowns brought about by a highly competitive retail climate. As a result of sales not reaching

planned levels in the third quarter and first nine months of this year the Company has aggressively marked down seasonal merchandise to keep inventories in line with the sales levels achieved. Inventory levels at the end of this year's third quarter are in line with the modest sales gains planned for the fourth quarter.

Selling, general and administrative (SG&A) expenses were \$28.5 million, or 26.2% of total retail sales, and \$84.0 million, or 25.5% of total retail sales, for the third quarter and first nine months of this year, compared to \$24.8 million, or 26.2% of total retail sales, and \$72.1 million, or 25.4% of total retail sales, for last year's comparable periods. The overall increases in SG&A resulted primarily from increased selling-related expenses and increased infrastructure expenses brought about by the Company's store development program. The Company has continued to maintain a conservative cost structure and has implemented aggressive expense controls to keep operating expenses in line with planned sales levels.

LIQUIDITY AND CAPITAL RESOURCES

At October 29, 1994, the Company had working capital of \$87.8 million, compared to \$87.6 million at October 30, 1993 and \$91.6 million at January 29, 1994. Cash provided by operating activities was \$4.6 million for the nine months ended October 29, 1994, compared to net cash used in operating activities of \$4.8 million for last year's comparable nine-month period. The increase in cash provided by operating activities in the current year resulted primarily from decreased build-up of inventory levels.

The Company had \$10.4 million of borrowings outstanding under its \$35 million revolving credit and term loan agreement at October 29, 1994, compared to no borrowings outstanding at the end of last year's third quarter.

Expenditures for property and equipment totaled \$21.7 million for the nine months ended October 29, 1994, compared to \$13.0 million of expenditures in last year's first nine months. The Company expects total capital expenditures to be approximately \$30.5 million for current fiscal year. The Company intends to open approximately 80 new stores in the current fiscal year and to relocate or expand an additional 50 stores. Additional expenditures are planned to expand the Company's distribution facilities and to upgrade management information systems. As of October 29, 1994, the Company had opened 65 new stores, relocated or expanded 39 stores and closed 4 stores this fiscal year.

The Company believes that its cash and short-term investments, together with cash flow from operations and borrowings available under a \$35 million revolving credit and term loan 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 October 29, 1994.

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

Date: December 8, 1994

Wayland H. Cato, Jr.

Chairman of the Board
of Directors and Chief
Executive Officer

Date: December 8, 1994

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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	JAN-28-1995	
	OCT-29-1994	
		9,507
		23,098
		43,613
		3,125
		83,573
	160,537	
		81,219
	29,948	
	216,368	
	72,699	
		0
		946
	0	
		0
		138,978
216,368		
		329,412
	338,606	
		225,306
		225,306
		0
		2,217
		0
		24,148
		8,814
	15,334	
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		15,334
		.52
		0