



PART II - OTHER INFORMATION 8-9

PART I FINANCIAL INFORMATION

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	July 30, 1994	July 31, 1993	July 30, 1994	July 31, 1993
(In thousands, except per share data)				
<b>REVENUES:</b>				
Retail sales . . . . .	\$110,196	\$ 95,502	\$220,301	\$189,444
Other income (principally finance and layaway charges . . . . .	3,067	2,856	6,093	5,619
Total revenues . . . . .	113,263	98,358	226,394	195,063
<b>COSTS AND EXPENSES:</b>				
Costs of goods sold, including occupancy, distribution and buying . . . . .	77,020	63,835	147,801	121,707
Selling, general and administrative . . . . .	27,675	24,232	55,488	47,359
Depreciation . . . . .	1,757	1,330	3,365	2,448
Total operating expenses . . . . .	106,452	89,397	206,654	171,514
INCOME BEFORE INCOME TAXES . . . . .	6,811	8,961	19,740	23,549
Income taxes . . . . .	2,486	3,120	7,205	8,313
NET INCOME . . . . .	\$ 4,325	\$ 5,841	\$ 12,535	\$ 15,236
EARNINGS PER SHARE . . . . .	\$ 0.15	\$ 0.20	\$ 0.43	\$ 0.52
DIVIDENDS PER SHARE . . . . .	\$ 0.040	\$ 0.025	\$ 0.065	\$ 0.038

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED BALANCE SHEETS

	July 30, 1994	July 31, 1993	January 29, 1994
(In thousands)			
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents . . . . .	\$ 9,880	\$ 37,673	\$ 22,001
Short-term investments . . . . .	28,663	11,734	20,613
Accounts receivable - net . . . . .	38,715	32,984	36,814
Merchandise inventories . . . . .	68,535	58,263	55,814
Deferred income taxes . . . . .	1,607	1,966	1,607
Prepaid expenses . . . . .	1,893	802	1,935
Total Current Assets . . . . .	149,293	143,422	138,784
Property and Equipment . . . . .	43,160	28,449	35,497
Other Assets . . . . .	4,469	4,113	4,322
Total . . . . .	\$ 196,922	\$175,984	\$ 178,603

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:			
Accounts payable . . . . .	\$ 44,980	\$ 41,870	\$ 34,547
Accrued expenses . . . . .	9,672	12,615	12,668
Income taxes . . . . .	-	1,110	-
	-----	-----	-----
Total Current Liabilities . . . . .	54,652	55,595	47,215
Deferred Income Taxes . . . . .	3,482	2,680	3,482
Other Noncurrent Liabilities . . . . .	280	544	373
Stockholders' Equity:			
Class A Common Stock, issued 23,104,188 shares, 22,935,458 shares and 23,078,208 shares at July 30, 1994, July 31, 1993 and January 29, 1994, respectively . . . . .	770	764	769
Convertible Class B Common Stock, issued 5,264,317 shares, 5,277,717 shares and 5,264,317 shares at July 30, 1994, July 31, 1993 and January 29, 1994, re	176	176	176
Preferred Stock, none . . . . .	-	-	-
Additional paid-in capital . . . . .	62,035	59,540	61,753
Retained earnings . . . . .	75,527	56,685	64,835
	-----	-----	-----
Total Stockholders' Equity . . . . .	138,508	117,165	127,533
	-----	-----	-----
Total . . . . .	\$ 196,922	\$175,984	\$ 178,603
	=====	=====	=====

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	July 30, 1994	July 31, 1993
	-----	
	(In thousands)	
	-----	
OPERATING ACTIVITIES:		
Net income . . . . .	\$ 12,535	\$ 15,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation . . . . .	3,365	2,448
Amortization of investment premiums . . . . .	331	150
Changes in assets and liabilities:		
(Increase) in accounts receivable . . . . .	(1,901)	(5,247)
(Increase) in merchandise inventory . . . . .	(12,721)	(24,521)
(Increase) decrease in other assets . . . . .	(105)	48
(Decrease) in accrued income taxes . . . . .	-	(88)
Increase in accounts payable and other liabilities . . . . .	7,383	15,132
	-----	-----
Net cash provided by operating activities . . . . .	8,887	3,158
	-----	-----
INVESTING ACTIVITIES:		
Expenditures for property and equipment . . . . .	(11,067)	(6,845)
Purchases of short-term investments . . . . .	(10,165)	(15,549)
Sales of short-term investments . . . . .	1,784	7,494
	-----	-----
Net cash used in investing activities . . . . .	(19,448)	(14,900)
	-----	-----
FINANCING ACTIVITIES:		
Cash dividends paid . . . . .	(1,843)	(1,083)
Proceeds from employee stock purchase plan . . . . .	240	-
Proceeds from stock options exercised . . . . .	43	528
Proceeds from issuance of common stock . . . . .	-	24,268
Repayment of life insurance policy loans . . . . .	-	(203)
	-----	-----
Net cash provided by (used in) financing activities . . . . .	(1,560)	23,510
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents . . . . .	(12,121)	11,768
Cash and Cash Equivalents at Beginning of Year . . . . .	22,001	25,905
	-----	-----

Cash and Cash Equivalents at End of Period. . . \$ 9,880 \$ 37,673  
 =====

See notes to unaudited consolidated financial statements.

4

THE CATO CORPORATION  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THREE MONTHS AND SIX MONTHS ENDED JULY 30, 1994 AND  
 JULY 31, 1993

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at July 30, 1994 and July 31, 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 July 31, 1993 to conform with classifications used as of July 30, 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 29,260,660 shares and 29,415,015 shares for the three months and six months ended July 30, 1994, respectively, and 29,767,045 shares and 29,542,435 shares for the three months and six months ended July 31, 1993.

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the six months ended July 30, 1994 and July 31, 1993 was \$100,000 and \$202,000, respectively. Income tax payments for the six months ended July 30, 1994 and July 31, 1993 were \$8,200,000 and \$8,400,000, respectively.

5

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		Six Months Ended	
	July 30, 1994	July 31, 1993	July 30, 1994	July 31, 1993
Total retail sales	100.0%	100.0%	100.0%	100.0%
Total revenues	102.8	103.0	102.8	103.0
Cost of goods sold, including occupancy, distribution and buying	69.9	66.8	67.1	64.2
Selling, general and administrative	25.1	25.4	25.2	25.0
Income before income taxes	6.2	9.4	9.0	12.4
Net income	3.9	6.1	5.78	.0

Comparison of Second Quarter and First Six Months of 1994 and 1993.

OPERATING RESULTS

Total retail sales for the second quarter increased 15% over last year's second quarter to \$110.2 million from \$95.5 million. Same-store sales increased 2% over the prior year's second quarter. For the six months ended July 30, 1994, total retail sales increased 16% over the prior year's first six months, and same-store sales increased 2% over the comparable six-month period. The Company operated 618 stores at July 30, 1994, compared to 550 stores operated at the end of last year's second 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 second quarter and first six months.

Other income for the second quarter and first six months increased 7% and 8%, respectively, over the prior year's comparable 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 69.9% and 67.1% of total retail sales for the second quarter and first six months of this year, compared to 66.8% and 64.2% for last year's comparable three- and six-month periods. The increase in costs of goods sold as a percent of retail sales resulted primarily from higher levels of promotional markdowns recorded in the current year. As a result of sales not reaching planned

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

levels in the second quarter and first six months of this year, higher levels of markdowns were required to keep overall inventory levels in line with the sales levels achieved. The Company's sales plans for the remainder of the year have been revised to reflect more modest sales increases and inventory levels will be in line with the revised plan. Selling, general and administrative (SG&A) expenses were \$27.7 million, or 25.1% of total retail sales, and \$55.5 million, or 25.2% of total retail sales, for the second quarter and first six months of this year, compared to \$24.2 million, or 25.4% of total retail sales, and \$47.4 million, or 25.0% 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 July 30, 1994, the Company had working capital of \$94.6 million, compared to \$87.8 million at July 31, 1993 and \$91.6 million at January 29, 1994. Cash provided by operating activities was \$8.9 million for the six months ended July 30, 1994, compared to \$3.2 million in the prior year's first six months. The increase in the current year resulted primarily from decreased investment in inventory. The Company had no borrowings under its \$35 million revolving credit and term loan agreement during the six-month periods ended July 30, 1994 and July 31, 1993.

Expenditures for property and equipment totaled \$11.1 million for the six months ended July 30, 1994, compared to \$6.8 million of expenditures in last year's first six months. The Company is currently planning approximately \$29 million of capital expenditures in the current fiscal year. The Company plans to open approximately 85 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 July 30, 1994, the Company had opened 45 new stores, relocated or expanded 27 stores and closed 2 stores.

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

-----  
Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 19, 1994.

## Election of Directors:

Mr. John P. Derham Cato - For 67,348,030; Abstaining 4,665; Against 0  
Ms. Clarice Cato Goodyear - For 67,347,772; Abstaining 4,923; Against 0  
Mr. James H. Shaw - For 67,348,180; Abstaining 4,515; Against 0  
Mr. Robert W. Bradshaw, Jr. - For 67,347,980; Abstaining 4,715; Against 0  
Mr. Grant L. Hamrick - For 67,348,180; Abstaining 4,515; Against 0  
Mr. Alan E. Wiley - For 67,347,830; Abstaining 4,865; Against 0

## Amendment to the Company's Bylaws and Certificate of Incorporation:

For 64,576,451; Abstaining 801; Against 2,775,443

## Adoption of 1993 Employee Stock Purchase Plan:

For 67,198,075; Abstaining 501; Against 154,119

## Amendment to Certificate of Incorporation:

For 64,055,049; Abstaining 666; Against 3,296,980

## Ratification of Ernst &amp; Young as Auditors:

For 67,352,057; Abstaining 638; Against 0

## 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 July 30, 1994.

8

## 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: September 2, 1994

Wayland H. Cato, Jr.

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

Date: September 2, 1994

Alan E. Wiley

-----  
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.

1,000

6-MOS	JAN-28-1995	
	JUL-30-1994	
		9,880
		28,663
		41,840
		3,125
		68,535
	149,293	
		71,452
		28,292
		196,922
	54,652	
		0
		946
	0	
		0
		137,562
196,922		
		220,301
	226,394	
		147,801
		147,801
		0
		1,511
		0
		19,740
		7,205
	12,535	
		0
		0
		0
		12,535
		.43
		0