

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 August 3, 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 (I.R.S. Employer
of incorporation) 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 August 19, 1996, there were 23,300,519 shares of Class A
Common Stock and 5,264,317 shares of Class B Common Stock
outstanding.

THE CATO CORPORATION

FORM 10-Q

August 3, 1996

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PART I FINANCIAL INFORMATION

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF
INCOME

	Three Months Ended		Six Months Ended	
	August 3, 1996	July 29, 1995	August 3, 1996	July 29, 1995
	----- (In thousands, except per share data) -----			
REVENUES				
Retail sales	\$ 112,747	\$ 114,739	\$ 232,775	\$ 229,200
Other income (principally finance and layaway charges)	3,208	3,111	6,719	6,405
Total revenues	----- 115,955	----- 117,850	----- 239,494	----- 235,605
COSTS AND EXPENSES				
Cost of goods sold, including occupancy, distribution and buying	80,549	82,256	160,323	157,532
Selling, general and administrative	29,591	29,123	59,246	58,311
Depreciation	2,123	1,939	4,197	3,878
Interest	66	78	131	156
Total expenses	----- 112,329	----- 113,396	----- 223,897	----- 219,877
INCOME BEFORE INCOME TAXES	3,626	4,454	15,597	15,728
Income taxes	1,287	1,491	5,537	5,267
NET INCOME	----- \$ 2,339	----- \$ 2,963	----- \$ 10,060	----- \$ 10,461
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	\$ 0.08	\$ 0.10	\$ 0.35	\$ 0.37
DIVIDENDS PER SHARE	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED BALANCE
SHEETS

	August 3, 1996	July 29, 1995	February 3, 1996
	-----	-----	-----
	(In thousands)		
ASSETS			
Current Assets			
Cash and cash equivalents	\$24,815	\$ 31,452	\$ 26,183
Short-term investments	34,617	23,917	21,711
Accounts receivable - net	35,448	34,747	39,792
Merchandise inventories	69,734	65,202	58,440
Deferred income taxes	1,825	1,814	1,825
Prepaid expenses	4,368	2,493	2,486
Total Current Assets	----- 170,807	----- 159,625	----- 150,437
Property and Equipment	55,504	55,011	54,364
Other Assets	5,261	4,885	5,094
Total	----- \$ 231,572	----- \$ 219,521	----- \$ 209,895

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities			
Accounts payable	\$ 46,113	\$ 46,273	\$ 36,482
Accrued expenses	11,473	10,870	10,458
Income taxes	3,878	826	1,328
	-----	-----	-----
Total Current Liabilities	61,464	57,969	48,268
Deferred Income Taxes	4,491	4,192	4,491
Other Noncurrent Liabilities	7,667	7,038	7,454
Stockholders' Equity:			
Class A Common Stock, issued 23,340,519 shares, 23,173,805 shares and 23,204,647 shares at August 3, 1996, July 29, 1995 and February 3, 1996, respectively	777	772	773
Convertible Class B Common Stock, issued and outstanding 5,264,317 shares at August 3, 1996, July 29, 1995 and February 3, 1996, respectively	176	176	176
Preferred Stock, none	-	-	-
Additional paid-in capital	63,151	62,507	62,665
Retained earnings	94,069	86,867	86,291
	-----	-----	-----
	158,173	150,322	149,905
Less Class A Common Stock in treasury, at cost (40,000 shares at August 3, 1996 and February 3, 1996)	223	-	223
	-----	-----	-----
Total Stockholders' Equity	157,950	150,322	149,682
	-----	-----	-----
Total	<u>\$231,572</u>	<u>\$ 219,521</u>	<u>\$ 209,895</u>

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	August 3, 1996	July 29, 1995
	-----	-----
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 10,060	\$ 10,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,197	3,878
Amortization of investment premiums	114	111
Changes in operating assets and liabilities:		
Decrease in accounts receivable	4,344	3,179
Increase in merchandise inventories	(11,294)	(10,528)
Increase in other assets	(2,049)	(81)
Increase (decrease) in accrued income taxes	2,550	(83)
Increase in accounts payable and other liabilities	10,990	9,682

Net cash provided by operating activities	18,912	16,619
INVESTING ACTIVITIES		
Expenditures for property and equipment	(5,468)	(5,957)
Purchases of short-term investments	(18,711)	(3,764)
Sales of short-term investments	5,691	2,635
Net cash used in investing activities	(18,488)	(7,086)
FINANCING ACTIVITIES		
Dividends paid	(2,282)	(2,275)
Proceeds from employee stock purchase plan	156	231
Proceeds from stock options exercised	334	-
Net cash used in financing activities	(1,792)	(2,044)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,368)	7,489
Cash and Cash Equivalents at Beginning of Year	26,183	23,963
Cash and Cash Equivalents at End of Period	\$ 24,815	\$ 31,542

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 1996 AND
JULY 29, 1995

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at August 3, 1996 and July 29, 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 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 PER COMMON AND COMMON EQUIVALENT 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 common and common equivalent share computations were 28,622,744 shares and 28,770,393 shares for the three months

and six months ended August 3, 1996, respectively, and 28,730,129 shares and 28,632,728 shares for the three months and six months ended July 29, 1995, respectively.

THE CATO CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR SIX MONTHS ENDED AUGUST 3, 1996 AND JULY 29, 1995

NOTE 3 - SHORT-TERM INVESTMENTS:

Short-term investments at August 3, 1996 and July 29, 1995 include the following (in thousands):

Security Type	Cost	August 3, 1996		Cost	July 29, 1995	
		Unrealized Gain (Loss)	Estimated Fair Value		Unrealized Gain (Loss)	Estimated Fair Value
Obligations of states and political subdivisions	\$30,176	-	\$30,176	\$17,582	\$ 43	\$17,625
Corporate debt securities	2,000	-	2,000	2,000	(63)	1,937
Subtotal	32,176	-	32,176	19,582	(20)	19,562
Equity securities	2,441	-	2,441	4,548	(193)	4,355
Total	\$34,617	-	\$34,617	\$24,130	\$(213)	\$23,917

The amortized cost and estimated fair value of debt and marketable equity securities at August 3, 1996 and July 29, 1995, by contractual maturity, are shown below (in thousands):

Security Type	August 3, 1996		July 29, 1995	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Due in one year or less	\$26,043	\$26,043	\$16,478	\$16,494
Due in one year through three years	6,133	6,133	3,104	3,068
Subtotal	32,176	32,176	19,582	19,562
Equity securities	2,441	2,441	4,548	4,355
Total	\$34,617	\$34,617	\$24,130	\$23,917

THE CATO CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THREE MONTHS AND SIX MONTHS ENDED AUGUST 3, 1996 AND JULY 29, 1995

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the six months ended August 3, 1996 and July 29, 1995 was \$122,000 and \$203,000, respectively. Income tax payments for the six months ended August 3, 1996 and July 29, 1995 were \$2,975,000 and \$5,349,000,

respectively.

NOTE 5 - 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		Six Months Ended	
	August 3, 1996	July 29, 1995	August 3, 1996	July 29, 1995
Total retail sales	100.0 %	100.0 %	100.0 %	100.0 %
Total revenues	102.8	102.7	102.9	102.8
Cost of goods sold, including occupancy, distribution and buying	71.4	71.7	68.9	68.7
Selling, general and administrative	26.2	25.4	25.4	25.4
Income before income taxes	3.2	3.9	6.7	6.9
Net income	2.1	2.6	4.3	4.6

Comparison of Second Quarter and First Six Months of 1996 with 1995.

OPERATING RESULTS

Total retail sales for the second quarter were \$112.7 million compared to last year's second quarter sales of \$114.7 million, a 2% decrease. Same-store sales decreased 6% in this year's second quarter. For the six months ended August 3, 1996, total retail sales increased 2% over the prior year's first six months, while same-store sales decreased 3% for the comparable six month period. The increase in retail sales for the first six months of 1996 resulted from the Company's store development activity. The Company operated 688 stores at August 3, 1996 compared to 659 stores at the end of last year's second quarter.

Other income for the second quarter and first six months of 1996 increased 3% and 5%, respectively, over the prior year's comparable periods. The increase in the current year resulted primarily from increased finance and late charge income on the Company's customer accounts receivable portfolio and by increased earnings from cash equivalents and short-term investments.

Cost of goods sold, including occupancy, distribution and buying expenses were 71.4% and 68.9% of total retail sales for the second quarter and first six months of 1996, respectively, compared to 71.7% and 68.7% for last year's comparable three and six month periods. The Company's merchandise margins for the second quarter and first six months of 1996 continue to show the effects of the difficult ladies apparel sales environment.

Selling, general and administrative (SG&A) expenses were \$29.6 million and \$59.2 million for the second quarter and first six months of this year, respectively, compared to \$29.1 million and \$58.3 million for last year's comparable three and six month periods, respectively. SG&A expenses as a percent of retail sales were flat for the first half of 1996 compared to last year's first six months. The Company has continued to aggressively manage operating expenses to keep them in line with the sales levels achieved.

LIQUIDITY AND CAPITAL RESOURCES

At August 3, 1996, the Company had working capital of \$109.3 million, compared to \$101.7 million at July 29, 1995 and \$102.2 million at February 3, 1996. Cash provided from operating activities was \$18.9 million for the six months ended August 3, 1996, compared to \$16.6 million for last year's comparable six month period. The Company had no borrowings under its revolving credit agreement at August 3, 1996 or July 29, 1995. At August 3, 1996, the Company had cash, cash equivalents, and short-term investments of \$59.4 million, compared to \$55.4 million at July 29, 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 \$5.5 million for the six months ended August 3, 1996, compared to \$6.0 million of expenditures in last year's first six months. The Company expects total capital expenditures to be approximately \$11.1 million for the current fiscal year. The Company is currently planning very modest store development in fiscal 1996, pending more favorable business trends. The Company intends to open approximately 30 new stores and to relocate or expand 22 stores during the current fiscal year. For the six months ended August 3, 1996, the Company had opened 18 new stores and relocated or expanded 9 stores and closed 1 store.

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

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 23, 1996.

Election of Directors:

Mr. Wayland H. Cato, Jr.	- For 70,251,358	;Abstaining 127,726
Mr. Edgar T. Cato	- For 70,166,003	;Abstaining 213,081
Mr. Howard A. Severson	- For 70,166,110	;Abstaining 212,974
Mr. Robert W. Bradshaw, Jr.	- For 70,165,814	;Abstaining 213,270
Mr. Grant L. Hamrick	- For 70,256,610	;Abstaining 127,474

Ratification of Deloitte & Touche LLP as Independent Auditors

For 70,349,442 ; Abstaining 150 ; Against 10,719

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 August 3, 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

September 5, 1996

Date

/s/ Wayland H. Cato, Jr.

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

September 5, 1996

Date

/s/ Alan E. Wiley

Alan E. Wiley
Senior 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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6-MOS		
	FEB-01-1997	
	AUG-03-1996	
		24,815
		34,617
		39,860
		4,412
		69,734
	170,807	
		98,312
	42,808	
	231,572	
61,464		
		0
0		
		0
		953
		157,443
231,572		
		232,775
	239,494	
		160,323
	160,323	
	0	
	1,782	
	131	
	15,597	
	5,537	
10,060		
	0	
	0	
		0
	10,060	
	.35	
	0	