

SHOE CARNIVAL INC
Form 10-Q
September 07, 2011

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 July 30, 2011

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: 0-21360

Shoe Carnival, Inc.
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1736614
(IRS Employer Identification Number)

7500 East Columbia Street
Evansville, IN
(Address of principal executive offices)

47715
(Zip code)

(812) 867-6471
(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or

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a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

- Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

- Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock, \$.01 par value, outstanding at August 24, 2011 were 13,272,796.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

| (In thousands) | July 30, 2011 | January 29, 2011 | July 31, 2010 |
|--|------------------|---------------------|------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$44,096 | \$60,193 | \$40,560 |
| Accounts receivable | 2,889 | 1,550 | 1,684 |
| Merchandise inventories | 258,069 | 212,929 | 238,147 |
| Deferred income tax benefit | 3,307 | 4,275 | 3,342 |
| Other | 5,894 | 2,407 | 3,403 |
| Total Current Assets | 314,255 | 281,354 | 287,136 |
| Property and equipment-net | 66,660 | 62,391 | 61,503 |
| Other | 1,177 | 1,400 | 1,205 |
| Total Assets | \$382,092 | \$345,145 | \$349,844 |
| | | | |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities: | | | |
| Accounts payable | \$76,293 | \$55,219 | \$79,016 |
| Accrued and other liabilities | 14,005 | 15,457 | 15,345 |
| Total Current Liabilities | 90,298 | 70,676 | 94,361 |
| Deferred lease incentives | 10,082 | 8,211 | 6,774 |
| Accrued rent | 5,681 | 5,082 | 5,164 |
| Deferred income taxes | 1,697 | 669 | 20 |
| Deferred compensation | 5,685 | 4,907 | 4,156 |
| Other | 816 | 1,257 | 1,374 |
| Total Liabilities | 114,259 | 90,802 | 111,849 |
| | | | |
| Shareholders' Equity: | | | |
| Common stock, \$.01 par value, 50,000 shares authorized, 13,652, 13,655, 13,655 shares issued at July 30, 2011, January 29, 2011 and July 31, 2010 | 137 | 137 | 137 |
| Additional paid-in capital | 68,391 | 68,833 | 66,243 |
| Retained earnings | 208,487 | 195,853 | 182,397 |
| Treasury stock, at cost, 380, 456 and 472 shares at July 30, 2011, January 29, 2011 and July 31, 2010 | (9,182) | (10,480) | (10,782) |
| Total Shareholders' Equity | 267,833 | 254,343 | 237,995 |
| Total Liabilities and Shareholders' Equity | \$382,092 | \$345,145 | \$349,844 |

See notes to condensed consolidated financial statements.

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SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

| | Thirteen Weeks Ended July 30, 2011 | Thirteen Weeks Ended July 31, 2010 | Twenty-six Weeks Ended July 30, 2011 | Twenty-six Weeks Ended July 31, 2010 |
|--|--|--|--|--|
| (In thousands, except per share data) | | | | |
| Net sales | \$166,672 | \$165,394 | \$365,122 | \$354,851 |
| Cost of sales (including buying, distribution and occupancy costs) | 120,299 | 118,647 | 256,989 | 248,832 |
| Gross profit | 46,373 | 46,747 | 108,133 | 106,019 |
| Selling, general and administrative expenses | 42,259 | 40,758 | 87,884 | 85,039 |
| Operating income | 4,114 | 5,989 | 20,249 | 20,980 |
| Interest income | (21) | (28) | (49) | (51) |
| Interest expense | 71 | 63 | 132 | 132 |
| Income before income taxes | 4,064 | 5,954 | 20,166 | 20,899 |
| Income tax expense | 1,349 | 1,836 | 7,532 | 7,534 |
| Net income | \$2,715 | \$4,118 | \$12,634 | \$13,365 |
| Net income per share: | | | | |
| Basic | \$0.20 | \$0.32 | \$.95 | \$1.05 |
| Diluted | \$0.20 | \$0.32 | \$.94 | \$1.04 |

See notes to condensed consolidated financial statements.

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SHOE CARNIVAL, INC.
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 Unaudited

| (In thousands) | Issued | Common Stock Treasury | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total |
|---|--------|--------------------------|--------|----------------------------------|----------------------|-------------------|------------|
| Balance at January 29, 2011 | 13,655 | (456) | \$ 137 | \$ 68,833 | \$ 195,853 | \$ (10,480) | \$ 254,343 |
| Stock option exercises | 0 | 24 | | (228) | | 577 | 349 |
| Stock-based compensation income tax benefit | | | | 1,348 | | | 1,348 |
| Employee stock purchase plan purchases | | 4 | | 1 | | 104 | 105 |
| Restricted stock awards | (3) | 141 | | (3,254) | | 3,254 | 0 |
| Common stock repurchased | | (93) | | | | (2,637) | (2,637) |
| Stock-based compensation expense | | | | 1,691 | | | 1,691 |
| Net income | | | | | 12,634 | | 12,634 |
| Balance at July 30, 2011 | 13,652 | (380) | \$ 137 | \$ 68,391 | \$ 208,487 | \$ (9,182) | \$ 267,833 |

See notes to condensed consolidated financial statements.

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SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

| (In thousands) | Twenty-six Weeks Ended July 30, 2011 | Twenty-six Weeks Ended July 31, 2010 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Net income | \$ 12,634 | \$ 13,365 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 7,058 | 6,815 |
| Stock-based compensation | 1,822 | 2,398 |
| Loss on retirement and impairment of assets | 483 | 1,223 |
| Deferred income taxes | 1,996 | (1,119) |
| Lease incentives | 2,434 | 981 |
| Other | (185) | (899) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,239) | (938) |
| Merchandise inventories | (45,140) | (40,695) |
| Accounts payable and accrued liabilities | 20,635 | 22,196 |
| Other | (3,627) | (1,336) |
| Net cash (used in) provided by operating activities | (3,129) | 1,991 |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | (12,165) | (6,565) |
| Proceeds from sale of property and equipment | 4 | 311 |
| Proceeds from note receivable | 100 | 100 |
| Net cash used in investing activities | (12,061) | (6,154) |
| Cash Flows From Financing Activities | | |
| Proceeds from issuance of stock | 454 | 415 |
| Excess tax benefits from stock-based compensation | 1,276 | 419 |
| Purchase of treasury stock | (2,637) | (279) |
| Net cash (used in) provided by financing activities | (907) | 555 |
| Net decrease in cash and cash equivalents | (16,097) | (3,608) |
| Cash and cash equivalents at beginning of period | 60,193 | 44,168 |
| Cash and Cash Equivalents at End of Period | \$ 44,096 | \$ 40,560 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during period for interest | \$ 132 | \$ 125 |
| Cash paid during period for income taxes | \$ 6,862 | \$ 9,826 |
| Capital expenditures incurred but not yet paid | \$ 1,771 | \$ 1,387 |

See notes to condensed consolidated financial statements.

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SHOE CARNIVAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1 - Basis of Presentation

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly our financial position and the results of our operations and our cash flows for the periods presented. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted according to the rules and regulations of the Securities and Exchange Commission (the "SEC"), although we believe that the disclosures are adequate to make the information presented not misleading. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Note 2 - Net Income Per Share

The following table sets forth the computation of basic and diluted earnings per share as shown on the face of the accompanying condensed consolidated statements of income.

| | Thirteen Weeks Ended July 30, 2011 | Thirteen Weeks Ended July 31, 2010 | Twenty-six Weeks Ended July 30, 2011 | Twenty-six Weeks Ended July 31, 2010 |
|---|--|--|--|--|
| (In thousands except per share data) | | | | |
| Numerator | | | | |
| Net income | \$2,715 | \$4,118 | \$12,634 | \$13,365 |
| Less amount allocable to participating securities | 52 | 0 | 297 | 0 |
| Net income available for basic common shares | 2,663 | 4,118 | 12,337 | 13,365 |
| Adjustment for dilutive potential common shares | 0 | 0 | 4 | 0 |
| Net income available for diluted common shares | \$2,663 | \$4,118 | \$12,341 | \$13,365 |
| Denominator | | | | |
| Weighted average common shares – basic | 13,005 | 12,720 | 12,939 | 12,704 |
| Adjustment for dilutive potential common shares | 138 | 178 | 135 | 183 |
| Weighted average common shares – diluted | 13,143 | 12,898 | 13,074 | 12,887 |
| Net income per common share | | | | |
| Basic | \$0.20 | \$0.32 | \$0.95 | \$1.05 |
| Diluted | \$0.20 | \$0.32 | \$0.94 | \$1.04 |

Our basic and diluted earnings per share are computed using the two-class method. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to participation rights in undistributed earnings. Non-vested stock awards that include non-forfeitable rights to dividends are considered participating securities. Per share amounts are computed by dividing net income attributable to common shareholders by the weighted average shares outstanding during each period. No options to purchase shares of common stock were excluded in the computation of diluted shares for the periods presented.

Note 3 – Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance which amends certain accounting and disclosure requirements related to fair value measurements. For fair value measurements categorized as Level 3, a reporting entity should disclose quantitative information of the unobservable inputs and assumptions, a description of the valuation processes and narrative description of the sensitivity of the fair value to changes in unobservable inputs. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011, with early adoption prohibited. We do not believe the guidance will have a material impact on our condensed consolidated financial statements.

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Note 4 - Fair Value Measurements

The FASB has established guidance for using fair value to measure assets and liabilities. This guidance only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurements. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels.

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Our financial assets as of July 30, 2011, January 29, 2011, and July 31, 2010 included cash and cash equivalents, which are valued using the market approach. The carrying value of cash and cash equivalents approximates fair value due to its short-term nature and is considered a Level 1 fair value measurement. We did not have any financial liabilities measured at fair value for these periods.

The following table summarizes our cash and cash equivalents that are measured at fair value on a recurring basis:

| (In thousands) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---------------------------------------|--|---|--|---------------------|
| As of July 30, 2011 | | | | |
| Cash and short-term investments (1) | \$35,211 | \$0 | \$ 0 | \$35,211 |
| Credit and debit card receivables (2) | 8,885 | 0 | 0 | 8,885 |
| | \$44,096 | \$0 | \$ 0 | \$44,096 |
| As of January 29, 2011 | | | | |
| Cash and short-term investments (1) | \$54,915 | \$0 | \$ 0 | \$54,915 |
| Credit and debit card receivables (2) | 5,278 | 0 | 0 | 5,278 |
| | \$60,193 | \$0 | \$ 0 | \$60,193 |
| As of July 31, 2010 | | | | |
| Cash (1) | \$32,363 | \$0 | \$ 0 | \$32,363 |
| Credit and debit card receivables (2) | 8,197 | 0 | 0 | 8,197 |
| | \$40,560 | \$0 | \$ 0 | \$40,560 |

(1)Cash and short-term investments represent cash deposits and short-term investments held with financial institutions, such as commercial paper and money market funds. To date, we have experienced no loss or lack of access to either invested cash or cash held in our bank accounts.

(2)Our credit and debit card receivables are highly liquid financial assets that typically settle in less than three days.

From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. Long-lived assets are reviewed for impairment in accordance with current authoritative literature whenever events or changes in circumstances indicate that full recoverability is questionable. If the expected future cash flows related to the long-lived assets are less than the assets' carrying value, an impairment loss would be recognized for the difference between estimated fair value and carrying value. Assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses.

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Impaired long-lived assets were measured at fair value on a non-recurring basis using Level 3 inputs as defined in the fair value hierarchy. During the thirteen and twenty six-weeks ended July 30, 2011, long-lived assets held and used with a gross carrying amount of \$537,000 were written down to their fair value of \$320,000, resulting in an impairment charge of \$217,000, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$84,000. During the thirteen-weeks ended July 31, 2010, there were no impairments recorded on long-lived assets held and used. During the twenty six-weeks ended July 31, 2010, long-lived assets held and used with a gross carrying amount of \$7.2 million were written down to their fair value of \$6.1 million, resulting in an impairment charge of \$1.1 million, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$375,000.

Note 5 - Stock-Based Compensation

Stock Options

The following table summarizes the stock option transactions pursuant to the stock-based compensation plans:

| | Number of Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in thousands) |
|--|---------------------|---|---|---|
| Outstanding at January 29, 2011 | 342,718 | \$ 14.70 | 2.25 | 3,393 |
| Grants | 0 | | | |
| Forfeited or expired | 0 | | | |
| Exercised | (23,934) | 14.55 | | |
| Outstanding July 30, 2011 | 318,784 | \$ 14.71 | 1.71 | \$5,380 |
| Options outstanding at July 30, 2011, net of estimated forfeitures | 318,729 | \$ 14.71 | 1.71 | \$5,379 |
| Exercisable at July 30, 2011 | 316,283 | \$ 14.73 | 1.67 | \$5,332 |

The total fair value at grant date of previously non-vested stock options that vested during each of the twenty-six week periods ended July 30, 2011 and July 31, 2010 was \$32,000. No stock options were granted during the first half of fiscal 2011 or fiscal 2010.

The following table summarizes information regarding options exercised:

| (In thousands) | Thirteen Weeks Ended July 30, 2011 | Thirteen Weeks Ended July 31, 2010 | Twenty-six Weeks Ended July 30, 2011 | Twenty-six Weeks Ended July 31, 2010 |
|--|--|--|--|--|
| Total intrinsic value (1) | \$307 | \$32 | \$365 | \$230 |
| Total cash received | \$297 | \$12 | \$348 | \$325 |
| Associated excess income tax benefits recorded | \$117 | \$12 | \$139 | \$79 |

(1) Defined as the difference between the market value at exercise and the grant price of stock options exercised.

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The following table summarizes information regarding outstanding and exercisable options at July 30, 2011:

| Range of Exercise Price | Number of Options Outstanding | Options Outstanding | | Options Exercisable | |
|-------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | | Weighted Average Remaining Life | Weighted Average Exercise Price | Number of Options Exercisable | Weighted Average Exercise Price |
| 11.44 – \$13.68 | 156,984 | 2.28 | \$12.53 | 154,483 | \$12.53 |
| 13.87 – \$17.12 | 161,800 | 1.16 | \$16.83 | 161,800 | \$16.83 |

The following table summarizes information regarding stock-based compensation expense recognized for non-vested options:

| (In thousands) | Thirteen Weeks Ended July 30, 2011 (1) | Thirteen Weeks Ended July 31, 2010 (1) | Twenty-six Weeks Ended July 30, 2011 (1) | Twenty-six Weeks Ended July 31, 2010 (1) |
|--------------------|---|--|--|--|
| | Stock-based compensation expense before the recognized income tax benefit | \$8 | \$18 | \$17 |
| Income tax benefit | \$3 | \$7 | \$6 | \$15 |

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effects from the favorable resolution of certain tax positions.

As of July 30, 2011, there was approximately \$3,000 of unrecognized compensation expense, net of estimated forfeitures, remaining related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of approximately 0.4 years.

Restricted Stock Awards

The following table summarizes the share transactions for restricted stock awards:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|--------------------------------|------------------|--|
| Non-vested at January 29, 2011 | 391,346 | \$19.91 |
| Granted | 141,393 | 25.62 |
| Vested | (276,549) | 20.83 |
| Forfeited | (2,668) | 25.72 |
| Non-vested at July 30, 2011 | 253,522 | \$22.04 |

The total fair value at grant date of previously non-vested stock awards that vested during the first half of fiscal 2011 and the first half of fiscal 2010 was \$5.8 million and \$487,000, respectively. The weighted-average grant date fair value of stock awards granted during the twenty-six week period ended July 30, 2011 was \$25.62. The weighted-average grant date fair value of stock awards granted during the twenty-six week period ended July 31, 2010

was \$21.63.

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The following table summarizes information regarding stock-based compensation expense recognized for restricted stock awards:

| | Thirteen Weeks Ended July 30, 2011 (1) | Thirteen Weeks Ended July 31, 2010 (1) | Twenty-six Weeks Ended July 30, 2011 (1) | Twenty-six Weeks Ended July 31, 2010 (1) |
|---|--|--|--|--|
| (In thousands) | | | | |
| Stock-based compensation expense before the recognized income tax benefit | \$522 | \$1,054 | \$1,655 | \$2,127 |
| Income tax benefit | \$200 | \$407 | \$632 | \$812 |

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effects from the favorable resolution of certain tax positions.

As of July 30, 2011, there was approximately \$3.7 million of unrecognized compensation expense remaining related to both our performance-based and service-based non-vested stock awards. The cost is expected to be recognized over a weighted average period of approximately 2.0 years. This incorporates the current assumptions of the estimated requisite service period required to achieve the designated performance conditions for performance-based stock awards.

Cash-Settled Stock Appreciation Rights (SARs)

Cash-settled stock appreciation rights (SARs) were granted to certain non-executive employees in fiscal 2008 such that one-third of the shares underlying the SARs granted would vest and become fully exercisable on each of the first three anniversaries of the date of the grant and were assigned a five-year term from the date of grant. Each SAR entitles the holder, upon exercise, to receive cash in the amount equal to the closing price of our stock on the date of exercise less the exercise price. The maximum amount paid, however, cannot exceed 100% of the exercise price. In accordance with current authoritative guidance, cash-settled SARs are classified as Other liabilities on the Condensed Consolidated Balance Sheets.

The following table summarizes the SARs activity:

| | Number of Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) |
|---------------------------------|---------------------|---|---|
| Outstanding at January 29, 2011 | 50,686 | \$9.72 | |
| Granted | 0 | 0.00 | |
| Forfeited or expired | (2,668) | 9.72 | |
| Exercised | 0 | 0.00 | |
| Outstanding at July 30, 2011 | 48,018 | \$9.72 | 2.37 |
| Exercisable at July 30, 2011 | 0 | \$0.00 | 0.00 |

The fair value of these liability awards is remeasured at each reporting period until the date of settlement. Increases or decreases in stock-based compensation expense are recognized over the vesting period, or immediately for vested awards. The weighted-average fair value of outstanding, non-vested SAR awards was \$9.40 as of July 30, 2011.

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The fair value was estimated using a trinomial lattice model with the following assumptions:

| | | |
|-------------------------------------|------------------|--|
| | July 30, 2011 | |
| Risk free interest rate yield curve | 0.16% | |
| Expected dividend yield | -1.35 % | |
| Expected volatility | 0.0 % | |
| Maximum life | 58.46 % | |
| Exercise multiple | 2.39 Years | |
| Maximum payout | 1.71 | |
| Employee exit rate | \$ 9.72 | |
| | 2.2% - | |
| | 9.0 % | |

The risk free interest rate was based on the U.S. Treasury yield curve in effect at the end of the reporting period. We had not paid and did not anticipate paying cash dividends; therefore, the expected dividend yield was assumed to be zero. Expected volatility was based on the historical volatility of our stock. The exercise multiple and employee exit rate are based on historical option data.

The following table summarizes information regarding stock-based compensation expense recognized for SARs:

| | Thirteen Weeks Ended July 30, 2011 (1) | Thirteen Weeks Ended July 31, 2010 (1) | Twenty-six Weeks Ended July 30, 2011 (1) | Twenty-six Weeks Ended July 31, 2010 (1) |
|---|--|--|--|--|
| (In thousands) | | | | |
| Stock-based compensation expense before the recognized income tax benefit | \$60 | \$36 | \$132 | \$215 |
| Income tax benefit | \$23 | \$14 | \$50 | \$82 |

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effects from the favorable resolution of certain tax positions.

As of July 30, 2011, there was approximately \$64,000 in unrecognized compensation expense related to non-vested SARs. The cost is expected to be recognized over a weighted-average period of approximately 0.4 years.

Employee Stock Purchase Plan

The following table summarizes information regarding stock-based compensation expense recognized for the employee stock purchase plan:

| | Thirteen Weeks Ended July 30, 2011 (1) | Thirteen Weeks Ended July 31, 2010 (1) | Twenty-six Weeks Ended July 30, 2011 (1) | Twenty-six Weeks Ended July 31, 2010 (1) |
|---|--|--|--|--|
| (In thousands) | | | | |
| Stock-based compensation expense before the recognized income tax benefit (2) | \$7 | \$5 | \$19 | \$16 |
| Income tax benefit | \$3 | \$2 | \$7 | \$6 |

- (1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effects from the favorable resolution of certain tax positions.
- (2) Amounts are representative of the 15% discount employees are provided for purchases under the employee stock purchase plan.

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ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Factors That May Effect Future Results

This quarterly report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: general economic conditions in the areas of the United States in which our stores are located; the effects and duration of economic downturns and unemployment rates; changes in the overall retail environment and more specifically in the apparel and footwear retail sectors; our ability to generate increased sales at our stores; the potential impact of national and international security concerns on the retail environment; changes in our relationships with key suppliers; the impact of competition and pricing; changes in weather patterns, consumer buying trends and our ability to identify and respond to emerging fashion trends; the impact of disruptions in our distribution or information technology operations; the effectiveness of our inventory management; the impact of hurricanes or other natural disasters on our stores, as well as on consumer confidence and purchasing in general; risks associated with the seasonality of the retail industry; our ability to successfully execute our growth strategy, including the availability of desirable store locations at acceptable lease terms, our ability to open new stores in a timely and profitable manner and the availability of sufficient funds to implement our growth plans; higher than anticipated costs associated with the closing of underperforming stores; our ability to successfully develop and implement an e-commerce business; the inability of manufacturers to deliver products in a timely manner; changes in the political and economic environments in the People's Republic of China, Brazil, Italy and East Asia, where the primary manufacturers of footwear are located; the impact of regulatory changes in the United States and the countries where our manufacturers are located; and the continued favorable trade relations between the United States and China and the other countries which are the major manufacturers of footwear. For a more detailed discussion of certain risk factors see the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide information to assist the reader in better understanding and evaluating our financial condition and results of operations. We encourage you to read this in conjunction with our condensed consolidated financial statements and the notes to those statements included in PART I, ITEM 1. FINANCIAL STATEMENTS of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 as filed with the SEC.

Overview of Our Business

Shoe Carnival, Inc. is one of the nation's largest family footwear retailers. As of July 30, 2011, we operated 321 stores in 32 states, primarily in the Midwest, South and Southeast regions of the United States. We offer a distinctive shopping experience, a broad merchandise assortment and value to our customers while maintaining an efficient store level cost structure.

Our stores combine competitive pricing with a highly promotional, in-store marketing effort that encourages customer participation and creates a fun and exciting shopping experience. We believe this highly promotional atmosphere results in various competitive advantages, including increased multiple unit sales; the building of a loyal, repeat customer base; the creation of word-of-mouth advertising; and enhanced sell through of in-season goods. Our objective is to be the destination store-of-choice for a wide range of consumers seeking moderately priced, current

season name brand and private label footwear. Our product assortment includes dress and casual shoes, sandals, boots and a wide assortment of athletic shoes for the entire family. We believe that by offering a wide selection of both athletic and non-athletic footwear, we are able to reduce our exposure to shifts in fashion preferences between those categories.

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Our marketing effort targets moderate income, value-conscious consumers seeking name brand footwear for all age groups. We believe that by offering a wide selection of popular styles of name brand merchandise at competitive prices, we generate broad customer appeal. Our cost-efficient store operations and real estate strategy enable us to price products competitively. Low labor costs are achieved by housing merchandise directly on the selling floor in an open-stock format, enabling customers to serve themselves, if they choose. This reduces the staffing required to assist customers and reduces store level labor costs as a percentage of sales. We locate stores predominantly in strip shopping centers in order to take advantage of lower occupancy costs and maximize our exposure to value-oriented shoppers.

In addition to operating stores, we will be launching an e-commerce site during the second half of fiscal 2011 to sell shoes and related accessories through our website, www.shoecarnival.com. Our plan is to attract new Shoe Carnival customers in areas where we do not currently operate stores and offer our current customers a virtual store for their shopping convenience.

Critical Accounting Policies

It is necessary for us to include certain judgments in our reported financial results. These judgments involve estimates that are inherently uncertain and actual results could differ materially from these estimates. The accounting policies that require the more significant judgments are:

Merchandise Inventories - Merchandise inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. In determining market value, we estimate the future sales price of items of merchandise contained in the inventory as of the balance sheet date. Factors considered in this determination include, among others, current and recently recorded sales prices, the length of time product has been held in inventory and quantities of various product styles contained in inventory. The ultimate amount realized from the sale of certain product could differ materially from our estimates. We also estimate a shrinkage reserve for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve can be affected by changes in merchandise mix and changes in actual shrinkage trends.

Valuation of Long-Lived Assets - We periodically review our long-lived assets if events or circumstances indicate the carrying value may not be recoverable. The carrying value of long-lived assets is considered impaired when the carrying value of the assets exceeds the expected future cash flows to be derived from their use. We conduct our reviews at the lowest identifiable level. Our stores are reviewed for impairment on an individual basis.

If the expected future cash flows related to the long-lived assets are less than the assets' carrying value, an impairment loss is recognized for the difference between estimated fair value and carrying value. Assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses. We estimate the fair value of our long-lived assets using company-specific assumptions, which would fall within Level 3 of the fair value hierarchy. Our assumptions and estimates used in the evaluation of impairment, including current and future economic trends for stores, are subject to a high degree of judgment. If actual results or market conditions differ from those anticipated, additional losses may be recorded.

Income Taxes - We calculate income taxes and account for uncertain tax positions in accordance with current authoritative guidance. Deferred tax assets and liabilities are recognized based on the difference between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the estimated tax rates in effect in the years when those temporary differences are expected to reverse. We are also required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are often complex, ambiguous and change over time. As such, changes in our subjective assumptions and

judgments can materially affect amounts recognized in the consolidated financial statements.

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Insurance Reserves - We use a combination of self-insurance and third-party insurance for workers' compensation, employee medical and general liability insurance. These plans have stop-loss provisions that protect us from individual and aggregate losses over specified dollar values. When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, severity factors, statistical trends and, in certain instances, valuation assistance provided by independent third-parties. We will continue to evaluate our self-insured liabilities and the underlying assumptions on a quarterly basis and make adjustments as needed. The ultimate cost of these claims may be greater than or less than the established accruals. While we believe that the recorded amounts are adequate, there can be no assurance that changes to management's estimates will not occur due to limitations inherent in the estimating process. In the event we determine an accrual should be increased or reduced, we will record such adjustments in the period in which such determination is made.

Results of Operations Summary Information

| Quarter Ended | Beginning Of Period | Number of Stores | | End of Period | Store Square Footage | | Comparable Store Sales | |
|-------------------|------------------------|------------------|--------|------------------|----------------------|------------------|------------------------------|---|
| | | Opened | Closed | | Net Change | End of Period | | |
| April 30, 2011 | 314 | 4 | 0 | 318 | 39,000 | 3,429,000 | 3.4 | % |
| July 30, 2011 | 318 | 5 | 2 | 321 | 55,000 | 3,484,000 | -1.1 | % |
| Year-to-date 2011 | 314 | 9 | 2 | 321 | 94,000 | 3,484,000 | 1.3 | % |
| May 1, 2010 | 311 | 3 | 3 | 311 | 2,000 | 3,374,000 | 13.1 | % |
| July 31, 2010 | 311 | 3 | 1 | 313 | 23,000 | 3,397,000 | 8.3 | % |
| Year-to-date 2010 | 311 | 6 | 4 | 313 | 25,000 | 3,397,000 | 10.8 | % |

Comparable store sales for the periods indicated include stores that have been open for 13 full months prior to the beginning of the period, including those stores that have been relocated or remodeled. Therefore, stores opened or closed during the periods indicated are not included in comparable store sales.

The following table sets forth our results of operations expressed as a percentage of net sales for the periods indicated:

| | Thirteen Weeks Ended July 30, 2011 | | Thirteen Weeks Ended July 31, 2010 | | Twenty-six Weeks Ended July 30, 2011 | | Twenty-six Weeks Ended July 31, 2010 | |
|--|--|---|--|---|--|---|--|---|
| Net sales | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of sales (including buying, distribution and occupancy costs) | 72.2 | | 71.7 | | 70.4 | | 70.1 | |
| Gross profit | 27.8 | | 28.3 | | 29.6 | | 29.9 | |
| Selling, general and administrative expenses | 25.3 | | 24.7 | | 24.0 | | 24.0 | |
| Operating income | 2.5 | | 3.6 | | 5.6 | | 5.9 | |
| Interest (income) expense, net | 0.1 | | 0.0 | | 0.0 | | 0.0 | |

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| | | | | | | | | |
|----------------------------|-----|---|-----|---|-----|---|-----|---|
| Income before income taxes | 2.4 | | 3.6 | | 5.6 | | 5.9 | |
| Income tax expense | 0.8 | | 1.1 | | 2.1 | | 2.1 | |
| Net income | 1.6 | % | 2.5 | % | 3.5 | % | 3.8 | % |

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Executive Summary for Second Quarter Ended July 30, 2011

- Net sales increased \$1.3 million to \$166.7 million, a 0.8% increase over the prior year comparative period.
- We achieved comparable store sales gains in the traditionally strong summer categories of sandals and running footwear. However, we were unable to overcome the decline in sales of toning product on both a unit and average price basis, when compared to the second quarter of last year. As a result, our comparable store sales declined 1.1%.
- We achieved a gross profit margin of 27.8% as compared to 28.3% in the second quarter of the prior year. The merchandise margin remained unchanged, while buying, distribution and occupancy costs increased 0.5%, as a percentage of sales.
- Inventories at July 30, 2011, when compared to levels at the end of the second quarter of fiscal 2010, increased 5.7% on a per store basis. This increase was due in part to an increase in the average cost of footwear on a per pair basis, an increase in pairs of footwear within key categories and the inventory purchased for the upcoming launch of our e-commerce site.
- We ended the quarter with \$44.1 million in cash and cash equivalents and no interest bearing debt.

Results of Operations for the Second Quarter Ended July 30, 2011

Net Sales

Net sales increased \$1.3 million to \$166.7 million during the second quarter of fiscal 2011, a 0.8% increase over the prior year's second quarter net sales of \$165.4 million. This increase was due to a \$4.4 million increase in sales generated by new stores opened since the first quarter of fiscal 2010. This increase was partially offset by a 1.1% decrease in comparable store sales in addition to a \$1.3 million loss in sales from the six stores closed since the first quarter of fiscal 2010.

Gross Profit

Gross profit decreased \$374,000 to \$46.4 million in the second quarter of fiscal 2011, as compared to the same period last year, while the gross margin for the quarter decreased 0.5% to 27.8%. Our merchandise margin remained unchanged as compared to the prior year comparative period, while buying, distribution and occupancy costs increased 0.5%, as a percentage of sales. Included in our cost of sales for the second quarter of fiscal 2011, was a \$435,000 write-down in value of our toning inventory to reflect current market conditions. Approximately one-half of the 0.5% increase in buying, distribution and occupancy was due to the deleveraging effect of lower comparable store sales with the balance resulting from an increase in store closing costs included within occupancy. We closed a store location prior to the end of its lease term and incurred approximately \$400,000 in occupancy costs related to the remaining lease payments.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1.5 million in the second quarter of fiscal 2011 to \$42.3 million as compared to \$40.8 million in the second quarter of fiscal 2010. This increase in net expense coupled with lower comparable store sales, resulted in a 0.6% increase in selling, general and administrative expenses as a percentage of sales. Significant changes in expense between the comparative quarters included the following:

-

Our self-insured health care costs increased \$964,000. Health care claims in the second quarter were higher than we typically experience, which was in contrast to a significantly lower claims experience during the second quarter of fiscal 2010.

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- We incurred \$235,000 of expense related to the implementation of our e-commerce platform. These expenses consisted primarily of wages, consulting services and software maintenance fees. No expenses were recorded in fiscal 2010.
- We opened five stores in the second quarter of fiscal 2011 as compared to three stores in the second quarter of fiscal 2010. Pre-opening costs were \$315,000, or 0.2% as a percentage of sales, for the second quarter of fiscal 2011 as compared to \$162,000, or 0.1% as a percentage of sales, for the second quarter of fiscal 2010.
- Store closing costs and non-cash asset impairment charges increased \$256,000 to \$295,000, or 0.2% as a percentage of sales. These costs related to the closing of two stores, non-cash asset impairment of certain underperforming stores and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods.
- Incentive compensation decreased by \$1.3 million, as compared to the second quarter last year when record-breaking financial performance drove material increases in performance-based compensation.

Interest (Income) Expense, Net

We recorded net interest expense of \$50,000 in the second quarter of fiscal 2011 as compared to net interest expense of \$35,000 in the second quarter of the prior year.

Income Taxes

The effective income tax rate for the second quarter of fiscal 2011 was 33.2% as compared to 30.8% for the second quarter of fiscal 2010. Our provision for income tax expense is based on the current estimate of our annual effective tax rate and is adjusted as necessary for quarterly events. Included in income tax expense for the second quarter of both fiscal periods are benefits related to the favorable resolution of certain tax positions, which significantly lowered our effective income tax rate as compared to other second quarter historical periods.

Results of Operations for the Six Months Ended July 30, 2011

Net Sales

Net sales increased \$10.2 million to \$365.1 million during the first half of fiscal 2011, a 2.9% increase over net sales of \$354.9 million for the first half of fiscal 2010. This increase was primarily due to an \$8.3 million increase in sales from new stores opened since the beginning of fiscal 2010 along with a 1.3% gain in comparable store sales. These increases were partially offset by a \$2.7 million loss from the nine stores that were closed since the beginning of fiscal 2010. Our comparable store sales gains were driven by an increase in the average unit price.

Gross Profit

Gross profit increased \$2.1 million to \$108.1 million in the first half of fiscal 2011, as compared to the same period last year, while the gross margin decreased 0.3% to 29.6%. The merchandise margin decreased 0.2% and buying, distribution and occupancy costs increased 0.1%, as a percentage of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$2.9 million in the first half of fiscal 2011 to \$87.9 million from \$85.0 million in the prior year comparable period; however, our sales gain enabled us to hold these costs as a

percentage of sales equal to last year at 24.0%. Significant changes in expense between the comparative periods included store selling expenses, self-insured health care, incentive compensation and non-cash asset impairments. We incurred an additional \$2.5 million of incremental expense as compared to the same period last year to support our sales growth and expanded store base. In addition, our self-insured health care costs increased \$992,000. This increase resulted from a higher level of claim activity during the second quarter of fiscal 2011 which was in contrast to the significantly lower claim experience during the second quarter of fiscal 2010. These increases were partially offset as a result of \$2.0 million less in incentive compensation as compared to the first half of last year when record-breaking financial performance drove material increases in performance-based compensation. Additionally, during the first half of fiscal 2010, we recorded non-cash asset impairments of \$1.1 million related to certain underperforming stores whereas \$217,000 in non-cash asset impairments were recorded in the first half of fiscal 2011.

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Also included in selling, general and administrative expenses for the first half of fiscal 2011 was approximately \$333,000 related to the implementation of our e-commerce platform. These expenses related primarily to wages, consulting services and software maintenance fees. No expenses were recorded in fiscal 2010.

Pre-opening costs included in selling, general and administrative expenses were \$729,000, or 0.2% as a percentage of sales, for the first six months of fiscal 2011 as compared to \$337,000, or 0.1% as a percentage of sales, for the first six months of fiscal 2010. We opened nine stores in the first six months of fiscal 2011 as compared to six stores in the first six months of fiscal 2010. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged in the period they are incurred. The total amount of pre-opening expense incurred will vary by store depending on the specific market and the promotional activities involved.

The portion of store closing costs and non-cash asset impairment charges included in selling, general and administrative expenses for the first six months of fiscal 2011 was \$321,000, or 0.2% as a percentage of sales. These costs related to the closing of two stores, impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. In the first half of fiscal 2010, we incurred \$1.3 million, or 0.4% as a percentage of sales. These costs related to the closing of four stores, impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout.

Interest (Income) Expense, Net

We recorded net interest expense of \$83,000 in the first six months of fiscal 2011 as compared to net interest expense of \$81,000 in the first six months of the prior year.

Income Taxes

The effective income tax rate for the first six months of fiscal 2011 was 37.3% as compared to 36.0% for first six months of fiscal 2010. The annual effective income tax rate for fiscal 2011 is expected to be approximately 37.8%.

Liquidity and Capital Resources

Our primary sources of funds are cash flows from operations and borrowings under our revolving credit facility. Our net cash used in operating activities was \$3.1 million in the first six months of fiscal 2011 as compared to cash provided by operations of \$2.0 million in the first six months of 2010. The change in operating cash flow, when comparing the two periods of each year, was primarily driven by an increase in merchandise inventories and a decrease in accounts payable, partially offset by an increase in deferred income taxes.

Working capital increased to \$224.0 million at July 30, 2011 from \$192.8 million at July 31, 2010. This \$31.2 million increase resulted primarily from an increase in cash and cash equivalents and inventories, combined with a decrease in accounts payable. The current ratio at July 30, 2011 was 3.5 as compared to 3.0 at July 31, 2010. We had no outstanding interest bearing debt during or as of the end of either period.

We expended \$12.2 million in cash during the first six months of fiscal 2011 for the purchase of property and equipment, of which \$9.5 million was for new stores, remodeling and store relocation activities. Approximately \$1.2 million was used in developing our e-commerce platform. The remaining capital expenditures were used for continued investments in technology and normal asset replacement activities. Cash lease incentives received from landlords during the first half of fiscal 2011 were \$2.4 million. Additional capital expenditures of approximately \$8.0

million to \$9.0 million are expected to be made over the remainder of fiscal 2011 including a projected \$2.2 million for new stores and up to \$2.8 million in store remodeling costs. Additional lease incentives to be received from landlords are expected to approximate \$2.8 million. The remaining capital expenditures are expected to be incurred for various other store improvements, the implementation of an e-commerce platform, continued investments in technology and normal asset replacement activities. The actual amount of cash required for capital expenditures for store operations depends in part on the number of new stores opened, the amount of lease incentives, if any, received from landlords and the number of stores remodeled. The opening of new stores will be dependent upon, among other things, the availability of desirable locations, the negotiation of acceptable lease terms and general economic and business conditions affecting consumer spending in areas we target for expansion.

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Our current store prototype uses between 8,000 and 12,000 square feet depending upon, among other factors, the location of the store and the population base the store is expected to service. Capital expenditures for each of our projected 17 new stores in fiscal 2011 are expected to average approximately \$328,000 with landlord incentives expected to average approximately \$126,000. The average inventory investment in a new store is expected to range from \$460,000 to \$690,000 depending on the size and sales expectation of the store and the timing of the new store opening. Pre-opening expenses, such as advertising, salaries and supplies, are expected to average approximately \$78,000 per store in fiscal 2011. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred. The total amount of pre-opening expense incurred will vary on a store-by-store basis depending on the specific market and the promotional activities involved.

We closed two stores in the first six months of fiscal 2011 and expect to close two additional stores during the remainder of fiscal 2011. Depending upon the results of lease negotiations with certain landlords of underperforming stores, we may increase or decrease the number of store closures in future periods. The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout. We will continue to review our annual store growth rate based on our view of the internal and external opportunities and challenges in the marketplace.

Our unsecured credit agreement provides for up to \$50.0 million in cash advances and commercial and standby letters of credit with borrowing limits based on eligible inventory. It contains covenants which stipulate: (1) Total Shareholders' Equity, adjusted for the effect of any share repurchases, will not fall below that of the prior fiscal year-end; (2) the ratio of funded debt plus rent to EBITDA plus rent will not exceed 2.5 to 1.0; and (3) cash dividends for a fiscal year will not exceed 30% of consolidated net income for the immediately preceding fiscal year. We were in compliance with these covenants as of July 30, 2011. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. As of July 30, 2011, there was \$11.0 million in letters of credit outstanding and \$39.0 million available to us for additional borrowings under the credit facility.

On August 23, 2010, our Board of Directors authorized a \$25 million share repurchase program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2011. The purchases may be made in the open market or privately negotiated transactions from time-to-time and in accordance with applicable laws, rules and regulations. The program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We intend to fund the share repurchase program from cash on hand and any shares acquired will be available for stock-based compensation awards and other corporate purposes. The actual number and value of the shares to be purchased will depend on the performance of our stock price and other market conditions. As required by our credit agreement, consent was obtained from the Agent and the Majority Banks, each as defined in the credit agreement. No shares have been repurchased under this program as of July 30, 2011.

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We anticipate that our existing cash and cash flow from operations, supplemented by borrowings under our revolving credit line, will be sufficient to fund our planned store expansion along with other capital expenditures and other operating cash requirements for at least the next 12 months.

Seasonality

Our quarterly results of operations have fluctuated and are expected to continue to fluctuate in the future primarily as a result of seasonal variances and the timing of sales and costs associated with opening new stores. Non-capital expenditures, such as advertising and payroll, incurred prior to opening a new store are charged to expense as incurred. Therefore, our results of operations may be adversely affected in any quarter in which we incur pre-opening expenses related to the opening of new stores.

We have three distinct peak selling periods: Easter, back-to-school and Christmas.

New Accounting Pronouncements

Recent accounting pronouncements applicable to our operations are contained in Note 3 – "Recently Issued Accounting Pronouncements" contained in the Notes to Condensed Consolidated Financial Statements included in PART I, ITEM 1. FINANCIAL STATEMENTS of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in that the interest payable under our credit facility is based on variable interest rates and therefore is affected by changes in market rates. We do not use interest rate derivative instruments to manage exposure to changes in market interest rates. We had no borrowings under our credit facility during the first six months of fiscal 2011.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of July 30, 2011, that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the quarter ended July 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties we describe both in this Quarterly Report on Form 10-Q and in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 before deciding to invest in, or retain, shares of our common stock. These are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial or we have not predicted may also harm our business operations or adversely affect us. If any of these risks or uncertainties actually occurs, our business, financial condition, results of operations or cash flows could be materially adversely affected. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased ¹ | Average Price Paid per Share | Total Number Of Shares Purchased as Part of Publicly Announced Programs ² | Approximate Dollar Value of Shares that May Yet Be Purchased Under Programs |
|-------------------------------|--|------------------------------------|---|--|
| May 1, 2011 to May 28, 2011 | 0 | \$0.00 | 0 | \$ 0 |
| May 29, 2011 to July 2, 2011 | 0 | \$0.00 | 0 | \$ 0 |
| July 3, 2011 to July 30, 2011 | 220 | \$31.03 | 0 | \$ 0 |
| | 220 | | 0 | |

¹Delivered to or withheld by us in connection with employee payroll tax withholding upon the vesting of certain restricted stock awards.

²On August 23, 2010, our Board of Directors authorized a \$25 million share repurchase program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2011.

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ITEM 6. EXHIBITS

| Exhibit No. | Description | Incorporated by Reference To | | | Filed Herewith |
|-------------|--|------------------------------|---------|-------------|----------------|
| | | Form | Exhibit | Filing Date | |
| 3-A | Restated Articles of Incorporation of Registrant | 10-K | 3-A | 4/25/2002 | |
| 3-B | By-laws of Registrant, as amended to date | 10-Q | 3-B | 12/9/2010 | |
| <u>31.1</u> | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| <u>31.2</u> | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| <u>32.1</u> | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| <u>32.2</u> | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 101 | The following materials from Shoe Carnival, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Income, (3) Condensed Consolidated Statement of Shareholders' Equity, (4) Condensed Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements, tagged as blocks of text. | | | | X |

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SHOE CARNIVAL, INC.
SIGNATURE

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.

Date: September 7, 2011

SHOE CARNIVAL, INC.
(Registrant)

By: /s/ W. Kerry Jackson
W. Kerry Jackson
Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)