

SHOE CARNIVAL INC
Form 10-Q
November 30, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **October 29, 2016**

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) (Zip code)

47715

(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.

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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 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 November 22, 2016 was 18,422,425.

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SHOE CARNIVAL, INC.**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

| (In thousands, except share data) | October 29, 2016 | January 30, 2016 | October 31, 2015 |
|--------------------------------------|------------------------|------------------------|------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$33,509 | \$68,814 | \$49,035 |
| Accounts receivable | 3,540 | 2,131 | 2,665 |
| Merchandise inventories | 314,925 | 292,878 | 318,878 |
| Deferred income taxes | 0 | 1,061 | 1,236 |
| Other | 5,630 | 5,193 | 5,611 |
| Total Current Assets | 357,604 | 370,077 | 377,425 |
| Property and equipment – net | 102,932 | 103,386 | 106,374 |
| Deferred income taxes | 8,163 | 7,158 | 5,655 |
| Other noncurrent assets | 970 | 472 | 348 |
| Total Assets | \$469,669 | \$481,093 | \$489,802 |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities: | | | |
| Accounts payable | \$69,986 | \$72,086 | \$75,006 |
| Accrued and other liabilities | 18,936 | 15,848 | 18,129 |
| Total Current Liabilities | 88,922 | 87,934 | 93,135 |
| Deferred lease incentives | 30,320 | 31,971 | 30,595 |
| Accrued rent | 11,465 | 11,224 | 11,221 |
| Deferred compensation | 10,171 | 9,612 | 9,892 |
| Other | 767 | 550 | 424 |
| Total Liabilities | 141,645 | 141,291 | 145,267 |
| Shareholders' Equity: | | | |
| | 206 | 206 | 206 |

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| | | | |
|--|-----------|-----------|-----------|
| Common stock, \$.01 par value, 50,000,000 shares authorized, 20,569,198 shares, 20,604,178 shares and 20,604,178 shares issued, respectively | | | |
| Additional paid-in capital | 64,957 | 66,805 | 65,807 |
| Retained earnings | 314,851 | 294,308 | 291,419 |
| Treasury stock, at cost, 2,146,622 shares, 955,612 shares and 576,724 shares, respectively | (51,990) | (21,517) | (12,897) |
| Total Shareholders' Equity | 328,024 | 339,802 | 344,535 |
| Total Liabilities and Shareholders' Equity | \$469,669 | \$481,093 | \$489,802 |

See notes to Condensed Consolidated Financial Statements.

SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

| (In thousands, except per share data) | Thirteen Weeks Ended October 29, 2016 | Thirteen Weeks Ended October 31, 2015 | Thirty-Nine Weeks Ended October 29, 2016 | Thirty-Nine Weeks Ended October 31, 2015 |
|--|--|--|---|---|
| Net sales | \$274,524 | \$269,713 | \$766,901 | \$750,302 |
| Cost of sales (including buying, distribution and occupancy costs) | 192,514 | 188,396 | 542,105 | 528,022 |
| Gross profit | 82,010 | 81,317 | 224,796 | 222,280 |
| Selling, general and administrative expenses | 66,558 | 66,144 | 185,399 | 182,200 |
| Operating income | 15,452 | 15,173 | 39,397 | 40,080 |
| Interest income | (1) | (2) | (6) | (36) |
| Interest expense | 43 | 42 | 127 | 126 |
| Income before income taxes | 15,410 | 15,133 | 39,276 | 39,990 |
| Income tax expense | 5,738 | 5,747 | 14,839 | 15,391 |
| Net income | \$9,672 | \$9,386 | \$24,437 | \$24,599 |
| Net income per share: | | | | |
| Basic | \$0.54 | \$0.47 | \$1.31 | \$1.23 |
| Diluted | \$0.54 | \$0.47 | \$1.31 | \$1.23 |
| Weighted average shares: | | | | |
| Basic | 17,609 | 19,444 | 18,220 | 19,542 |
| Diluted | 17,614 | 19,452 | 18,225 | 19,553 |
| Cash dividends declared per share | \$0.07 | \$0.065 | \$0.205 | \$0.19 |

See notes to condensed consolidated financial statements.

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

| (In thousands) | Common Stock | | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Total |
|--|--------------|----------|--------|----------------------------------|----------------------|-------------------|-----------|
| | Issued | Treasury | | | | | |
| Balance at January 30, 2016 | 20,604 | (956) | \$ 206 | \$ 66,805 | \$294,308 | \$(21,517) | \$339,802 |
| Dividends declared (\$0.205 per share) | | | | | (3,894) | | (3,894) |
| Stock-based compensation income tax benefit | | | | 2 | | | 2 |
| Employee stock purchase plan purchases | | 8 | | (8) | | 194 | 186 |
| Restricted stock awards | (35) | 225 | | (5,072) | | 5,072 | 0 |
| Shares surrendered by employees to pay taxes on restricted stock | | (11) | | | | (311) | (311) |
| Purchase of common stock for treasury | | (1,413) | | | | (35,428) | (35,428) |
| Stock-based compensation expense | | | | 3,230 | | | 3,230 |
| Net income | | | | | 24,437 | | 24,437 |
| Balance at October 29, 2016 | 20,569 | (2,147) | \$ 206 | \$ 64,957 | \$314,851 | \$(51,990) | \$328,024 |

See notes to Condensed Consolidated Financial Statements.

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

| (In thousands) | Thirty-nine Weeks Ended October 29, 2016 | Thirty-nine Weeks Ended October 31, 2015 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Net income | \$ 24,437 | \$ 24,599 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,698 | 17,132 |
| Stock-based compensation | 3,438 | 2,595 |
| Loss on retirement and impairment of assets | 500 | 958 |
| Deferred income taxes | 56 | (1,707) |
| Lease incentives | 1,838 | 4,116 |
| Other | (3,064) | (3,597) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,409) | 55 |
| Merchandise inventories | (22,047) | (31,001) |
| Accounts payable and accrued liabilities | (1,298) | 9,699 |
| Other | 1,303 | 456 |
| Net cash provided by operating activities | 21,452 | 23,305 |
| Cash Flows From Investing Activities | | |
| Purchases of property and equipment | (17,426) | (22,313) |
| Proceeds from notes receivable | 0 | 250 |
| Net cash used in investing activities | (17,426) | (22,063) |
| Cash Flows From Financing Activities | | |
| Proceeds from issuance of stock | 186 | 335 |
| Dividends paid | (3,780) | (3,782) |
| Excess tax benefits from stock-based compensation | 2 | 91 |
| Purchase of common stock for treasury | (35,428) | (10,181) |
| Shares surrendered by employees to pay taxes on restricted stock | (311) | (46) |
| Net cash used in financing activities | (39,331) | (13,583) |
| Net decrease in cash and cash equivalents | (35,305) | (12,341) |
| Cash and cash equivalents at beginning of period | 68,814 | 61,376 |
| Cash and Cash Equivalents at end of period | \$ 33,509 | \$ 49,035 |

Supplemental disclosures of cash flow information:

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| | | |
|--|-----------|-----------|
| Cash paid during period for interest | \$ 127 | \$ 125 |
| Cash paid during period for income taxes | \$ 11,786 | \$ 15,561 |
| Capital expenditures incurred but not yet paid | \$ 994 | \$ 2,494 |

See notes to condensed consolidated financial statements.

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 and notes have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information and 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 Condensed Consolidated Financial Statements have been condensed or omitted according to the rules and regulations of 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 Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Condensed Consolidated Financial Statements and the notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Note 2 - Net Income Per Share

The following tables set 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 | | | October 31, 2015 | | |
|---|---------------------------------------|--------|---------|------------------|--------|---------|
| | October 29, 2016 | | | October 31, 2015 | | |
| | (In thousands, except per share data) | | | | | |
| | Net | Shares | Per | Net | Shares | Per |
| | Income | | Share | Income | | Share |
| | | | Amount | | | Amount |
| Basic Earnings per Share: | | | | | | |
| Net income | \$9,672 | | | \$9,386 | | |
| Amount allocated to participating securities | (214) | | | (187) | | |
| Net income available for basic common shares and basic earnings per share | \$9,458 | 17,609 | \$ 0.54 | \$9,199 | 19,444 | \$ 0.47 |
| Diluted Earnings per Share: | | | | | | |
| Net income | \$9,672 | | | \$9,386 | | |
| Amount allocated to participating securities | (214) | | | (187) | | |

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| | | | | | | |
|---|---------|--------|---------|---------|--------|---------|
| Adjustment for dilutive potential common shares | 0 | 5 | | 0 | 8 | |
| Net income available for diluted common shares and diluted earnings per share | \$9,458 | 17,614 | \$ 0.54 | \$9,199 | 19,452 | \$ 0.47 |

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| | Thirty-Nine Weeks Ended | | | | | |
|---|---------------------------------------|--------|------------------------|------------------|--------|------------------------|
| | October 29, 2016 | | | October 31, 2015 | | |
| | (In thousands, except per share data) | | | | | |
| Basic Earnings per Share: | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| Net income | \$24,437 | | | \$24,599 | | |
| Amount allocated to participating securities | (515) | | | (479) | | |
| Net income available for basic common shares and basic earnings per share | \$23,922 | 18,220 | \$ 1.31 | \$24,120 | 19,542 | \$ 1.23 |
| Diluted Earnings per Share: | | | | | | |
| Net income | \$24,437 | | | \$24,599 | | |
| Amount allocated to participating securities | (515) | | | (479) | | |
| Adjustment for dilutive potential common shares | 0 | 5 | | 0 | 11 | |
| Net income available for diluted common shares and diluted earnings per share | \$23,922 | 18,225 | \$ 1.31 | \$24,120 | 19,553 | \$ 1.23 |

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 their participation rights in dividends and undistributed earnings or losses. Non-vested restricted stock awards that include non-forfeitable rights to dividends are considered participating securities. During periods of undistributed losses, however, no effect is given to our participating securities since they do not share in the losses. Per share amounts are computed by dividing net income available 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 2014, the Financial Accounting Standards Board (“FASB”) issued guidance on the recognition of revenue for all contracts with customers designed to improve comparability and enhance financial statement disclosures. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. The underlying principle of this comprehensive model is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the payment to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB subsequently issued guidance which approved a one year deferral of the guidance until annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of the original effective date for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. We are evaluating the impact of this guidance on our condensed consolidated financial position, results of operations and cash flows.

In July 2015, the FASB issued guidance on simplifying the measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. The new guidance does not apply to inventory currently measured using the last-in-first-out or the retail inventory valuation methods. This guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is permitted. We do not believe the guidance will have a material impact on our condensed consolidated financial position, results of operations and cash flows.

In November 2015, the FASB issued guidance which simplifies the classification of deferred taxes by requiring an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. We early adopted this guidance in the third quarter of fiscal 2016 and are applying this change prospectively. Prior condensed consolidated balance sheets have not been retrospectively adjusted. The adoption resulted in a \$2.7 million reclassification of net deferred tax assets from current to noncurrent on our consolidated balance sheet as of October 29, 2016. The adoption did not have a material impact on our results of condensed consolidated operations and cash flows.

In February 2016, the FASB issued guidance which will replace most existing lease accounting guidance. This update requires an entity to recognize leased assets and the rights and obligations created by those leased assets on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. Early adoption is permitted. We are evaluating the impact of this guidance on our condensed consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued guidance intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification in the statement of cash flows and forfeitures. This guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is permitted. We are evaluating the impact of this guidance on our condensed consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued guidance addressing eight specific cash flow issues in an effort to reduce diversity in practice. The amended guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 31, 2017. Early adoption is permitted. We are evaluating the impact of this guidance on our condensed consolidated financial position, results of operations and cash flows.

Note 4 - Fair Value Measurements

The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under the authoritative literature. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions. This guidance only applies when other standards require or permit the fair value measurement of assets and liabilities. The guidance 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:

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Level 1 – Quoted prices in active markets for identical assets or liabilities;
Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data; and
Level 3 – Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows, and are based on the best information available, including our own data. Fair values of our long-lived assets are estimated using an income-based approach and are classified within Level 3 of the valuation hierarchy.

The following table presents assets that are measured at fair value on a recurring basis at October 29, 2016, January 30, 2016 and October 31, 2015. We have no material liabilities measured at fair value on a recurring or non-recurring basis.

| (In thousands) | Fair Value Measurements | | | |
|---|-------------------------|---------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| As of October 29, 2016: | | | | |
| Cash equivalents – money market account | \$ 114 | \$ 0 | \$ 0 | \$ 114 |
| As of January 30, 2016: | | | | |
| Cash equivalents– money market account | \$ 5,386 | \$ 0 | \$ 0 | \$ 5,386 |
| As of October 31, 2015: | | | | |
| Cash equivalents – money market account | \$ 5,384 | \$ 0 | \$ 0 | \$ 5,384 |

The fair values of cash, receivables, accounts payable, accrued expenses and other current liabilities approximate their carrying values because of their short-term nature. From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. These are typically store specific assets, which are reviewed for impairment whenever events or changes in circumstances indicate that recoverability of their carrying value is questionable. If the expected, undiscounted future cash flows related to a store's assets are less than their carrying value, an impairment loss would be recognized for the difference between estimated fair value and carrying value and recorded in selling, general and administrative expenses. We estimate the fair value of store assets using an income-based approach considering the cash flows expected over the remaining lease term for each location. These projections are primarily based on management's estimates of store-level sales, gross margins, direct expenses, exercise of future lease renewal options and resulting cash flows and, by their nature, include judgments about how current initiatives will impact future performance. External factors, such as the local environment in which the store resides, including strip-mall traffic and competition, are evaluated in terms of their effect on sales trends. Changes in sales and operating income assumptions or unfavorable changes in external factors can significantly impact the estimated future cash flows. An increase or decrease in the projected cash flow can significantly decrease or increase the fair value of these assets, which would have an effect on the impairment recorded.

During the thirteen and thirty-nine weeks ended October 29, 2016, we recorded an impairment charge of \$193,000 on long-lived assets held and used. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$337,000. During the thirteen weeks ended October 31, 2015, we recorded an impairment charge of \$161,000 on long-lived assets held and used. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$69,000. During the thirty-nine weeks ended October 31, 2015, we recorded an impairment charge of \$212,000 on long-lived assets held and used. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$211,000.

We operate nine stores in Puerto Rico with combined net book value of long-lived assets of \$4.5 million. Puerto Rico is experiencing an economic crisis characterized by a deep recession and defaults on its public sector debt. Our estimate of undiscounted cash flows indicates that the carrying amounts of long-lived assets are expected to be recovered. Our estimate of cash flows might change in future periods pending further developments in the economic environment in Puerto Rico.

Note 5 - Stock-Based Compensation

Stock-based compensation includes stock options, cash-settled stock appreciation rights (SARs) and restricted stock awards. Additionally, we recognize stock-based compensation expense for the discount on shares sold to employees through our employee stock purchase plan. For the thirteen and thirty-nine weeks ended October 29, 2016, stock-based compensation expense for the employee stock purchase plan was \$9,000 before the income tax benefit of

\$3,000 and \$33,000 before the income tax benefit of \$12,000, respectively. For the thirteen and thirty-nine weeks ended October 31, 2015, stock-based compensation expense for the employee stock purchase plan was \$9,000 before the income tax benefit of \$3,000 and \$32,000 before the income tax benefit of \$12,000, respectively.

The following section summarizes the share transactions for our restricted stock awards:

| | Number of Shares | Weighted- Average Grant Date Fair Value |
|--------------------------------------|------------------------|---|
| Restricted stock at January 30, 2016 | 829,492 | \$ 22.13 |
| Granted | 225,003 | 24.98 |
| Vested | (33,297) | 25.66 |
| Forfeited | (34,980) | 21.55 |
| Restricted stock at October 29, 2016 | 986,218 | \$ 22.68 |

The weighted-average grant date fair value of stock awards granted during the thirty-nine week periods ended October 29, 2016 and October 31, 2015 was \$24.98 and \$24.43, respectively. The total fair value at grant date of previously non-vested stock awards that vested during the first nine months of fiscal 2016 was \$854,000. The total fair value at grant date of previously non-vested stock awards that vested during the first nine months of fiscal 2015 was \$106,000.

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

| (In thousands) | Thirteen Weeks Ended October 29, 2016 | Thirteen Weeks Ended October 31, 2015 | Thirty-Nine Weeks Ended October 29, 2016 | Thirty-Nine Weeks Ended October 31, 2015 |
|---|--|--|---|---|
| Stock-based compensation expense before the recognized income tax benefit | \$ 1,295 | \$ 810 | \$ 3,197 | \$ 2,344 |
| Income tax benefit | \$ 482 | \$ 308 | \$ 1,208 | \$ 902 |

As of October 29, 2016, approximately \$8.7 million of unrecognized compensation expense remained related to both our performance-based and service-based restricted stock awards. The cost is expected to be recognized over a

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weighted average period of approximately 2.0 years. This incorporates our current assumptions with respect to the estimated requisite service period required to achieve the designated performance conditions for performance-based stock awards.

The following table summarizes the SARs activity:

| | Number of Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) |
|---------------------------------|---------------------|--|--|
| Outstanding at January 30, 2016 | 147,550 | \$24.26 | |
| Forfeited | (6,500) | 24.26 | |
| Exercised | (22,375) | 24.26 | |
| Outstanding at October 29, 2016 | 118,675 | \$24.26 | 3.4 |
| Exercisable at October 29, 2016 | 25,557 | \$24.26 | 3.4 |

SARs were granted during the first quarter of fiscal 2015 to certain non-executive employees, such that one-third of the shares underlying the SARs will 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, after which any unexercised SARs will

expire. Each SAR entitles the holder, upon exercise of their vested shares, to receive cash in an amount equal to the closing price of our stock on the date of exercise less the exercise price, with a maximum amount of gain defined. The SARs granted during the first quarter of fiscal 2015 were issued with a defined maximum gain of \$10.00 over the exercise price of \$24.26.

The fair value of these liability awards are remeasured, using a trinomial lattice model, 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 as of October 29, 2016 and October 31, 2015 was \$4.53 and \$3.70, respectively.

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

| | October 29, 2016 | | October 31, 2015 | |
|-------------------------------------|---------------------|---|---------------------|---|
| Risk free interest rate yield curve | 0.18% - 1.33 | % | 0.01% - 1.52 | % |
| Expected dividend yield | 1.1 | % | 1.0 | % |
| Expected volatility | 35.06 | % | 35.34 | % |
| Maximum life | 3.4 Years | | 4.4 Years | |
| Exercise multiple | 1.34 | | 1.34 | |
| Maximum payout | \$10.00 | | \$10.00 | |
| Employee exit rate | 2.2% - 9.0 | % | 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. The expected dividend yield was based on our historical quarterly cash dividends, with the assumption that quarterly dividends would continue at that rate. Expected volatility was based on the historical volatility of our stock. The exercise multiple and employee exit rate were based on historical option data.

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

| (In thousands) | Thirteen Weeks Ended October 29, 2016 | Thirteen Weeks Ended October 31, 2015 | Thirty-Nine Weeks Ended October 29, 2016 | Thirty-Nine Weeks Ended October 31, 2015 |
|----------------|--|--|---|---|
| | \$ 12 | \$ 24 | \$ 208 | \$ 219 |

| | | | | |
|---|------|------|-------|-------|
| Stock-based compensation expense before the recognized income tax benefit | | | | |
| Income tax benefit | \$ 4 | \$ 9 | \$ 79 | \$ 84 |

As of October 29, 2016, approximately \$155,000 in unrecognized compensation expense remained related to non-vested SARs. This expense is expected to be recognized over a weighted-average period of approximately 0.9 years.

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

Factors That May Affect 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 continental United States in which our stores are located and the impact of the ongoing economic crisis in Puerto Rico on sales at, and cash flows of, our stores located in Puerto Rico; 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;

our ability to successfully manage and execute our marketing initiatives and maintain positive brand perception and recognition; 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; the impact of unauthorized disclosure or misuse of personal and confidential information about our customers, vendors and employees; our ability to manage our third-party vendor relationships; 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, including our entry into major new markets, and the availability of sufficient funds to implement our growth plans; higher than anticipated costs or impairment charges associated with the closing of underperforming stores; our ability to successfully grow our e-commerce sales; the inability of manufacturers to deliver products in a timely manner; changes in the political and economic environments in China, Brazil, Europe 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; the continued favorable trade relations between the United States and China and the other countries which are the major manufacturers of footwear; the resolution of litigation or regulatory proceedings in which we are or may become involved; our ability to meet our labor needs while controlling costs; and future stock repurchases under our stock repurchase program and future dividend payments. 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 30, 2016.

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 thereto 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 30, 2016 as filed with the SEC.

Overview of Our Business

Shoe Carnival, Inc. is one of the nation’s largest family footwear retailers, providing the convenience of shopping at any of our over 400 store locations or online at shoecarnival.com. Our stores combine competitive pricing with a fun and promotional, in-store marketing effort that encourages customer participation and injects fun and surprise into every shopping experience. We believe this fun and 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. A similar customer experience is reflected in our e-commerce site through special promotions and limited time sales, along with relevant fashion stories featured on our home page.

Our objective is to be the destination retailer-of-choice for a wide range of consumers seeking value 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 in four general categories - women's, men's, children's and athletics. In addition to footwear, our stores carry selected accessory items such as socks, belts, shoe care items, handbags, jewelry, scarves and wallets. Our e-commerce site offers customers an opportunity to choose from a large selection of products in all of the same categories of footwear, and introduces our concept to consumers who are new to Shoe Carnival, in both existing and new markets.

Critical Accounting Policies

It is necessary for us to include certain judgments in our reported financial results. These judgments involve estimates based in part on our historical experience and incorporate the impact of the current general economic climate and company-specific circumstances. However, because future events and economic conditions are inherently uncertain, our actual results could differ materially from these estimates. Our accounting policies that require more significant judgments include those with respect to merchandise inventories, valuation of long-lived

assets, insurance reserves and income taxes and are discussed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

There have been no material changes to our critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016. See Note 3 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on recently issued accounting pronouncements.

Results of Operations Summary Information

| Quarter Ended | Number of Stores | | | End of Period | Store Square Footage | | Comparable Store Sales | |
|-------------------|---------------------|--------|--------|---------------|----------------------|---------------|------------------------|----|
| | Beginning Of Period | Opened | Closed | | Net Change | End of Period | | |
| April 30, 2016 | 405 | 3 | 4 | 404 | (13,000) | 4,452,000 | 2.7 | % |
| July 30, 2016 | 404 | 9 | 0 | 413 | 79,000 | 4,531,000 | 0.5 | % |
| October 29, 2016 | 413 | 3 | 1 | 415 | 13,000 | 4,544,000 | (0.4) |)% |
| Year-to-date 2016 | 405 | 15 | 5 | 415 | 79,000 | 4,544,000 | 0.9 | % |
| May 2, 2015 | 400 | 7 | 6 | 401 | 15,000 | 4,434,000 | 3.0 | % |
| August 1, 2015 | 401 | 5 | 6 | 400 | (9,000) | 4,425,000 | 0.5 | % |
| October 31, 2015 | 400 | 6 | 2 | 404 | 40,000 | 4,465,000 | 6.0 | % |
| Year-to-date 2015 | 400 | 18 | 14 | 404 | 46,000 | 4,465,000 | 3.3 | % |

Comparable store sales for the periods indicated include stores that have been open for 13 full months after such store's grand opening 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. We include e-commerce sales in our comparable store sales. Due to our multi-channel retailer strategy, we view the e-commerce sales as an extension of our physical stores.

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

| | | | |
|----------|----------|-------------|-------------|
| Thirteen | Thirteen | Thirty-Nine | Thirty-Nine |
| Weeks | Weeks | Weeks | Weeks |

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| | Ended October 29, 2016 | Ended October 31, 2015 | Ended October 29, 2016 | Ended October 31, 2015 | | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|---|---|
| Net sales | 100.0% | 100.0% | 100.0 | 100.0 | % | % |
| Cost of sales (including buying, distribution and occupancy costs) | 70.1 | 69.9 | 70.7 | 70.4 | | |
| Gross profit | 29.9 | 30.1 | 29.3 | 29.6 | | |
| Selling, general and administrative expenses | 24.3 | 24.5 | 24.2 | 24.3 | | |
| Operating income | 5.6 | 5.6 | 5.1 | 5.3 | | |
| Interest (income) expense, net | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Income before income taxes | 5.6 | 5.6 | 5.1 | 5.3 | | |
| Income tax expense | 2.1 | 2.1 | 1.9 | 2.0 | | |
| Net income | 3.5 | 3.5 | 3.2 | 3.3 | % | % |

Executive Summary for Third Quarter Ended October 29, 2016

Our third quarter operating results were below our expectations due to slower sales in the second half of the quarter. While we recorded comparable store sales increases in athletic merchandise in each month of the third quarter, sales of our fall and winter merchandise were not as strong as the prior year, resulting in a high single-digit decline in

comparable store sales in our boot categories for the quarter. Additional highlights for the third quarter of fiscal 2016 are as follows:

Net sales increased \$4.8 million or 1.8% in the third quarter of fiscal 2016 compared to the same period last year primarily as a result of store growth. Despite a 0.4% decrease in comparable store sales and a mid single-digit decline in store traffic during the quarter, we experienced increases in our conversion rate, average sales per transaction, average units per transaction and average unit retail. Although overall sales of men's, women's and children's non-athletic product were down on a comparable store basis, particularly in our boot categories, we posted a low single-digit increase in adult athletics and we continued to produce positive results with sandals.

Our gross profit margin decreased to 29.9% in the third quarter of fiscal 2016 from 30.1% in the prior year. Our merchandise margin increased 0.1% primarily due to margin increases on the sales of both our athletic and non-athletic product for the quarter partially offset by an increase in expense related to our multi-channel sales initiatives. Buying, distribution and occupancy costs, as a percentage of sales, increased 0.3% due to the deleveraging effect of lower same store sales and new store growth.

We repurchased 375,631 shares of common stock during the quarter at a total cost of \$10.2 million under our share repurchase program and ended the fiscal quarter with \$33.5 million in cash and cash equivalents. We ended the quarter with no interest bearing debt.

We opened three stores including two small-market stores during the third quarter of fiscal 2016, bringing our total to five small-market stores opened in fiscal 2016. In aggregate, we expect to open seven small-market stores in fiscal 2016 out of a total of 19 new store openings planned for the year. We continue to expect consistent small market unit growth over the next several years as we expand into new and existing markets. Two stores were relocated and one store was closed during the third quarter of fiscal 2016, ending the quarter with 415 stores.

During the third quarter of fiscal 2016, we completed the launch of a new online service which gives our customers the option to buy online, pick up in store and buy online, ship to store. This feature provides the convenience of local pickup for our customers with the added benefit of driving traffic back to our stores. This launch represents our continued effort to evolve our customer experience and focus on multi-channel initiatives that we believe will better position us for long-term growth as consumer shopping habits evolve.

During the third quarter of fiscal 2016, we increased membership in our Shoe Perks customer loyalty program by an additional 1.1 million members, which bring total membership to 12.1 million customers. For the quarter, member sales accounted for approximately 67% of our total business and members on average spent 18% more per transaction than non-members. We believe our Shoe Perks program affords us tremendous opportunity to communicate, build relationships and engage with our most loyal shoppers, which we believe will result in long-term sales gains.

Results of Operations for the Third Quarter Ended October 29, 2016

Net Sales

Net sales increased \$4.8 million to \$274.5 million during the third quarter of fiscal 2016, a 1.8% increase over the prior year's third quarter net sales of \$269.7 million. Of this increase in net sales, \$7.4 million was attributable to the

sales generated by the 23 new stores we opened since the beginning of the third quarter of fiscal 2015. This increase was partially offset by a 0.4%, or \$0.7 million, decrease in comparable store sales and a \$1.9 million loss in sales from the eight stores closed since the beginning of the third quarter of fiscal 2015. Slower than anticipated sales in non-athletic footwear, particularly boots, and a mid single-digit decline in store traffic were the primary factors in our comparable store sales decrease during the third quarter.

Gross Profit

Gross profit increased to \$82.0 million during the third quarter of fiscal 2016 compared to gross profit of \$81.3 million for the third quarter of fiscal 2015. Our gross profit margin decreased to 29.9% compared to 30.1% in the third quarter of fiscal 2015. Our merchandise margin increased 0.1% primarily due to margin increases on the sales of both our athletic and non-athletic product for the quarter partially offset by an increase in expense related to our multi-channel sales initiatives. Buying, distribution and occupancy costs, however, increased 0.3% as a percentage of sales during the third

quarter of fiscal 2016 compared to the same period last year primarily due to the deleveraging effect of lower same store sales and new store growth.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$414,000 in the third quarter of fiscal 2016 to \$66.6 million compared to the same prior year period. As a percentage of sales, these expenses decreased to 24.3% in the third quarter of fiscal 2016 from 24.5% in the third quarter of fiscal 2015. Significant changes in expenses between the comparative periods included the following:

On an overall basis, the net change in selling, general and administrative expenses was primarily driven by increases in wages, depreciation and stock-based compensation expense and reductions in incentive compensation, employee health care and advertising expense during the third quarter of fiscal 2016 compared to the third quarter of the prior year.

We incurred additional selling expense of \$897,000 during the third quarter of fiscal 2016 compared to the third quarter of last year related to the operation of 23 new stores opened since the beginning of the third quarter of fiscal 2015, net of expense reductions associated with the closure of eight stores since the beginning of the same period. Stock-based compensation expense increased \$473,000 in the third quarter of fiscal 2016 compared to the same period last year. This was primarily attributable to performance and service-based stock awards granted in fiscal 2016.

Incentive compensation decreased \$790,000 in the third quarter of fiscal 2016 compared to the same period last year. This decrease was primarily attributable to lower financial performance against the defined metrics associated with our performance-based compensation in the third quarter of fiscal 2016.

Pre-opening costs included in selling, general and administrative expenses were \$351,000 in the third quarter of fiscal 2016 compared to \$500,000 in the third quarter last year. We opened three new stores in the third quarter of fiscal 2016 compared to six new stores in the third quarter of fiscal 2015. 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 in which 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.

Store closing costs in selling, general and administrative expenses were \$335,000, or 0.1% as a percentage of sales, in the third quarter of fiscal 2016. Store closing costs were \$611,000, or 0.2% as a percentage of sales, in the third quarter last year. One store was closed in the third quarter of fiscal 2016 compared to two stores in the third quarter of fiscal 2015.

Income Taxes

The effective income tax rate for the third quarter of fiscal 2016 was 37.2% as compared to 38.0% for the same time period in fiscal 2015. 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.

Results of Operations for Nine Month Period Ended October 29, 2016

Net Sales

Net sales increased \$16.6 million to \$766.9 million during the nine-month period ended October 29, 2016, a 2.2% increase compared to net sales of \$750.3 million for the nine-month period ended October 31, 2015. Of the \$16.6 million increase in net sales, approximately \$18.6 million was attributable to the 35 new stores we opened since the beginning of fiscal 2015 and \$7.2 million was attributable to our 0.9% increase in comparable store sales for the nine-month period ended October 29, 2016. These increases were partially offset by a loss of \$9.2 million in sales from the 20 stores closed since the beginning of fiscal 2015.

Gross Profit

Gross profit increased to \$224.8 million during the first nine months of fiscal 2016 compared to gross profit of \$222.3 million in the first nine months of fiscal 2015. Our gross profit margin decreased to 29.3% compared to 29.6% in the first nine months of fiscal 2015. Our merchandise margin decreased 0.4% primarily due to expenses related to our multi-channel sales initiatives. Buying, distribution and occupancy costs decreased 0.1% as a percentage of sales during the first nine months of fiscal 2016 compared to the same period last year primarily due a decrease in outbound freight costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$3.2 million in the first nine months of fiscal 2016 to \$185.4 million compared to the same prior year period. As a percentage of sales, these expenses decreased to 24.2% in the first nine months of fiscal 2016 from 24.3% in the third quarter of fiscal 2015. Significant changes in expenses between the comparative periods included the following:

On an overall basis, the net change in selling, general and administrative expenses was primarily driven by increases in wages, other employee benefits and stock-based compensation expense and reductions in incentive compensation, employee health care and fixed asset write-offs during the first nine months of fiscal 2016 compared to the first nine months of the prior year.

We incurred additional selling expense of \$1.0 million during the first nine months of fiscal 2016 compared to the first nine months of last year related to the operation of 35 new stores opened since the beginning of fiscal 2015, net of expense reductions associated with the closure of 20 stores since the beginning of the same period.

Stock-based compensation expense increased \$843,000 in the first nine months of fiscal 2016 compared to the same period last year. This was primarily attributable to management assumptions related to the timing and probability of the vesting of performance-based stock awards and the net impact of the related adjustments on stock-based compensation expense and grants of awards in fiscal 2016.

Incentive compensation decreased \$1.4 million in the first nine months of fiscal 2016 compared to the same period last year. This decrease was primarily attributable to lower financial performance against the defined metrics associated with our performance-based compensation in the first nine months of fiscal 2016.

In the first nine months of fiscal 2016, pre-opening costs included in selling, general and administrative expenses were \$815,000, or 0.1% as a percentage of sales, compared to \$1.1 million, or 0.2% as a percentage of sales, in the same period last year. 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 in which 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.

Store closing costs and non-cash impairment charges included in selling, general and administrative expenses were \$631,000, or 0.1% as a percentage of sales, in the first nine months of fiscal 2016. Store closing costs and non-cash impairment charges of long-lived assets were \$1.8 million, or 0.2% as a percentage of sales, in the first nine months of last year. We closed five stores in the first nine months of fiscal 2016 and 14 stores were closed in the first nine months of fiscal 2015.

Income Taxes

The effective income tax rate for the first nine months of fiscal 2016 was 37.8% compared to 38.5% for the same period in fiscal 2015. 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.

Liquidity and Capital Resources

We anticipate that our existing cash and cash flows from operations will be sufficient to fund our planned store expansion along with other capital expenditures, working capital needs, potential dividend payments, potential share repurchases under our share repurchase program, and various other commitments and obligations, as they arise, for at least the next 12 months.

Cash Flow - Operating Activities

Our net cash provided by operating activities was \$21.5 million in the first nine months of fiscal 2016 compared to \$23.3 million in the first nine months of fiscal 2015. These amounts reflect our income from operations adjusted for non-cash items and working capital changes. The year-over-year decrease in operating cash flow was primarily driven by a reduction in merchandise inventories and the timing of payments for accounts payable and accrued liabilities.

Working capital decreased to \$268.7 million at October 29, 2016, from \$284.3 million at October 31, 2015, primarily due to decreases in cash and inventory partially offset by a decrease in accounts payable compared to the third quarter of the prior year. The current ratio was 4.0 as of October 29, 2016, compared to 4.1 at October 31, 2015.

Cash Flow - Investing Activities

Our cash outflows for investing activities are primarily for capital expenditures. During the first nine months of fiscal 2016, we expended \$17.4 million for the purchase of property and equipment, of which \$12.9 million was for new stores, remodeling and relocations. During the first nine months of fiscal 2015, we expended \$22.3 million for the purchase of property and equipment, of which \$15.0 million was for new stores, remodeling and relocations. The remaining capital expenditures in both periods were for continued investments in technology and normal asset replacement activities.

Cash Flow - Financing Activities

Cash outflows for financing activities are primarily for cash dividend payments and share repurchases. Shares of our common stock can be either acquired as part of a publicly announced repurchase program or withheld by us in connection with employee payroll tax withholding upon the vesting of restricted stock awards. Our cash inflows from financing activities have represented proceeds from the issuance of shares as a result of stock option exercises and purchases under our Employee Stock Purchase Plan.

During the first nine months of fiscal 2016, net cash used in financing activities was \$39.3 million compared to net cash used in financing activities of \$13.6 million in the first nine months of fiscal 2015. The increase in cash used in financing activities between the two respective periods was primarily attributable to the \$35.4 million of common stock repurchased under our share repurchase program during the first nine months of fiscal 2016, compared to the \$10.2 million repurchased in the first nine months of fiscal 2015.

Capital Expenditures

Capital expenditures for fiscal 2016, including actual expenditures during the first nine months, are expected to be between \$21 million and \$22 million, with approximately \$16 million to be used for new stores, relocations and remodels. Lease incentives to be received from landlords during fiscal 2016, including actual amounts received during the first nine months, are expected to be approximately \$4 to \$5 million. The actual amount of cash required for capital expenditures for store operations depends in part on the number of new stores opened and relocated, the amount of lease incentives, if any, received from landlords and the number of stores remodeled.

Store Openings and Closings

We utilize a formalized review process in our evaluation of potential new store sites as well as for decisions surrounding leases on existing store locations. Our approach is both qualitative and quantitative in nature. We look to continually enhance this process and utilize real estate specific software tools for portfolio analysis. These enhancements aid us in identifying the best possible locations for future expansion and identifying potential store closings and relocations. We believe this will enable us to realize positive long-term financial performance of our portfolio.

In fiscal 2016, we anticipate opening 19 new stores, including seven small-market stores. We opened 15 stores in the first nine months of fiscal 2016, including five small-market stores. Pre-opening expenses, including rent, freight, advertising, salaries and supplies, are expected to total approximately \$1.7 million for fiscal 2016, or an average of \$87,000 per store. During fiscal 2015, we opened 20 new stores and expended \$1.9 million on pre-opening expenses, or an average of \$96,000 per store. The opening of new stores is 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.

We closed five stores during the first nine months of fiscal 2016. Fourteen stores were closed during the first nine months of fiscal 2015. Currently, we have four additional store closings scheduled for the fourth quarter of fiscal 2016. 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 cost incurred in terminating the lease. 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.

Dividends

On September 8, 2016, our Board of Directors approved the payment of our third quarter cash dividend to our shareholders. The dividend of \$0.07 per share was paid on October 17, 2016 to shareholders of record as of the close of business on October 3, 2016.

The declaration and payment of any future dividends are at the discretion of the Board of Directors and will depend on our results of operations, financial condition, business conditions and other factors deemed relevant by our Board of Directors.

Credit Facility

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 condensed consolidated net income for the immediately preceding fiscal year, and in no event may the total distributions in any fiscal year exceed 25% of the prior year's ending net worth. We were in compliance with these covenants as of October 29, 2016. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. There were no borrowings outstanding under the credit facility and letters of credit outstanding were \$1.0 million at October 29, 2016. As of October 29, 2016, \$49.0 million was available to us for additional borrowings under the credit facility.

Share Repurchase Program

On December 9, 2015, our Board of Directors authorized a new share repurchase program for up to \$50 million of outstanding common stock, effective January 1, 2016. The purchases may be made in the open market or through privately negotiated transactions, from time-to-time through December 31, 2016, and in accordance with applicable laws, rules and regulations. On January 21, 2016, we entered into a stock repurchase plan for the purpose of repurchasing shares of our common stock in accordance with guidelines specified under Rule 10b5-1 of the Exchange Act. After its expiration, we entered into another such plan on June 28, 2016 (collectively, the “Rule 10b5-1 Plans”). The Rule 10b5-1 Plans were established pursuant to, and as part of, our share repurchase program and permit shares to be repurchased in accordance with pre-determined criteria when repurchases would otherwise be prohibited, such as during self-imposed blackout periods, or under insider trading laws. The share repurchase program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We have funded, and intend to continue 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.

During the third quarter of fiscal 2016, we repurchased 375,631 shares of common stock at a total cost of \$10.2 million under the new share repurchase program. As of October 29, 2016, approximately 1.6 million shares at an aggregate cost of \$39.7 million had been repurchased under the new share repurchase program. The amount that remained available under the share repurchase program at October 29, 2016 was \$10.3 million.

Seasonality and Quarterly Results

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 the opening of 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. To prepare for our peak shopping seasons, we must order and keep in stock significantly more merchandise than we would carry during other parts of the year. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown, which could reduce our net sales and gross margins and negatively affect our profitability. Our operating results depend significantly upon the sales generated during these periods.

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 nine months of fiscal 2016 or fiscal 2015.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of October 29, 2016, 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 SEC'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 significant change in our internal control over financial reporting that occurred during the quarter ended October 29, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control

over financial reporting.

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SHOE CARNIVAL, INC.
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 30, 2016 before deciding to invest in, or retain, shares of our common stock. If any of these risks or uncertainties actually occur, we may not be able to conduct our business as currently planned and our financial condition, results of operations or cash flows could be materially and 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 30, 2016.

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 (2) |
|-------------------------------------|--|--|---|--|
| July 31, 2016 to August 27, 2016 | 0 | \$ 0.00 | 0 | \$ 20,474,000 |
| August 28, 2016 to October 1, 2016 | 375,631 | \$ 27.13 | 375,631 | \$ 10,285,000 |
| October 2, 2016 to October 29, 2016 | 0 | \$ 0.00 | 0 | \$ 10,285,000 |
| | 375,631 | | 375,631 | |

(1) No shares were withheld by us in the third quarter in connection with employee payroll tax withholding upon the vesting of restricted stock awards.

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(2) On December 9, 2015, our Board of Directors authorized a new share repurchase program for up to \$50 million of our outstanding common stock, effective January 1, 2016 and expiring on December 31, 2016.

ITEM 6. EXHIBITS

| Exhibit No. | Description | Incorporated by Reference To | | | Filed Herewith |
|----------------|--|---------------------------------|---------|----------------|-------------------|
| | | Form | Exhibit | Filing Date | |
| 3-A | Amended and Restated Articles of Incorporation of Registrant | 8-K | 3-A | 06/14/2013 | |
| 3-B | By-laws of Registrant, as amended to date | 8-K | 3-B | 06/14/2013 | |

EXHIBITS - Continued

| Exhibit No. | Description | Incorporated by Reference To | |
|----------------|---|---------------------------------|-------------------------------|
| | | FormExhibit | Filing Filed Date Herewith |
| 31.1 | 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 |
| 31.2 | 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 |
| 32.1 | 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 |
| 32.2 | 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 October 29, 2016, 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 Condensed Consolidated Financial Statements. | | X |

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: November 30, 2016 SHOE CARNIVAL,
INC.
(Registrant)

By: /s/ W. Kerry Jackson
W. Kerry Jackson
Senior Executive Vice President,
Chief Operating and Financial Officer and Treasurer

(Duly Authorized Officer and Principal Financial Officer)