

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 29, 2017**

☐ **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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 25, 2017 was 17,019,769.

**SHOE CARNIVAL, INC.
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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)	July 29, 2017	January 28, 2017	July 30, 2016
Assets			
Current Assets:			
Cash and cash equivalents	\$ 18,531	\$ 62,944	\$ 41,549
Accounts receivable	2,798	4,424	3,185
Merchandise inventories	357,467	279,646	351,220
Deferred income taxes	0	0	2,680
Other	7,029	4,737	7,991
Total Current Assets	385,825	351,751	406,625
Property and equipment - net	96,046	96,216	103,363
Deferred income taxes	10,072	9,600	7,045
Other noncurrent assets	869	911	1,053
Total Assets	<u>\$ 492,812</u>	<u>\$ 458,478</u>	<u>\$ 518,086</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable	\$ 93,829	\$ 67,808	\$ 116,989
Accrued and other liabilities	20,367	18,488	19,759
Total Current Liabilities	114,196	86,296	136,748
Long-term debt	26,700	0	0
Deferred lease incentives	28,909	30,751	30,634
Accrued rent	10,977	11,255	11,407
Deferred compensation	11,141	10,465	10,022
Other	686	829	811
Total Liabilities	<u>192,609</u>	<u>139,596</u>	<u>189,622</u>
Shareholders' Equity:			
Common stock, \$.01 par value, 50,000,000 shares authorized, 20,552,245 shares, 20,569,198 shares and 20,599,601 shares issued, respectively	206	206	206
Additional paid-in capital	61,638	65,272	63,753
Retained earnings	322,473	312,641	306,458
Treasury stock, at cost, 3,533,262 shares, 2,433,925 shares and 1,777,305 shares, respectively	(84,114)	(59,237)	(41,953)
Total Shareholders' Equity	<u>300,203</u>	<u>318,882</u>	<u>328,464</u>
Total Liabilities and Shareholders' Equity	<u>\$ 492,812</u>	<u>\$ 458,478</u>	<u>\$ 518,086</u>

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 July 29, 2017	Thirteen Weeks Ended July 30, 2016	Twenty-six Weeks Ended July 29, 2017	Twenty-six Weeks Ended July 30, 2016
Net sales	\$ 235,064	\$ 231,907	\$ 488,453	\$ 492,377
Cost of sales (including buying, distribution and occupancy costs)	166,837	164,677	348,070	349,591
Gross profit	68,227	67,230	140,383	142,786
Selling, general and administrative expenses	61,803	60,570	120,732	118,841
Operating income	6,424	6,660	19,651	23,945
Interest income	(1)	(2)	(2)	(5)
Interest expense	149	41	191	84
Income before income taxes	6,276	6,621	19,462	23,866
Income tax expense	2,380	2,517	7,335	9,101
Net income	<u>\$ 3,896</u>	<u>\$ 4,104</u>	<u>\$ 12,127</u>	<u>\$ 14,765</u>
Net income per share:				
Basic	\$ 0.24	\$ 0.22	\$ 0.73	\$ 0.78
Diluted	\$ 0.24	\$ 0.22	\$ 0.73	\$ 0.78
Weighted average shares:				
Basic	16,091	18,277	16,453	18,526
Diluted	16,094	18,282	16,457	18,531
Cash dividends declared per share	\$ 0.075	\$ 0.070	\$ 0.145	\$ 0.135

See notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Common Stock			Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Issued	Treasury	Amount				
Balance at January 28, 2017	20,569	(2,434)	\$ 206	\$ 65,272	\$ 312,641	\$ (59,237)	\$ 318,882
Adoption of Accounting Standards Update No. 2016-09				(188)	188		0
Dividends declared (\$0.145 per share)					(2,483)		(2,483)
Stock option exercises		4		(58)		84	26
Employee stock purchase plan purchases		6		(28)		144	116
Restricted stock awards	(17)	138		(4,524)		4,524	0
Shares surrendered by employees to pay taxes on restricted stock		(12)				(286)	(286)
Purchase of common stock for treasury		(1,235)				(29,343)	(29,343)
Stock-based compensation expense				1,164			1,164
Net income					12,127		12,127
Balance at July 29, 2017	20,552	(3,533)	\$ 206	\$ 61,638	\$ 322,473	\$ (84,114)	\$ 300,203

See notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Twenty-six Weeks Ended July 29, 2017	Twenty-six Weeks Ended July 30, 2016
Cash Flows From Operating Activities		
Net income	\$ 12,127	\$ 14,765
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,961	11,773
Stock-based compensation	927	2,123
Loss on retirement and impairment of assets	1,705	59
Deferred income taxes	(472)	(1,506)
Lease incentives	1,560	898
Other	(3,140)	(1,973)
Changes in operating assets and liabilities:		
Accounts receivable	1,626	(1,054)
Merchandise inventories	(77,821)	(58,341)
Accounts payable and accrued liabilities	27,356	49,229
Other	(2,329)	(3,381)
Net cash (used in) provided by operating activities	<u>(26,500)</u>	<u>12,592</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(12,737)	(11,910)
Net cash used in investing activities	<u>(12,737)</u>	<u>(11,910)</u>
Cash Flows From Financing Activities		
Borrowings under line of credit	79,200	0
Payments on line of credit	(52,500)	0
Proceeds from issuance of stock	142	133
Dividends paid	(2,389)	(2,533)
Excess tax benefits from stock-based compensation	0	2
Purchase of common stock for treasury	(29,343)	(25,238)
Shares surrendered by employees to pay taxes on restricted stock	(286)	(311)
Net cash used in financing activities	<u>(5,176)</u>	<u>(27,947)</u>
Net decrease in cash and cash equivalents	(44,413)	(27,265)
Cash and cash equivalents at beginning of period	62,944	68,814
Cash and Cash Equivalents at End of Period	<u>\$ 18,531</u>	<u>\$ 41,549</u>
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$ 112	\$ 84
Cash paid during period for income taxes	\$ 7,883	\$ 11,482
Capital expenditures incurred but not yet paid	\$ 925	\$ 576

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 Consolidated Financial Statements and the notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

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					
	July 29, 2017			July 30, 2016		
	(In thousands, except per share data)					
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic Earnings per Share:						
Net income	\$ 3,896			\$ 4,104		
Amount allocated to participating securities	(60)			(87)		
Net income available for basic common shares and basic earnings per share	\$ 3,836	16,091	\$ 0.24	\$ 4,017	18,277	\$ 0.22
Diluted Earnings per Share:						
Net income	\$ 3,896			\$ 4,104		
Amount allocated to participating securities	(60)			(87)		
Adjustment for dilutive potential common shares	0	3		0	5	
Net income available for diluted common shares and diluted earnings per share	\$ 3,836	16,094	\$ 0.24	\$ 4,017	18,282	\$ 0.22

	Twenty-six Weeks Ended					
	July 29, 2017			July 30, 2016		
	(In thousands, except per share data)					
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic Earnings per Share:						
Net income	\$ 12,127			\$ 14,765		
Amount allocated to participating securities	(171)			(303)		
Net income available for basic common shares and basic earnings per share	\$ 11,956	16,453	\$ 0.73	\$ 14,462	18,526	\$ 0.78
Diluted Earnings per Share:						
Net income	\$ 12,127			\$ 14,765		
Amount allocated to participating securities	(171)			(303)		
Adjustment for dilutive potential common shares	0	4		0	5	
Net income available for diluted common shares and diluted earnings per share	\$ 11,956	16,457	\$ 0.73	\$ 14,462	18,531	\$ 0.78

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, which makes the guidance effective for us at the beginning of fiscal 2018, including interim periods within that fiscal year. While we have made progress on our scoping review and assessment phase, we are still evaluating the impact this guidance will have on our financial statements and related disclosures, and we are continuing to evaluate the method of adoption we will use when we transition to this guidance. At this time the key areas of focus include timing of recognizing revenue for our multi-channel business, recognition of breakage revenue for unredeemed gift cards, our customer loyalty program, and presentation of customer related return reserves on the balance sheet.

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 measured using the last-in-first-out or the retail inventory valuation methods. We adopted the provisions of this guidance on January 29, 2017. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or 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. The guidance will be effective at the beginning of fiscal 2019, including interim periods within that fiscal year, and will be applied on a modified retrospective basis. We are evaluating the impact of this guidance on our consolidated financial position, results of operations and cash flows. The adoption of the guidance will require us to recognize right-of-use assets and lease liabilities that will be material to our consolidated balance sheet.

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. We adopted the provisions of this guidance on January 29, 2017. As a result of this adoption, all tax-related cash flows resulting from share-based payments in fiscal 2017 are presented as operating activities on the statements of cash flows, as we elected to adopt this portion of the guidance on a prospective basis. Additionally, we made an accounting policy election to account for forfeitures when they occur rather than estimating the number of awards that are expected to vest. As a result of this election, we recorded a cumulative-effect benefit of \$188,000 to retained earnings as of the date of adoption.

In November 2016, the FASB issued guidance for restricted cash classification and presentation on the statement of cash flows, requiring restricted cash to be included within cash and cash equivalents on the statement of cash flows. The guidance will be effective at the beginning of fiscal 2018, including interim periods within that fiscal year, and will be applied on a retrospective basis. We do not believe the guidance will have a material impact on our condensed consolidated statement of cash flows.

In May 2017, the FASB issued guidance which clarifies what constitutes a modification of a share-based payment award. The guidance will be effective at the beginning of fiscal 2018, including interim periods within that fiscal year, and early adoption is permitted. The guidance requires adoption on a prospective basis for share-based payment awards modified on or after the adoption date. We do not believe the guidance will have a material impact on our condensed consolidated financial position, results of operations or 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:

- 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 July 29, 2017, January 28, 2017 and July 30, 2016. 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 July 29, 2017:				
Cash equivalents – money market account	\$ 0	\$ 0	\$ 0	\$ 0
As of January 28, 2017:				
Cash equivalents– money market account	\$ 114	\$ 0	\$ 0	\$ 114
As of July 30, 2016:				
Cash equivalents – money market account	\$ 114	\$ 0	\$ 0	\$ 114

The fair values of cash, receivables, accounts payable, accrued expenses and other current liabilities approximate their carrying values because of their short-term nature. In addition, we believe that our credit facility obligation, which is recorded at historical cost and is classified as long-term debt on our condensed consolidated balance sheet as of July 29, 2017, approximates fair value as the interest rate is adjusted based on current market rates.

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 weeks ended July 29, 2017, we recorded an impairment charge of \$916,000 on long-lived assets. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$286,000. During the twenty-six weeks ended July 29, 2017, we recorded an impairment charge of \$1.6 million on long-lived assets. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$1.3 million. There were no impairments of long-lived assets recorded during the thirteen or twenty-six weeks ended July 30, 2016.

Note 5 - Stock-Based Compensation

At our 2017 annual meeting of shareholders held on June 13, 2017, our shareholders approved a new equity incentive plan, the Shoe Carnival, Inc. 2017 Equity Incentive Plan (the "2017 Plan"), which replaces our 2000 Stock Option and Incentive Plan, as amended (the "2000 Plan"). According to the terms of the 2017 Plan, upon approval of the 2017 Plan by our shareholders, no further awards may be made under the 2000 Plan. A maximum of 1,000,000 shares of our common stock are available for issuance and sale under the 2017 Plan. In addition, any shares of our common stock subject to an award granted under the 2017 Plan, or to an award granted under the 2000 Plan that was outstanding on the date our shareholders approved the 2017 Plan, that expires, is cancelled or forfeited, or is settled for cash will, to the extent of such cancellation, forfeiture, expiration or cash settlement, automatically become available for future awards under the 2017 Plan.

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 twenty-six weeks ended July 29, 2017, stock-based compensation expense for the employee stock purchase plan was \$9,000 before the income tax benefit of \$3,000 and \$20,000 before the income tax benefit of \$8,000, respectively. For the thirteen and twenty-six weeks ended July 30, 2016, stock-based compensation expense for the employee stock purchase plan was \$11,000 before the income tax benefit of \$4,000 and \$24,000 before the income tax benefit of \$9,000, respectively.

No stock options have been granted since fiscal 2008. All outstanding options had vested as of the end of fiscal 2011; therefore no unrecognized compensation expense remains. In the first six months of fiscal 2017 there were 3,500 options exercised and there were 3,500 options outstanding and exercisable as of July 29, 2017.

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 28, 2017	964,858	\$ 22.63
Granted	273,398	24.10
Vested	(32,274)	24.24
Forfeited or expired	(151,953)	17.74
Restricted stock at July 29, 2017	1,054,029	\$ 23.67

The weighted-average grant date fair value of stock awards granted during the twenty-six week periods ended July 29, 2017 and July 30, 2016 was \$24.10 and \$24.94, respectively. The total fair value at grant date of restricted stock awards that vested during the first six months of fiscal 2017 was \$782,000. The total fair value at grant date of restricted stock awards that vested during the first six months of fiscal 2016 was \$854,000. Of the 151,953 shares of restricted stock that were forfeited or that expired in the first six months of fiscal 2017, 135,000 shares were restricted stock awards that expired unvested in the first quarter of fiscal 2017, as the performance measures were not achieved. These awards represented the three tiers of the restricted stock awards granted on March 15, 2011.

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

(In thousands)	Thirteen Weeks Ended July 29, 2017	Thirteen Weeks Ended July 30, 2016	Twenty-six Weeks Ended July 29, 2017	Twenty-six Weeks Ended July 30, 2016
Stock-based compensation before the recognized income tax effect	\$ 1,133	\$ 1,414	\$ 1,144	\$ 1,902
Income tax effect	\$ 430	\$ 538	\$ 431	\$ 725

The \$1.1 million of expense recognized in the first six months of fiscal 2017 was comprised of compensation expense of \$2.1 million, partially offset by income of \$916,000. The income was attributable to the reversal of the cumulative prior period expense for performance-based awards, which were deemed by management as no longer probable to vest prior to their expiration.

As of July 29, 2017, approximately \$6.2 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 weighted average period of approximately 1.6 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 28, 2017	111,300	\$ 24.26	
Forfeited	0	0.00	
Exercised	0	0.00	
Outstanding at July 29, 2017	111,300	\$ 24.26	2.6
Exercisable at July 29, 2017	64,741	\$ 24.26	2.6

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 common 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 re-measured, 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 July 29, 2017 and July 30, 2016 was \$1.97 and \$4.86, respectively.

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

	July 29, 2017	July 30, 2016
Risk free interest rate yield curve	1.00% - 1.83%	0.19% - 1.03%
Expected dividend yield	1.6%	1.1%
Expected volatility	35.68%	36.32%
Maximum life	2.6 Years	3.6 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 common stock. The exercise multiple and employee exit rate were based on historical option data.

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

	Thirteen Weeks Ended July 29, 2017	Thirteen Weeks Ended July 30, 2016	Twenty-six Weeks Ended July 29, 2017	Twenty-six Weeks Ended July 30, 2016
Stock-based compensation before the recognized income tax effect	\$ (261)	\$ 72	\$ (237)	\$ 212
Income tax effect	\$ (99)	\$ 27	\$ (89)	\$ 81

As of July 29, 2017, approximately \$23,000 in unrecognized compensation expense remained related to non-vested SARs. This expense is expected to be recognized over a weighted-average period of approximately 0.7 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; our ability to successfully navigate the increasing use of on-line retailers for fashion purchases and the impact on traffic and transactions in our physical stores; our ability to attract customers to our e-commerce website and to successfully grow our e-commerce sales; 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 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 business 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 business plans; higher than anticipated costs associated with the closing of underperforming stores; the inability of manufacturers to deliver products in a timely manner; changes in the political and economic environments in, and continued favorable trade relations with China, and other countries which are the major manufacturers of footwear; the impact of regulatory changes in the United States and the countries where our manufacturers are located; 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 28, 2017.

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 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended January 28, 2017, 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 store locations or online at shoecarnival.com. Our stores combine competitive pricing with a 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 product 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. Our e-commerce site offers customers an opportunity to choose from a large selection of products in all of the same categories of footwear with a depth of sizes and colors that may not be available in some of our smaller stores, and introduces our concept to consumers who are new to Shoe Carnival, in both existing and new markets.

In addition to footwear, our stores carry complementary accessories such as socks, belts, shoe care items, handbags, sport bags, backpacks, jewelry, scarves and wallets. Our e-commerce site also carries certain accessories such as handbags, sport bags and backpacks.

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 28, 2017.

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 28, 2017. 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				Store Square Footage		Comparable Store Sales
	Beginning Of Period	Opened	Closed	End of Period	Net Change	End of Period	
April 29, 2017	415	7	5	417	7,000	4,533,000	(3.9)%
July 29, 2017	417	5	4	418	(12,000)	4,521,000	0.4%
Year-to-date 2017	415	12	9	418	(5,000)	4,521,000	(1.9)%
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%
Year-to-date 2016	405	12	4	413	66,000	4,531,000	1.6%

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 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 Weeks Ended July 29, 2017	Thirteen Weeks Ended July 30, 2016	Twenty-six Weeks Ended July 29, 2017	Twenty-six Weeks Ended July 30, 2016
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (including buying, distribution and occupancy costs)	71.0	71.0	71.3	71.0
Gross profit	29.0	29.0	28.7	29.0
Selling, general and administrative expenses	26.3	26.1	24.7	24.1
Operating income	2.7	2.9	4.0	4.9
Interest (income) expense, net	0.0	0.0	0.0	0.0
Income before income taxes	2.7	2.9	4.0	4.9
Income tax expense	1.0	1.1	1.5	1.9
Net income	1.7%	1.8%	2.5%	3.0%

Executive Summary for Second Quarter Ended July 29, 2017

We had positive momentum early in the second quarter of fiscal 2017 with comparable store sales up low single-digits in May. As the quarter progressed and we started to enter the important back-to-school selling period, comparable store sales flattened as certain markets experienced later back-to-school dates, which shifted sales from the second quarter to the third quarter. As a result, we ended the quarter with a 0.4% increase in comparable store sales. Faced with an uncertain retail environment, we continue to remain focused on effectively managing inventory and maintaining tight controls over our cost structure in fiscal 2017. Highlights for the second quarter of fiscal 2017 are as follows:

- Net sales increased \$3.2 million, or 1.4%, in the second quarter of fiscal 2017 compared to the same period last year. We experienced increases in average sales per transaction, average units per transaction and conversion during the quarter. Store traffic declined mid-single digits and average unit retail was flat compared to the second quarter of fiscal 2016.
- Our gross profit margin of 29.0% in the second quarter of fiscal 2017 was flat compared to the second quarter of fiscal 2016. Our merchandise margin, along with buying, distribution and occupancy expenses as a percentage of sales, remained flat compared to the second quarter of fiscal 2016.
- We repurchased 469,000 shares of our common stock during the quarter at a total cost of \$10.2 million under our share repurchase program and ended the quarter with \$18.5 million in cash and cash equivalents. Borrowings under our credit facility totaled \$26.7 million at the end of the second quarter of fiscal 2017. These borrowings were primarily used to fund the purchase of merchandise inventory required to meet peak demand for the back-to-school season. As of the filing date of this Quarterly Report on Form 10-Q, we had no outstanding borrowings under our credit facility.
- We opened five stores and closed four stores during the second quarter of fiscal 2017, ending the quarter with 418 stores.

Results of Operations for the Second Quarter Ended July 29, 2017

Net Sales

Net sales increased \$3.2 million to \$235.1 million during the second quarter of fiscal 2017, a 1.4% increase over the prior year's second quarter net sales of \$231.9 million. Of this increase in net sales, \$800,000 was attributable to the 0.4% increase in comparable store sales and \$5.7 million was attributable to sales generated by the 28 new stores opened since the beginning of the second quarter of fiscal 2016. These increases were partially offset by a loss in sales of \$3.3 million from the 14 stores closed since the beginning of the second quarter of fiscal 2016.

Gross Profit

Gross profit increased to \$68.2 million during the second quarter of fiscal 2017, compared to gross profit of \$67.2 million for the second quarter of fiscal 2016, primarily due to the increase in net sales. Our gross profit margin remained flat at 29.0% compared to the second quarter of fiscal 2016. Our merchandise margin, along with buying, distribution and occupancy costs as a percentage of sales, remained flat compared to the second quarter of fiscal 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1.2 million in the second quarter of fiscal 2017 to \$61.8 million compared to \$60.6 million in the second quarter of fiscal 2016. As a percentage of sales, these expenses increased to 26.3% in the second quarter of fiscal 2017 from 26.1% in the second quarter of fiscal 2016. The overall increase in selling, general and administrative expenses during the second quarter of fiscal 2017 was primarily due to a \$1.0 million increase in expenses for new stores net of expense reductions for stores that have closed and a \$916,000 increase in impairments of long-lived assets. These increases were partially offset by decreases in stock-based compensation and incentive compensation expense totaling \$849,000.

Pre-opening costs included in selling, general and administrative expenses were \$234,000 in the second quarter of fiscal 2017 compared to \$353,000 in the second quarter last year. We opened five new stores in the second quarter of fiscal 2017 compared to nine new stores in the second quarter of fiscal 2016. 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 included in selling, general and administrative expenses were \$1.6 million, or 0.7% as a percentage of sales, in the second quarter of fiscal 2017. Store closing costs were \$74,000 in the second quarter last year. Four stores were closed in the second quarter of fiscal 2017 compared to no store closings in the second quarter of fiscal 2016. Included in store closing costs in the second quarter of fiscal 2017 were impairments of long-lived assets of \$916,000. There were no impairments of long-lived assets recorded during the second quarter of fiscal 2016.

Income Taxes

The effective income tax rate for the second quarter of fiscal 2017 was 37.9% as compared to 38.0% for the same time period in fiscal 2016. 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 Six Month Period Ended July 29, 2017

Net Sales

Net sales decreased \$3.9 million to \$488.5 million for the six-month period ended July 29, 2017, a 0.8% decrease compared to net sales of \$492.4 million for the six-month period ended July 30, 2016. Of this decrease in net sales, \$8.9 million was attributable to the 1.9% decrease in comparable store sales and \$6.8 million was attributable to a loss in sales from the 18 stores closed since the beginning of fiscal 2016. These decreases were partially offset by an increase in sales of \$11.8 million generated by the 31 new stores opened since the beginning of fiscal 2016.

Gross Profit

Gross profit decreased \$2.4 million to \$140.4 million in the first six months of fiscal 2017 primarily due to the decrease in net sales. The gross profit margin for the first six months of fiscal 2017 decreased to 28.7% from 29.0% as reported in the comparable prior year period. The merchandise margin increased 0.2%, but buying, distribution and occupancy costs increased 0.5% as a percentage of sales compared to the same period last year primarily due to the deleveraging effect of lower same store sales on occupancy costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1.9 million in the first six months of fiscal 2017 to \$120.7 million compared to the same period last year. As a percentage of sales, these expenses increased to 24.7% in the first six months of fiscal 2017 from 24.1% in the first six months of fiscal 2016. The overall increase in selling, general and administrative expenses during the first six months of fiscal 2017 was primarily due to a \$2.2 million increase in expenses for new stores net of expense reductions for stores that have closed, a \$1.6 million increase in impairments of long-lived assets and a \$1.1 million increase in employee healthcare expense. These increases were partially offset by a \$2.2 million decrease in selling expenses associated with our comparable store base and decreases in stock-based compensation and incentive compensation expense totaling \$1.4 million.

In the first six months of fiscal 2017, pre-opening costs included in selling, general and administrative expenses were \$517,000, or 0.1% as a percentage of sales, compared to 463,000, or 0.1% 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 included in selling, general and administrative expenses were \$2.7 million, or 0.5% as a percentage of sales, in the first six months of fiscal 2017. Store closing costs were \$296,000, or 0.1% as a percentage of sales, in the first six months of last year. We closed nine stores in the first six months of fiscal 2017 and four stores were closed in the first six months of fiscal 2016. Included in the store closing costs in the first six months of fiscal 2017 were impairments of long-lived assets of \$1.6 million. There were no impairments of long-lived assets recorded during the first six months of fiscal 2016.

Income Taxes

The effective income tax rate for the first six months of fiscal 2017 was 37.7% compared to 38.1% for the same period in fiscal 2016. 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. The decrease in the effective income tax rate between periods was primarily due to changes in state tax rates.

Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents on hand, cash generated from operations and availability under our credit facility. We believe these resources will be sufficient to fund our cash needs, as they arise, for at least the next 12 months. Our primary uses of cash are for working capital, which are principally inventory purchases, store initiatives, potential dividend payments, potential share repurchases under our share repurchase program, the financing of capital projects, including investments in new systems, and various other commitments and obligations.

Cash Flow - Operating Activities

Our net cash used in operating activities was \$26.5 million in the first six months of fiscal 2017 compared to cash provided by operating activities of \$12.6 million in the first six months of fiscal 2016. 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 an increase in merchandise inventories required to meet peak demand for the back-to-school season and by the timing of payments for accounts payable and accrued liabilities.

Working capital increased to \$271.6 million at July 29, 2017 from \$269.9 million at July 30, 2016, primarily due to the decrease in accounts payable and an increase in merchandise inventory, partially offset by the decrease in cash and cash equivalents compared to the end of the second quarter of the prior year. The current ratio was 3.4 as of July 29, 2017, compared to 3.0 at July 30, 2016.

Cash Flow - Investing Activities

Our cash outflows for investing activities are primarily for capital expenditures. During the first six months of fiscal 2017, we expended \$12.7 million for the purchase of property and equipment, of which \$8.1 million was for new stores, remodeling and relocations. During the first six months of fiscal 2016, we expended \$11.9 million for the purchase of property and equipment, of which \$11.7 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 have represented cash dividend payments, share repurchases and payments on our credit facility. Shares of our common stock can be either acquired as part of a publicly announced share 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, purchases under our Employee Stock Purchase Plan and borrowings under our credit facility.

During the first six months of fiscal 2017, net cash used in financing activities was \$5.2 million compared to net cash used in financing activities of \$27.9 million in the first six months of fiscal 2016. The decrease in cash used in financing activities between the two respective periods was primarily attributable to net borrowings of \$26.7 million, partially offset by an increase of \$4.1 million in common stock repurchased under our share repurchase program compared to the first six months of fiscal 2016.

Capital Expenditures

Capital expenditures for fiscal 2017, including actual expenditures during the first six months, are expected to be between \$22 million and \$23 million, with approximately \$14 million to be used for new stores, relocations and remodels. The remaining capital expenditures are expected to be incurred for continued investments in technology and normal asset replacement activities. Lease incentives to be received from landlords during fiscal 2017, including actual amounts received during the first six 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 aim to realize positive long-term financial performance for our store portfolio. We utilize a formal 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 with tools such as real estate software used for portfolio analysis that aid in identifying viable locations for future expansion and identifying potential store closings and relocations.

In fiscal 2017, we anticipate opening 19 new stores. We opened 12 stores in the first six months of fiscal 2017. Pre-opening expenses, including rent, freight, advertising, salaries and supplies, are presently expected to total approximately \$1.4 million for fiscal 2017, or an average of \$72,000 per store. During fiscal 2016, we opened 19 new stores and expended \$1.6 million on pre-opening expenses, or an average of \$85,000 per store.

We anticipate closing 25 to 27 stores in fiscal 2017. We closed nine stores during the first six months of fiscal 2017. Four stores were closed during the first six months 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 long-lived assets to be disposed of at closing and the cost incurred in terminating the lease.

We believe that a continued, disciplined approach to new store openings is very important as we leverage our multi-channel strategy and pursue opportunities for brick-and-mortar stores across large, mid and smaller markets. Over the past several years, we have analyzed our entire portfolio of stores, with a concentration on underperforming stores, to meet our long-term goal of increasing shareholder value through increasing operating income. Our objective is to identify and address underperforming stores that produce low or negative contribution and either renegotiate lease terms, relocate or close the store. Based on this analysis, we have identified 30 to 35 stores that we plan to close in fiscal 2018 if we cannot improve the performance of those stores to meet our minimum contribution level. Even though this would reduce our overall net sales volume, we believe this strategy would realize long-term improvement in operating income and diluted earnings per share. We expect new store openings for fiscal 2018 will be in the low single digit range. We remain committed to long-term strategic store growth; however, with the changing landscape in brick-and-mortar stores, we believe more attractive real estate opportunities will become available in the marketplace if we remain diligent in our approach.

Dividends

On June 13, 2017, our Board of Directors approved the payment of our second quarter cash dividend to our shareholders. The dividend of \$0.075 per share was paid on July 17, 2017 to shareholders of record as of the close of business on July 3, 2017.

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. Our credit agreement (described below) permits the payment of cash dividends as long as no default or event of default exists under the credit agreement both immediately before and immediately after giving effect to the cash dividends, and the aggregate amount of cash dividends for a fiscal year do not exceed \$10.0 million.

Credit Facility

On March 27, 2017, we entered into a second amendment of our current unsecured credit agreement (as amended, the “Credit Agreement”) to extend the expiration date by five years to March 27, 2022, and to renegotiate certain terms and conditions. The Credit Agreement, as amended, continues to provide for up to \$50.0 million in cash advances and commercial and standby letters of credit with borrowing limits based on eligible inventory, which amount may be increased from time to time by up to an additional \$50.0 million, without the consent of any lender, if certain conditions are met. The Credit Agreement contains covenants which stipulate: (1) Total Shareholders’ Equity (as defined in the Credit Agreement) will not fall below \$250.0 million at the end of each fiscal quarter; (2) the ratio of funded debt plus three times rent to EBITDA (as defined in the Credit Agreement) plus rent will not exceed 2.5 to 1.0; (3) the aggregate amount of cash dividends for a fiscal year will not exceed \$10.0 million; and (4) distributions in the form of redemptions of our common stock may be made solely with cash on hand so long as before and immediately after such distributions there are no revolving loans outstanding under the Credit Agreement. We were in compliance with these covenants as of July 29, 2017. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. The credit facility bears interest, at our option, at (1) the agent bank’s prime rate (as defined in the Credit Agreement) plus 1%, with the prime rate defined as the greater of (a) the Federal Funds rate plus 0.50% or (b) the interest rate announced from time to time by the agent bank as its “prime rate” or (2) LIBOR plus 1.25% to 2.50%, depending on our achievement of certain performance criteria. A commitment fee is charged at 0.20% to 0.35% per annum, depending on our achievement of certain performance criteria, on the unused portion of the bank group’s commitment. As of July 29, 2017, there was \$26.7 million of borrowings outstanding under the credit facility and letters of credit outstanding were \$1.4 million. As of July 29, 2017, \$21.9 million was available to us for additional borrowings under the credit facility. As of the filing date of this Quarterly Report on Form 10-Q, we had no outstanding borrowings under our credit facility.

Share Repurchase Program

On December 6, 2016, our Board of Directors authorized a new share repurchase program for up to \$50 million of outstanding common stock, effective January 1, 2017. The purchases may be made in the open market or through privately negotiated transactions, from time-to-time through December 31, 2017, and in accordance with applicable laws, rules and regulations. On January 27, 2017, 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 Securities Exchange Act of 1934 (the “Rule 10b5-1 Plan”). The Rule 10b5-1 Plan was established pursuant to, and as part of, our share repurchase program and permitted 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 Rule 10b5-1 Plan was to expire on May 26, 2017, but we terminated the plan on May 17, 2017 to ensure we remained in compliance with the covenant in our Credit Agreement regarding redemptions of our common stock described above. Under the terms of our Credit Agreement, we are not permitted to repurchase any shares of our common stock while there are outstanding borrowings under the Credit Agreement. Our 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 second quarter of fiscal 2017, we repurchased 469,000 shares of common stock at a total cost of \$10.2 million under the new share repurchase program. As of July 29, 2017, approximately 1.5 million shares at an aggregate cost of \$36.5 million had been repurchased under the new share repurchase program. The amount that remained available under the share repurchase program at July 29, 2017 was \$13.5 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 and closing underperforming stores. Non-capital expenditures, such as advertising and payroll, incurred prior to the opening of a new store are charged to expense as incurred. The timing and actual amount of expense recorded in closing an individual 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. 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 or incur store closing costs related to the closure of underperforming 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. A 1% change in the weighted average interest rate charged under the credit facility would have resulted in interest expense fluctuating by approximately \$21,000 for the second quarter of fiscal 2017.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of July 29, 2017, 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 July 29, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 28, 2017 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 28, 2017.

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⁾
April 30, 2017 to May 27, 2017	219,052	\$ 22.90	218,100	\$18,688,000
May 28, 2017 to July 1, 2017	250,882	\$ 20.73	250,700	\$13,491,000
July 2, 2017 to July 29, 2017	0	\$ 0.00	0	\$13,491,000
	<u>469,934</u>		<u>468,800</u>	

(1) Total number of shares purchased includes 1,134 shares withheld by us in connection with employee payroll tax withholding upon the vesting of restricted stock awards.

(2) On December 6, 2016, our Board of Directors authorized a new share repurchase program for up to \$50.0 million of our outstanding common stock, effective January 1, 2017 and expiring on December 31, 2017.

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	
10-A	Shoe Carnival, Inc. 2017 Equity Incentive Plan	8-K	10.1	06/15/2017	
10-B	Form of Restricted Stock Award Agreement under the 2017 Equity Incentive Plan (Non-employee Director)				X
10-C	Form of Service-Based Restricted Stock Unit Award Agreement under the 2017 Equity Incentive Plan (Executive Officers)				X
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 July 29, 2017, 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: August 31, 2017

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)

SHOE CARNIVAL, INC.

Restricted Stock Award Agreement
Under the 2017 Equity Incentive Plan
(Non-Employee Directors)

Shoe Carnival, Inc. (the “Company”), pursuant to its 2017 Equity Incentive Plan (the “Plan”), hereby grants an award of Restricted Stock to you, the Participant named below. The terms and conditions of this Restricted Stock Award are set forth in this Restricted Stock Award Agreement (the “Agreement”), consisting of this cover page and the Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided or otherwise made available to you and is incorporated herein by reference and made a part of this Agreement. Any capitalized term that is not defined in this Agreement shall have the meaning set forth in the Plan, as it currently exists or as it is amended in the future.

Name of Participant: [_____]	
Number of Shares of Restricted Stock: [_____]	Grant Date: _____, 20__
Vesting Date: [_____]	

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding your rights and obligations in connection with this Restricted Stock Award.

PARTICIPANT:

SHOE CARNIVAL, INC.

 [Name]

By: _____
 Name:
 Title:

**Shoe Carnival, Inc.
2017 Equity Incentive Plan
Restricted Stock Award Agreement**

Terms and Conditions

1. **Grant of Restricted Stock.** The Company hereby grants to you, as of the Grant Date specified on the cover page of this Agreement (the “Grant Date”) and subject to the terms and conditions in this Agreement and the Plan, an Award of the number of Shares of Restricted Stock specified on the cover page of this Agreement. Unless and until these Shares vest as provided in Section 4 of this Agreement, they are subject to the restrictions provided for in Section 3 of this Agreement and are referred to as “Restricted Shares.”

2. **Issuance of Restricted Shares.** Until the Restricted Shares vest as provided in Section 4 of this Agreement, the Restricted Shares will be evidenced either by a book-entry in your name with the Company’s transfer agent or by one or more stock certificates issued in your name. Any such stock certificate(s) will be deposited with the Company or its designee and will bear the following legend:

“This Certificate and the shares of stock evidenced hereby are subject to the terms and conditions (including possible forfeiture and restrictions on transfer) contained in the Shoe Carnival, Inc. 2017 Equity Incentive Plan (the “Plan”) and the Restricted Stock Award Agreement (the “Agreement”) between the registered owner of the shares evidenced hereby and the Company. Release from such terms and conditions shall be made only in accordance with the provisions of the Agreement and the Plan, copies of which are on file in the office of the Company’s Secretary.”

Any book-entry will be accompanied by a similar legend and shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable. Your right to receive this Restricted Stock Award is conditioned upon your execution and delivery to the Company of any instructions of assignment that may be necessary to permit transfer to the Company of all or a portion of the Restricted Shares if such Restricted Shares are forfeited in whole or in part.

3. **Transfer Restrictions, Possible Forfeiture and Rights as Shareholder.**

(a) Until the Restricted Shares vest as provided in Section 4 of this Agreement, you are not entitled to sell, assign, transfer, exchange or encumber the Restricted Shares, other than by will or the laws of descent and distribution, and the Restricted Shares remain subject to possible forfeiture as provided in Section 5 of this Agreement. Any attempted transfer in violation of this Agreement or the Plan shall be null and void and of no effect.

(b) Except as otherwise provided in this Agreement or the Plan, you are entitled at all times on and after the Grant Date to all the rights of a shareholder with respect to the Restricted Shares, including the right to vote the Restricted Shares. Any dividends or distributions, including regular cash dividends, payable with respect to outstanding but unvested Restricted Shares, including any Shares or other property or securities distributable as the result of any equity restructuring or other change in corporate capitalization described in Section 12 of the Plan, shall be delivered to, retained and held by the Company subject to the same restrictions, vesting conditions and other terms of this Agreement to which the underlying unvested Restricted Shares are subject. At the time the underlying Restricted Shares vest, the Company shall deliver

to you (without interest) such retained dividends and distributions that relate to the Restricted Shares that have vested. You agree to execute and deliver to the Company any instruments of assignment that may be necessary to permit transfer to the Company of all or any portion of any dividends or distributions subject to this Section 3(b) that may be forfeited.

4. **Vesting of Restricted Shares.**

(a) **Scheduled Vesting.** If you remain a Service Provider continuously from the Grant Date, then the Restricted Shares will vest on the Vesting Date specified on the cover page of this Agreement (the “Vesting Date”).

(b) **Accelerated Vesting.** Notwithstanding Section 4(a) of this Agreement:

(1) **Death or Disability.** If your Service terminates prior to the Vesting Date due to your death or Disability, all of the Restricted Shares shall vest in full immediately upon such termination.

(2) **Change in Control.** If a Change in Control occurs prior to the Vesting Date, all of the Restricted Shares shall vest in full immediately prior to the effective time of such Change in Control.

5. **Effect of Termination of Service.** Except as otherwise provided in accordance with Section 4(b) of this Agreement, if you cease to be a Service Provider, you will immediately forfeit all unvested Restricted Shares and all retained dividends and distributions that relate to such unvested Restricted Shares. Any Restricted Shares that are forfeited shall be returned to the Company for cancellation. You shall have no further rights as a shareholder of the Company with respect to the forfeited Shares, including, without limitation, any right to receive any dividend or distribution payable to shareholders of record on or after the date of such forfeiture.

6. **Delivery of Unrestricted Shares.** After any Restricted Shares vest pursuant to Section 4 of this Agreement, and after the Company has determined that all conditions to the release of such vested Shares to you, including compliance with all applicable legal requirements as provided in Section 18(c) of the Plan, have been satisfied, the Company shall, as soon as practicable, cause to be delivered to you, or to your designated beneficiary or estate in the event of your death, the applicable number of unrestricted Shares. Delivery of the unrestricted Shares shall be effected by the removal of restrictions on the book-entry in the stock register maintained by the Company’s transfer agent with a corresponding notice provided to you, by the electronic delivery of the Shares to a brokerage account you designate, or by delivery to you of a stock certificate without a restrictive legend.

7. **No Right to Continued Service or Future Awards.** This Agreement awards Restricted Stock to you, but does not impose any obligation on the Company to make any future grants or issue any future awards to you or otherwise continue your participation under the Plan. This Agreement will not give you a right to continued Service with the Company or any Affiliate, and the Company may terminate your Service without regard to the effect it may have upon you under this Agreement.

8. **Tax Consequences.** You acknowledge that unless you make a proper and timely Section 83(b) election as described below, then at the time the Restricted Shares vest, you will be obligated to recognize ordinary income and be taxed in an amount equal to the Fair Market Value as of the date of

vesting of the Restricted Shares then vesting. You shall be solely responsible for any tax obligations that may arise as a result of this Award.

You understand that, with respect to the grant of this Restricted Stock Award, you may file an election with the Internal Revenue Service, within 30 days of the Grant Date, electing pursuant to Section 83(b) of the Code to be taxed on the Fair Market Value of the Restricted Shares as of the Grant Date. You acknowledge that it is your sole responsibility to timely file an election under Section 83(b) of the Code. If you make such an election, you must promptly provide the Company with a copy.

9 . **Governing Plan Document.** This Agreement and the Award are subject to all the provisions of the Plan, including the confidentiality, non-solicitation, forfeiture and recovery provisions set forth in Section 17 of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Board or the Committee pursuant to the Plan. All interpretations of the Committee and all related decisions or resolutions of the Board or the Committee shall be final and binding on the Company and you. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

10 . **Entire Agreement.** This Agreement and the Plan set forth the entire agreement and understanding of the parties hereto with respect to the issuance and delivery of the Restricted Shares and supersede all prior agreements, arrangements, plans, and understandings relating to the issuance and delivery of these Restricted Shares.

11 . **Choice of Law.** This Agreement will be interpreted and enforced under the laws of the state of Indiana (without regard to its conflicts-of-law principles).

12. **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

13 . **Electronic Delivery and Acceptance.** The Company may deliver any documents related to this Restricted Stock Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

**SHOE CARNIVAL, INC.
2017 EQUITY INCENTIVE PLAN**

Restricted Stock Unit Award Agreement
(Executive Officers)

Shoe Carnival, Inc. (the “Company”), pursuant to its 2017 Equity Incentive Plan (the “Plan”), hereby grants an award of Restricted Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Restricted Stock Unit Award Agreement (the “Agreement”), consisting of this cover page and the Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided or otherwise made available to you and is incorporated by reference and made a part of this Agreement. Any capitalized term that is used but not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

Name of Participant: [_____]	
Number of Restricted Stock Units: [_____]	Grant Date: [_____]
Vesting Schedule:	
<u>Scheduled Vesting Dates</u>	<u>Number of Restricted Stock Units that Vest</u>

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents.

PARTICIPANT:

SHOE CARNIVAL, INC.

[Name]

By: _____

Name:

Title:

Shoe Carnival, Inc.
2017 Equity Incentive Plan
Restricted Stock Unit Award Agreement

Terms and Conditions

1. **Grant of Restricted Stock Units.** The Company hereby grants to you, as of the Grant Date specified on the cover page of this Agreement (the “Grant Date”) and subject to the terms and conditions in this Agreement and the Plan, an Award of the number of Restricted Stock Units specified on the cover page of this Agreement (the “Units”). Each Unit represents the right to receive one Share of the Company’s Stock. Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Units granted to you will be credited to an account in your name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Units simply representing an unfunded and unsecured contingent obligation of the Company.

2. **Restrictions Applicable to Units.** Neither this Award nor the Units subject to this Award may be sold, assigned, transferred, exchanged or encumbered, voluntarily or involuntarily, other than a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan. Following any such transfer, this Award shall continue to be subject to the same terms and conditions that were applicable to this Award immediately prior to its transfer. Any attempted transfer in violation of this Section 2 shall be void and without effect. The Units and your right to receive Shares in settlement of the Units under this Agreement shall be subject to forfeiture as provided in Section 4 of this Agreement until satisfaction of the vesting conditions set forth in Section 3 of this Agreement.

3. **Vesting of Units.** For purposes of this Agreement, “Vesting Date” means any date, including the Scheduled Vesting Dates specified in the Vesting Schedule on the cover page of this Agreement, on which Units subject to this Agreement vest as provided in this Section 3. Notwithstanding the vesting and subsequent settlement of this Award, it shall remain subject to the provisions of Section 17 of the Plan.

(a) **Scheduled Vesting.** If you remain a Service Provider continuously from the Grant Date, then the Units will vest in the amounts and on the Scheduled Vesting Dates specified in the Vesting Schedule.

(b) **Accelerated or Continued Vesting.** The vesting of outstanding Units will be accelerated or continued under the circumstances provided below:

(1) *Death or Disability.* If your Service terminates prior to the final Scheduled Vesting Date due to your death or Disability, all of the unvested Units shall vest as of such termination date.

(2) *Termination by the Company without Cause or Voluntarily by You for Good Reason .* If your Service is terminated by the Company without Cause or voluntarily by you for Good Reason in accordance with the procedures set forth in your [Amended and Restated] Employment and Noncompetition Agreement dated [] (the “Employment Agreement”) prior to the final Scheduled Vesting Date, all of the unvested

Units shall vest as of such termination date. For purposes of this Agreement, “Cause” and “Good Reason” are each as defined in your Employment Agreement.

(3) *Change in Control.* If a Change in Control occurs while you continue to be a Service Provider and prior to the final Scheduled Vesting Date, the following provisions shall apply:

(i) If, within 24 months after a Change of Control (A) described in paragraphs (i) or (ii) of Section 2(f) of the Plan or (B) that constitutes a Corporate Transaction as defined in paragraph (iii) of Section 2(f) of the Plan and in connection with which the surviving or acquiring entity (or its parent entity) has continued, assumed or replaced this Award, you cease to be a Service Provider due to a termination by the Company without Cause or voluntarily by you for Good Reason in accordance with the procedures set forth in your Employment Agreement, then all unvested Units shall immediately vest in full upon such termination.

(ii) If this Award is not continued, assumed or replaced in connection with a Change in Control that constitutes a Corporate Transaction, then all unvested Units shall immediately vest in full upon the occurrence of the Change in Control.

(iii) For purposes of this Section 3(b)(3), this Award will be considered assumed or replaced under the circumstances specified in Section 12(b)(i) of the Plan.

4. **Effect of Termination of Service.** Except as otherwise provided in accordance with Section 3(b) of this Agreement, if you cease to be a Service Provider, you will immediately forfeit all unvested Units.

5. **Settlement of Units.** After any Units vest pursuant to Section 3 of this Agreement, the Company shall, as soon as practicable (but no later than the 15th day of the third calendar month following the Vesting Date), cause to be issued and delivered to you (or to your personal representative or your designated beneficiary or estate in the event of your death, as applicable), one Share in payment and settlement of each vested Unit. Delivery of the Shares shall be effected by the issuance of a stock certificate to you, by an appropriate entry in the stock register maintained by the Company’s transfer agent with a notice of issuance provided to you, or by the electronic delivery of the Shares to a brokerage account you designate, and shall be subject to the tax withholding provisions of Section 8 of this Agreement and compliance with all applicable legal requirements as provided in Section 18(c) of the Plan, and shall be in complete satisfaction and settlement of such vested Units. The Company will pay any original issue or transfer taxes with respect to the issue and transfer of Shares to you pursuant to this Agreement, and all fees and expenses incurred by it in connection therewith.

6. **Dividend Equivalents.** If the Company pays cash dividends on its Shares while any Units subject to this Agreement are outstanding, then the Company shall credit, as of each dividend payment date, a dollar amount of dividend equivalents to your account. The dollar amount of the dividend equivalents credited shall be determined by multiplying the number of Units credited to your account pursuant to this Agreement as of the dividend record date times the dollar amount of the cash dividend per Share. Your right to receive such accrued dividend equivalents shall vest, and the amount of the accrued dividend equivalents shall be paid in cash, to the same extent and at the same time as the underlying Units to which the dividend equivalents relate vest and are settled, as provided in Sections 3 and 5 of this Agreement. No interest shall accrue on any unpaid dividend equivalents. Any dividend

equivalents accrued on Units that are forfeited in accordance with this Agreement shall also be forfeited.

7. **No Right to Continued Service or Future Awards.** This Agreement awards Units to you, but does not impose any obligation on the Company to make any future grants or issue any future awards to you or otherwise continue your participation under the Plan. This Agreement does not give you a right to continued Service with the Company or any Affiliate, and the Company or any such Affiliate may terminate your Service at any time without regard to the effect it may have upon you under this Agreement.

8. **Tax Consequences and Withholding.** As a condition precedent to the delivery of Shares in settlement of vested Units, you are required to make arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the delivery of the Shares. The Company will retain a portion of the Shares that would otherwise be delivered to you in settlement of vested Units, which retained Shares shall have a Fair Market Value on the date the taxes are required to be withheld equal to the amount of taxes required to be withheld, unless you provide notice to the Company prior to the vesting date of the Units that you desire to pay cash or direct the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. Delivery of Shares in settlement of vested Units is subject to the satisfaction of applicable withholding tax obligations.

9. **No Shareholder Rights.** The Units subject to this Award do not entitle you to any rights of a holder of the Company's Stock. You will not have any of the rights of a shareholder of the Company in connection with the grant of Units subject to this Agreement unless and until Shares are issued to you in settlement of the Units as provided in Section 5 of this Agreement.

10. **Governing Plan Document.** This Agreement and the Award are subject to all the provisions of the Plan, including the confidentiality, non-solicitation, forfeiture and recovery provisions set forth in Section 17 of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Board or the Committee pursuant to the Plan. All interpretations of the Committee and all related decisions or resolutions of the Board or the Committee shall be final and binding on the Company and you. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

11. **Choice of Law.** This Agreement, the parties' performance hereunder, and the relationship between them shall be governed by, construed, and enforced in accordance with the laws of the State of Indiana, without giving effect to the choice of law principles thereof.

12. **Severability.** The provisions of this Agreement shall be severable and if any provision of this Agreement is found by any court to be unenforceable, in whole or in part, the remainder of this Agreement shall nevertheless be enforceable and binding on the parties. You also agree that any trier of fact may modify any invalid, overbroad or unenforceable provision of this Agreement so that such provision, as modified, is valid and enforceable under applicable law.

13. **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

14. **Section 409A of the Code.** The award of Units as provided in this Agreement and any issuance

of Shares or payment pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

15. **Electronic Delivery and Acceptance**. The Company may deliver any documents related to this Restricted Stock Unit Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

SHOE CARNIVAL, INC.
CERTIFICATION 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

I, Clifton E. Sifford, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shoe Carnival, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2017

By: /s/ Clifton E. Sifford
Clifton E. Sifford
President and
Chief Executive Officer

SHOE CARNIVAL, INC.
CERTIFICATION 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

I, W. Kerry Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Shoe Carnival, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2017

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

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350,
AS ADOPTED PURSUANT TO SECTION
906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Shoe Carnival, Inc. (the "Company") on Form 10-Q for the period ending July 29, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Clifton E. Sifford, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 31, 2017

By: /s/ Clifton E. Sifford
Clifton E. Sifford
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350,
AS ADOPTED PURSUANT TO SECTION
906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Shoe Carnival, Inc. (the "Company") on Form 10-Q for the period ending July 29, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Kerry Jackson, Senior Executive Vice President, Chief Operating and Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 31, 2017

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