

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended: **February 2, 2019**

or

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

For the transition period from _____ to _____

Commission File Number: 0-21360

Shoe Carnival, Inc.

(Exact name of registrant as specified in its charter)

Indiana

*(State or other jurisdiction of
incorporation or organization)*

**7500 East Columbia Street
Evansville, IN**

(Address of principal executive offices)

35-1736614

(IRS Employer Identification Number)

47715

(Zip code)

(812) 867-6471

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.01 par value

(Title of Each Class)

The Nasdaq Stock Market LLC

(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes

☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

☐ Yes

☒ No

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 every Interactive Data File required to be submitted 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 such files).

☒ Yes

☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

The aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price for such stock at August 3, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$395,489,636 (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are "affiliates").

Number of Shares of Common Stock, \$.01 par value, outstanding at March 25, 2019 was 15,374,819.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Definitive Proxy Statement for the Annual Meeting of Shareholders of the Registrant to be held on June 13, 2019 is incorporated by reference into PART III hereof.

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**Shoe Carnival, Inc.
Evansville, Indiana**

Annual Report to Securities and Exchange Commission
For the Fiscal Year Ended February 2, 2019

PART I

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K 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 online 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; changes in the political and economic environments in, the status of trade relations with, and the impact of changes in trade policies and tariffs impacting, China and other countries which are the major manufacturers of footwear; 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, including as a result of a cyber-security breach; 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; 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 risk factors impacting us, see ITEM 1A. RISK FACTORS of this Annual Report on Form 10-K.

ITEM 1. BUSINESS

Our Company

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. We offer customers a broad assortment of moderately priced dress, casual and athletic footwear for men, women and children with an emphasis on national name brands. We differentiate our retail concept from our competitors by our distinctive, fun and promotional marketing efforts. On average, our stores are approximately 10,800 square feet, generate approximately \$2.5 million in annual sales and carry inventory of approximately 27,800 pairs of shoes per location. As of February 2, 2019, we operated 397 stores in 35 states and Puerto Rico and offered online shopping at www.shoecarnival.com.

We are an Indiana corporation that was initially formed in Delaware in 1993 and reincorporated in Indiana in 1996. References to “Shoe Carnival,” “we,” “us,” “our” and the “Company” in this Annual Report on Form 10-K refer to Shoe Carnival, Inc. and its subsidiaries.

Key Competitive Strengths

We believe our financial success is due to a number of key competitive strengths that make Shoe Carnival a destination of choice for today’s retail consumer.

Distinctive shopping experience

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 promote a high-energy retail environment by decorating with exciting graphics and bold colors, and by featuring a stage and mic-person as the focal point in our stores. With a microphone, this mic-person announces current specials supplied by our centralized merchandising staff, organizes contests and games, and assists and educates customers with the features and location of merchandise. Our mic-person offers limited-duration promotions throughout the day, encouraging customers to take immediate advantage of our value pricing. 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.

Broad merchandise assortment

Our objective is to be the destination shoe 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. Our average store carries approximately 27,800 pairs of shoes in four general categories – women’s, men’s, children’s and athletics – which are organized within the store by category and brand, thus fashioning strong brand statements within the aisles. We engage our customers by presenting creatively branded merchandise statements and signage upon entering our stores. Key brands are further emphasized by prominent displays on end caps, focal walls, and within the aisles. These displays may highlight a product offering of a single vendor, highlight sales promotions, advertise promotional pricing to meet or beat competitors’ sale prices or may make a seasonal or lifestyle statement by highlighting similar footwear from multiple vendors. These visual merchandising techniques make it easier for customers to shop and focus attention on key name brands. 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. Customers who enroll in our loyalty program (“Shoe Perks”) or register on our website receive periodic personalized e-mail communications from us. These communications afford us additional opportunities to highlight our broad product assortment and promotions.

Value pricing for our customers

Our marketing efforts attract moderate income, value-conscious consumers seeking name brand footwear for all age groups. We believe that by offering a wide selection of popular styles of name brand merchandise at competitive prices, we generate broad customer appeal. Additionally, the time-conscious customer appreciates the convenience of one-stop shopping for the entire family, whether it is at any of our store locations, online at shoecarnival.com or through our mobile app. We also believe our fun and promotional shopping environment contributes to a reputation of value pricing.

Efficient store level cost structure

Our cost-efficient store operations and real estate strategy enable us to price products competitively. We achieve low labor costs by housing merchandise directly on the selling floor in an open stock format, allowing customers to serve themselves, if they choose. This reduces the staffing required to assist customers and reduces store level labor costs as a percentage of sales. We locate stores predominantly in open-air shopping centers in order to take advantage of lower occupancy costs and maximize our exposure to value-oriented shoppers.

Heavy reliance on information technology

We have invested significant resources in information technology. Our proprietary inventory management and advanced point-of-sale (“POS”) systems provide corporate management, buyers and store managers with the timely information necessary to monitor and control all phases of operations. The POS provides, in addition to other features, full price management (including price look-up), promotion tracking capabilities (in support of the spontaneous nature of the in-store price promotions), real-time sales and gross margin by product category at the store level and customer tracking. Using the POS, store managers are able to monitor sales and gross profit margins on a real-time basis throughout the day. Reacting to sales trends, our mic-people use the POS to choose from among a number of product promotions supplied by our centralized merchandising staff.

Our centralized network connects our corporate office to our distribution center and retail stores via a wide area network, providing up-to-date sales and inventory information as required. Our data warehouse enables our merchandising and store operations staff to analyze sales, margin and inventory levels by location, by day, down to the size of shoe. Using this information, our merchandise managers meet regularly with vendors to compare their product sales, gross margins and return on inventory investment against previously stated objectives. We believe timely access to key business data has enabled us to drive annual comparable store sales increases, manage our markdown activity and improve inventory turnover.

Growth Strategy

Store portfolio

Increasing market penetration by opening new stores has historically been a key component of our growth strategy. While our focus continues to be on generating positive long-term financial performance for our store portfolio, we only opened three new stores in fiscal 2018 and do not expect to open any new stores in fiscal 2019. As we leverage customer data from our Customer Relationship Management (“CRM”) program, and as more attractive real estate opportunities become available, we will continue to pursue opportunities for brick-and-mortar store growth across large, mid-size and smaller markets in fiscal 2020. Our CRM program is more fully described below under, “Multi-Channel Strategy – Customer Relationship Management.”

Critical to the success of opening new stores in larger markets or geographic areas has been our ability to cluster stores. In large markets (populations greater than 400,000), clustering involves opening two or more stores at approximately the same time. In smaller markets that can only support a single store, clustering involves seeking locations in reasonably close proximity to other existing markets. This strategy creates cost efficiencies by enabling us to leverage store expenses with respect to advertising, distribution and management costs. We believe the advantages of clustering stores in existing markets will lead to cost efficiencies and overall incremental sales gains that should more than offset any adverse effect on sales of existing stores.

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 those stores. Based on this analysis, we closed 14 stores in fiscal 2018, and we currently expect to close seven to 10 stores in fiscal 2019. Even though this could reduce our overall net sales volume, we believe this strategy will realize long-term improvement in operating income and diluted earnings per share.

As of February 2, 2019, we operated 397 stores located across 35 states and Puerto Rico. Our stores averaged approximately 10,800 square feet, ranging in size from 4,000 to 26,000 square feet. New store sizes typically depend upon location and population base, and our stores are predominantly located in open-air shopping centers. Our traditional store prototype typically utilizes between 7,000 and 10,000 square feet of leased area. During the past several years, we began to roll out scalable store prototypes that reflect the diverse population densities of our markets. These scalable prototypes utilize a wide range of leased space based on sales potential and opportunistic space availability. The sales area is approximately 85% of the typical gross store footprint.

Fiscal Years	Historical Store Count				
	2018	2017	2016	2015	2014
Stores open at the beginning of the year	408	415	405	400	376
New store openings	3	19	19	20	31
Store closings	(14)	(26)	(9)	(15)	(7)
Stores open at the end of the year	397	408	415	405	400
Stores relocated	1	3	3	2	3
Percentage of store base remodeled	1%	3%	4%	7%	7%

We lease all store locations, as we believe the flexibility afforded by leasing allows us to avoid the inherent risks of owning real estate, particularly with respect to underperforming stores. Before entering a new market, we perform a market, demographic and competition analysis to evaluate the suitability of the potential market. Potential store site selection criteria include, among other factors, market demographics, traffic counts, tenant mix, visibility within the center and from major thoroughfares, overall retail activity of the area and proposed lease terms. The time required to open a store after signing a lease depends primarily upon the property owner's ability to deliver the premises. After we accept the premises from the property owner, we can generally open a turnkey store within 60 days and open an "as-is" store in up to 115 days. A turnkey store is generally available for immediate use from the landlord, as the landlord performs nearly all aspects of construction and delivers the store in a condition ready for fixtures. There are typically minimal tenant improvement allowances negotiated with landlords for turnkey stores. An "as-is" store typically requires more significant capital investment by us, as the landlord performs minimal construction and delivers the space "as-is" while representing that the location is free of hazardous materials. There are typically significant tenant improvement allowances negotiated with landlords for "as-is" stores.

Multi-Channel Strategy

We are committed to establishing Shoe Carnival as a world class multi-channel retailer. The foundation of our multi-channel strategy is connecting customers with our wide assortment of store inventory through multiple channels, while maintaining a personalized, seamless customer service experience. The Shoe Carnival customer's shopping journey is complex and rapidly evolving, bridging multiple devices and touchpoints. We are committed to providing an incomparable customer experience across all channels and believe that our ongoing multi-channel initiatives represent the cornerstone for our long-term growth and are aligned with rapidly changing consumer behavior. These initiatives are an integral part of expanding our multi-channel footprint and creating opportunities to connect with our customers in new ways.

Customer Relationship Management

In fiscal 2018 we continued to invest in our CRM strategy, which is intended to focus our entire organization on a more customer-centric model. We engaged with a strategic partner that specializes in creating holistic CRM strategies for large and mid-sized retail organizations to provide discovery, implementation, launch and ongoing support for our customer-centric, multi-channel CRM Solution. This new platform will form the foundation of our CRM program and will also serve as the systemic framework for our Shoe Perks loyalty program and CRM campaign manager. We expect this initiative will give us an improved view into customer data, allowing us to more effectively communicate with consumers on a personalized basis. Using primarily transaction data, we are gaining useful insights into our customers' shopping habits, including where, when and how they shop our stores and navigate our online presence. Additionally, we are gaining a deeper understanding of the brands and categories our high-value customers consistently purchase so that we can continue to deliver strong performance at a geographic and store level.

We believe using CRM strategies will help drive customer retention through segmentation and other analysis and will aid us in gaining a better understanding of our existing customer base as well as identifying new customers. As we segment our high-value customers through data analysis and target the broader market of customers with similar characteristics, we expect this to play a key role in our growth. We believe the data received as a result of our CRM program will allow us to better merchandise each individual store, market to specific customers and aid in identifying new store opportunities. Although a large part of customer data comes from our loyalty program, we take a holistic view of CRM. We believe this approach should help drive continued Company growth in fiscal 2019 as we continue to enhance our loyalty program and CRM capabilities through exclusive offers and personalized messaging and build even greater loyalty and a deeper relationship with our Shoe Perks customers.

We expect to officially launch our CRM Solution in the third quarter of fiscal 2019. This launch represents the implementation of our production CRM database to support customer information, identity management and our CRM campaign management software.

Ship-From-Store

Our Ship-From-Store program is a core element of our multi-channel strategy. This program allows stores to fulfill online orders and has been implemented on a chain-wide basis (with limited exceptions). By fulfilling e-commerce orders from our store level inventory, we are able to minimize out-of-stocks, offer our customers an expanded online assortment and leverage store level inventory and overhead. Additionally, e-commerce orders for certain key items and promotional product are fulfilled from our distribution center in Evansville, Indiana.

Shoes 2U

A growing part of our multi-channel strategy is our Shoes 2U program. This program enables us to ship product from any store to a customer's home or store of their choice if they are unable to find the size, color or style of a shoe in the store in which they are shopping. This creates an endless aisle experience for our customers in which our chain-wide inventory is accessible to any store customer.

Buy Online, Pick Up In Store

Another key element of our multi-channel strategy is our buy online, pick up in store program. This program provides the convenience of local pickup for our customers with the added benefit of driving traffic back to our stores.

E-commerce and Mobile

In fiscal 2017, we relaunched our e-commerce and mobile storefronts on a new platform designed to improve the customer journey and allow us to provide a more relevant and personalized shopping experience for our customers. We continue to build upon this foundation and plan to add new functionality, including mobile payment options and the ability to shop a specific Shoe Carnival store location, which are planned for launch in the first half of fiscal 2019.

Given our desire to connect with customers anywhere and anytime, our mobile strategy is an important component of the customer's journey and our overall multi-channel strategy. A majority of our customers are accessing our e-commerce site on their mobile devices, and we continue to enhance our mobile web experience to better serve the unique needs of our customers. In addition, our mobile app offers native e-commerce functionality directly from the app and provides Shoe Perks members easy access to their rewards. Customers also have the ability to scan bar codes in-store to access product ratings and reviews and find extended sizes.

Expanded Online Assortment

We implemented a Vendor Drop-Ship program with select vendor partners prior to the fiscal 2018 back-to-school season. This important program offers our customers an expanded online assortment of styles and colors that we do not carry in-store, and we expect to continue to expand this program in the future. While our customers benefit from expanded item assortment, the functionality of this program is seamless, and our customers' online experience is not impacted by the Vendor Drop-Ship fulfillment option. We benefit from this program by not having to make a capital investment in the expanded inventory assortment, which is carried and fulfilled by the vendors participating in this program.

Merchandise

Critical to our success is maintaining fresh, fashionable merchandise at moderate prices. Our buyers stay in touch with evolving fashion trends and adjust growth strategies based on these trends. This is accomplished by subscribing to an industry leading trend service, shopping fashion-leading markets, attending national trade shows, gathering vendor input and monitoring the current styles shown in leading fashion and lifestyle magazines.

Our buyers and planners have years of experience and in-depth knowledge of our customers and the markets in which we operate. This helps us select our assortment and quantities in order to manage and allocate inventories at the store level. The mix of merchandise and the brands offered in a particular store reflect the demographics of each market, climate and seasonality, among other factors. Management encourages store operations personnel to provide input to our merchandising staff regarding market specific fashion trends. Our e-commerce site offers customers an opportunity to choose from a large selection of products in all of the same categories of footwear, and introduces our concept to consumers who are new to Shoe Carnival, in both existing and new markets. Due to our multi-channel retailer strategy, we view our e-commerce sales as an extension of our physical stores.

Our stores and e-commerce site offer a broad assortment of current-season, name brand footwear, supplemented with private label merchandise. Our stores carry complementary accessories such as socks, belts, shoe care items, handbags, sport bags, backpacks, scarves and wallets, while our e-commerce site offers certain handbags, sport bags and backpacks. We purchase merchandise from approximately 160 footwear vendors. Management of the purchasing function is the responsibility of our Executive Vice President – Chief Merchandising Officer. Our buyers maintain ongoing communication with our vendors and provide feedback to our vendors on sales, profitability and current demand for their products. We adjust future purchasing decisions based upon the results of this analysis. In fiscal 2018, two branded suppliers, Nike, Inc. and Skechers USA, Inc., collectively accounted for approximately 43% of our net sales. Nike, Inc. accounted for approximately 32% and Skechers USA, Inc. accounted for approximately 11% of our net sales, respectively. Name brand suppliers also provide us with cooperative advertising and visual merchandising funds. A loss of any of our key suppliers in certain product categories or our inability to obtain name brand or other merchandise from suppliers at competitive prices could have a material adverse effect on our business. As is common in the industry, we do not have any long-term contracts with our suppliers.

Initial pricing levels are typically established in accordance with the manufacturer's suggested retail pricing structure. Subsequent to this initial pricing, our buying staff manages our markdown cadence based on product - specific sell - through rates to achieve liquidation of inventory within the natural lifecycle of the product. We emphasize our value proposition to customers by combining current season name brand product with promotional pricing. Our promotions include both advertised limited time sale offerings in addition to in-store and online timed specials.

The table below sets forth our percentage of merchandise sales by product category.

Fiscal Years	2018	2017	2016	2015	2014
Non-Athletics:					
Women's	24%	24%	26%	27%	27%
Men's	14	14	14	14	14
Children's	5	5	5	5	5
Total	43	43	45	46	46
Athletics:					
Women's	18	17	16	16	16
Men's	21	22	22	22	21
Children's	14	14	13	12	13
Total	53	53	51	50	50
Accessories	4	4	4	4	4
Total	100%	100%	100%	100%	100%

Women's, men's and children's non-athletic footwear categories are further divided into dress, casual, sport, sandals and boots. We classify athletic shoes by functionality, such as running, basketball or fitness shoes.

Building Brand Awareness

Our goal is to communicate a consistent brand image across all aspects of our operations. We utilize a blend of advertising mediums and marketing methods to communicate who we are and the values we offer. Special emphasis is made to highlight brands as well as specific styles of product, and visual graphics are used extensively in our stores to emphasize the lifestyle aspect of the styles we carry. The use of social media has become an increasingly important medium in our digital marketing efforts, allowing us to directly communicate with, as well as advertise to, our core customers. For fiscal 2018, approximately 47% of our total advertising budget was directed to digital media, television and radio. Print media (including inserts, direct mail and newspaper advertising) and outdoor advertising accounted for the balance. We make a special effort to utilize the cooperative advertising dollars and collateral offered by vendors whenever possible. We utilize television advertising to deliver a balanced mix of both branding and seasonal product messaging across the year beginning with the Easter selling season. Moreover, it enables us to provide a message of offering value-priced, current season footwear.

In addition to a dynamic, lively and fun shopping experience, we offer our customers our Shoe Perks rewards program. This loyalty program provides customers with a heightened shopping experience, which includes exclusive offers and personalized messaging. Rewards are earned by making purchases either in-store or online and through participating in other point earning opportunities that facilitate engagement with our brand.

We remain highly focused on expanding Shoe Perks enrollment. In fiscal 2018, we added 2.4 million new members, and purchases from Shoe Perks members were approximately 68% of our net sales. We believe our Shoe Perks program affords us tremendous opportunity to communicate, build relationships, and engage with our most loyal shoppers and increase our customer touch points, which we believe will result in long-term sales gains. We relaunched our Shoe Perks program just prior to the back-to-school selling period in fiscal 2018 to better reward our high-value customers and incentivize all of our members in order to encourage brand loyalty. As part of this relaunch, we added a new "Gold" tier for our high-value customers. Our customers who qualify for our Gold tier receive additional rewards and incentives. The Gold tier represents approximately 35% of our active members and the average transaction value for these customers is 20% higher than non-Gold Shoe Perks members.

We strive to make each store opening a major retail event. Major promotions during grand openings and peak selling periods feature contests and prize giveaways. We believe our grand openings help establish the high-energy, promotional atmosphere that develops a loyal, repeat customer base and generates word-of-mouth advertising. Although we do not anticipate any new store openings in fiscal 2019, we expect to continue to pursue opportunities for brick-and-mortar store growth in fiscal 2020.

Distribution

We operate a single 410,000 square foot distribution center located in Evansville, Indiana. Our facility is leased from a third party and can support the processing and distribution needs for up to 460 stores based on our current configuration. We have the right to expand the facility by 200,000 square feet, which would provide us processing capacity to support approximately 650 stores.

Our distribution center is equipped with state-of-the-art processing and product movement equipment. The facility utilizes cross docking/store replenishment and redistribution methods to fill store product requirements. These methods may include count verification, price and bar code labeling of each unit (when not performed by the manufacturer), redistribution of an order into size assortments (when not performed by the manufacturer) and allocation of shipments to individual stores. Throughout packing, allocating, storing and shipping, our distribution process is essentially paperless. Merchandise is typically shipped to each store location once per week. For stores within the continental United States, a dedicated carrier, with occasional use of common carriers, handles the majority of shipments. Our shipments to Puerto Rico are loaded for containerized overseas shipment, with final delivery by a third-party provider.

Competition

The retail footwear business is highly competitive. We believe the principal competitive factors in our industry are merchandise selection, price, fashion, quality, location, shopping environment and service. We compete with department stores, shoe stores, sporting goods stores, online retailers and mass merchandisers. Our specific competitors vary from market to market. We compete with most department stores and traditional shoe stores by offering competitive prices. We compete with off-price retailers, mass merchandisers and discount stores by offering a wider and deeper selection of merchandise. Many of our competitors are significantly larger and have substantially greater resources than we do. However, we believe that our distinctive retail format, in combination with our wide merchandise selection, competitive prices and low operating costs, enables us to compete effectively.

Store Operations

Management of store operations is the responsibility of our Executive Vice President - Store Operations, who is assisted by a Senior Vice President of Operations, divisional managers, regional directors, district managers and the individual store general managers. Generally, each store has a general manager and up to three store managers, depending on sales volume. Store operations personnel make certain merchandising decisions necessary to maximize sales and profits primarily through merchandise placement, signage and timely clearance of slower selling items. Administrative functions are centralized at the corporate headquarters. These functions include accounting, purchasing, store maintenance, information systems, advertising, human resources, distribution and pricing. Management oversight for e-commerce is also located at our corporate headquarters.

Employees

At February 2, 2019, we had approximately 5,200 employees, of which approximately 2,900 were employed on a part-time basis. The number of employees fluctuates during the year primarily due to seasonality. No employees are represented by a labor union.

We attribute a large portion of our success in various areas of cost control to our inclusion of virtually all management level employees in incentive compensation plans. We contribute all or a portion of the cost of medical, disability and life insurance coverage for those employees who are eligible to participate in Company-sponsored plans. Additionally, we sponsor retirement plans that are open to all employees who have met the minimum age and work hour requirements. All employees are eligible to receive discounts on purchases from our stores. We consider our relationship with our employees to be satisfactory.

Seasonality

Our quarterly results of operations have fluctuated, and are expected to continue to fluctuate in the future, primarily as a result of seasonal variances and the timing of sales and costs associated with opening new stores 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 a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout. 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 closing costs related to the closure of existing 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.

Trademarks

We own the following federally registered trademarks and service marks: Shoe Carnival[®] and associated trade dress and related logos, The Carnival[®], Donna Lawrence[®], Innocence[®], Y-NOT?[®], UNR8ED[®], Solanz[®], Cabrizi[®], Shoe Perks[®], SC Work Wear[®], When You Want To 2[®], A Surprise In Store[®], Shoes 2U[®], Laces for Learning[®] and Princess Lacey's Laces[®]. We believe these marks are valuable and, accordingly, we intend to maintain the marks and the related registrations. We are not aware of any pending claims of infringement or other challenges to our right to use these marks.

Environmental

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has not had a material effect upon our capital expenditures, earnings or competitive position. We believe the nature of our operations have little, if any, environmental impact. We therefore anticipate no material capital expenditures for environmental control facilities for our current fiscal year or for the near future.

Available Information

We make available free of charge through the investor relations portion of our website at www.shoecarnival.com our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We have included our website address throughout this filing as textual references only. The information contained on, or accessible through, our website is not incorporated into this Annual Report on Form 10-K.

This Annual Report on Form 10-K filed with the Securities and Exchange Commission, including the financial statements and schedules thereto, without the accompanying exhibits, is available without charge to shareholders, investment professionals and securities analysts upon written request. Requests should be directed to Investor Relations at our corporate address. A list of exhibits is included in this Annual Report on Form 10-K, and exhibits are available from us upon payment to us of the cost of furnishing them.

Executive Officers

Name	Age	Position
J. Wayne Weaver	84	Chairman of the Board and Director
Clifton E. Sifford	65	President, Chief Executive Officer and Director
W. Kerry Jackson	57	Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer
Timothy T. Baker	62	Executive Vice President - Store Operations
Carl N. Scibetta	60	Executive Vice President - Chief Merchandising Officer
Mark J. Worden	45	Executive Vice President - Chief Strategy and Marketing Officer

Mr. Weaver has served as Chairman of the Board since March 1988. From 1978 until February 2, 1993, Mr. Weaver had served as President and Chief Executive Officer of Nine West Group, Inc., a designer, developer and marketer of women's footwear. He has over 50 years of experience in the footwear industry. Mr. Weaver is a former Director of Nine West Group, Inc. Mr. Weaver served as Chairman and Chief Executive Officer of Jacksonville Jaguars, LTD, a professional football franchise, until January 2012. Mr. Weaver previously served two terms as a Director of Stein Mart, Inc., a publicly traded chain of off-price retail stores, from June 2014 until March 2016 and from November 2000 until April 2008.

Mr. Sifford has been employed as President and Chief Executive Officer and has served as a Director since October 2012. Mr. Sifford also served as Chief Merchandising Officer from October 2012 to March 2016. From June 2001 to October 2012, Mr. Sifford served as Executive Vice President – General Merchandise Manager and from April 1997 to June 2001, Mr. Sifford served as Senior Vice President – General Merchandise Manager. Prior to joining us, Mr. Sifford served as Merchandise Manager – Shoes for Belk, Inc.

Mr. Jackson has been employed as Senior Executive Vice President, Chief Operating and Financial Officer and Treasurer since October 2012. From August 2004 to October 2012, Mr. Jackson served as Executive Vice President – Chief Financial Officer and Treasurer. From June 2001 to August 2004, Mr. Jackson served as Senior Vice President – Chief Financial Officer and Treasurer. From September 1996 to June 2001, Mr. Jackson served as Vice President – Chief Financial Officer and Treasurer. From January 1993 to September 1996, Mr. Jackson served as Vice President – Controller and Chief Accounting Officer. Prior to January 1993, Mr. Jackson held various accounting positions with us. Prior to joining us in 1988, Mr. Jackson was associated with a public accounting firm. He is a Certified Public Accountant.

Mr. Baker has been employed as Executive Vice President – Store Operations since June 2001. From March 1994 to June 2001, Mr. Baker served as Senior Vice President – Store Operations. From May 1992 to March 1994, Mr. Baker served as Vice President – Store Operations. Prior to that time, he served as one of our regional managers. From 1983 to June 1989, Mr. Baker held various retail management positions with Payless ShoeSource.

Mr. Scibetta has been employed as Executive Vice President – Chief Merchandising Officer since March 2016. From December 2012 to March 2016, Mr. Scibetta served as General Merchandise Manager. Prior to joining us, Mr. Scibetta served as Vice President, Divisional Merchandise Manager– Footwear for Belk, Inc. since 2008. From 2004 to 2007, Mr. Scibetta served as Vice President, Divisional Merchandise Manager – Footwear for Parisian Department Stores. From 1998 to 2000, Mr. Scibetta served as Vice President, Divisional Merchandise Manager for Shoe Corporation of America. Mr. Scibetta began his retail career with Wohl Shoe Company in 1980.

Mr. Worden has been employed as Executive Vice President – Chief Strategy and Marketing Officer since September 2018. Prior to joining us, Mr. Worden led the Northern European region for S. C. Johnson & Son, Inc. ("SC Johnson"), a manufacturer of household cleaning supplies and products, and was responsible for revenue and share growth objectives across six countries from May 2014 to July 2018. Prior to that, Mr. Worden served as Assistant to the Chairman and Chief Executive Officer of SC Johnson from May 2012 to May 2014 and as a Senior Marketing Director from 2009 to 2012. Mr. Worden also served as a Senior Brand Manager at Kimberly-Clark Corporation and held multiple marketing roles across their flagship brands during his tenure there from 2003 through 2009.

Our executive officers serve at the discretion of the Board of Directors. There is no family relationship between any of our Directors or executive officers.

ITEM 1A. **RISK FACTORS**

Carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K before making an investment decision with respect to our common stock. Investing in our common stock involves a high degree of risk. If any of the following risks actually occur, we may not be able to conduct our business as currently planned and our financial condition and operating results could be materially and adversely affected. See PART I “Cautionary Statement Regarding Forward-Looking Information” at the beginning of this Annual Report on Form 10-K.

Economic conditions and unemployment rates may adversely affect consumer spending and may significantly harm our business. The success of our business depends to a significant extent upon the level of consumer spending. A number of factors may affect the level of consumer spending on merchandise that we offer, including, among other things:

- general economic, industry and weather conditions;
- unemployment trends and salaries and wage rates;
- energy costs, which affect gasoline and home heating prices;
- the level of consumer debt;
- consumer credit availability;
- real estate values and foreclosure rates;
- consumer confidence in future economic conditions;
- interest rates;
- health care costs;
- tax rates, policies and timing and amounts of tax refunds; and
- war, terrorism, other hostilities and security concerns.

The merchandise we sell generally consists of discretionary items. Adverse economic conditions and unemployment rates, and any related decrease in consumer confidence and spending may result in reduced consumer demand for discretionary items. Any decrease in consumer demand could reduce traffic in our stores, limit the prices we can charge for our products and force us to take inventory markdowns, which could have a material adverse effect on our business, results of operations and financial condition. Reduced demand may also require increased selling and promotional expenses. Reduced demand and increased competition could increase the need to close underperforming stores, which could result in higher than anticipated closing costs.

We face significant competition in our markets and we may be unable to compete favorably. The retail footwear industry is highly competitive with few barriers to entry. We compete primarily with department stores, shoe stores, sporting goods stores, online retailers and mass merchandisers. Many of our competitors are significantly larger and have substantially greater resources than we do. Economic pressures or bankruptcies of our competition could result in increased pricing pressures. This competition could adversely affect our results of operations and financial condition in the future.

Failure to successfully manage and execute our marketing initiatives could have a negative impact on our business. Our success and growth are partially dependent on generating customer traffic in order to gain sales momentum in our stores and drive traffic to our website. Successful marketing efforts require the ability to reach customers through their desired mode of communication, utilizing various media outlets. Media placement decisions are generally made months in advance of the scheduled release date. Our inability to accurately predict our consumers’ preferences, to utilize their desired mode of communication, or to ensure availability of advertised products could adversely affect our business and operating results. In addition, our competitors may spend more on marketing or use different marketing approaches, which could provide them with a competitive advantage.

Our failure to identify fashion trends could result in lower sales, higher markdowns and lower gross profits. Our success depends upon our ability to anticipate and react to the fashion tastes of our customers and provide merchandise that satisfies consumer demand. Our failure to anticipate, identify or react appropriately to changes in consumer fashion preferences may result in lower sales, higher markdowns to reduce excess inventories and lower

gross profits. Conversely, if we fail to anticipate or react to consumer demand for our products, we may experience inventory shortages, which would result in lost sales and could negatively affect our customer goodwill, our brand image and our profitability. Moreover, our business relies on continuous changes in fashion preferences. Stagnating consumer preferences could also result in lower sales and would require us to take higher markdowns to reduce excess inventories.

A failure to increase sales at our existing stores may adversely affect our stock price and affect our results of operations. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- competition;
- timing of holidays, including sales tax holidays;
- general regional and national economic conditions;
- inclement weather and/or unseasonable weather patterns;
- consumer trends, such as less disposable income due to the impact of higher prices on consumer goods;
- fashion trends;
- changes in our merchandise mix;
- our ability to efficiently distribute merchandise;
- timing and type of, and customer response to, sales events, promotional activities or other advertising;
- the effectiveness of our inventory management;
- new merchandise introductions; and
- our ability to execute our business strategy effectively.

In addition, consumers are increasingly using online retailers for their fashion purchases, shifting sales away from brick-and-mortar stores to e-commerce channels. This shift in shopping preference has resulted, and may continue to result, in decreased traffic in our physical stores, which could reduce sales at our physical stores and, in turn, negatively affect our business and financial results.

Our comparable store sales results have fluctuated in the past, and we believe such fluctuations may continue. The unpredictability of our comparable store sales may cause our revenue and results of operations to vary from quarter to quarter, and an unanticipated decline in revenues or operating income may cause our stock price to fluctuate significantly.

Members in our Shoe Perks customer loyalty program account for a significant portion of our sales, and any material decline in sales from our Shoe Perks members could have an adverse impact on our results of operations. We believe our Shoe Perks rewards program provides our customers with a heightened shopping experience, which includes exclusive offers and personalized messaging. Rewards are earned by making purchases either in-store or online and through participating in other point earning opportunities that facilitate engagement with our brand. We remain highly focused on expanding our Shoe Perks enrollment. In fiscal 2018, we added 2.4 million new members, and purchases from Shoe Perks members were 68% of net sales. Shoe Perks members on average spent 19% more per transaction than non-members in fiscal 2018. If our Shoe Perks members do not continue to shop with us, our sales may be adversely affected, which could have an adverse impact on our results of operations.

We would be adversely affected if our information technology systems fail to operate effectively, are disrupted or are compromised. We rely on our existing information technology systems in operating and monitoring all major aspects of our business, including sales, warehousing, distribution, purchasing, inventory control, merchandise planning and replenishment, point-of-sale support and financial systems. We regularly make investments to upgrade, enhance or replace these systems, as well as leverage new technologies to support our operational strategies. Any delays or difficulties transitioning to new systems or integrating them with current systems in an orderly and timely fashion could have a material adverse effect on our operational results, financial position and cash flows.

The reliability and capacity of our information technology systems, and in particular our distribution technology operations, are critical to our continued operations. We currently operate a single, 410,000 square foot distribution center in Evansville, Indiana. Virtually all merchandise received by our stores is and will be shipped through our distribution center. We fulfill our e-commerce orders primarily from our store locations. E-commerce orders for certain key items and promotional product are fulfilled from our distribution center. Our corporate computer network is essential to our distribution process.

Despite our precautionary efforts, our information technology systems are vulnerable from time to time to damage or interruption from, among other things, natural or man-made disasters, technical malfunctions, inadequate systems capacity, power outages or terrorist attack, computer viruses and security breaches, which may require significant investment to fix or replace. If our distribution center is shut down for any reason, if our information technology systems do not operate effectively, or if we are the target of attacks or security breaches, we may suffer the loss of critical data, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores, our ability to operate our e-commerce site and mobile app may be impacted, and we could experience other interruptions or delays to our operations. Our insurance only covers costs relating to specified, limited matters such as a shutdown due to fire and windstorms, as well as certain cyber - security incidents, but does not cover other events such as acts of war or terrorist attacks. Even in the event of a shutdown due to covered matters, our insurance may not be sufficient, or the insurance proceeds may not be paid to us in a timely fashion. Shutdowns or information technology disruptions could have an adverse effect on our operating and financial performance.

Failure to protect the integrity and security of individually identifiable data of our customers and employees could expose us to litigation and damage our reputation. We receive and maintain certain personal, sensitive and confidential information about our customers, vendors and employees. The collection and use of this information is regulated at the international, federal and state levels, and is subject to certain contractual restrictions in third party contracts. Non-compliance with these regulations and contractual restrictions may subject us to fines, penalties, restrictions and expulsion from credit card acceptance programs and civil liability. Although we have implemented processes to collect and protect the integrity and security of this personal information, there can be no assurance that this information will not be obtained by unauthorized persons, or collected or used inappropriately, including as a result of cyber-security breaches, acts of vandalism, computer viruses, credit card fraud or phishing. Advanced cyber-security threats are persistent and continue to evolve, making them increasingly difficult to identify and prevent. If our security and information systems or the systems of our employees or external business associates are compromised or our employees or external business associates fail to comply with these laws and regulations and this information is obtained by unauthorized persons, or collected or used inappropriately, it could negatively affect our reputation, as well as our operations and financial results, and could result in litigation or regulatory action against us or the imposition of costs, fines or other penalties. As privacy and information security laws and regulations change, we may incur additional costs to remain in compliance.

We outsource certain business processes to third-party vendors and have certain business relationships that subject us to risks, including disruptions in business and increased costs. We outsource some of our business processes to third-party vendors. We make a diligent effort to ensure that all providers of these outsourced services are observing proper internal control practices; however, there are no guarantees that failures will not occur. Failure of third parties to provide adequate services or our inability to arrange for alternative providers on favorable terms in a timely manner could disrupt our business, increase our costs or otherwise adversely affect our business and our financial results.

Failure to maintain positive brand perception and recognition could have a negative impact on our business. Maintaining a good reputation is critical to our business. The considerable expansion in the use of social media over recent years has increased the risk that our reputation could be negatively impacted in a short amount of time. If we are unable to quickly and effectively respond to any incidents negatively impacting our reputation, we may suffer declines in customer loyalty and traffic and we may experience vendor relationship issues and other issues, all of which could negatively affect our financial results.

We will require significant funds to implement our business strategy and meet our other liquidity needs. We may not continue to generate sufficient cash flow from operations or obtain sufficient borrowings under our existing credit facility to finance our business strategy and meet our other liquidity needs. In fiscal 2019, capital expenditures are expected to range from \$21 million to \$22 million. Our actual costs may be greater than anticipated. We also require working capital to support inventory for our existing stores. Failure to generate or raise sufficient funds may require us to modify, delay or abandon some of our future growth or expenditure plans. We utilize our existing credit facility to issue merchandise and special purpose standby letters of credit as well as to fund working capital requirements, as needed. Significant decreases in cash flow from operations could result in our borrowing under the credit facility to fund operational needs. If we borrow funds under our credit facility and interest rates materially increase from present levels, our results could be adversely affected.

Various risks associated with our e-commerce business may adversely affect our business and results of operations. Digital commerce has been a rapidly growing sales channel, particularly with younger consumers, and an increasing source of competition in the retail industry. We sell shoes and related accessories through our website at www.shoecarnival.com. We fulfill e-commerce orders from our store locations and from our distribution center. We anticipate that the percentage of our sales through our e-commerce site will continue to grow and thus the risks associated with these operations could have a material impact on our overall operations. However, our e-commerce operations may not achieve growing sales and profitability. Our e-commerce operations are subject to numerous risks, including unanticipated operating problems, reliance on third - party computer hardware, software and service providers, and the need to invest in additional computer systems. Any significant interruptions in the operations of these third - party providers, over which we have no control, could have a material adverse effect on our e-commerce business. Our e-commerce operations involve additional potential risks that could have an impact on our results of operations, including hiring, retaining and training personnel to conduct our e-commerce operations, diversion of sales from our stores, our ability to manage any upgrades or other technological changes, our ability to provide customer-facing technology systems, including mobile technology solutions, that function reliably and provide a convenient and consistent experience for our customers, exposure to potential liability for online content, risks related to the failure of the computer systems that operate our e-commerce site and its related support systems, including computer viruses, telecommunication failures and cyber-attacks and break-ins and similar disruptions, and security risks related to our electronic processing and transmission of confidential customer information. Any breach involving our customer information could materially harm our reputation or result in liability including, but not limited to, fines, penalties and costs of litigation, any of which could have a material adverse effect on our operating results, financial position and cash flows.

An increase in the cost or a disruption in the flow of imported goods may decrease our sales and profits. We rely on imported goods to sell in our stores. Substantially all of our footwear product is manufactured overseas, including the merchandise we import directly from overseas manufacturers and the merchandise we purchase from domestic vendors. Our primary footwear manufacturers are located in China. A disruption in the flow of imported merchandise or an increase in the cost of those goods may decrease our sales and profits. In addition, we do not control our vendors or their labor and business practices. The violation of labor, product safety or other laws by one of our vendors could have an adverse effect on our business and reputation.

If imported merchandise becomes more expensive or unavailable, the transition to alternative sources may not occur in time to meet our demands. Products from alternative sources may be of lesser quality and more expensive than those we currently import. Other risks associated with our use of imported goods include:

- disruptions in the flow of imported goods because of factors such as electricity or raw material shortages, work stoppages, strikes, political unrest and natural disasters;
- import duties, import quotas, tariffs, anti-dumping duties, and other trade sanctions;
- modifications to international trade policy and/or existing trade agreements and other changes affecting United States trade relations with other countries;
- problems with oceanic shipping, including shipping container shortages and piracy;
- port congestion at arrival ports causing delays;
- additional oceanic shipping costs to reach non-congested ports;
- inland transit costs and delays resulting from port congestion;
- economic crises and international disputes;
- currency exchange rate fluctuations;
- increases in the cost of purchasing or shipping foreign merchandise resulting from the failure to maintain normal trade relations with source countries;
- increases in shipping rates imposed by the trans-Pacific shipping cartel; and
- compliance with the laws and regulations, and changes to such laws and regulations, in the United States and the countries where our manufacturers are located, including but not limited to requirements relating to shipping security, product safety testing, environmental requirements and anti-corruption laws.

We may not be able to successfully execute our growth strategy, which could have a material adverse effect on our business, financial condition and results of operations. As part of our growth strategy, we intend to continue to invest in our multi-channel initiatives, which will require substantial investment in technology. Although we do not expect any new store openings in fiscal 2019, we expect to open new stores in fiscal 2020. When we resume new store growth in the future, we may not be able to open all of the new stores contemplated by our growth strategy, and the new stores that we open may not be as profitable as existing stores.

The complexity of our operations and management responsibilities will increase as we execute our growth strategy. Our growth strategy requires that we continue to expand and improve our operating and financial systems and expand, train and manage our employee base. In addition, as we create more opportunities to connect with our customers through our multi-channel initiatives and as we open new stores, we may be unable to hire a sufficient number of qualified personnel or successfully integrate the multi-channel initiatives or new stores into our business.

If we fail to successfully implement our growth strategy, it could have a material adverse effect on our business, financial condition or results of operations. The success of our growth strategy will depend on a number of other factors, many of which are out of our control, including, among other things:

- the acceptance of the Shoe Carnival concept in new markets;
- our ability to provide adequate distribution to support growth;
- our ability to source sufficient levels of inventory to meet the needs of new stores and for our Ship From Store, Shoes 2U and Buy Online Pick Up In Stores services;
- our ability to resolve downtime or technical issues related to our e-commerce site, our mobile app, our third-party order management and fulfillment systems, and all other related systems that support our multi-channel strategy;
- our ability to execute multi-channel advertising and marketing campaigns to effectively communicate our message to our customers and our employees;
- our ability to locate suitable store sites and negotiate store leases (for new stores and renewals) on favorable terms;
- particularly if we expand into new markets, our ability to open a sufficient number of new stores to provide the critical mass needed for efficient advertising and effective brand recognition;
- the availability of financing for capital expenditures and working capital requirements;
- our ability to improve costs and timing associated with opening new stores; and
- the impact of new stores on sales or profitability of existing stores in the same market.

We depend on our key suppliers for merchandise and advertising support and the loss of key suppliers could adversely affect our business. Our business depends upon our ability to purchase fashionable, name brand and other merchandise at competitive prices from our suppliers. In fiscal 2018, two branded suppliers, Nike, Inc. and Skechers USA, Inc., collectively accounted for approximately 43% of our net sales. Nike, Inc. accounted for approximately 32% and Skechers USA, Inc. accounted for approximately 11% of our net sales, respectively. Name brand suppliers also provide us with cooperative advertising and visual merchandising funds. A loss of any of our key suppliers in certain product categories or our inability to obtain name brand or other merchandise from suppliers at competitive prices could have a material adverse effect on our business. As is common in the industry, we do not have any long-term contracts with our suppliers.

Our quarterly operating results will fluctuate due to seasonality, weather conditions and other factors. Our quarterly results of operations have fluctuated, and are expected to continue to fluctuate in the future, primarily as a result of seasonal variances, weather conditions and the timing of sales and costs associated with opening new stores and closing existing 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, and our quarterly results may be impacted by calendar shifts of holiday or seasonal periods.

We also increase our inventory levels to offer styles particularly suited for the relevant season, such as sandals in the early summer season and boots during the winter season. If the weather conditions for a particular season vary significantly from those typical for such season, such as an unusually cold early summer or an unusually warm winter, consumer demand for the seasonally appropriate merchandise that we have available in our stores could be adversely affected and negatively impact net sales and margins. Lower demand for seasonally appropriate merchandise may leave us with an excess inventory of our seasonally appropriate products, forcing us to sell these products at significantly discounted prices and adversely affecting our net sales margins and operating cash flow.

Conversely, if weather conditions permit us to sell our seasonal product early in the season, this may reduce inventory levels needed to meet our customers' needs later in that same season. Consequently, our results of operations are highly dependent on somewhat predictable weather conditions and our ability to react to changes in weather conditions.

Other factors that may affect our quarterly results of operations include:

- fashion trends;
- the timing and amount of income tax refunds to customers;
- the effectiveness of our inventory management;
- changes in general economic conditions and consumer spending patterns; and
- actions of competitors or co-tenants.

If our future quarterly results fail to meet the expectations of research analysts, then the market price of our common stock could decline substantially.

If our long-lived assets become impaired, we may need to record significant non-cash impairment charges. Periodically, we review our long-lived assets for impairment whenever economic events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Significant negative industry or general economic trends, disruptions to our business and unexpected significant changes or planned changes in our use of the assets (such as store relocations or closures) have resulted, and in the future may result, in impairment charges. Any such impairment charges, if significant, would adversely affect our financial position and results of operations.

We are subject to periodic litigation and other regulatory proceedings, which could result in the unexpected expenditure of time and resources. We are a defendant from time to time in lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, such proceedings are expensive and will require us to devote substantial resources and executive time to defend, thereby diverting management's attention and resources that are needed to successfully run our business.

Our failure to manage key executive succession and retention and to continue to attract qualified personnel could adversely affect our business. Our success depends largely on the continued service of our executive management team. Our business would be adversely affected if we fail to adequately plan for the succession and retention of our executive management team. While we have succession plans in place for members of our executive management team, and continue to review and update those plans, and we have employment agreements with certain key executive officers, these plans and agreements do not guarantee that the services of our executive officers will continue to be available to us or that we will be able to find suitable management personnel to replace departing executives on a timely basis.

Furthermore, our strategy requires us to continue to train, motivate and manage our employees and to attract, motivate and retain additional qualified managerial and merchandising personnel. The ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, health care and minimum wage legislation and changing demographics. If we are unable to attract and retain quality sales associates and management, the ability to meet growth goals or to sustain expected levels of profitability may be compromised.

Our stock price may be volatile and could decline substantially. The stock market has, from time to time, experienced extreme price and volume fluctuations. Many factors may cause the market price for our common stock to decline, including:

- operating results failing to meet the expectations of securities analysts or investors in any quarter;
- downward revisions in securities analysts' estimates;
- material announcements by us or our competitors; and
- the other risk factors cited in this Annual Report on Form 10-K.

In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we become involved in securities class action litigation in the future, it could result in substantial costs and diversion of management attention and resources, thus harming our business.

We cannot guarantee that we will continue to make dividend payments or that we will continue to repurchase stock pursuant to our stock repurchase program. Our Board of Directors determines if it is in our best interest to pay a dividend to our shareholders and the amount of any dividend and declares all dividend payments. In the future, our results of operations and financial condition may not allow for a dividend to be declared or the Board of Directors may decide not to continue to declare dividends. In addition, our current share repurchase program authorizes the purchase of up to \$50 million of our common stock through December 31, 2019. However, we are not obligated to make any purchases under the share repurchase program and the program may be amended, suspended or discontinued at any time.

Failure to maintain effective internal control over financial reporting could result in a loss of investor confidence in our financial reports and have a material adverse effect on our stock price. We must continue to document, test and evaluate our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual reports by management regarding the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm attesting to the effectiveness of our internal control over financial reporting. We have expended, and expect that we will continue to expend, significant management time and resources documenting and testing our internal control over financial reporting. If we conclude in future periods that our internal control over financial reporting is not effective, it could result in lost investor confidence in the accuracy, reliability and completeness of our financial reports. Any such events could have a material adverse effect on our stock price.

We are controlled by our principal shareholders . J. Wayne Weaver, our Chairman of the Board of Directors, and his spouse together beneficially own approximately 19.5% of our outstanding common stock. Mr. Weaver's adult son is the sole trustee of the J. Wayne Weaver 2018 Grantor Retained Annuity Trust for Bradley Wayne Weaver, and, as a result, beneficially owns the approximately 6.5% of our outstanding common stock held by such trust. Mr. Weaver's adult daughter is the sole trustee of the J. Wayne Weaver 2018 Grantor Retained Annuity Trust for Leigh Anne Weaver, and, as a result, beneficially owns the approximately 6.5% of our outstanding common stock held by such trust. Accordingly, the Weaver family is able to exert substantial influence over our management and operations. In addition, their interests may differ from or be opposed to the interests of our other shareholders, and their ownership may have the effect of delaying or preventing a change in control that may be favored by other shareholders.

Provisions of our organizational documents and Indiana law might deter acquisition bids for us. Our Restated Articles of Incorporation, our By-Laws and Indiana corporate laws contain provisions that may discourage other persons from attempting to acquire control of us, including, without limitation, a Board of Directors that has staggered terms for its members, supermajority voting provisions, restrictions on the ability of shareholders to call a special meeting of shareholders and procedural requirements in connection with shareholder proposals or director nominations. The Board of Directors has the authority to issue preferred stock in one or more series without the approval of the holders of our common stock. Further, Indiana corporate law contains business combination provisions that, in general, prohibit for five years any business combination with a beneficial owner of 10% or more of our common stock unless the holder's acquisition of the stock was approved in advance by our Board of Directors. Indiana corporate law also contains control share acquisition provisions that limit the ability of certain shareholders to vote their shares unless their control share acquisition is approved. In certain circumstances, the fact that corporate devices are in place that inhibit or discourage takeover attempts could reduce the market value of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease all existing stores and intend to lease all future stores. Approximately 98% of the leases for our existing stores provide for fixed minimum rentals and approximately 49% provide for contingent rental payments based upon various specified percentages of sales above minimum levels. Certain leases also contain escalation clauses for increases in minimum rentals, operating costs and taxes.

The following table identifies the number of our stores in each state and Puerto Rico as of February 2, 2019:

State/Territory		State/Territory	
Alabama	11	New Jersey	3
Arkansas	10	New York	3
Arizona	4	North Carolina	18
Colorado	4	North Dakota	4
Delaware	1	Ohio	20
Florida	30	Oklahoma	7
Georgia	16	Pennsylvania	16
Idaho	4	Puerto Rico	6
Iowa	11	South Carolina	10
Illinois	30	South Dakota	2
Indiana	29	Tennessee	20
Kansas	5	Texas	46
Kentucky	12	Utah	2
Louisiana	9	Virginia	7
Michigan	16	Wisconsin	3
Missouri	22	West Virginia	5
Mississippi	6	Wyoming	1
Montana	1	Total Stores	397
Nebraska	3		

In February 2006, we entered into an operating lease with an independent third party to lease our 410,000 square foot distribution center located in Evansville, Indiana. The lease has an initial term of 15 years, expiring in 2021. We have the right to extend the initial lease term for up to three additional periods of five years each, and to expand the facility by up to 200,000 square feet.

In June 2006, we entered into an operating lease with an independent third party to lease our corporate headquarters for an initial term of 15 years, expiring in 2021. We have the right to extend the initial lease term for up to three additional periods of five years each, and to expand the facility by up to 30,000 square feet. As of the date of this Annual Report on Form 10-K, we have not exercised our right to extend the lease term, but we are presently in negotiations to purchase our corporate headquarters for approximately \$7 million.

For additional information with respect to our properties, see ITEM 1. BUSINESS – “Growth Strategy” and “Distribution” as well as PART II, ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – “Executive Summary” of this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in certain legal proceedings in the ordinary course of conducting our business. While the outcome of any legal proceeding is uncertain, we do not currently expect that any such proceedings will have a material adverse effect on our financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock has been quoted on The Nasdaq Stock Market, LLC under the trading symbol "SCVL" since March 16, 1993. As of March 25, 2019, there were approximately 138 holders of record of our common stock. We did not sell any unregistered equity securities during fiscal 2018.

Cash Dividends

During fiscal 2018, we paid quarterly cash dividends of \$0.075 per share in the first quarter and \$0.08 per share in the second, third and fourth quarters. 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 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 million.

On March 21, 2019, the Board of Directors approved the payment of a cash dividend to our shareholders in the first quarter of fiscal 2019. The quarterly cash dividend of \$0.08 per share will be paid on April 22, 2019 to shareholders of record as of the close of business on April 8, 2019.

Issuer Purchases of Equity Securities

Throughout fiscal 2018, we issued treasury shares to certain employees and our non-employee directors in the form of restricted stock awards and upon the vesting of restricted stock units. We also repurchased 12,842 shares of common stock as a result of our withholding shares or allowing our employees to deliver shares to us for the income taxes resulting from the vesting of certain restricted stock awards. It is our intention to continue these practices as they relate to the issuance of treasury shares.

On December 13, 2018, our Board of Directors authorized a new share repurchase program for up to \$50 million of outstanding common stock, effective January 1, 2019. The purchases may be made in the open market or through privately negotiated transactions from time-to-time through December 31, 2019 and in accordance with applicable laws, rules and regulations. The share repurchase program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We have funded, and intend to continue to fund, the share repurchase program from cash on hand, and any shares acquired will be available for stock-based compensation awards and other corporate purposes. The actual number and value of the shares to be purchased will depend on the performance of our stock price and other market conditions. As of February 2, 2019, no shares had been repurchased under the new share repurchase program.

The new share repurchase program replaced the prior \$50 million share repurchase program that was authorized in December 2017 and expired in accordance with its terms on December 31, 2018. At its expiration, we had purchased approximately 1.5 million shares at an aggregate cost of \$46.0 million under the prior repurchase program.

The following table summarizes repurchase activity during the fourth quarter of fiscal 2018 :

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)
November 4, 2018 to December 1, 2018	137,427	\$ 36.50	137,056	\$ 5,952,000
December 2, 2018 to January 5, 2019	60,300	\$ 33.14	60,300	\$ 50,000,000
January 6, 2019 to February 2, 2019	0	\$ 0.00	0	\$ 50,000,000
	<u>197,727</u>		<u>197,356</u>	

- (1) Total number of shares purchased includes 371 shares delivered to or withheld by us in connection with employee payroll tax withholding upon the vesting of certain restricted stock awards.
- (2) On December 13, 2018, our Board of Directors authorized a new share repurchase program for up to \$50 million of our outstanding common stock, effective January 1, 2019 and expiring on December 31, 2019. The new share repurchase program replaced the prior \$50 million share repurchase program that was authorized in December 2017 and expired in accordance with its terms on December 31, 2018.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this Item concerning securities authorized for issuance under our equity plans has been incorporated by reference into PART III, ITEM 12 of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in PART II, ITEM 7 along with our consolidated financial statements and notes to those statements included in PART II, ITEM 8 of this Annual Report on Form 10-K.

(In thousands, except per share and operating data)

Fiscal years ⁽¹⁾	2018	2017	2016	2015	2014
Income Statement Data:					
Net sales	\$ 1,029,650	\$ 1,019,154	\$ 1,001,102	\$ 983,968	\$ 940,162
Cost of sales (including buying, distribution and occupancy costs)	720,658	722,885	711,867	693,452	666,483
Gross profit	308,992	296,269	289,235	290,516	273,679
Selling, general and administrative expenses	259,232	258,568	251,323	243,883	231,826
Operating income	49,760	37,701	37,912	46,633	41,853
Interest income	(747)	(4)	(6)	(39)	(14)
Interest expense	150	292	169	168	165
Income before income taxes	50,357	37,413	37,749	46,504	41,702
Income tax expense	12,222	18,480	14,232	17,737	16,175
Net income	\$ 38,135	\$ 18,933	\$ 23,517	\$ 28,767	\$ 25,527
Net income per share:					
Basic	\$ 2.51	\$ 1.15	\$ 1.28	\$ 1.45	\$ 1.27
Diluted	\$ 2.45	\$ 1.15	\$ 1.28	\$ 1.45	\$ 1.27
Weighted average shares:					
Basic	15,111	16,220	18,017	19,417	19,777
Diluted	15,499	16,227	18,022	19,427	19,791
Dividends declared per share	\$ 0.315	\$ 0.295	\$ 0.275	\$ 0.255	\$ 0.24
Selected Operating Data:					
Stores open at end of year	397	408	415	405	400
Square footage of store space at year end (000's)	4,268	4,391	4,526	4,465	4,419
Average sales per store (000's) ⁽²⁾	\$ 2,473	\$ 2,419	\$ 2,367	\$ 2,407	\$ 2,390
Average sales per square foot ⁽²⁾ ⁽⁴⁾	\$ 236	\$ 229	\$ 224	\$ 224	\$ 221
Comparable store sales ⁽²⁾ ⁽³⁾	4.3%	0.3%	0.5%	3.0%	1.8%
Balance Sheet Data:					
Cash and cash equivalents	\$ 67,021	\$ 48,254	\$ 62,944	\$ 68,814	\$ 61,376
Total assets	\$ 417,999	\$ 415,580	\$ 458,478	\$ 481,093	\$ 465,016
Long-term debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total shareholders' equity	\$ 304,433	\$ 307,302	\$ 318,882	\$ 339,802	\$ 331,198

(1) Our fiscal year is a 52/53 week year ending on the Saturday closest to January 31. Unless otherwise stated, references to years 2018, 2017, 2016, 2015, and 2014 relate respectively to the fiscal years ended February 2, 2019, February 3, 2018, January 28, 2017, January 30, 2016, and January 31, 2015. Fiscal year 2017 consisted of 53 weeks and the other fiscal years consisted of 52 weeks.

(2) Selected Operating Data for fiscal 2017 has been adjusted to a comparable 52-week period ended January 27, 2018. The 53rd week in fiscal 2017 caused a one-week shift in our fiscal calendar. To minimize the effect of this fiscal calendar shift on comparable store sales, average sales per store and average sales per square foot, our reported annual comparable store sales results for fiscal 2017 compare the 52-week period ended January 27, 2018 to the 52-week period ended January 28, 2017 and average sales per store and average sales per square foot are calculated for the 52-week period ended January 28, 2017. Comparable store sales results for fiscal 2018 compare the 52-week period ended February 2, 2019 to the 52-week period ended February 3, 2018.

- (3) Comparable store sales for the periods indicated include stores that have been open for 13 full months after such stores' 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.
- (4) Average sales per square foot includes net e-commerce sales. We include e-commerce sales in our average sales per square foot as a result of our multi-channel retailer strategy. Due to our multi-channel retailer strategy, we view e-commerce sales as an extension of our physical stores.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and notes to those statements included in PART II, ITEM 8 of this Annual Report on Form 10-K.

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 fun and promotional, in-store marketing effort that encourages customer participation and injects fun and surprise into every shopping experience. We believe this fun and promotional atmosphere results in various competitive advantages, including increased multiple unit sales; the building of a loyal, repeat customer base; the creation of word-of-mouth advertising; and enhanced sell-through of in-season goods. A similar customer experience is reflected in our e-commerce site through special promotions and limited time sales, along with relevant 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. In addition to footwear, our stores carry selected accessory items such as socks, belts, shoe care items, handbags, sport bags, backpacks, scarves and wallets. Our e-commerce site offers customers an opportunity to choose from a large selection of products in all of the same categories of footwear 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.

Our fiscal year is a 52/53 week year ending on the Saturday closest to January 31. Unless otherwise stated, references to years 2018, 2017 and 2016 relate respectively to the fiscal years ended February 2, 2019, February 3, 2018, and January 28, 2017. Fiscal year 2017 consisted of 53 weeks and the other fiscal years consisted of 52 weeks.

Executive Summary

Overview

Net income increased to \$38.1 million in fiscal 2018, or \$2.45 per diluted share, compared to net income of \$18.9 million, or \$1.15 per diluted share, in fiscal 2017. Despite a low-single digit decline in store traffic, comparable store sales increased by 4.3% in fiscal 2018, and we generated a low-single digit improvement in our conversion rate, primarily due to continued progress with our multi-channel strategy. Our balance sheet remains strong as of February 2, 2019, with inventory down \$3.0 million year-over-year, \$67.0 million in cash and cash equivalents and no outstanding debt.

Highlights of our performance in fiscal 2018 compared to the prior year are presented below, followed by a more comprehensive discussion under "Results of Operations":

- Net sales increased \$10.5 million, or 1.0%, during the 52-week fiscal 2018 compared to a 53-week fiscal 2017. Of the \$10.5 million increase in net sales, approximately \$8.9 million was attributable to the 22 new stores we opened since the beginning of fiscal 2017 and \$28.5 million was attributable to the stores in our comparable store sales base. This net sales increase was partially offset by the loss of \$26.9 million in sales from the 40 stores closed since the beginning of fiscal 2017. Similar to other retailers, we follow the retail 4-5-4 reporting calendar, which included an extra week in the fourth quarter of fiscal 2017 (the 53rd week). The loss of this one week of sales in fiscal 2018 negatively affected our net sales comparison, as approximately \$13.0 million in net sales were recorded for this extra week in fiscal 2017.

- Comparable store sales for the 52-week period ended February 2, 2019 increased 4.3 % compared to the 52-week period ended February 3, 2018, despite a low -single digit decline in store traffic. Customers responded well to our product assortment and marketing efforts throughout the year , and we posted comparable store sales increases in all major product categories. Seasonal product categories, such as women’s and children’s sandals and men’s boots , all posted double - digit comparable store sales increases. We continue to offer our customers fresh new styles and colors from brands that drive the athletic and athleisure trend. Adult athletics posted a low-single digit comparable store sales increase during the year led by women’s athletics, which posted a mid-single digit sales increase during fiscal 2018.
- Our gross profit margin increased to 30.0% in fiscal 2018 from 29.1% in the prior year. Our merchandise margin increased 0.3% primarily due to higher margins achieved in the women’s non-athletic category. Buying, distribution and occupancy costs, as a percentage of sales, decreased 0.6% compared to the prior year primarily as a result of lower occupancy expenses during the year and the leveraging effect of higher sales.
- In December 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Act”) was enacted, which reduced our maximum corporate tax rate from 35% to 21%, effective January 1, 2018. Our effective tax rate decreased to 24.3% in fiscal 2018 compared to 49.4% in fiscal 2017 primarily due to the change in the corporate tax rate. We also recorded additional income tax expense of \$4.4 million in fiscal 2017 related to the one-time remeasurement of certain deferred tax assets and liabilities using the new, lower corporate tax rate.
- We repurchased approximately 1.5 million shares of common stock during fiscal 2018 at a total cost of \$46.0 million under our share repurchase programs and ended fiscal 2018 with \$67.0 million in cash and cash equivalents, and we ended fiscal 2018 with no outstanding debt.
- In fiscal 2018, we continued to invest in our CRM strategy, which is intended to focus our entire organization on a more customer-centric model. We engaged with a strategic partner that specializes in creating holistic CRM strategies for large and mid-sized retail organizations to provide discovery, implementation, launch and ongoing support for our customer-centric, multi-channel CRM Solution. This new platform will form the foundation of our CRM program and will also serve as the systemic framework for our Shoe Perks loyalty program.
- In fiscal 2018, we increased membership in our Shoe Perks customer loyalty program by an additional 2.4 million members, which brought total membership to 21.7 million customers at the end of the fiscal year. For the fiscal year, member sales accounted for approximately 68% of our total business and members on average spent 19% more per transaction than non-members. The Gold tier represents approximately 35% of our active Shoe Perks members and the average transaction value for these customers is 20% higher than non-Gold Shoe Perks members. We believe our Shoe Perks program affords us tremendous opportunity to communicate, build relationships and engage with our most loyal shoppers, which we believe will result in long-term sales gains.
- We began fiscal 2018 expecting to close approximately 25 to 30 stores. Our management team was focused on improving the metrics of certain stores expected for closure and was successful in making them productive contributors to our store base. As a result, we closed 14 stores during the year, opened three stores and relocated one store. We ended the year with 397 stores.

Fiscal 2019

Fiscal 2019 will continue to be a year of innovation for Shoe Carnival. In the third quarter, we expect to officially launch our CRM Solution. This launch represents the official implementation of our production CRM database to support customer information, identity management and our CRM campaign management software. In fiscal 2019 we will continue to invest in our CRM strategy, which is intended to focus our entire organization on a more customer-centric model. We will continue to work with our strategic partner that specializes in creating holistic CRM strategies for large and mid-sized retail organizations to provide discovery, implementation, launch and ongoing support for our customer-centric, multi-channel CRM Solution. This new platform will form the foundation of our CRM program and will also serve as the systemic framework for our Shoe Perks loyalty program and CRM campaign manager. We expect this initiative will give us an improved view into customer data, allowing us to effectively communicate with consumers on a personalized basis. Using primarily transaction data, we are gaining useful insights into our customers’ shopping habits, including where, when and how they shop our stores and navigate our online presence. Additionally, we are gaining a deeper understanding of the brands and categories our high-value customers consistently purchase so that we can continue to deliver strong performance at a geographic and store level. Although a large part of customer data comes from our loyalty program, we take a holistic view of CRM. We believe this approach should help drive continued Company growth in fiscal 2019 as we continue to enhance our loyalty program and CRM capabilities through exclusive offers and personalized messaging and build even greater loyalty and a deeper relationship with our Shoe Perks customers.

Increasing market penetration by opening new stores has historically been a key component of our growth strategy. While our focus continues to be on generating positive long-term financial performance for our store portfolio, we do not expect to open any new stores in fiscal 2019. As we leverage customer data from our CRM program, and as more attractive real estate opportunities become available, we will continue to pursue opportunities for brick-and-mortar store growth across large, mid-size and smaller markets in fiscal 2020.

Over the past several years, we have analyzed our entire portfolio of stores, with a concentration on underperforming stores, in order to identify and address stores that produce low or negative contribution and either renegotiate lease terms, relocate or close those stores. Based on this analysis, we currently expect to close approximately seven to 10 stores in fiscal 2019.

In fiscal 2019, we will also be evaluating key processes underlying our supply chain, order management and fulfillment competencies in order to build a more efficient supply chain, position ourselves for new growth and ultimately enhance customer satisfaction and convenience in an increasingly competitive environment. We are also partnering with a new marketing agency, who we believe will help us deliver new and unique messaging to our customers and fortify our brand as a distinct and compelling family footwear retailer.

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. The accounting policies that require more significant judgments are included below.

Merchandise Inventories – Our merchandise inventories are stated at the lower of cost or net realizable value as of the balance sheet date and consist primarily of dress, casual and athletic footwear for women, men and children. The cost of our merchandise is determined using the first-in, first-out valuation method (FIFO). For determining market value, we estimate the future demand and related sale price of merchandise in our inventory. The stated value of merchandise inventories contained on our consolidated balance sheets also includes freight, certain capitalized overhead costs and reserves.

We review our inventory at the end of each quarter to determine if it is properly stated at the lower of cost or net realizable value. Factors considered include recent sale prices, historical loss rates, the length of time merchandise has been held in inventory, quantities of the various styles held in inventory, seasonality of the merchandise, expected consideration to be received from our vendors and current and expected future sales trends. We reduce the value of our inventory to its estimated net realizable value where cost exceeds the estimated future selling price. Merchandise inventories as of February 2, 2019, totaled \$257.5 million, representing approximately 62% of total assets. Merchandise inventories as of February 3, 2018, totaled \$260.5 million, representing approximately 63% of total assets. Given the significance of inventories to our consolidated financial statements, the determination of net realizable value is considered to be a critical accounting estimate. Material changes in the factors noted above could have a significant impact on the actual net realizable value of our inventory and our reported operating results.

Valuation of Long-Lived Assets – Long-lived assets, such as property and equipment subject to depreciation, are evaluated for impairment on a periodic basis if events or circumstances indicate the carrying value may not be recoverable. This evaluation includes performing an analysis of the estimated undiscounted future cash flows of the long-lived assets. Assets are grouped and the evaluation performed at the lowest level for which there are identifiable cash flows, which is generally at a store level.

If the estimated future cash flows for a store are determined to be less than the carrying value of the store's assets, an impairment loss is recorded for the difference between estimated fair value and carrying value. We estimate the fair value of our long-lived assets using store-specific cash flow assumptions discounted by a rate commensurate with the risk involved with such assets while incorporating marketplace assumptions. Our assumptions and estimates used in the evaluation of impairment, including current and future economic trends for stores, are subject to a high degree of judgment. Assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses. Our net long-lived assets as of February 2, 2019, and of February 3, 2018, totaled \$70.6 million and \$86.3 million, respectively, representing

approximately 17% and 21% of total assets, respectively, for both fiscal years. There were no impairments of long-lived assets recorded in fiscal 2018. From our evaluations performed during fiscal 2017, we recorded impairments of long-lived assets of \$5.1 million on 47 underperforming domestic stores. If actual operating results or market conditions differ from those anticipated, the carrying value of certain of our assets may prove unrecoverable and we may incur additional impairment charges in the future.

Insurance Reserves – We self-insure a significant portion of our workers’ compensation, general liability and employee health care costs and also maintain insurance in each area of risk to protect us from individual and aggregate losses over specified dollar values. We review the liability reserved for our self-insured portions on a quarterly basis, taking into consideration a number of factors, including historical claims experience, severity factors, statistical trends and, in certain instances, valuation assistance provided by independent third parties. Our self-insurance reserves include estimates of both claims filed, carried at their expected ultimate settlement value, and claims incurred but not yet reported. As of February 2, 2019 and February 3, 2018, our self-insurance reserves totaled \$3.4 million and \$3.6 million, respectively. While we believe that the recorded amounts are adequate, there can be no assurance that changes to management’s estimates will not occur due to limitations inherent in the estimating process. If actual results are not consistent with our estimates or assumptions, we may be exposed to future losses or gains that could be material.

Income Taxes – As part of the process of preparing our consolidated financial statements, we are required to estimate our current and future income taxes for each tax jurisdiction in which we operate. Significant judgment is required in determining our annual tax expense and evaluating our tax positions. As a part of this process, deferred tax assets and liabilities are recognized based on the difference between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Our temporary timing differences relate primarily to inventory, depreciation, accrued expenses, deferred lease incentives and stock-based compensation. Deferred tax assets and liabilities are measured using the tax rates enacted and expected to be in effect in the years when those temporary differences are expected to reverse. Deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those tax benefits are uncertain.

We are also required to make many subjective assumptions and judgments regarding our income tax exposures when accounting for uncertain tax positions associated with our income tax filings. We must presume that taxing authorities will examine all uncertain tax positions and that they have full knowledge of all relevant information. However, interpretations of guidance surrounding income tax laws and regulations are often complex, ambiguous and frequently change over time, and a number of years may elapse before a particular issue is resolved. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in our consolidated financial statements. Although we believe we have adequately provided for all uncertain tax positions, tax authorities could assess tax liabilities greater or less than our accrued positions for open tax periods.

Results of Operations

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

	2018	2017	2016
Net sales	100.0%	100.0%	100.0%
Cost of sales (including buying, distribution, and occupancy costs)	70.0	70.9	71.1
Gross profit	30.0	29.1	28.9
Selling, general and administrative expenses	25.2	25.4	25.1
Operating income	4.8	3.7	3.8
Interest income	(0.1)	(0.0)	(0.0)
Interest expense	0.0	0.0	0.0
Income before income taxes	4.9	3.7	3.8
Income tax expense	1.2	1.8	1.4
Net income	3.7%	1.9%	2.4%

In the regular course of business, we offer our customers sales incentives, including coupons, discounts, and free merchandise. Sales are recorded net of such incentives and returns and allowances. If an incentive involves free merchandise, that merchandise is recorded as a zero sale and the cost is included in cost of sales. Comparable store sales for the periods indicated below include stores that have been open for 13 full months after such stores' 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 as a result of our multi-channel retailer strategy. Due to our multi-channel retailer strategy, we view e-commerce sales as an extension of our physical stores.

2018 Compared to 2017

Net Sales

Net sales increased \$10.5 million to \$1.030 billion for fiscal 2018, a 1.0% increase from net sales of \$1.019 billion for fiscal 2017. Of the \$10.5 million increase in net sales, approximately \$8.9 million was attributable to the 22 new stores we opened since the beginning of fiscal 2017 and \$28.5 million was attributable to the stores in our comparable store sales base. Comparable store sales for the 52-week period ended February 2, 2019, increased 4.3% compared to the 52-week period ended February 3, 2018. Despite a low-single digit decline in store traffic, we experienced increases in our conversion rate, average sales per transaction and average units per transaction. Average unit retail was flat year-over-year. This net sales increase was partially offset by the loss of \$26.9 million in sales from the 40 stores closed since the beginning of fiscal 2017. Similar to other retailers, we follow the retail 4-5-4 reporting calendar, which included an extra week in the fourth quarter of fiscal 2017 (the 53rd week). The loss of this one week of sales in fiscal 2018 negatively affected our net sales comparison, as approximately \$13.0 million in net sales were recorded for this extra week in fiscal 2017.

Gross Profit

Gross profit increased \$12.7 million to \$309.0 million in fiscal 2018, primarily because of the increase in net sales and lower occupancy costs. Our gross profit margin in fiscal 2018 increased to 30.0% from 29.1% in the prior fiscal year. Our merchandise margin increased 0.3% primarily due to higher margins achieved in the women's non-athletic category. Buying, distribution and occupancy costs, as a percentage of sales, decreased 0.6% compared to the prior year primarily as a result of lower occupancy expenses during the year and the leveraging effect of higher sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$664,000 to \$259.2 million in fiscal 2018 compared to \$258.6 million in the prior year. As a percentage of sales, these expenses decreased to 25.2% in fiscal 2018 from 25.4% in fiscal 2017. Significant changes in expense between the periods are as follows:

- On an overall basis, the net change in selling, general and administrative expenses was primarily driven by increases in incentive and stock-based compensation expense, partially offset by expense reductions associated with store closings, as described below, as well as reduced costs associated with our deferred compensation plan in fiscal 2018 due to plan performance.
- We realized cost savings of \$8.8 million during fiscal 2018 compared to fiscal 2017 related to the closure of 40 stores since the beginning of fiscal 2017, net of additional selling expense associated with the operation of 22 new stores opened since the beginning of fiscal 2017.
- Incentive compensation expense increased \$7.1 million in fiscal 2018 compared to fiscal 2017. This increase was primarily attributable to the achievement of certain goals associated with our performance-based compensation during fiscal 2018.
- Stock-based compensation expense increased \$5.1 million in fiscal 2018 compared to fiscal 2017 primarily due to the anticipated vesting of a greater number of performance-based equity awards as a result of our financial performance in fiscal 2018.

Pre-Opening Costs

In fiscal 2018, pre-opening costs included in selling, general and administrative expenses were \$208,000, or 0.02% as a percentage of sales, compared to \$827,000, or 0.08% as a percentage of sales, for fiscal 2017. We opened three stores during fiscal 2018 at an average pre-opening cost of \$69,000 compared to 19 stores in fiscal 2017 at an average pre-opening cost of \$44,000. 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

The portion of store closing costs included in selling, general and administrative expenses for fiscal 2018 was \$2.8 million, or 0.3% as a percentage of sales. Store closing costs in fiscal 2018 were related to the 14 stores we closed during the year and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. There were no impairments of long-lived assets recorded in fiscal 2018.

The portion of store closing costs and non-cash asset impairment charges included in selling, general and administrative expenses for fiscal 2017 was \$7.7 million, or 0.8% as a percentage of sales. Store closing costs in fiscal 2017 were related to the 26 stores we closed during the year and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. We recorded impairments of long-lived assets totaling \$5.1 million on 47 underperforming, domestic stores in fiscal 2017.

The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the cost incurred in terminating the lease.

Income Taxes

The effective income tax rate for fiscal 2018 was 24.3% compared to 49.4% for fiscal 2017. Our effective tax rate decreased 25.1 percentage points in fiscal 2018 primarily due to the change in the corporate tax rate under the Tax Act and the additional income tax expense of \$4.4 million recorded in fiscal 2017 related to the one-time remeasurement of certain deferred tax assets and liabilities as a result of the reduction in the corporate tax rate. Our provision for income tax expense is based on the current estimate of our annual effective tax rate.

2017 Compared to 2016

Net Sales

Net sales increased \$18.1 million to \$1.019 billion for fiscal 2017, a 1.8% increase from net sales of \$1.001 billion for fiscal 2016. Of the \$18.1 million increase in net sales, approximately \$23.3 million was attributable to the 38 new stores we opened since the beginning of fiscal 2016 and \$16.1 million was attributable to the stores in our comparable store sales base. Comparable store sales for the 52-week period ended January 27, 2018 increased 0.3%. Despite a mid-single digit decline in store traffic, we experienced increases in our conversion rate, average sales per transaction, average units per transaction and average unit retail. The \$18.1 million increase in net sales was partially offset by the loss of \$21.3 million in sales from the 35 stores closed since the beginning of fiscal 2016. Similar to other retailers, we follow the retail 4-5-4 reporting calendar, which included an extra week in the fourth quarter of fiscal 2017 (the 53rd week). Net sales of approximately \$13.0 million were recorded in this extra week, which are included in the total net sales increase of \$18.1 million described above.

Gross Profit

Gross profit increased \$7.0 million to \$296.3 million in fiscal 2017, primarily because of the increase in net sales. Our gross profit margin in fiscal 2017 increased to 29.1% from 28.9% in the prior fiscal year. Our merchandise margin increased 0.2% while buying, distribution and occupancy costs, as a percentage of sales, remained flat compared to the prior year. Our merchandise margin increased primarily due to a \$3.3 million gain on insurance proceeds recorded to cost of sales related to hurricane affected stores. This gain was partially offset by an increase in shipping expense related to our multi-channel sales initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$7.2 million to \$258.6 million in fiscal 2017 compared to \$251.3 million in the prior year. As a percentage of sales, these expenses increased to 25.4% in fiscal 2017 from 25.1% in fiscal 2016. Significant changes in expense between the periods are as follows:

- On an overall basis, the net change in selling, general and administrative expenses was primarily driven by increases in contracted services, wages, stock-based compensation, employee health care and incentive compensation, partially offset by reductions in advertising expense and security personnel.
- We incurred additional selling expense of \$929,000 during fiscal 2017 compared to the prior year related to the operation of 38 new stores opened since the beginning of fiscal 2016, net of expense reductions associated with the closure of 35 stores since the beginning of the same period.
- Contracted services expense increased \$1.4 million in fiscal 2017 primarily due to consulting fees related to our CRM initiative.
- Stock-based compensation expense increased \$1.2 million in fiscal 2017 compared to fiscal 2016 primarily due to the impact of the Tax Act on anticipated vesting of performance-based restricted stock.
- Incentive compensation increased \$937,000 in fiscal 2017 compared to the prior year. This increase was primarily attributable to achieving certain goals associated with our performance-based compensation during fiscal 2017.

Pre-Opening Costs

In fiscal 2017, pre-opening costs included in selling, general and administrative expenses were \$827,000, or 0.08% as a percentage of sales, compared to \$886,000, or 0.09% as a percentage of sales, for fiscal 2016. We opened 19 stores during fiscal 2017 at an average pre-opening cost of \$44,000 compared to 19 stores in fiscal 2016 at an average pre-opening cost of \$47,000. 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

The portion of store closing costs and non-cash asset impairment charges included in selling, general and administrative expenses for fiscal 2017 was \$7.7 million, or 0.8% as a percentage of sales. Store closing costs in fiscal 2017 were related to the 26 stores we closed during the year and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. We recorded impairments of long-lived assets totaling \$5.1 million on 47 underperforming, domestic stores in fiscal 2017.

The portion of store closing costs and non-cash asset impairment charges included in selling, general and administrative expenses for fiscal 2016 was \$5.6 million, or 0.6% as a percentage of sales. Store closing costs in fiscal 2016 were related to the nine stores we closed during the year and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. We recorded impairments of long-lived assets totaling \$4.5 million on 19 stores in fiscal 2016. This included \$3.6 million of impairments of long-lived assets associated with seven of our stores located in Puerto Rico.

The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout.

Income Taxes

In December 2017, the Tax Act was enacted, which reduced our maximum corporate tax rate from 35% to 21%. This rate change primarily impacted selling, general and administrative expenses and income tax expense in fiscal 2017. In selling, general and administrative expenses, we recorded a \$1.9 million increase in stock-based compensation expense due to the change in anticipated vesting of performance-based restricted stock awards. Additionally, we re-measured our deferred tax assets and liabilities using the new, lower tax rate, which resulted in a \$4.4 million charge to income tax expense recorded in the fourth quarter of fiscal 2017. Primarily due to this

adjustment to deferred tax assets and liabilities, our effective income tax rate increased 11.7 percentage points to 49.4% in fiscal 2017 compared to 37.7% in fiscal 2016. Our provision for income tax expense is based on the current estimate of our annual effective tax rate.

Liquidity and Capital Resources

Our sources and uses of cash are summarized as follows:

(In thousands)	2018	2017	2016
Net income	\$ 38,135	\$ 18,933	\$ 23,517
Depreciation and amortization	21,843	23,804	23,699
Stock-based compensation	10,162	5,017	3,822
(Gain) loss on retirement and impairment of assets, net	(1,264)	5,511	4,794
Deferred income taxes	(1,440)	1,418	(1,381)
Lease incentives	634	4,818	3,825
Changes in operating assets and liabilities	14,721	(12,160)	10,132
Other operating activities	(8,650)	(6,993)	(4,619)
Net cash provided by operating activities	74,141	40,348	63,789
Net cash used in investing activities	(4,415)	(19,653)	(21,832)
Net cash used in financing activities	(50,959)	(35,385)	(47,827)
Net increase (decrease) in cash and cash equivalents	\$ 18,767	\$ (14,690)	\$ (5,870)

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 provided by operating activities was \$74.1 million, \$40.3 million and \$63.8 million in fiscal years 2018, 2017 and 2016, respectively. These amounts reflect our income from operations adjusted for non-cash items and working capital changes. Working capital was \$266.5 million, \$263.8 million and \$265.5 million at February 2, 2019, February 3, 2018 and January 28, 2017, respectively. Working capital increased \$2.7 million at February 2, 2019 compared to February 3, 2018 primarily due to an \$18.8 million increase in cash and cash equivalents partially offset by a \$7.0 million increase in accounts payable and a \$7.0 million increase in accrued and other liabilities. Working capital decreased \$1.7 million at February 3, 2018 compared to January 28, 2017 primarily due to a \$19.1 million decrease in merchandise inventories and a \$14.7 million decrease in cash and cash equivalents partially offset by a \$26.1 million decrease in accounts payable and a \$3.4 million decrease in accrued and other liabilities. The current ratio was 4.8, 5.7 and 4.1 at February 2, 2019, February 3, 2018 and January 28, 2017, respectively. The current ratio decreased 16% at February 2, 2019 compared to February 3, 2018 primarily due to a \$14.0 million increase year-over-year in accounts payable and accrued and other liabilities.

Cash Flow - Investing Activities

Our cash outflows for investing activities were primarily for capital expenditures. During fiscal 2018, we expended \$7.4 million for the purchase of property and equipment, of which \$2.5 million was for the construction and fixturing of new stores, remodeling and relocations. During fiscal 2017, we expended \$19.7 million for the purchase of property and equipment, of which \$13.5 million was for the construction and fixturing of new stores, remodeling and relocations. During fiscal 2016, we expended \$21.8 million for the purchase of property and equipment, of which \$16.4 million was for the construction and fixturing of new stores, remodeling and relocations. The remaining capital expenditures in all periods were for continued investments in technology and normal asset replacement activities.

Cash Flow - Financing Activities

Our cash outflows for financing activities were primarily for cash dividend payments, share repurchases, and, in fiscal 2017, payments on our credit facility. Shares of our common stock can be either acquired as part of a publicly announced repurchase program or withheld by us in connection with employee payroll tax withholding upon the vesting of restricted stock awards. Our cash inflows from financing activities have represented proceeds from the issuance of shares as a result of stock option exercises, purchases under our Employee Stock Purchase Plan, and borrowings under our credit facility.

During fiscal 2018, net cash used in financing activities was \$51.0 million compared to \$35.4 million during fiscal 2017 and \$47.8 million in fiscal 2016. The fluctuations in cash used in financing activities during fiscal 2018, 2017 and 2016 was primarily attributable to changes in share repurchases in each fiscal year. There was \$46.0 million of common stock repurchased under our share repurchase program in fiscal 2018 compared to \$29.8 million of common stock repurchased under the share repurchase program in fiscal 2017 and \$42.6 million of common stock repurchased under the share repurchase program during fiscal 2016.

Store Openings and Closings – Fiscal 2018

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, as well as additional information we learn about customers as we implement our CRM program.

In fiscal 2018, we opened three new stores. On a per-store basis, the initial inventory investment for stores opened averaged \$409,000, capital expenditures averaged \$278,000 and lease incentives received from landlords averaged \$74,000.

Pre-opening expenses included in cost of sales and selling, general and administrative expenses totaled approximately \$288,000 for fiscal 2018, or an average of \$96,000 per store. Items classified as pre-opening expenses include rent, freight, advertising, salaries and supplies. During fiscal 2017, we opened 19 new stores and expended \$1.3 million on pre-opening expenses, or an average of \$70,000 per store. The increase in the average expense per new store was primarily the result of an increase in advertising expense.

We closed 14 stores during fiscal 2018 and 26 stores during fiscal 2017. Total store closing costs were \$554,000 in fiscal 2018 and \$6.5 million in fiscal 2017. Store closing costs include impairments of long-lived assets, fixed asset write-offs, employee severances, lease termination fees and store tear-down and clean-up expenses associated with closing a store and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. In fiscal 2017, store closing costs included non-cash impairment charges on fixed assets of \$5.1 million. There were no impairments of long-lived assets recorded in fiscal 2018. 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 amount of any lease buyout.

Capital Expenditures – Fiscal 2019

Capital expenditures are expected to be \$21 million to \$22 million in fiscal 2019. Of our total capital expenditures, approximately \$7 million is expected to be used for the purchase of our corporate headquarters, approximately \$3 million is expected to be used to relocate existing stores and approximately \$6 million is expected to be used to remodel approximately 5% of our existing store base. Lease incentives to be received from landlords are expected to total approximately \$1.6 million. The remaining capital expenditures are expected to be incurred for various other store improvements, continued investments in technology and normal asset replacement activities. The actual amount of cash required for capital expenditures for store operations depends in part on the number of stores opened, if any, the number of stores relocated, the amount of lease incentives, if any, received from landlords and the number of stores remodeled. The number of new store openings and relocations will be dependent upon, among other things, the availability of desirable locations, the negotiation of acceptable lease terms and general economic and business conditions affecting consumer spending.

Store Openings and Closings – Fiscal 2019

Increasing market penetration by opening new stores has historically been a key component of our growth strategy. While our focus continues to be on generating positive long-term financial performance for our store portfolio, we do not expect to open any new stores in fiscal 2019. As we leverage customer data from our CRM program, and as more attractive real estate opportunities become available, we will continue to pursue opportunities for brick-and-mortar store growth across large, mid-size and smaller markets in fiscal 2020.

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 stores. Based on this analysis, we currently expect to close approximately seven to 10 stores in fiscal 2019. Even though this could reduce our overall net sales volume, we believe this strategy will realize long-term improvement in operating income and diluted earnings per share. Depending upon the results of lease negotiations with certain landlords of underperforming stores, we may increase or decrease the number of store closures in future periods. The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout. We will continue to review our store portfolio based on our view of the internal and external opportunities and challenges in the marketplace.

Dividends

In fiscal 2018, four quarterly cash dividends were approved and paid. The first quarter dividend was in the amount of \$0.075 per share and the dividends paid for the remaining three quarters were increased to \$0.08 per share. During fiscal 2017, the first quarter dividend was in the amount of \$0.07 per share and the dividends for the remaining three quarters were \$0.075 per share. During fiscal 2016, the first quarter dividend was in the amount of \$0.065 per share and the dividends for the remaining three quarters were \$0.07 per share. During fiscal years 2018, 2017 and 2016, we returned \$4.8 million, \$4.8 million and \$5.0 million, respectively, in cash to our shareholders through our quarterly dividends.

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 million.

Share Repurchase Program

On December 13, 2018, our Board of Directors authorized a new share repurchase program for up to \$50 million of outstanding common stock, effective January 1, 2019. The purchases may be made in the open market or through privately negotiated transactions from time-to-time through December 31, 2019 and in accordance with applicable laws, rules and regulations. The share repurchase program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We have funded, and intend to continue to fund, the share repurchase program from cash on hand, and any shares acquired will be available for stock-based compensation awards and other corporate purposes. The actual number and value of the shares to be purchased will depend on the performance of our stock price and other market conditions. As of February 2, 2019, no repurchases had been made under the new share repurchase program, and we had \$50 million available for future repurchases.

The new share repurchase program replaced the prior \$50 million share repurchase program that was authorized in December 2017 and expired in accordance with its terms on December 31, 2018. At its expiration, we had purchased approximately 1.5 million shares at an aggregate cost of \$46.0 million under the prior repurchase program.

Contractual Obligations

Significant contractual obligations as of February 2, 2019 and the fiscal years in which payments are due include:

(In thousands)

Contractual Obligations	Payments Due By Fiscal Year				
	Total	2019	2020 & 2021	2022 & 2023	2024 and after
Letters of credit	\$ 1,200	\$ 1,200	\$ -	\$ -	\$ -
Operating leases	295,439	60,807	102,624	75,571	56,437
Purchase commitments	402,268	398,507	2,714	1,047	-
Deferred compensation	12,115	37	116	12	11,950
Total contractual obligations	\$ 711,022	\$ 460,551	\$ 105,454	\$ 76,630	\$ 68,387

For purposes of our contractual obligations table above, we have assumed that we will make all payments scheduled or reasonably estimated to be made under those obligations that have a determinable expiration date. We have disregarded the possibility that such obligations may be prematurely terminated or extended, whether automatically by the terms of the obligation or by agreement between us and the counterparty, due to the speculative nature of premature termination or extension. Except for operating leases, the balances included in the “2024 and after” column of the contractual obligations table include amounts for which we are not able to reasonably estimate the timing of the potential future payments. Estimated interest payments on our credit facility are not included in the above table, as our credit facility provides for frequent borrowing and/or repayment activities, which does not lend itself to reliable forecasting for disclosure purposes.

On March 27, 2017 we entered into a second amendment of our current unsecured credit agreement (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 million; and (4) distributions in the form of redemptions of Equity Interests (as defined in the Credit Agreement) can 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 February 2, 2019. 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 Fund 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. There were no borrowings outstanding under the credit facility and letters of credit outstanding were \$1.2 million at February 2, 2019. As of February 2, 2019, \$48.8 million was available to us for additional borrowings under the credit facility.

See Note 7 – “Long-Term Debt”, Note 8 – “Leases”, Note 9 – “Income Taxes” and Note 10 – “Employee Benefit Plans” to our Notes to Consolidated Financial Statements contained in PART II, ITEM 8 of this Annual Report on Form 10-K for a further discussion of our contractual obligations.

Off-Balance Sheet Arrangements

There were no assignments of operating leases to third parties in fiscal 2018, 2017 or 2016. Except for operating leases entered into in the normal course of business, we did not have any off-balance sheet arrangements as of February 2, 2019. See Note 8 – “Leases” to our Notes to Consolidated Financial Statements contained in PART II, ITEM 8 of this Annual Report on Form 10-K for further discussion of our lease obligations.

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 amount of any lease buyout. 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 existing 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.

New Accounting Pronouncements

Recent accounting pronouncements applicable to our operations are contained in Note 2 – “Summary of Significant Accounting Policies,” contained in the Notes to Consolidated Financial Statements included in PART II, ITEM 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in that the interest payable on our credit facility is based on variable interest rates and therefore is affected by changes in market rates. We do not use interest rate derivative instruments to manage exposure to changes in market interest rates. We had no borrowings under our credit facility during fiscal 2018. A 1% change in the weighted average interest rate charged under the credit facility would have resulted in interest expense fluctuating by approximately \$24,000 for fiscal 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears beginning on page 36.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Shoe Carnival, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Shoe Carnival, Inc. and subsidiaries (the "Company") as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 2, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 2, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
April 2, 2019

We have served as the Company's auditor since 1988.

Shoe Carnival, Inc.
Consolidated Balance Sheets
(In thousands, except share data)

	February 2, 2019	February 3, 2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 67,021	\$ 48,254
Accounts receivable	1,219	6,270
Merchandise inventories	257,539	260,500
Other	11,534	5,562
Total Current Assets	337,313	320,586
Property and equipment – net	70,605	86,276
Deferred income taxes	9,622	8,182
Other noncurrent assets	459	536
Total Assets	\$ 417,999	\$ 415,580
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 48,715	\$ 41,739
Accrued and other liabilities	22,069	15,045
Total Current Liabilities	70,784	56,784
Deferred lease incentives	22,171	29,024
Accrued rent	8,436	10,132
Deferred compensation	12,108	11,372
Other	67	966
Total Liabilities	113,566	108,278
Shareholders' Equity:		
Common stock, \$.01 par value, 50,000,000 shares authorized, 20,529,227 and 20,529,227 shares issued, respectively	205	205
Additional paid-in capital	75,631	65,458
Retained earnings	360,443	326,738
Treasury stock, at cost, 5,154,243 and 3,582,068 shares, respectively	(131,846)	(85,099)
Total Shareholders' Equity	304,433	307,302
Total Liabilities and Shareholders' Equity	\$ 417,999	\$ 415,580

See notes to consolidated financial statements.

Shoe Carnival, Inc.
Consolidated Statements of Income
(In thousands, except per share data)

	February 2, 2019	February 3, 2018	January 28, 2017
Net sales	\$ 1,029,650	\$ 1,019,154	\$ 1,001,102
Cost of sales (including buying, distribution and occupancy costs)	720,658	722,885	711,867
Gross profit	308,992	296,269	289,235
Selling, general and administrative expenses	259,232	258,568	251,323
Operating income	49,760	37,701	37,912
Interest income	(747)	(4)	(6)
Interest expense	150	292	169
Income before income taxes	50,357	37,413	37,749
Income tax expense	12,222	18,480	14,232
Net income	\$ 38,135	\$ 18,933	\$ 23,517
Net income per share:			
Basic	\$ 2.51	\$ 1.15	\$ 1.28
Diluted	\$ 2.45	\$ 1.15	\$ 1.28
Weighted average shares:			
Basic	15,111	16,220	18,017
Diluted	15,499	16,227	18,022

See notes to consolidated financial statements.

Shoe Carnival, Inc.
Consolidated Statements of Shareholders' Equity
(In thousands)

	Common Stock			Additional	Retained	Treasury	
	Issued	Treasury	Amount	Paid-In Capital	Earnings	Stock	Total
Balance at January 30, 2016	20,604	(956)	\$ 206	\$ 66,805	\$ 294,308	\$ (21,517)	\$ 339,802
Dividends (\$0.275 per share)					(5,184)		(5,184)
Stock-based compensation income tax benefit				3			3
Employee stock purchase plan purchases		10		(10)		233	223
Restricted stock awards	(35)	225		(5,072)		5,072	0
Shares surrendered by employees to pay taxes on restricted stock		(16)				(421)	(421)
Purchase of common stock for Treasury		(1,697)				(42,604)	(42,604)
Stock-based compensation expense				3,546			3,546
Net income					23,517		23,517
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
Stock option exercises		7		(114)		168	54
Dividends (\$0.295 per share)					(5,024)		(5,024)
Employee stock purchase plan purchases		10		(44)		249	205
Restricted stock awards	(40)	139	(1)	(4,545)		4,546	0
Shares surrendered by employees to pay taxes on restricted stock		(45)				(1,027)	(1,027)
Purchase of common stock for Treasury		(1,259)				(29,798)	(29,798)
Stock-based compensation expense				5,077			5,077
Net income					18,933		18,933
Balance at February 3, 2018	20,529	(3,582)	205	65,458	326,738	(85,099)	307,302
Adoption of Accounting Standards Codification 606					620		620
Dividends (\$0.315 per share)					(5,050)		(5,050)
Employee stock purchase plan purchases		7		8		169	177
Restricted stock awards		(39)		543		(543)	0
Shares surrendered by employees to pay taxes on restricted stock		(13)				(327)	(327)
Purchase of common stock for Treasury		(1,527)				(46,046)	(46,046)
Stock-based compensation expense				9,622			9,622
Net income					38,135		38,135
Balance at February 2, 2019	20,529	(5,154)	\$ 205	\$ 75,631	\$ 360,443	\$ (131,846)	\$ 304,433

See notes to consolidated financial statements.

Shoe Carnival, Inc .
Consolidated Statements of Cash Flows
(In thousands)

	February 2, 2019	February 3, 2018	January 28, 2017
Cash Flows From Operating Activities			
Net income	\$ 38,135	\$ 18,933	\$ 23,517
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,843	23,804	23,699
Stock-based compensation	10,162	5,017	3,822
(Gain)/loss on retirement and impairment of assets, net	(1,264)	5,511	4,794
Deferred income taxes	(1,440)	1,418	(1,381)
Lease incentives	634	4,818	3,825
Other	(8,650)	(6,993)	(4,619)
Changes in operating assets and liabilities:			
Accounts receivable	3,905	(951)	(2,293)
Merchandise inventories	2,961	19,146	13,232
Accounts payable and accrued liabilities	12,688	(30,132)	(982)
Other	(4,833)	(223)	175
Net cash provided by operating activities	74,141	40,348	63,789
Cash Flows From Investing Activities			
Purchases of property and equipment	(7,413)	(19,653)	(21,832)
Other	2,998	0	0
Net cash used in investing activities	(4,415)	(19,653)	(21,832)
Cash Flow From Financing Activities			
Borrowings under line of credit	0	88,600	0
Payments on line of credit	0	(88,600)	0
Proceeds from issuance of stock	177	259	223
Dividends paid	(4,763)	(4,819)	(5,028)
Excess tax benefits from stock-based compensation	0	0	3
Purchase of common stock for treasury	(46,046)	(29,798)	(42,604)
Shares surrendered by employees to pay taxes on restricted stock	(327)	(1,027)	(421)
Net cash used in financing activities	(50,959)	(35,385)	(47,827)
Net increase (decrease) in cash and cash equivalents	18,767	(14,690)	(5,870)
Cash and cash equivalents at beginning of year	48,254	62,944	68,814
Cash and Cash Equivalents at End of Year	\$ 67,021	\$ 48,254	\$ 62,944
Supplemental disclosures of cash flow information:			
Cash paid during year for interest	\$ 150	\$ 292	\$ 170
Cash paid during year for income taxes	\$ 13,419	\$ 16,832	\$ 14,696
Capital expenditures incurred but not yet paid	\$ 130	\$ 783	\$ 168

See notes to consolidated financial statements.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements

Note 1 – Organization and Description of Business

Our consolidated financial statements include the accounts of Shoe Carnival, Inc. and its wholly-owned subsidiaries SCHC, Inc. and Shoe Carnival Ventures, LLC, and SCLC, Inc., a wholly-owned subsidiary of SCHC, Inc. (collectively referred to as “we”, “our”, “us” or the “Company”). All intercompany accounts and transactions have been eliminated. Our primary activity is the sale of footwear and related products through our retail stores in 35 states within the continental United States and in Puerto Rico. We also offer online shopping on our e-commerce site at www.shoecarnival.com.

Note 2 – Summary of Significant Accounting Policies

Fiscal Year

Our fiscal year is a 52/53 week year ending on the Saturday closest to January 31. Unless otherwise stated, references to years 2018, 2017 and 2016 relate to the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017, respectively. Fiscal year 2017 consisted of 53 weeks and the other fiscal years consisted of 52 weeks.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the financial statement reporting date in addition to the reported amounts of certain revenues and expenses for the reporting period. The assumptions used by management in future estimates could change significantly due to changes in circumstances and actual results could differ from those estimates.

Cash and Cash Equivalents

We had cash and cash equivalents of \$67.0 million at February 2, 2019 and \$48.3 million at February 3, 2018. Credit and debit card receivables and receivables due from a third party totaling \$8.2 million and \$5.4 million were included in cash equivalents at February 2, 2019 and February 3, 2018, respectively. Credit and debit card receivables generally settle within three days; receivables due from a third party generally settle within 15 days.

We consider all short-term investments with an original maturity date of three months or less to be cash equivalents. As of February 2, 2019, all invested cash was held in money market mutual funds. There was no invested cash as of February 3, 2018. While investments are not considered by management to be at significant risk, they could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to either invested cash or cash held in our bank accounts.

Fair Value of Financial Instruments and Non-Financial Assets

Our financial assets as of February 2, 2019 and February 3, 2018 included cash and cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to its short-term nature. We did not have any financial liabilities measured at fair value for these periods. Non-financial assets measured at fair value included on our consolidated balance sheets as of February 2, 2019 and February 3, 2018 were those long-lived assets for which an impairment charge has been recorded. We did not have any non-financial liabilities measured at fair value for these periods. See Note 3 – “Fair Value Measurements” for further discussion.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Merchandise Inventories and Cost of Sales

Merchandise inventories are stated at the lower of cost or net realizable value using the first-in, first-out (FIFO) method. For determining net market value, we estimate the future demand and related sale price of merchandise contained in inventory as of the balance sheet date. The stated value of merchandise inventories contained on our consolidated balance sheets also includes freight, certain capitalized overhead costs and reserves. Factors considered in determining if our inventory is properly stated at the lower of cost or net realizable value includes, among others, recent sale prices, the length of time merchandise has been held in inventory, quantities of various styles held in inventory, seasonality of merchandise, expected consideration to be received from our vendors and current and expected future sales trends. We reduce the value of our inventory to its estimated net realizable value where cost exceeds the estimated future selling price. Material changes in the factors previously noted could have a significant impact on the actual net realizable value of our inventory and our reported operating results.

Cost of sales includes the cost of merchandise sold, buying, distribution, and occupancy costs, inbound freight expense, provision for inventory obsolescence, inventory shrink and credits and allowances from merchandise vendors. Cost of sales related to our e-commerce orders include charges paid to a third-party service provider in addition to the freight expense for delivering merchandise to our customer.

Property and Equipment-Net

Property and equipment is stated at cost. Depreciation and amortization of property, equipment and leasehold improvements are taken on the straight-line method over the shorter of the estimated useful lives of the assets or the applicable lease terms. Lives used in computing depreciation and amortization range from two to twenty-five years. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures that materially increase values, improve capacities or extend useful lives are capitalized. Upon sale or retirement, the costs and related accumulated depreciation or amortization are eliminated from the respective accounts and any resulting gain or loss is included in operations.

We periodically evaluate our long-lived assets if events or circumstances indicate the carrying value may not be recoverable. The carrying value of long-lived assets is considered impaired when the carrying value of the assets exceeds the expected future cash flows to be derived from their use. Assets are grouped, and the evaluation performed, at the lowest level for which there are identifiable cash flows, which is generally at a store level. If the estimated, undiscounted future cash flows for a store are determined to be less than the carrying value of the store's assets, an impairment loss is recorded for the difference between estimated fair value and carrying value. Assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses. We estimate the fair value of our long-lived assets using store specific cash flow assumptions discounted by a rate commensurate with the risk involved with such assets while incorporating marketplace assumptions. Our assumptions and estimates used in the evaluation of impairment, including current and future economic trends for stores, are subject to a high degree of judgment. If actual operating results or market conditions differ from those anticipated, the carrying value of certain of our assets may prove unrecoverable and we may incur additional impairment charges in the future. There were no impairments of long-lived assets recorded in fiscal 2018. We recorded non-cash impairment charges of approximately \$5.1 million and \$4.5 million in fiscal years 2017 and 2016, respectively.

Insurance Reserves

We self-insure a significant portion of our workers' compensation, general liability and employee health care costs and also maintain insurance in each area of risk to protect us from individual and aggregate losses over specified dollar values. We review the liability reserved for our self-insured portions on a quarterly basis, taking into consideration a number of factors, including historical claims experience, severity factors, statistical trends and, in certain instances, valuation assistance provided by independent third parties. Self-insurance reserves include estimates of claims filed, carried at their expected ultimate settlement value, and claims incurred but not yet reported. As of February 2, 2019 and February 3, 2018, our self-insurance reserves totaled \$3.4 million and \$3.6 million, respectively. We record self-insurance expense as a component of selling, general and administrative expenses in our consolidated statements of income. While we believe that the recorded amounts are adequate, there can be no assurance that changes to management's estimates will not occur due to limitations inherent in the estimating process. If actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Deferred Lease Incentives

All cash incentives received from landlords are recorded as deferred income and amortized over the life of the lease on a straight-line basis as a reduction of rental expense.

Accrued Rent

We are party to various lease agreements, which require scheduled rent increases over the initial lease term. Rent expense for such leases is recognized on a straight-line basis over the initial lease term beginning the earlier of the start date of the lease or when we take possession of the property. The difference between rent based upon scheduled monthly payments and rent expense recognized on a straight-line basis is recorded as accrued rent.

Revenue Recognition

Substantially all of our revenue is for a single performance obligation and is recognized when control passes to customers. We consider control to have transferred when we have a present right to payment, the customer has title to the product, physical possession of the product has been transferred and the risks and rewards of the product that we retain are minimal. For our brick-and-mortar stores, we satisfy our performance obligation and control is transferred at the point of sale when the customer takes possession of the products. This also includes the “buy online, pick up in store” scenario and includes Shoes 2U if the customer chooses the option of picking up their goods in-store. For sales made through our e-commerce site or mobile app in which the customer chooses home delivery, we transfer control and recognize revenue when the product is shipped from our stores or distribution center. This also includes Shoes 2U if the customer chooses the option of having goods delivered to their home. The redemption of loyalty points under our Shoe Perks loyalty rewards program and redemptions of gift cards may be part of any transaction. These situations represent separate performance obligations that are embedded in the contract and are more fully described below.

In the regular course of business, we offer our customers sales incentives including coupons, discounts, and free merchandise. Sales are recorded net of such incentives and returns and allowances. If an incentive involves free merchandise, that merchandise is recorded as a zero sale and the cost is included in cost of sales. Gift card revenue is recognized at the time of redemption.

See Note 4 – “Revenue” for additional discussion of our revenue recognition policies as well as additional disclosures on revenue from contracts with customers.

Consideration Received From a Vendor

Consideration is primarily received from merchandise vendors. Consideration is either recorded as a reduction of the price paid for the vendor’s products and recorded as a reduction of our cost of sales, or if the consideration represents a reimbursement of a specific, incremental and identifiable cost, then it is recorded as an offset to the same financial statement line item.

Consideration received from our vendors includes co-operative advertising/promotion, margin assistance, damage allowances and rebates earned for a specific level of purchases over a defined period. Consideration principally takes the form of credits that we can apply against trade amounts owed.

Consideration received after the related merchandise has been sold is recorded as an offset to cost of sales in the period negotiations are finalized. For consideration received on merchandise still in inventory, the allowance is recorded as a reduction to the cost of on-hand inventory and recorded as a reduction of our cost of sales at the time of sale. Should the allowances received exceed the incremental cost, then the excess consideration is recorded as a reduction to the cost of on-hand inventory and allocated to cost of sales in future periods utilizing an average inventory turn rate.

Store Opening and Start-up Costs

Non-capital expenditures, such as advertising, payroll, supplies and rent incurred prior to the opening of a new store, are charged to expense in the period they are incurred.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Advertising Costs

Print, television, radio, outdoor and digital media costs are generally expensed when incurred. Internal production costs are expensed when incurred and external production costs are expensed in the period the advertisement first takes place. Advertising expenses included in selling, general and administrative expenses were \$41.2 million, \$40.1 million and \$42.9 million in fiscal years 2018, 2017 and 2016, respectively.

Stock-Based Compensation

We recognize compensation expense for stock-based awards based on a fair value based method. Stock-based awards may include stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards under our stock-based compensation plans. Additionally, we recognize stock-based compensation expense for the discount on shares sold to employees through our employee stock purchase plan. This discount represents the difference between the market price and the employee purchase price. Stock-based compensation expense is included in selling, general and administrative expense.

We account for forfeitures as they occur in calculating stock-based compensation expense for the period. For performance-based stock awards, we estimate the probability of vesting based on the likelihood that the awards will meet their performance goals.

Segment Information

We have identified each retail store and our e-commerce store as individual operating segments. Our operating segments have been aggregated and are reported as one reportable segment based on the similar nature of products sold, merchandising and distribution processes involved, target customers and economic characteristics. Due to our multi-channel retailer strategy, we view our e-commerce sales as an extension of our physical stores.

Income Taxes

We compute income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those tax benefits are uncertain. We account for uncertain tax positions in accordance with current authoritative guidance and report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest expense and penalties, if any, related to uncertain tax positions in income tax expense.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Net Income Per Share

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

	Fiscal Year Ended								
	February 2, 2019			February 3, 2018			January 28, 2017		
	(In thousands, except per share data)								
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
<u>Basic Earnings per Share:</u>									
Net income	\$ 38,135			\$ 18,933			\$ 23,517		
Amount allocated to participating securities	(152)			(250)			(487)		
Net income available for basic common shares and basic earnings per share	\$ 37,983	15,111	\$ 2.51	\$ 18,683	16,220	\$ 1.15	\$ 23,030	18,017	\$ 1.28
<u>Diluted Earnings per Share:</u>									
Net income	\$ 38,135			\$ 18,933			\$ 23,517		
Amount allocated to participating securities	(152)			(250)			(487)		
Adjustment for dilutive potential common shares	4	388		0	7		0	5	
Net income available for diluted common shares and diluted earnings per share	\$ 37,987	15,499	\$ 2.45	\$ 18,683	16,227	\$ 1.15	\$ 23,030	18,022	\$ 1.28

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 because 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.

New 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 also issued accounting standards updates which clarify this 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. We adopted the new revenue guidance on February 4, 2018, using a modified retrospective transition approach. We recorded an increase in retained earnings of \$620,000 as a cumulative effect of the adoption based on our evaluation of incomplete contracts as of the adoption date. This increase to retained earnings included pre-tax adjustments in connection with e-commerce revenue of \$171,000 and recognition of breakage revenue for unredeemed gift cards of \$649,000, partially offset by a \$200,000 adjustment related to the tax impact of the cumulative effect adjustments. The cumulative effect e-commerce adjustment is related to recognizing revenue when products are shipped from our stores or distribution center under the new guidance rather than recognizing revenue when the shipments were delivered under the previous revenue guidance. The cumulative effect gift card breakage adjustment is related to the unredeemed portion of our gift cards, which are now estimated using historical breakage percentages and recognized based on expected gift card usage, rather than waiting until the likelihood of redemption becomes remote. In addition to these changes, we also now record a right of return asset in inventory for the estimated cost of the inventory expected to be returned. Under the previous revenue guidance, we

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

recorded a net returns reserve in accrued and other liabilities. The adoption of this guidance did not have a material impact on our consolidated financial statements. See Note 4 – “Revenue” for additional discussion of this adoption as well as additional disclosures on revenue from contracts with customers.

In February 2016, the FASB issued guidance which will replace most existing lease accounting guidance. This update requires an entity to recognize leased assets and the rights and obligations created by those leased assets on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance was updated in July 2018. This update, among other things, added a transition option allowing entities to initially apply the requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than the earliest period presented. This guidance became effective for us on February 3, 2019 and will include interim periods in fiscal 2019. We have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative periods presented in our financial statements. We did not elect the transition package of practical expedients that is permitted by the guidance, so we were required to reassess previous accounting conclusions regarding whether existing arrangements are or contain leases, the classification of existing leases and the treatment of initial direct costs. We also did not elect the transition practical expedients that permits entities to use hindsight when determining lease term and impairment of right-of-use assets or that permits entities to account for lease and non-lease components as a single lease component. We did elect the practical expedient that permits us not to recognize right-of-use assets and related liabilities that arise from short-term leases (i.e., leases with terms of twelve months or less). We are finalizing the impact of the standard to our accounting policies, processes, disclosures, and internal control over financial reporting and have implemented necessary upgrades to our existing lease system. Substantially all of our retail store locations, our distribution center and our corporate headquarters are subject to operating lease accounting under the new guidance. Therefore, the adoption of standard will have a material impact on our consolidated balance sheet. While we are continuing to assess all potential impacts of the standard, we expect to record lease liabilities of approximately \$240 million to \$260 million based on the present value of the remaining minimum rental payments using incremental borrowing rates as of the effective date. The right-of-use assets will be based upon the lease liabilities adjusted for accrued rent, unamortized deferred lease incentives and impairment charges of right-of-use assets recognized at transition, if applicable. We do not expect a material impact on our consolidated statement of income or our consolidated statement of cash flows.

In May 2017, the FASB issued guidance which clarifies what constitutes a modification of a share-based payment award. We adopted the provisions of this guidance on February 4, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued guidance on the income tax accounting implications of the U.S. Tax Cuts and Jobs Act (the “Tax Act”), to address the application of guidance in situations when a company does not have the necessary information available, prepared, or analyzed to complete the accounting for certain income tax effects of the Tax Act. The guidance provides a one-year measurement period to assess the Tax Act, which began in the reporting period of the enactment date of the Tax Act. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we initially made reasonable estimates of the effects and recorded provisional amounts in our financial statements. We recorded \$4.4 million of additional income tax expense in the fourth quarter of fiscal 2017 and an income tax benefit of \$0.1 million during fiscal 2018 related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future. As of the end of fiscal 2018, we have filed our fiscal 2017 federal income tax return and have completed our assessment of the final impact of the Tax Act.

In August 2018, the FASB issued guidance that addressed the diversity in practice surrounding the accounting for costs incurred to implement a cloud computing hosting arrangement that is a service contract by establishing a model for capitalizing or expensing such costs, depending on their nature and the stage of the implementation project during which they are incurred. Any capitalized costs are to be amortized over the reasonably certain term of the hosting arrangement and presented in the same line as the service arrangement's fees within the consolidated statements of operations. This guidance also requires enhanced qualitative and quantitative disclosures surrounding hosting arrangements that are service contracts. We are presently in the process of implementing a cloud computing hosting arrangement that is a service contract in connection with our Customer Relationship Management (“CRM”) program. The costs incurred during the application-development stage of our CRM program are being capitalized in accordance with this new guidance and amortized over the term of the contract with our third-party service provider.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

and because our CRM program is a significant component of our strategic plan, these costs have a material impact on our consolidated financial statements and related disclosures. We early adopted this guidance on a prospective basis on November 4, 2018.

In August 2018, the FASB issued guidance which modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. This guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2019. We are in the process of evaluating the impact of this guidance on our consolidated financial statements.

Note 3 – 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;
- 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 February 2, 2019 and February 3, 2018. 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 February 2, 2019:				
Cash equivalents – money market mutual fund	\$ 68,500	\$ -	\$ -	\$ 68,500
As of February 3, 2018:				
Cash equivalents – money market mutual fund	\$ -	\$ -	\$ -	\$ -

The fair values of cash and cash equivalents, receivables, accounts payable, accrued expenses and other current liabilities approximate their carrying values because of their short-term nature.

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

There were no impairments of long-lived assets recorded during the 52 weeks ended February 2, 2019. During the 53 weeks ended February 3, 2018, we recorded an impairment charge of \$5.1 million on long-lived assets held and used, which was included in selling, general and administrative expenses for the period. Subsequent to this

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

impairment, these long-lived assets had a remaining unamortized basis of \$4.7 million. During the 52 weeks ended January 28, 2017, we recorded an impairment charge of \$4.5 million on long-lived assets held and used, which was included in selling, general and administrative expenses for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$4.7 million.

Note 4 – Revenue

Revenue Recognition Adoption and Practical Expedients

We adopted and applied the new revenue guidance in Accounting Standards Codification 606 (“ASC 606”) as of February 4, 2018 using the modified retrospective transition approach. Based on this approach, the consolidated financial statements for prior fiscal years were not restated and are reported under the prior revenue guidance in effect for the fiscal years presented. We elected the practical expedient to treat shipping and handling activities associated with freight charges that occur after control of the product transfers to the customer as fulfillment activities. These costs are expensed as incurred and included in cost of sales in our consolidated statements of income. We also elected the practical expedient for sales tax collected, which allows us to exclude from our transaction price any amounts collected from customers for sales tax and other similar taxes. There were no changes to our comparative reporting of shipping and handling costs included in cost of sales or accounting for sales tax as a result of the adoption of ASC 606.

Accounting Policy and Performance Obligations

We operate as a multi-channel, family footwear retailer and provide the convenience of shopping at our brick-and-mortar stores or shopping online through our e-commerce and mobile platforms. As part of our multi-channel strategy, we offer Shoes 2U, a program that enables us to ship product to a customer’s home or selected store if the product is not in stock. We also offer “buy online, pick up in store” services for our customers. “Buy online, pick up in store” provides the convenience of local pickup for our customers.

Substantially all of our revenue is for a single performance obligation and is recognized when control passes to customers. We consider control to have transferred when we have a present right to payment, the customer has title to the product, physical possession of the product has been transferred and the risks and rewards of the product that we retain are minimal. For our brick-and-mortar stores, we satisfy our performance obligation and control is transferred at the point of sale when the customer takes possession of the products. This also includes the “buy online, pick up in store” scenario described above and includes Shoes 2U if the customer chooses the option of picking up their goods in-store. For sales made through our e-commerce site or mobile app in which the customer chooses home delivery, we transfer control and recognize revenue when the product is shipped from our stores or distribution center. This also includes Shoes 2U if the customer chooses the option of having goods delivered to their home.

The redemption of loyalty points under our Shoe Perks loyalty rewards program (“Shoe Perks”) and redemptions of gift cards may be part of any transaction. These situations represent separate performance obligations that are embedded in the contract.

Transaction Price and Payment Terms

The transaction price is the amount of consideration we expect to receive from our customers and is reduced by any stated promotional discounts at the time of purchase. The transaction price may be variable due to terms that permit customers to exchange or return products for a refund within a limited period of time. The implicit contract with the customer reflected in the transaction receipt states the final terms of the sale, including the description, quantity, and price of each product purchased. The customer agrees to a stated price in the contract that does not vary over the term of the contract. Taxes imposed by governmental authorities such as sales taxes are excluded from net sales.

Our brick-and-mortar stores accept various forms of payment from customers at the point of sale. These include cash, checks, credit/debit cards and gift cards. Our e-commerce and mobile platforms accept credit/debit cards, PayPal and gift cards as forms of payment. Payments made for products are generally collected when control passes to the customer, either at the point of sale or at the time the customer order is shipped. For Shoes 2U transactions,

customers may order the product at the point of sale. For these transactions, customers pay in advance and unearned revenue is recorded as a contract liability. We recognize the related revenue when control has been transferred to the customer (i.e., when the product is picked up by the customer or shipped to the customer). Unearned revenue related to Shoes 2U was not material to our consolidated financial statements at February 2, 2019.

Returns and Refunds

It is our policy to allow brick-and-mortar and online customers to exchange or return products for a refund within a limited period of time. We have established a returns allowance based upon historical experience in order to estimate these transactions. This allowance is recorded as a reduction in sales with a corresponding refund liability recorded in accrued and other liabilities. The estimated cost of merchandise inventory is recorded as a reduction to cost of sales and an increase in merchandise inventories. At February 2, 2019, approximately \$600,000 of refund liabilities and \$410,000 of right of return assets associated with estimated product returns were recorded in our consolidated balance sheet.

Contract Liabilities

We sell gift cards in our brick-and-mortar stores and through our e-commerce and mobile platforms. Gift card purchases are recorded as an increase to contract liabilities at the time of purchase and a decrease to contract liabilities when a customer redeems a gift card. Under the previous revenue guidance, when a customer did not use the entire value of their gift card, we recorded this unredeemed portion of the gift card as revenue when the likelihood of redemption became remote (i.e., breakage). Under ASC 606, estimated breakage is determined based on historical breakage percentages and recognized as revenue based on expected gift card usage. This new policy results in earlier recognition of breakage revenue compared to the previous guidance. Consistent with the previous guidance, we do not record breakage revenue when escheat liability to relevant jurisdictions exists. At February 2, 2019, approximately \$1.6 million of contract liabilities associated with unredeemed gift cards were recorded in our consolidated balance sheet. We expect the revenue associated with these liabilities to be recognized in proportion to the pattern of customer redemptions within two years.

We offer our customers the opportunity to enroll in our Shoe Perks program, which accrues points and provides customers with the opportunity to earn rewards. Points under Shoe Perks are earned primarily by making purchases either in-store or through our online platform. Once a certain threshold of accumulated points is reached, the customer earns a reward certificate, which is redeemable at any of our stores or online. Under the previous guidance, after the certificates were batched, issued and awarded to customers at the end of the month, we recorded a liability for the estimated cost of the reward certificates expected to be redeemed. This liability was immaterial at the adoption date and all related certificates expired prior to May 5, 2018 in accordance with the terms of the awards. Under ASC 606, when a Shoe Perks customer makes a purchase, we allocate the transaction price between the goods and the loyalty reward points based on the relative standalone selling price. The portion allocated to the material right is recorded as a contract liability for rewards that are expected to be redeemed. We then recognize revenue based on an estimate of when customers exercise their rights to redeem the rewards, which incorporates an estimate of points expected to expire using historical rates. At February 2, 2019, approximately \$245,000 of contract liabilities associated with loyalty rewards were recorded in our consolidated balance sheet. We expect the revenue associated with these liabilities to be recognized in proportion to the pattern of customer redemptions in less than one year.

We are a multi-channel retailer that provides our customers with the convenience of home delivery. Our customers may choose this delivery method when purchasing products online, through our mobile app or via Shoes 2U. These products are picked up at our stores or distribution center and delivered by third-party freight companies. Under the previous guidance, which was primarily based on a risks and rewards approach, when product was shipped to our customers, we recognized revenue based on an estimated customer receipt date. Since we collect payment upon shipment, this resulted in deferred revenue, which was recognized when the customer took receipt of the product. Under ASC 606, which is control-based, we transfer control and recognize revenue when the product is shipped from our stores or distribution center. This change had the effect of eliminating the deferred revenue accounting treatment under the previous guidance, and we no longer record an initial liability when sales are shipped to our customers.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Impact of Adoption

The impact of the new guidance on our consolidated balance sheet as of February 2, 2019 is below. In the table, the adjustments for merchandise inventories relate to: (1) the classification of the right of return assets associated with product returns previously recorded net of the refund liability in accrued and other liabilities, and (2) the cost basis of inventory for product shipped to customers not yet received under the previous revenue guidance. The adjustment for deferred income taxes relates to the tax effect of the cumulative effect adjustments. The adjustments to accrued and other liabilities relate to: (1) the classification of the right of return assets from accrued and other liabilities to merchandise inventories, (2) recognition of deferred revenue for product shipped to customers not yet received, and (3) the adjustment to contract liabilities for unredeemed gift cards and award certificates.

(In thousands)	February 2, 2019		
	As Reported	Adjustments	As Adjusted
Merchandise inventories	\$257,539	\$(253)	\$257,286
Deferred income taxes	9,622	100	9,722
Accrued and other liabilities	(22,069)	(363)	(22,432)

The impact of the new guidance on our consolidated statement of income for the fiscal year ended February 2, 2019 is below. In the table, the adjustments to net sales relate to: (1) deferred revenue for product shipped to customers not yet received, (2) breakage revenue for unredeemed gift cards, and (3) adjustments associated with our rewards program. The adjustment to cost of sales relates to the cost associated with product shipped to customers not yet received under the previous revenue guidance. The impact of the new guidance on income tax expense was immaterial for the fiscal year ended February 2, 2019.

(In thousands)	February 2, 2019		
	As Reported	Adjustments	As Adjusted
Net sales	\$1,029,650	\$47	\$1,029,697
Cost of sales (including buying, distribution and occupancy costs)	720,658	(73)	720,585

Disaggregation of Revenue by Product Category

Revenue is disaggregated by product category below. Net sales and percentage of net sales for the fiscal years ended February 2, 2019, February 3, 2018 and January 28, 2017 were as follows:

(In thousands)	February 2, 2019		February 3, 2018		January 28, 2017	
Non-Athletics:						
Women's	\$	250,320	24%	\$	244,945	24%
Men's		144,628	14		141,295	14
Children's		51,963	5		50,255	5
Total		446,911	43		436,495	43
Athletics:						
Women's		179,411	18		177,627	17
Men's		215,796	21		219,224	22
Children's		138,686	14		138,074	14
Total		533,893	53		534,925	53
Accessories		45,100	4		43,606	4
Other		3,746	-		4,128	-
Total	\$	1,029,650	100%	\$	1,019,154	100%
					\$	1,001,102

Note 5 – Property and Equipment - Net

The following is a summary of property and equipment:

(In thousands)	February 2, 2019	February 3, 2018
Furniture, fixtures and equipment	\$ 156,596	\$ 154,844
Leasehold improvements	110,824	111,967
Total	267,420	266,811
Less accumulated depreciation and amortization	(196,815)	(180,535)
Property and equipment – net	\$ 70,605	\$ 86,276

Note 6 – Accrued and Other Liabilities

Accrued and other liabilities consisted of the following:

(In thousands)	February 2, 2019	February 3, 2018
Employee compensation and benefits	\$ 9,771	\$ 3,231
Self-insurance reserves	3,447	3,565
Gift cards	1,558	2,382
Sales and use tax	2,131	1,797
Other	5,162	4,070
Total accrued and other liabilities	\$ 22,069	\$ 15,045

Note 7 – Long-Term Debt

On March 27, 2017 we entered into a second amendment of our current unsecured credit agreement (the “Credit Agreement”) to extend the expiration date by five years and renegotiate certain terms and conditions. The Credit Agreement 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.

The Credit Agreement contains covenants which stipulate: (1) Total Shareholders’ Equity 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 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 million; and (4) distributions in the form of redemptions of Equity Interests can 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. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. As of February 2, 2019, there were \$1.2 million in letters of credit outstanding and \$48.8 million available to us for borrowing under the Credit Agreement.

The credit facility bears interest, at our option, at (1) the agent bank’s prime rate as defined in the Credit Agreement plus 1.0% with the prime rate defined as the greater of (a) the Federal Fund 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. The Credit Agreement expires on March 27, 2022.

Note 8 – Leases

We lease all of our retail locations and certain equipment under operating leases expiring at various dates through fiscal 2031. Various lease agreements require scheduled rent increases over the initial lease term. Rent expense for such leases is recognized on a straight-line basis over the initial lease term beginning the earlier of the start date of the lease or when we take possession of the property. The difference between rent based upon scheduled monthly

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

payments and rent expense recognized on a straight-line basis is recorded as accrued rent. All incentives received from landlords are recorded as deferred income and amortized over the life of the lease on a straight-line basis as a reduction of rental expense.

Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level. These amounts are excluded from minimum rent and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably estimable. Certain leases also contain escalation clauses for increases in operating costs and taxes. There were no assignments of operating leases to third parties in fiscal 2018, fiscal 2017 or fiscal 2016.

Rental expense for our operating leases consisted of:

(In thousands)	2018	2017	2016
Rentals for real property	\$ 61,127	\$ 66,835	\$ 65,900
Contingent rent	46	70	92
Equipment rentals	55	41	62
Total	<u>\$ 61,228</u>	<u>\$ 66,946</u>	<u>\$ 66,054</u>

Future minimum lease payments at February 2, 2019 were as follows:

(In thousands)	Operating Leases
2019	\$ 60,807
2020	51,937
2021	50,687
2022	41,536
2023	34,035
Thereafter to 2031	56,437
Total	<u>\$ 295,439</u>

Note 9 – Income Taxes

The provision for income taxes consisted of:

(In thousands)	2018	2017	2016
Current:			
Federal	\$ 11,468	\$ 14,579	\$ 13,366
State	1,693	2,241	1,997
Puerto Rico	700	242	250
Total current	<u>13,861</u>	<u>17,062</u>	<u>15,613</u>
Deferred:			
Federal	(894)	2,383	(153)
State	(745)	(965)	(1,228)
Puerto Rico	643	2,500	(1,494)
Total deferred	<u>(996)</u>	<u>3,918</u>	<u>(2,875)</u>
Valuation allowance	<u>(643)</u>	<u>(2,500)</u>	<u>1,494</u>
Total provision	<u>\$ 12,222</u>	<u>\$ 18,480</u>	<u>\$ 14,232</u>

We realized a tax benefit of \$26,100 in fiscal year 2018, tax expense of \$17,800 in fiscal year 2017, and a tax benefit of \$2,900 in fiscal year 2016 as a result of the exercise of stock options and the vesting of restricted stock. These amounts were recorded in tax expense in fiscal 2018 and shareholder's equity in fiscal 2017 and fiscal 2016.

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Notes to Consolidated Financial Statements - continued

Reconciliation between the statutory federal income tax rate and the effective income tax rate is as follows:

Fiscal years	2018	2017	2016
U.S. Federal statutory tax rate	21.0%	33.7%	35.0%
State and local income taxes, net of federal tax benefit	3.0	3.0	2.1
Puerto Rico	4.2	0.7	0.2
Valuation allowance	(1.3)	(6.7)	4.0
Tax impact of foreign losses	(2.7)	6.3	(3.6)
Remeasurement of deferred tax assets and liabilities due to the Tax Act	0.0	11.6	0.0
Other	0.1	0.8	0.0
Effective income tax rate	24.3%	49.4%	37.7%

We recorded \$310,000, \$223,000 and \$224,000 in federal employment-related tax credits in fiscal 2018, 2017 and 2016, respectively.

Deferred income taxes are the result of temporary differences in the recognition of revenue and expense for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

(In thousands)	February 2, 2019	February 3, 2018
Deferred tax assets:		
Accrued rent	\$ 2,051	\$ 2,464
Accrued compensation	7,843	5,752
Accrued employee benefits	129	349
Inventory	787	699
Self-insurance reserves	510	518
Lease incentives	5,429	7,145
Net operating loss carry forward	563	1,218
Other	288	488
Total deferred tax assets	17,600	18,633
Valuation allowance	(574)	(1,217)
Total deferred tax assets – net of valuation allowance	17,026	17,416
Deferred tax liabilities:		
Property and equipment	6,484	8,588
Capitalized costs	636	646
Other	284	0
Total deferred tax liabilities	7,404	9,234
Long-term deferred income taxes, net	\$ 9,622	\$ 8,182

At the end of fiscal 2018, we estimated foreign net operating loss carry forwards of \$1.5 million, which expire between fiscal 2024 and fiscal 2027. At February 2, 2019, we had a valuation allowance of \$574,000 against these net operating losses that would be realizable only upon the generation of future taxable income in the jurisdiction in which the losses were incurred.

At February 2, 2019 and February 3, 2018, there were no unrecognized tax liabilities or related accrued penalties or interest in other liabilities on the consolidated balance sheets.

On December 22, 2017, the U.S. government enacted the Tax Act, which made significant changes to the Internal Revenue Code of 1986, as amended, including, but not limited to, reducing the U.S. corporate statutory tax rate from 35% to 21%, and eliminating or limiting deduction of several expenses which were previously deductible. In connection with the Tax Act, the Securities and Exchange Commission staff issued Staff Accounting Bulletin 118

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Notes to Consolidated Financial Statements - continued

(“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provide d a measurement period of one year from the Tax Act ’s enactment date for companies to complete the ir accounting under the income tax guidance . For our initial analysis of the impact of the Tax Act, we recorded additional income tax expense of \$4.4 million for the fiscal year ended February 3, 2018, which was related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future. We also calculated our fiscal 2017 income tax expense using a blended rate of 33.7%, which is based on the applicable tax rates before and after the Tax Act and the number of days in the fiscal year that the respective tax rates were in effect. We have determined that these provisions were the only provisions of the Tax Act that im pact ed fiscal 2017 results. In fiscal 2018, we obtained additional information and recorded an income tax benefit of \$ 0.1 million . As of the end of fiscal 2018, we have filed our fiscal 2017 federal income tax return and have completed our assessment of the final impact of the Tax Act.

Note 10 – Employee Benefit Plans

Retirement Savings Plans

On February 24, 1994, our Board of Directors approved the Shoe Carnival Retirement Savings Plan (the “Domestic Savings Plan”). The Domestic Savings Plan is open to all employees working in the continental United States who have been employed for at least one year, are at least 21 years of age and who work at least 1,000 hours in a defined year. The primary savings mechanism under the Domestic Savings Plan is a 401(k) plan under which an employee may contribute up to 20% of annual earnings with us matching the first 4% at a rate of 50%. Our contributions to the participants’ accounts become fully vested when the participant reaches their third anniversary of employment with us. Contributions charged to expense were \$738,000, \$733,000, and \$695,000 in fiscal years 2018, 2017, and 2016, respectively.

On March 19, 2012, our Board of Directors approved the Shoe Carnival Puerto Rico Savings Plan (the “Puerto Rico Savings Plan”). The Puerto Rico Savings Plan is open to all employees working in Puerto Rico who have been employed for at least one year, are at least 21 years of age and who work at least 1,000 hours in a defined year. This plan is similar to our Domestic Savings Plan, whereby an employee may contribute up to 20% of his or her annual earnings, with us matching the first 4% at a rate of 50%. Contributions charged to expense were \$16,000, \$18,000 and \$15,000 in fiscal years 2018, 2017 and 2016, respectively.

Stock Purchase Plan

On May 11, 1995, our shareholders approved the Shoe Carnival, Inc. Employee Stock Purchase Plan (the “Stock Purchase Plan”) as adopted by our Board of Directors on February 9, 1995. The Stock Purchase Plan reserves 450,000 shares of our common stock (subject to adjustment for any subsequent stock splits, stock dividends and certain other changes in our common stock) for issuance and sale to any employee who has been employed for more than a year at the beginning of the calendar year, and who is not a 10% owner of our common stock, at 85% of the then fair market value up to a maximum of \$5,000 in any calendar year. Under the Stock Purchase Plan, 7,000, 10,000 and 10,000 shares of common stock were purchased by participants in the plan and proceeds to us for the sale of those shares were approximately \$177,000, \$205,000 and \$223,000 for fiscal years 2018, 2017 and 2016, respectively. At February 2, 2019, there were 77,000 shares of unissued common stock reserved for future purchase under the Stock Purchase Plan.

The following table summarizes information regarding stock-based compensation expense recognized for the Stock Purchase Plan:

(In thousands)	2018	2017	2016
Stock-based compensation expense before the recognized income tax benefit (1)	\$ 31	\$ 36	\$ 39
Income tax benefit	\$ 8	\$ 18	\$ 15

(1) Amounts are representative of the 15% discount employees are provided for purchases under the Stock Purchase Plan.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Deferred Compensation Plan

In fiscal 2000, we established a non-qualified deferred compensation plan for certain key employees who, due to Internal Revenue Service guidelines, cannot take full advantage of the employer-sponsored 401(k) plan. Participants in the plan elect on an annual basis to defer, on a pre-tax basis, portions of their current compensation until retirement, or earlier if so elected. While not required to, we can match a portion of the employees' contributions, which would be subject to vesting requirements. The compensation deferred under this plan is credited with earnings or losses measured by the rate of return on investments elected by plan participants. The plan is currently unfunded. Compensation expense for our match and earnings on the deferred amounts was \$154,000 for fiscal 2018, \$1.8 million for fiscal 2017 and \$1.5 million for fiscal 2016. The total deferred compensation liability at February 2, 2019 and February 3, 2018 was \$12.1 million and \$11.6 million, respectively.

Note 11 – Stock Based Compensation

Compensation Plan Summaries

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"). We may issue stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards to eligible participants under the 2017 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), restricted stock awards, restricted stock units and performance stock units. Stock options that were outstanding under the 2000 Plan typically were granted such that one-third of the shares underlying the stock options granted would vest and become fully exercisable on each of the first three anniversaries of the date of the grant and were assigned a 10-year term from the date of grant. During fiscal 2017, all remaining stock options were exercised.

Equity awards issued to employees are classified as either performance-based or service-based. Performance-based restricted stock awards historically were granted such that they vest upon the achievement of specified levels of annual earnings per diluted share during a six-year period starting from the grant date. Should the annual earnings per diluted share criteria not be met within the six-year period from the grant date, any shares still restricted will be forfeited. In fiscal 2016, we granted performance-based restricted stock awards that vest on March 31, 2019 if we achieve a specified level of annual earnings per diluted share in any of fiscal 2016, 2017 or 2018. Should the annual earnings per diluted share criteria not be met in any of the three specified fiscal years, the restricted stock awards will be forfeited on March 31, 2019. In fiscal 2017, we granted performance-based restricted stock awards with two-thirds vesting on March 31, 2019, and one-third vesting on March 31, 2020. The number of shares vesting depends on whether the cumulative diluted earnings per share for fiscal 2017 and fiscal 2018 meet the threshold, target, or maximum levels of performance. If performance goals are not achieved, the restricted stock will be forfeited. In fiscal 2018, we granted performance stock units with one-half vesting on March 31, 2019, and one-half vesting on March 31, 2020. The number of units that will vest depends on whether the diluted earnings per share for fiscal 2018 meet the established threshold, target, or maximum level of performance. If diluted earnings per share for fiscal 2018 does not exceed the threshold level of performance, all of the performance stock units will be forfeited. If diluted earnings per share for fiscal 2018 is between the threshold and target level of performance, any performance stock units that are determined not to be earned will be forfeited.

Service-based restricted stock awards and restricted stock units typically are granted under one of four vesting periods: (a) one-third of the shares would vest on each of the first three anniversaries subsequent to the date of the grant; (b) the full award would vest at the end of a 5-year service period subsequent to the date of grant; (c) the full award would vest at the end of a 2-year service period subsequent to the date of grant; or (d) for our Directors, all restricted stock awards are issued to vest on January 2nd of the year following the year of the grant. Awards that contain both performance and service-based conditions require that the performance target be met during the required service period.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Under the 2017 Plan, all dividends paid with respect to shares subject to the non-vested portion of a restricted stock award are subject to the same restrictions and risk of forfeiture as the shares of restricted stock to which such dividends relate. Recipients of restricted stock units and performance stock units will be entitled to receive dividend equivalents, based on dividends actually declared and paid, on the restricted stock units and performance stock units, and such dividend equivalents will be subject to the same restrictions and risk of forfeiture as the restricted stock units and performance stock units. For awards granted under the 2000 Plan, all shares of non-vested service-based restricted stock provide non-forfeitable rights to all dividends declared by the Company, and dividends on non-vested performance-based restricted stock are subject to deferral until such times as the shares vest and are released.

Plan-Specific Activity and End-of-Period Balance Summaries

Stock Options

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.

The following table summarizes information regarding options exercised:

(In thousands)	2018	2017	2016
Total intrinsic value (1)	\$ 0	\$ 127	\$ 0
Total cash received	\$ 0	\$ 54	\$ 0
Associated excess income tax benefits recorded	\$ 0	\$ 0	\$ 0

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

Restricted Stock

The following table summarizes transactions for our restricted stock awards pursuant to our stock-based compensation plans:

	Number of Shares	Weighted- Average Grant Date Fair Value
Restricted stock at February 3, 2018	915,925	\$ 23.62
Granted	10,998	32.74
Vested	(49,992)	26.61
Forfeited	(51,650)	17.65
Restricted stock at February 2, 2019	825,281	\$ 23.94

The total fair value at grant date of restricted stock awards that vested during fiscal 2018, 2017 and 2016 was \$1.3 million, \$3.5 million and \$1.4 million, respectively. The weighted-average grant date fair value of stock awards granted during fiscal 2017 and fiscal 2016 was \$24.09 and \$24.98, respectively.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

The following table summarizes transactions for our restricted stock units and performance stock units pursuant to our stock-based compensation plans :

	Number of Shares	Weighted- Average Grant Date Fair Value
Restricted stock units and performance stock units at February 3, 2018	4,000	\$ 19.55
Granted	200,000	25.05
Vested	(1,333)	19.55
Forfeited	0	0.00
Restricted stock units and performance stock units at February 2, 2019	202,667	\$ 24.98

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

(In thousands)	2018	2017	2016
Stock-based compensation expense before the recognized income tax benefit	\$ 9,591	\$ 5,041	\$ 3,507
Income tax benefit	\$ 2,328	\$ 2,490	\$ 1,322

The \$9.6 million of expense recognized in fiscal 2018 included a \$2.2 million cumulative catch-up of expense recorded in the third quarter of fiscal 2018. This cumulative catch-up expense was related to performance-based restricted stock awards, which management had previously determined were not probable to vest prior to their expiration, but given our financial performance in fiscal 2018, in the third quarter of fiscal 2018, such awards were deemed by management as probable to vest.

As of February 2, 2019, there was approximately \$4.3 million of unrecognized compensation expense remaining related to both our performance-based and service-based restricted stock awards, restricted stock units and performance stock units. The cost is expected to be recognized over a weighted average period of approximately 0.4 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.

Cash-Settled Stock Appreciation Rights

Our cash-settled stock appreciation rights ("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 vested and became 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 would expire. Each SAR entitled the holder, upon exercise of their vested shares, to receive cash in an amount equal to the closing price of our stock on the date of exercise less the exercise price, with a maximum amount of gain defined. The SARs granted during the first quarter of fiscal 2015 were issued with a defined maximum gain of \$10.00 over the exercise price of \$24.26. During the second quarter of fiscal 2018, all remaining SARs granted during the first quarter of fiscal 2015 were exercised.

The following table summarizes SARs activity:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding at February 3, 2018	103,475	\$ 24.26	
Exercised	(103,475)	24.26	
Outstanding at February 2, 2019	0	\$ 0.00	0.0

Shoe Carnival, Inc.**Notes to Consolidated Financial Statements - continued**

The fair value of liability awards was remeasured, using a trinomial lattice model at each reporting period until the date of settlement. Increases or decreases in stock-based compensation expense were recognized over the vesting period, or immediately for vested awards. As of February 2, 2019, all outstanding SARs were exercised.

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

	February 3, 2018	January 28, 2017
Risk free interest rate yield curve	1.40% - 2.58%	0.49% - 1.94%
Expected dividend yield	1.3%	1.1%
Expected volatility	39.21%	35.51%
Maximum life	2.1 Years	3.1 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 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:

(In thousands)	2018	2017	2016
Stock-based compensation before the recognized income tax effect	\$ 540	\$ (61)	\$ 276
Income tax effect	\$ 131	\$ (30)	\$ 104

As of February 2, 2019, no unrecognized compensation expense remained related to the SARs.

Note 12 – Business Risk

We purchase merchandise from approximately 160 footwear vendors. In fiscal 2018, two branded suppliers, Nike, Inc. and Skechers USA, Inc., collectively accounted for approximately 43% of our net sales. Nike, Inc. accounted for approximately 32% and Skechers USA, Inc. accounted for approximately 11% of our net sales, respectively. A loss of any of our key suppliers in certain product categories could have a material adverse effect on our business. As is common in the industry, we do not have any long-term contracts with suppliers.

Shoe Carnival, Inc.
Notes to Consolidated Financial Statements - continued

Note 13 – Litigation Matters

The accounting standard related to loss contingencies provides guidance regarding to our disclosure and recognition of loss contingencies, including pending claims, lawsuits, disputes with third parties, investigations and other actions that are incidental to the operation of our business. The guidance utilizes the following defined terms to describe the likelihood of a future loss: (1) probable – the future event or events are likely to occur, (2) remote – the chance of the future event or events is slight and (3) reasonably possible – the chance of the future event or events occurring is more than remote but less than likely. The guidance also contains certain requirements with respect to how we accrue for and disclose information concerning our loss contingencies. We accrue for a loss contingency when we conclude that the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. When the reasonable estimate of the loss is within a range of amounts, and no amount in the range constitutes a better estimate than any other amount, we accrue for the amount at the low end of the range. We adjust our accruals from time to time as we receive additional information, but the loss we incur may be significantly greater than or less than the amount we have accrued. We disclose loss contingencies if there is at least a reasonable possibility that a loss has been incurred. No accrual or disclosure is required for losses that are remote.

From time to time, we are involved in certain legal proceedings in the ordinary course of conducting our business. While the outcome of any legal proceeding is uncertain, we do not currently expect that any such proceedings will have a material adverse effect on our consolidated balance sheets, statements of income, or cash flows.

Note 14 – Quarterly Results (Unaudited)

Quarterly results are determined in accordance with the accounting policies used for annual data and include certain items based upon estimates for the entire year. All fiscal quarters in 2018 and 2017 include results for 13 weeks, except for the fourth quarter of 2017, which includes results for 14 weeks.

(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2018				
Net sales	\$ 257,445	\$ 268,366	\$ 269,181	\$ 234,658
Gross profit	77,327	83,781	81,218	66,666
Operating income	17,316	14,931	16,016	1,497
Net income	12,955	11,775	12,046	1,359
Net income per share – Basic (1)	\$ 0.83	\$ 0.77	\$ 0.80	\$ 0.09
Net income per share – Diluted (1)	\$ 0.83	\$ 0.76	\$ 0.76	\$ 0.09
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (2)(3)
Fiscal 2017				
Net sales	\$ 253,389	\$ 235,064	\$ 287,469	\$ 243,232
Gross profit	72,156	68,227	85,667	70,219
Operating income	13,227	6,424	17,880	170
Net income (loss)	8,231	3,896	10,697	(3,891)
Net income (loss) per share – Basic (1)	\$ 0.48	\$ 0.24	\$ 0.66	\$ (0.24)
Net income (loss) per share – Diluted (1)	\$ 0.48	\$ 0.24	\$ 0.66	\$ (0.24)

- (1) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year due to the impact of changes in weighted shares outstanding and differing applications of earnings under the two-class method.
- (2) Our gross profit, operating income and net loss for the fourth quarter of fiscal 2017 were impacted by the following items recorded in such quarter: gain on insurance proceeds related to hurricane affected stores of \$3.3 million, or \$0.13 per diluted share, net of tax, non-cash impairment charges for underperforming stores of \$3.4 million, or \$0.13 per diluted share, net of tax, additional stock-based compensation expense resulting from the enactment of the Tax Act and its impact on the anticipated vesting of outstanding performance-based restricted stock of \$1.9 million, or \$0.08 per diluted share, net of tax, and additional income tax expense resulting from the enactment of the Tax Act and our remeasurement of deferred tax assets and liabilities of \$4.4 million, or \$0.27 per diluted share.
- (3) The fourth quarter of fiscal 2017 consisted of 14 weeks compared with 13 weeks in the fourth quarter of fiscal 2018.

Note 15 – Subsequent Events

On March 21, 2019, the Board of Directors approved the payment of a cash dividend to our shareholders in the first quarter of fiscal 2019. The quarterly cash dividend of \$0.08 per share will be paid on April 22, 2019 to shareholders of record as of the close of business on April 8, 2019.

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.

SHOE CARNIVAL, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)	Balance at Beginning of Period	Charged to Cost and Expenses	Credited to Costs and Expenses	Balance at End of Period
<u>Reserve for sales returns and allowances</u>				
Year ended January 28, 2017	\$ 178	\$ 102,826	\$ 102,802	\$ 202
Year ended February 3, 2018	\$ 202	\$ 102,701	\$ 102,672	\$ 231
Year ended February 2, 2019	\$ 706 ⁽¹⁾	\$ 110,314	\$ 110,420	\$ 600

(1) As a result of the implementation of ASC 606 on February 4, 2018, the accounting treatment for the reserve for sales returns and allowances was changed from a net to a gross basis. Under the previous revenue guidance, we recorded a net returns reserve. Under the new guidance, we record estimated sales returns at the gross sales price with a corresponding adjustment to inventory for the estimated cost of the product. The difference between the balance at the end of the fiscal year ended February 3, 2018 and the beginning of the fiscal year ended February 2, 2019 reflects this change in accounting policy.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of February 2, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on its assessment, management believes that the Company's internal control over financial reporting was effective as of February 2, 2019.

The Company's internal control over financial reporting as of February 2, 2019 has been audited by its independent registered public accounting firm, Deloitte & Touche LLP, as stated in their report, which is included herein.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures and Changes in Internal Control over Financial Reporting

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of February 2, 2019, that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no significant change in our internal control over financial reporting that occurred during the quarter ended February 2, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Shoe Carnival, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Shoe Carnival, Inc. and subsidiaries (the “Company”) as of February 2, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended February 2, 2019, of the Company and our report dated April 2, 2019, expressed an unqualified opinion on those financial statements and financial statement schedule.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
April 2, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item concerning our Directors, nominees for Director, Code of Ethics, designation of the Audit Committee financial expert and identification of the Audit Committee, and concerning any disclosure of delinquent filers under Section 16(a) of the Exchange Act, is incorporated herein by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of our last fiscal year. Information concerning our executive officers is included under the caption “Executive Officers” at the end of PART I, ITEM 1. BUSINESS of this Annual Report on Form 10-K. Such information is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics (the “Code”) that applies to all of our Directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller. The Code is posted on our website at www.shoecarnival.com. We intend to disclose any amendments to the Code by posting such amendments on our website. In addition, any waivers of the Code for our Directors or executive officers will be disclosed in a report on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item concerning remuneration of our officers and Directors and information concerning material transactions involving such officers and Directors and Compensation Committee interlocks, including the Compensation Committee Report and the Compensation Discussion and Analysis, is incorporated herein by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Shareholders, which will be filed pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item concerning the stock ownership of management and five percent beneficial owners and securities authorized for issuance under equity compensation plans is incorporated herein by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Shareholders, which will be filed pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item concerning certain relationships and related transactions and the independence of our Directors is incorporated herein by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Shareholders, which will be filed pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item concerning principal accountant fees and services is incorporated herein by reference to our definitive Proxy Statement for the 2019 Annual Meeting of Shareholders, which will be filed pursuant to Regulation 14A within 120 days after the end of our last fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements:

The following financial statements of Shoe Carnival, Inc. are set forth in PART II, ITEM 8 of this Annual Report on Form 10-K:
Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at February 2, 2019 and February 3, 2018

Consolidated Statements of Income for the years ended February 2, 2019, February 3, 2018, and January 28, 2017.

Consolidated Statements of Shareholders' Equity for the years ended February 2, 2019, February 3, 2018, and January 28, 2017

Consolidated Statements of Cash Flows for the years ended February 2, 2019, February 3, 2018, and January 28, 2017

Notes to Consolidated Financial Statements

2. Financial Statement Schedule:

The following financial statement schedule of Shoe Carnival, Inc. is set forth in PART II, ITEM 8 of this Annual Report on Form 10-K.

Schedule II Valuation and Qualifying Accounts

3. Exhibits:

INDEX TO 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 +	
4-A	Credit Agreement, dated as of January 20, 2010, among Registrant, the financial institutions from time to time party thereto as Banks, and Wachovia Bank, National Association, as Agent	8-K	4.1	01/26/2010 +	
4-B	First Amendment to Credit Agreement dated as of April 10, 2013, by and among Registrant, the financial institutions from time to time party thereto as Banks, and Wells Fargo Bank, N.A., as successor-by-merger to Wachovia Bank, National Association, as Agent	10-K	4-B	04/15/2013 +	
4-C	Second Amendment to Credit Agreement dated as of March 27, 2017, by and among Registrant, the financial institutions from time to time party thereto as Banks, and Wells Fargo Bank, N.A., as successor-by-merger to Wachovia Bank, National Association, as Agent	10-K	4-C	03/29/2017	
10-A	Lease, dated as of February 8, 2006, by and between Registrant and Big-Shoe Properties, LLC	10-K	10-A	04/13/2006 +	
10-B	Lease, dated as of June 22, 2006, by and between Registrant and Outback Holdings, LLC	8-K	10-D	06/28/2006 +	
10-C*	Summary Compensation Sheet				X
10-D*	Non-competition Agreement dated as of January 15, 1993, between Registrant and J. Wayne Weaver (P)	S-1	10-I	02/04/1993	
10-E*	Employee Stock Purchase Plan of Registrant, as amended	10-Q	10-L	09/15/1997 +	
10-F*	2016 Executive Incentive Compensation Plan	8-K	10.1	06/17/2016	
10-G*	2000 Stock Option and Incentive Plan of Registrant, as amended	10-Q	10.1	06/10/2015	
10-H*	Form of Award Agreement for restricted stock granted under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10-C	03/24/2005 +	
10-I*	Form of Award Agreement for time-based restricted stock with cliff vesting granted under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10.2	10/19/2012 +	
10-J*	Form of Award Agreement for performance-based restricted stock with deferred cash dividends granted under the Registrant's 2000 Stock Option and Incentive Plan	10-Q	10.1	06/13/2013 +	
10-K*	Form of Award Agreement for time-based restricted stock granted to executive officers under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10.1	03/21/2016	
10-L*	Form of Award Agreement for restricted stock with both performance-based and time-based restrictions granted under the Registrant's 2000 Stock Option and Incentive Plan	8-K/A	10.2	04/25/2016	

INDEX TO EXHIBITS - Continued

Exhibit No.	Description	Incorporated by Reference To			Filed Herewith
		Form	Exhibit	Filing Date	
10-M*	Form of 2017 Award Agreement for service-based restricted stock granted to executive officers under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10.1	04/24/2017	
10-N*	Form of 2017 Award Agreement for restricted stock with both performance-based and service-based restrictions granted to executive officers under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10.2	04/24/2017	
10-O*	2017 Equity Incentive Plan of Registrant	8-K	10.1	06/15/2017	
10-P*	Form of Restricted Stock Award Agreement under the Registrant's 2017 Equity Incentive Plan (Non-employee Directors)	10-Q	10-B	08/31/2017	
10-Q*	Form of Service-Based Restricted Stock Unit Award Agreement under the Registrant's 2017 Equity Incentive Plan (Executive Officers)	10-Q	10-C	08/31/2017	
10-R*	Form of 2018 Performance Stock Unit Award Agreement under the Registrant's 2017 Equity Incentive Plan (Executive Officers)	8-K	10.1	04/13/2018	
10-S*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and Timothy Baker	8-K	10.2	12/17/2008 +	
10-T*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and Clifton E. Sifford	8-K	10.3	12/17/2008 +	
10-U*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and W. Kerry Jackson	8-K	10.4	12/17/2008 +	
10-V*	Employment and Noncompetition Agreement dated December 4, 2012, between Registrant and Carl N. Scibetta	10-K	10-U	04/15/2013 +	
10-W*	Employment and Noncompetition Agreement dated September 10, 2018, between Registrant and Mark S. Worden				X
10-X*	Shoe Carnival, Inc. Deferred Compensation Plan, as amended	10-K	10-S	04/10/2014	
21	A list of subsidiaries of Shoe Carnival, Inc.				X
23	Written consent of Deloitte & Touche LLP				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

INDEX TO EXHIBITS - Continued

Exhibit No.	Description	Incorporated by Reference To		Filing Date	Filed Herewith
		Form	Exhibit		
101	The following materials from Shoe Carnival, Inc.'s Annual Report on Form 10-K for the year ended February 2, 2019, formatted in XBRL (Extensible Business Reporting Language): (1) Consolidated Balance Sheets, (2) Consolidated Statements of Income, (3) Consolidated Statement of Shareholders' Equity, (4) Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements.				X

* The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.
+ SEC File No. 000-21360.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNA TURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Shoe Carnival, Inc.

Date: April 2, 2019

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ J. Wayne Weaver</u> J. Wayne Weaver	Chairman of the Board and Director	April 2, 2019
<u>/s/ Clifton E. Sifford</u> Clifton E. Sifford	President, Chief Executive Officer and Director (Principal Executive Officer)	April 2, 2019
<u>/s/ James A. Aschleman</u> James A. Aschleman	Director	April 2, 2019
<u>/s/ Jeffrey C. Gerstel</u> Jeffrey C. Gerstel	Director	April 2, 2019
<u>/s/ Andrea R. Guthrie</u> Andrea R. Guthrie	Director	April 2, 2019
<u>/s/ Kent A. Kleeberger</u> Kent A. Kleeberger	Director	April 2, 2019
<u>/s/ Charles B. Tomm</u> Charles B. Tomm	Director	April 2, 2019
<u>/s/ Joseph W. Wood</u> Joseph W. Wood	Director	April 2, 2019
<u>/s/ W. Kerry Jackson</u> W. Kerry Jackson	Senior Executive Vice President - Chief Operating and Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	April 2, 2019

SUMMARY COMPENSATION SHEET

The following summarizes certain compensation decisions taken by the Compensation Committee (the "Committee") and/or the Board of Directors ("Board") of Shoe Carnival, Inc. (the "Company"), with respect to the compensation of the Company's named executive officers and directors.

1. 2019 Base Salary

The Committee approved increases to the base salaries of each of the executive officers set forth below. The following base salaries are effective for the Company's executive officers for fiscal 2019:

Name	Title	Base Salary
Clifton E. Sifford	President and Chief Executive Officer	\$ 716,000
W. Kerry Jackson	Senior Executive Vice President, Chief Operating and Financial Officer and Treasurer	\$ 583,500
Timothy T. Baker	Executive Vice President - Store Operations	\$ 562,500
Carl N. Scibetta	Executive Vice President – Chief Merchandising Officer	\$ 530,500
Mark J. Worden	Executive Vice President – Chief Strategy and Marketing Officer	\$ 530,500

The base salary for J. Wayne Weaver, Chairman of the Board, remained at \$300,000 for fiscal 2019.

2. Director's Compensation

The Company pays the following to its non-employee Directors:

Annual Cash Retainer	\$60,000
Annual Committee Chair Cash Retainer	
• Audit Committee	\$15,000
• Compensation Committee	\$10,000
• Nominating and Governance Committee	\$7,500
Annual Committee Member Cash Retainer (including Chairs)	
• Audit Committee	\$10,000
• Compensation Committee	\$7,500
• Nominating and Governance Committee	\$5,000
Annual Lead Director Cash Retainer	\$15,000

Non-employee Directors will annually receive a stock award valued at \$60,000 as of the date of grant under the Company's equity incentive plan. The restrictions on the stock award lapse on January 2nd of the year following the year in which the grant was made.

The Company also reimburses all Directors for all reasonable out-of-pocket expenses incurred in connection with meetings of the Board.

SHOE CARNIVAL, INC.
EMPLOYMENT AND NONCOMPETITION AGREEMENT

This EMPLOYMENT AND NONCOMPETITION AGREEMENT (the “ **Agreement** ”) is made and entered into as of September 10, 2018 (“ **Effective Date** ”), by and between **SHOE CARNIVAL, INC.**, an Indiana corporation with its principal offices located at 7500 East Columbia Street, Evansville, Indiana (the “ **Company** ”), and **MARK WORDEN** (“ **You** ” or the “ **Employee** ”).

RECITALS

WHEREAS, the Company is one of the largest retailers of family footwear in the United States; and

WHEREAS, the Company desires to retain Your services upon the terms and conditions set forth herein; and

WHEREAS, You desire to be so employed by the Company, to be eligible for opportunities of advancement, potential compensation increases and the potential payments provided for herein; and

WHEREAS, the Company and You desire to enter into this Agreement to set forth the terms and conditions of the employment relationship between the Company and You; and

WHEREAS, in connection with its business, the Company has expended a substantial amount of time, money, and effort to develop and maintain its confidential, proprietary and trade secret information, and that this information, if misused or disclosed, could be very harmful to the Company’s business and its competitive position in the marketplace;

NOW THEREFORE, in consideration of the mutual covenants, promises and obligations set forth herein, the parties agree as follows:

AGREEMENT

1. **Term**. The Company hereby agrees to employ You, and You hereby agree to be employed by the Company, in accordance with the terms and conditions of this Agreement, for a period of two (2) years commencing on the Effective Date and ending on September 10, 2020 (the “ **Initial Term** ”), subject to earlier termination as expressly provided in this Agreement. This Agreement shall automatically renew for successive one-year periods (“ **Renewal Periods** ”), unless either party provides written notice of its intention to not renew at least thirty (30) days prior to the end of the then current term. For purposes of this Agreement, the Initial Term together with any Renewal Period(s) shall be referred to as the “ **Term** ”.

2. **Position and Duties**.

2.1 **Position**. You shall serve as the **Executive Vice President, Chief Strategy and Marketing Officer** of the Company. In such position, You shall have such duties, authority and responsibility as shall be determined from time to time by the Company's Board of Directors, or in such other or additional positions as the Chief Executive Officer or Board of Directors may determine from time to time.

2.2 **Duties**. You agree to perform such duties incident to Your position, as well as any other duties for the Company as may be directed by any senior officer of the Company, and to assume such other or additional title, duties, and/or responsibilities as the Board of Directors may determine. During the Term, You shall devote substantially all of Your business time and attention to the performance of Your duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the performance of such services either directly or indirectly without the prior written consent of the Board of Directors. Notwithstanding the foregoing, You will be permitted to act or serve as a volunteer, director, trustee, committee member or principal of any civic or charitable organization, provided such service does not interfere with your work for the Company. You shall not engage in any activity that is competitive with the Company's business or make any preparations to engage in any competitive activity. You shall be supportive of the Company's business and its best interests and shall not, directly or indirectly, take any action which could reasonably be expected to have an adverse effect upon the business or best interests of the Company. You agree that You will at all times honestly and fairly conduct Your duties, and will at all times maintain the highest of professional standards in representing the interests of the Company. You will comply with Company policies, decisions, and instructions, which may be changed by the Company from time to time.

3. **Compensation**.

3.1 **Base Salary**. The Company shall pay You an annual base salary of **Five Hundred Fifteen Thousand Dollars (\$515,000.00)**, payable in accordance with the Company's usual payroll practices, and subject to all taxes, withholdings and deductions as required by law and as You may authorize. The Company will review Your Base Salary on a periodic basis, approximately annually, during the Term to determine, in the Company's sole discretion, whether to adjust Your Base Salary upward or downward, and if so, the amount of such adjustment and the time at which such adjustment should take effect. The term "**Base Salary**" as used in this Agreement shall refer to Your annual base salary as in effect from time to time, including any adjustments.

3.2 **Incentive Bonus**. You are entitled to participate in the Company's 2016 Executive Incentive Compensation Plan, in accordance with the terms contained therein, and in any successor plan adopted by the Company from time to time. However, You agree that the failure of the Company to award any such bonus and/or other incentive compensation shall not give rise to any claim against the Company. The Company, in its

sole discretion, may adjust, modify or discontinue any bonus plan or program applicable to You from time to time during the Term.

3.3 **Employee Benefits**. You shall be eligible to participate in any employee benefit plans, practices and programs maintained by the Company (“**Employee Benefit Plans**”), commensurate with Your position with the Company and subject to the eligibility requirements and other terms and conditions of such plans and programs. The Company, in its sole discretion, may change, amend or discontinue any of its Employee Benefit Plans at any time during Your employment with the Company, and nothing contained herein shall obligate the Company to institute, maintain or refrain from changing, amending or discontinuing any Employee Benefit Plan.

4. **Termination of Employment and Compensation Upon Termination**.

4.1 **Expiration of the Agreement**. Your employment with the Company may terminate by way of the expiration of the Term as a result of either party exercising the right not to renew. In the event of termination of Your employment by expiration of the Term, the Company’s obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; and (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date.

4.2 **For Cause**. The Company may terminate Your employment at any time effective immediately for “**Cause**.” As used in this Agreement, the term “**Cause**” means the occurrence of any one or more of the following events: (a) Your failure to perform Your duties (other than any such failure resulting from incapacity due to physical or mental illness); (b) Your embezzlement, misappropriation or fraud, whether or not related to Your employment with Company; (c) Your conviction of or plea of guilty or nolo contendere to a crime that constitutes a felony or other crime involving moral turpitude; (d) Your engaging in dishonesty, illegal conduct or gross misconduct which is in each case injurious to the Company or its affiliates; (e) Your failure or refusal to comply with any lawful and reasonable instructions of the Company’s Chief Executive Officer, President, or other executive officer to whom You report; (f) Your material breach of any of Your obligations under this Agreement; (g) Your material breach of the Company’s policies; (h) Your use of alcohol or drugs which interferes with the performance of Your duties for the Company or which compromises the integrity or reputation of the Company; or (i) Your engaging in any conduct tending to bring the Company into public disgrace or disrepute.

In the event of termination of Your employment by the Company for Cause, the Company’s obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (x) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date;

and (y) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date.

4.3 Unilateral – The Company without Cause. The Company may terminate Your employment at any time without Cause.

In the event the Company terminates Your employment without Cause, the Company's obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date; (c) the Company shall pay to You, within thirty (30) calendar days following the date of termination, a lump sum amount equal to fifty-five percent (55%) of the product of (i) multiplied by (ii), where "(i)" is Your Base Salary for the fiscal year in which the termination occurs, and where "(ii)" is a fraction, the numerator of which is the number of days elapsed in such fiscal year through the date of termination and the denominator of which is 365; (d) the Company shall pay to You, within thirty (30) calendar days following the termination date, a lump sum payment in an amount equal to one hundred fifty percent (150%) of Your Base Salary for the fiscal year in which the termination occurs; and (e) the Company shall pay You, within thirty (30) calendar days following the termination date, a lump sum payment in an amount equal to eighteen (18) times the monthly "**COBRA Premium Rate**" (which is the monthly amount charged, as of the termination date, for continuation coverage under the Company's group medical and dental plans pursuant to the Consolidated Omnibus Reconciliation Act of 1985 ("**COBRA** ") for the coverage options and coverage levels applicable to You and Your covered dependents immediately prior to the termination date). Payment of the severance compensation set forth in subparts (c), (d) and (e) of this Section 4.3 is subject to the terms and conditions of Section 4.10 and Section 9.2 of this Agreement.

4.4 Unilateral – The Employee. You may terminate Your employment at any time with the Company by providing the Company with thirty (30) days' advance written notice of such termination. At the sole option of the Company, such termination may be considered effective on the date such notice is given or at any other date the Company may designate during the 30-day notice period.

In the event that You unilaterally terminate Your employment, the Company's obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; and (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date.

4.5 For Good Reason – The Employee. At any time during the Term, You may terminate Your employment for Good Reason if all of the following conditions are

satisfied: (a) You give the Company a written notice of termination, which describes in reasonable detail the condition claimed to constitute Good Reason, within thirty (30) calendar days of the initial existence of the condition claimed to constitute Good Reason; (b) the Company does not remedy the condition within thirty (30) calendar days of the Company's receipt of Your written notice of termination (the "**Good Reason Cure Period**"); and (c) You give the Company a second written notice of termination within thirty (30) calendar days following the expiration of the Good Reason Cure Period. If You do not provide the notice of termination for Good Reason as described in subpart (a) of the preceding sentence within 30 days of the first occurrence of the applicable grounds, then You will be deemed to have waived Your right to terminate for Good Reason with respect to such grounds. For purposes of this Agreement, "**Good Reason**" means the occurrence, without Your written consent, of a material reduction by the Company in Your Base Salary.

In the event You terminate Your employment for Good Reason, the Company's obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date; (c) the Company shall pay to You, within thirty (30) calendar days following the date of termination, a lump sum amount equal to fifty- five percent (55%) of the product of (i) multiplied by (ii), where "(i)" is Your Base Salary for the fiscal year in which the termination occurs, and "(ii)" is a fraction, the numerator of which is the number of days elapsed in such fiscal year through the date of termination and the denominator of which is 365; (d) the Company shall pay to You, within thirty (30) calendar days following the termination date, a lump sum payment in an amount equal to one hundred fifty percent (150%) of Your Base Salary for the fiscal year in which the termination occurs; and (e) the Company shall pay You, within thirty (30) calendar days following the termination date, a lump sum payment in an amount equal to eighteen (18) times the monthly COBRA Premium Rate. Payment of the severance compensation set forth in subparts (c), (d) and (e) of this Section 4.5 is subject to the terms and conditions of Section 4.10 and Section 9.2 of this Agreement.

4.6 Disability or Death. If You suffer a "**Disability**," the Company shall have the right to terminate Your employment by delivering to You a written notice of the Company's intent to terminate for Disability, specifying in such notice a termination date not less than ten (10) calendar days after the giving of the notice (the "**Disability Notice Period**"). Your employment shall terminate at the close of business on the last day of the Disability Notice Period. For purpose of this Agreement, the term "Disability" shall mean either (a) when You are deemed disabled in accordance with the long-term disability insurance policy or plan of the Company in effect at the time of the illness or injury causing the Disability, or (b) the inability of You, because of injury, illness, disease or bodily or mental infirmity, to perform the essential functions of Your job (with reasonable accommodation) for more than one hundred twenty (120) consecutive days.

The existence of a Disability shall be determined by the Company. If You should die during the Term, this Agreement shall terminate as of the date of Your death.

In the event Your employment is terminated as a result of Your death or Disability, the Company's obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; and (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date.

4.7 Timely Qualifying Termination Following a Change In Control.

4.7.1 For purposes of this Agreement, a “**Timely Qualifying Termination**” shall mean either (a) a termination by the Company without Cause that occurs within two (2) years immediately following a Change in Control or (b) a termination by You for Good Reason that occurs within two (2) years immediately following a Change in Control.

4.7.2 For purposes of this Agreement, “**Change In Control**” of the Company shall mean and shall be deemed to have occurred as of the first day on which any one of the following conditions has been satisfied:

(A) The acquisition, within a 12-month period ending on the date of the most recent acquisition, by any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), (a “**Person**”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act as in effect from time to time) of thirty percent (30%) or more of either (i) the then outstanding shares of common stock of the Company or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; provided, however, that the following acquisitions shall not constitute an acquisition of control: (a) any acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (b) any acquisition by the Company, (c) any acquisition by any employee benefit plan or related trust sponsored or maintained by the Company or any corporation controlled by the Company, (d) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i), (ii) and (iii) of subsection (C) of this Section are satisfied, (e) any acquisition by any Person who, immediately before the commencement of the 12-month period, already held beneficial ownership of thirty percent (30%) or more of the outstanding voting securities of the Company (“**Affiliated Person**”) or (f) upon the death of any shareholder who, on the date of this Agreement, is the beneficial owner of 10% or more of the outstanding voting securities of the Company, any acquisition triggered by the death of such shareholder by operation

of law, by any testamentary bequest or by the terms of any trust or other contractual arrangement established by such shareholder; or

(B) Individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board of Directors of the Company (the “**Board**”); provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(C) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than fifty percent (50%) of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company common stock and outstanding Company voting securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the outstanding Company stock and outstanding Company voting securities, as the case may be, (ii) no Person (excluding the Company, any employee benefit plan or related trust of the Company or such corporation resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, thirty percent (30%) or more of the outstanding Company common stock or outstanding voting securities, as the case may be) beneficially owns, directly or indirectly, thirty percent (30%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(D) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which following such sale or other disposition (a) more than fifty percent (50%) of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Company common stock and outstanding Company voting securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the outstanding Company common stock and outstanding Company voting securities, as the case may be, (b) no Person (excluding the Company and any employee benefit plan or related trust of the Company or such corporation, any Affiliated Person and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, thirty percent (30%) or more of the outstanding Company common stock or outstanding Company voting securities, as the case may be) beneficially owns, directly or indirectly, thirty percent (30%) or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (c) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

Notwithstanding any other provision of this Section to the contrary, an occurrence shall not constitute a Change In Control if it does not constitute a change in the ownership or effective control of, or in the ownership of a substantial portion of the assets of, the Company, within the meaning of Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended (the “ **Code** ”) and its interpretive regulations.

4.7.3 In the event of a Timely Qualifying Termination, then, in lieu of all other benefits under this Agreement, the Company’s obligation to pay and provide You compensation and benefits under this Agreement shall immediately terminate, except: (a) You shall be entitled to receive that portion of Your Base Salary which shall have been earned through the termination date; (b) the Company shall pay or provide You such other payments and benefits, if any, which had vested hereunder before the termination date; (c) the Company shall pay to You, in a lump sum not later than thirty (30) calendar days after the termination date, an amount equal to two times one hundred fifty-five percent (155%) of Your Base Salary for the fiscal year in which the termination occurs; (d) the Company shall

pay You, in a lump sum not later than thirty (30) calendar days after the termination date, an amount equal to eighteen (18) times the COBRA Premium Rate; and (e) the Company shall provide You with reasonable and appropriate out-placement services, as determined and coordinated by the Company, by paying a fee, not to exceed Two Thousand Five Hundred Dollars (\$2,500.00), to an outplacement services provider selected by the Company, provided that such services shall not extend past the end of the second taxable year following the taxable year in which the Timely Qualifying Termination occurs. Payment and provision of the severance compensation and benefits set forth in subparts (c), (d), and (e) of this Section 4.7.3 are subject to the terms and conditions of Section 4.10 and Section 9.2 of this Agreement.

4.8 **Compensation Upon Termination in General**. In the event of termination of Your employment as set forth herein, and subject to any lawful right of offset the Company may have against any such benefits, compensation, or severance amounts owed to You, whether the result of promissory notes, loans, or other financial arrangements the Company may have entered into with You or on Your behalf, and which are or would become due and payable on or after the termination date, to include the principal and interest pursuant to such arrangements (which right of offset cannot be inconsistent with the standards for nonqualified deferred compensation plans under Code Section 409A, to the extent applicable), the parties agree that the terms herein shall be the exclusive termination pay arrangements.

4.9 **Payroll Withholdings**. The Company may withhold from any compensation or benefits payable under this Agreement all federal, state, city, or other taxes or deductions as may be required pursuant to any law or governmental regulation or ruling.

4.10 **Release Agreement**. Any payment or provision of the severance compensation or benefits described herein is subject to Your execution of (and, if a right of revocation applies to such release, not revoking) a release of claims in favor of the Company, its affiliates and their respective officers and directors in a form provided by the Company.

4.11 **Delay of Separation Payments to You**. Notwithstanding any other provisions of this Agreement, if any amount payable to You under this Agreement on account of Your separation from service with the Company constitutes deferred compensation within the meaning of Code Section 409A, and You are a specified employee, within the meaning of Code Section 409A(a)(2)(B)(i), on the date of Your separation from service, payment of the amount shall be delayed until the first business day that is at least six (6) months after the date on which Your separation from service occurred.

5. **Confidential Information**. You understand and acknowledge that during the Term, You will have access to and learn about Confidential Information, as defined below.

5.1 **Definition**. For purposes of this Agreement, " **Confidential Information** " includes, but is not limited to, all of the Company's trade secrets, confidential and

proprietary information and all other information belonging to, maintained by or concerning the Company that is not generally known to the public, in spoken, printed, electronic or any other form or medium, relating directly or indirectly to: the Company's business processes, practices, policies, plans, publications, documents, research, operations, services, strategies, techniques, agreements, contracts, know-how, trade secrets, computer programs, computer software, work-in-process, databases, manuals, records, systems, supplier information, vendor information, financial information, accounting information, employee information, legal information, marketing information, advertising information, pricing information, credit information, design information, payroll information, employee lists, supplier lists, vendor lists, developments, reports, internal controls, security procedures, graphics, drawings, sketches, market studies, sales information, revenue, costs, formulae, notes, communications, algorithms, product plans, designs, styles, models, ideas, audiovisual programs, customer information, customer lists, manufacturing information, and factory information, of the Company or any existing customer, supplier, investor or other associated third party, or of any other person or entity that has entrusted information to the Company in confidence.

You understand that the above list is not exhaustive, and that Confidential Information also includes other information that is marked or otherwise identified as confidential or proprietary, or that would otherwise appear to a reasonable person to be confidential or proprietary in the context and circumstances in which the information is known or used.

You understand and agree that Confidential Information includes information developed by You in the course of Your employment by the Company as if the Company furnished the same Confidential Information to You in the first instance. Confidential Information shall not include information that is generally available to and known by the public at the time of disclosure to You; provided that, such information was not made available by, or is not known by the public as a result of, any direct or indirect fault of You or person(s) acting on Your behalf.

5.2 Company Creation and Use of Confidential Information. You understand and acknowledge that the Company has invested, and continues to invest, substantial time, money and specialized knowledge into developing its resources, creating a customer base, generating customer and potential customer lists, training its employees, and improving its offerings in the field of the retail sale of footwear and footwear related items. You understand and acknowledge that as a result of these efforts, the Company has created, and continues to use and create Confidential Information. This Confidential Information provides the Company with a competitive advantage over others in the marketplace.

5.3 Disclosure and Use Restrictions. You agree and covenant: (a) to treat all Confidential Information as strictly confidential; (b) not to directly or indirectly disclose, publish, communicate or make available Confidential Information, or allow it to be

disclosed, published, communicated or made available, in whole or part, to any entity or person whatsoever (including other employees of the Company) not having a need to know and authority to know and use the Confidential Information in connection with the business of the Company and, in any event, not to anyone outside of the direct employ of the Company except as required in the performance of Your authorized employment duties to the Company or with the prior consent of the Chief Executive Officer acting on behalf of the Company in each instance (and then, such disclosure shall be made only within the limits and to the extent of such duties or consent); and (c) not to access or use any Confidential Information, and not to copy any documents, records, files, media or other resources containing any Confidential Information, or remove any such documents, records, files, media or other resources from the premises or control of the Company, except (x) as required in the performance of Your authorized employment duties to the Company (and then, such disclosure shall be made only within the limits and in the ordinary course of such duties), (y) with the prior consent of the Chief Executive Officer acting on behalf of the Company in each instance (and then, such disclosure shall be made only within the limits and to the extent of such consent) , or (z) in connection with Your reporting possible violations of law or regulations to any governmental agency or making other disclosures protected under any applicable whistleblower laws . Nothing herein shall be construed to prevent disclosure of Confidential Information as may be required by applicable law or regulation, or pursuant to the valid subpoena or order of a court of competent jurisdiction or an authorized government agency, provided that the disclosure does not exceed the extent of disclosure required by such law, regulation or order. You shall , unless prohibited by applicable law, promptly provide written notice of any such subpoena or order to the Chief Executive Officer.

5.4 Survival of Non-Disclosure Obligations . You understand and acknowledge that Your obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon You first having access to such Confidential Information (whether before or after You begin employment by the Company) and shall continue during and after Your employment by the Company until such time as such Confidential Information has become public knowledge other than as a result of Your breach of this Agreement or breach by those acting in concert with You or on Your behalf.

5.5 Defend Trade Secrets Act Notice . Notwithstanding anything to the contrary in this Section 5, any other provision of this Agreement or any policy of the Company, You may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (a) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney if such disclosure is made solely for the purpose of reporting or investigating a suspected violation of law or for pursuing an anti-retaliation lawsuit; or (b) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and You do not disclose the

trade secret except pursuant to a court order. In the event a disclosure is made, and You file a lawsuit against the Company alleging that the Company retaliated against You because of Your disclosure, You may disclose the relevant trade secret or Confidential Information to Your attorney and may use the same in the court proceeding only if (x) You ensure that any court filing that includes the trade secret or Confidential Information at issue is made under seal; and (y) You do not otherwise disclose the trade secret or Confidential Information except as required by court order.

6. Restrictive Covenants.

6.1 **Acknowledgement**. You acknowledge that Your position with the Company is special, unique and intellectual in character and Your position in the Company places You in a position of confidence and trust with employees, vendors and customers of the Company. You further acknowledge and agree that you have received adequate consideration for these restraints in the form of the Base Salary and other valuable consideration contained herein. The restrictions and obligations contained in this Section 6 shall survive the Term of this Agreement. Notwithstanding the above, if the Company elects not to renew this Agreement and subsequently terminates Your employment without offering to pay you severance payments equivalent to 100% of Your Base Salary in effect at the time of termination—which offer of such severance compensation shall be subject to the terms and conditions of Section 4.10 and Section 9.2 of this Agreement, You will not be subject to the restrictions and obligations of this Section.

6.2 **Non-compete**. You agree that during Your employment with the Company and for a period of one (1) year immediately after the termination of Your employment with the Company, You shall not:

6.2.1 within the Restricted Geographic Area engage in (including, without limitation, being employed by, working for, or rendering services to) any Competing Business in any Prohibited Capacity; provided, however, if the Competing Business has multiple divisions, lines or segments, some of which are not competitive with the business of the Company, nothing herein shall prohibit You from being employed by, working for or assisting only that division, line or segment of such Competing Business that is not competitive with the business of the Company provided that Your work for such non-competitive division, line or segment of the Competing Business does not involve any products that are competitive with the products offered by the Company;

6.2.2 (a) solicit, recruit, hire, employ, engage or attempt to hire, employ or engage any person who is an employee of the Company; (b) assist any person or entity in the recruitment, hiring or engagement of any person who is an employee of the Company; (c) urge, induce or seek to induce any person to terminate his/her employment with the Company; or (d) advise, suggest to or recommend to any Competing Business that it employ, engage or seek to employ or engage any

person who is an employee of the Company ; for purposes of this Section , employee of the Company includes any person who is employed with the Company at the time of the activity in question or was an employee within the six month period preceding such activity;

6.2.3 solicit, urge, induce or seek to induce any of the Company's independent contractors, subcontractors, vendors, suppliers, customers or consultants to terminate their relationship with, or representation of, the Company or to cancel, withdraw, reduce, limit or in any manner modify any such person's or entity's business with or representation of, the Company for whatever purpose or reason;

6.2.4 make or publish any statement or comment that disparages or in any way injures the reputation and/or goodwill of the Company or any of its directors, officers or employees; provided, however, that nothing in this Section is intended to prohibit You from (a) making any disclosures as may be required or compelled by law or legal process or (b) making any disclosures or providing any information to a governmental agency or entity, including without limitation in connection with a complaint by You against the Company or the investigation of any complaint against the Company; and/or

6.2.5 take any action intended to harm the Company or its reputation, which the Company reasonably concludes could lead to unwanted or unfavorable publicity to the Company.

6.2.6 The restrictive time periods set forth in this Section shall not expire during any period in which You are in violation of any of the restrictive covenants set forth in this Section, and all restrictions shall automatically be extended by the period You were in violation of any such restrictions.

6.2.7 The restrictive covenants contained in this Section prohibit You from engaging in certain activities directly or indirectly, whether on Your own behalf or on behalf of any other person or entity.

6.2.8 The covenants and restrictions in this Section are separate and divisible, and to the extent any covenant, provision or portion of this Section is determined to be unenforceable or invalid for any reason, such unenforceability or invalidity shall not affect the enforceability or validity of the remainder of the Agreement. Should any particular covenant, restriction, provision or portion of this Section be held unreasonable or unenforceable for any reason, including, without limitation, the time period, geographical area, and/or scope of activity covered by any restrictive covenant, provision or clause, such covenant, provision or clause shall automatically be deemed reformed such that the contested covenant, provision or portion will have the closest effect permitted by applicable law to the original form and shall be given effect and enforced as so reformed to the extent reasonable and enforceable under applicable law.

6.3 **Definitions** :

6.3.1 “ **Competing Business** ” means any of the following entities (which You acknowledge are direct competitors of the Company) and each of their respective subsidiaries and successors: (a) Payless; (b) Caleres, Inc.; (c) Designer Shoe Warehouse; (d) Rack Room; (e) Kohls Corporation; (f) Shoe Department; (g) Shoe City; (h) Shoe Pavilion, Inc.; (i) JD Sports Fashion plc; (j) Finish Line, Inc.; (k) Dick’s Sporting Goods, Inc.; (l) Academy Sports + Outdoors; (m) Belk; and (n) Off Broadway Shoe Warehouse.

6.3.2 “ **Prohibited Capacity** ” means: (a) the same or similar capacity or function to that in which You worked for the Company at any time during the thirty-six (36) months immediately preceding the termination of Your employment with the Company; (b) any executive or officer capacity or function; (c) any managerial capacity or function; (d) any business consulting capacity or function; (e) any merchandizer or buyer capacity or function; (f) any ownership capacity, except You may own an investment of less than 5% of any class of equity or debt security of a publicly-held company; (g) any capacity or function in which You likely would inevitably use or disclose the Company’s trade secrets or Confidential Information; or (h) any other capacity or function in which Your knowledge of the Confidential Information would facilitate or assist Your work for the Competing Business.

6.3.3 “ **Restricted Geographic Area** ” means: (a) the United States of America, including, but not limited to, each State in which the Company operates a retail store; (b) Puerto Rico; and (c) any other state, country, province or territory in which the Company operates a retail store as of the date of termination of Your employment.

6.4 **Acknowledgment of Restrictions** . You acknowledge and agree that You understand the restrictions in this Section, and that they are reasonable and enforceable, in view of, among other things, Your position within the Company, the highly competitive nature of the Company’s business, and the confidential nature of the information You have been provided. You further agree that the Company would not have adequate protection if You were permitted to work for its competitors in violation of the terms of this Agreement since the Company would be unable to verify whether its Confidential Information was being disclosed and/or misused, and whether You were involved in diverting the Company’s customers and/or its customer goodwill.

6.5 **Required Disclosures Concerning New Employment** . You agree that, during the one (1) year period immediately following the termination of Your employment with the Company for any reason, You (a) will within ten (10) days of acceptance of new employment, notify the Company in writing of Your employment, engagement or other affiliation with any other business or entity; and (b) will provide a copy of Sections 5 and

6 of this Agreement to any prospective employer before accepting employment or other work engagement with any such employer.

7. **Proprietary Rights**. All work performed by You and all inventions, discoveries, developments, work product, processes, improvements, creations, deliverables and all written, graphic or recorded material and works of authorship fixed in any tangible medium of expression made, created or prepared by You, alone or jointly with others, during Your employment with the Company and relating to the Company's business (collectively, the "**Works**") shall be the Company's exclusive property, shall be deemed a work made for hire, and all rights, title and interest in the Works shall vest in the Company. To the extent that the title or rights to any such Works may not, by operation of law, vest in the Company, You hereby irrevocably assign and transfer to the Company all rights, title and interest to such Works. All Works shall belong exclusively to the Company, and the Company shall have the right to obtain and hold in its own name, any patents, copyrights, registrations or such other intellectual property protections as may be appropriate to the subject matter. You will sign documents of assignment, declarations and other documents and take all other actions reasonably required by the Company, at the Company's expense, to perfect and enforce any of its proprietary rights and to vest all right, title and interest to the Works in the Company. This Section does not apply to an invention for which no equipment, supplies, facility, or Confidential Information of the Company was used and which was developed entirely on Your own time, unless (a) the invention relates (1) directly to the business of the Company, or (2) to the Company's actual or anticipated research or development, or (b) the invention results from any work performed by You for the Company.

8. **Remedies**. In the event of a breach or threatened breach by You of any of the above provisions, the Company shall be entitled to an injunction restraining You from such breach, in addition to all other remedies which the Company shall be entitled to in law or equity. The Company also shall be entitled to recover from You all litigation costs and attorneys' fees incurred by the Company in any action or proceeding relating to this Agreement in which the Company prevails, including, but not limited to, any action or proceeding in which the Company seeks enforcement of this Agreement or seeks relief from Your violation of this Agreement. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available for such breach, threatened breach, or any breach of this Agreement.

9. **Post-Termination Obligations**.

9.1 **Survival**. You acknowledge and agree that Your post-termination obligations under this Agreement, including without limitation Your confidentiality and non-competition obligations set forth in Sections 5, 6 and 12.2 of this Agreement, shall survive the termination of Your employment with the Company, regardless of whether such termination is voluntary or involuntary, or is with or without Cause. You further acknowledge and agree that: (a) Your confidentiality, non-competition and return-of-property obligations set forth in Sections 5, 6 and 12.2 of this Agreement shall be construed as independent covenants and that no breach of any contractual or legal duty by the Company shall be held sufficient to excuse or terminate Your obligations under Sections 5, 6 and 12.2 of this Agreement or preclude the Company from obtaining

injunctive relief for Your violation or threatened violation of such covenants; and (b) the existence of any claim or cause of action by You against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the Company's enforcement of Your confidentiality, non-competition and return-of-property obligations set forth in Sections 5, 6 and 12.2 of this Agreement.

9.2 Compliance With Post-Employment Restrictions. In the event that You breach any of the covenants or provisions set forth in Sections 5, 6 and 12.2 of this Agreement (a) You will have forfeited Your right to receive, and the Company shall have the right immediately and permanently to discontinue payment and provision of, any of the severance compensation and benefits payable under this Agreement and (b) You shall be obligated to pay to the Company an amount equal to the amount of the severance compensation received by You pursuant to this Agreement, minus Five Hundred Dollars (\$500.00), with such amount being due and payable immediately upon the Company making written demand on You for such payment. You and the Company acknowledge and agree that such forfeiture and clawback is in addition to, and not in lieu of, any and all other legal and/or equitable remedies that may be available to the Company in connection with Your breach of any of the covenants or provisions of this Agreement.

10. Notices. All notices related to this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or the date mailed, postage prepaid, by certified mail, return receipt requested, or telegraphed and confirmed, or faxed and confirmed, to the following respective addresses:

To You: Mark J. Worden
6688 Mill Creek Court
Newburgh, IN 47630

To Company: Chief Executive Officer
Shoe Carnival, Inc.
7500 East Columbia Street
Evansville, IN 47715

Either party may designate a different address by providing written notice to the other party.

11. Assignment. The Company shall have the right to assign this Agreement. This Agreement shall inure to the benefit of, may be enforced by, and shall be binding on, any and all successors and assigns of the Company, including, without limitation, by asset assignment, stock sale, merger, consolidation or other corporate reorganization, and shall be binding on You, Your executors, administrators, personal representatives and other successors in interest. This Agreement is personal to You, and therefore You shall not have the right to assign this Agreement nor any of Your rights, powers, duties or obligations hereunder.

12. Security.

12.1 **Security and Access.** You agree and covenant (a) to comply with all Company security policies and procedures in force from time to time including but not limited to those related information technology resources and facility access resources such as the employee identification card ; (b) not to access or use any information technology resources and facility access resources except as authorized by the Company; and (c) not to access or use information technology resources and facility access resources in any manner after the termination of Your employment, whether termination is voluntary or involuntary. You agree to notify the Company promptly in the event that You learn of any violation of the foregoing by others, or of any other misappropriation or unauthorized access, use, reproduction or reverse engineering of, or tampering with information technology resources and facility access resources or other Company property or materials.

12.2 **Exit Obligations.** Upon (a) voluntary or involuntary termination of Your employment or (b) at the Company's request at any time during Your Employment, You shall (i) provide or return to the Company any and all Company property and all Company documents and materials belonging to the Company and stored in any fashion, including but not limited to those that constitute or contain any Confidential Information or Works, that are in Your possession or control, whether they were provided to You by the Company or any of its business associates or created by You in connection with Your employment by the Company; and (ii) delete or destroy all copies of any such documents and materials not returned to the Company that remain in Your possession or control, including those stored on any non-Company devices, networks, storage locations and media in Your possession or control.

13. **Code Section 409A Standards.** It is the intent of the parties that payments and benefits under this Agreement subject to Code Section 409A (" **409A** ") comply with 409A, and therefore, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance with 409A. Notwithstanding anything in this Agreement to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under 409A, You shall not be considered to have terminated employment with the Company for purposes of this Agreement until You would be considered to have incurred a "separation from service" from the Company within the meaning of 409A. Any payments described in this Agreement that are due within the "short-term deferral period" (as defined in 409A) shall not be treated as deferred compensation unless applicable law requires otherwise. Each amount to be paid or benefit to be provided to You pursuant to this Agreement that constitutes deferred compensation subject to 409A shall be construed as a separate identified payment for purposes of 409A.

14. **Parachute Payment Restrictions.** If any payment or benefit to be paid or provided to You under this Agreement, taken together with any payments or benefits otherwise paid or provided to You by the Company or any corporation that is a member of an "**affiliated group**" (as defined in Section 1504 of the Code without regard to Section 1504(b) of the Code) of which the Company is a member (the "**other arrangements**"), would collectively constitute a "**parachute payment**" (as defined in Section 280G(b) (2) of the Code), and if the net after-tax amount of such parachute payment to You is less than what the net after-tax amount to You

would be if the aggregate payments and benefits otherwise constituting the parachute payment were limited to three times Your “**base amount**” (as defined in Section 280G(b)(3) of the Code) less \$1.00, then the aggregate payments and benefits otherwise constituting the parachute payment shall be reduced to an amount that shall equal three times Your base amount, less \$1 . 00. Should such a reduction in payments and benefits be required, You shall be entitled, subject to the following sentence, to designate those payments and benefits under this Agreement or the other arrangements that will be reduced or eliminated so as to achieve the specified reduction in aggregate payments and benefits to You and avoid characterization of such aggregate payments and benefits as a parachute payment. The Company will provide You with all information You reasonably request to permit You to make such designation. To the extent that Your ability to make such a designation would cause any of the payments and benefits to become subject to any additional tax under 409A, or if You fail to make such a designation within ten (10) business days of receiving the requested information from the Company, then the Company shall achieve the necessary reduction in such payments and benefits by first reducing or eliminating the portion of the payments and benefits that are payable in cash and then by reducing or eliminating the non-cash portion of the payments and benefits, in each case in reverse order beginning with payments and benefits which are to be paid or provided the furthest in time from the date of the Company’s determination. For purposes of this Section, a net after-tax amount shall be determined by taking into account all applicable income, excise and employment taxes, whether imposed at the federal, state or local level, including the excise tax imposed under Section 4999 of the Code.

15. **Entire Agreement**. This Agreement contains all of the understandings and representations between the parties pertaining to the subject matter hereof, and supersedes all prior and contemporaneous negotiations, discussions, commitments and understandings between the parties relating hereto, whether oral or written.

16. **Modification and Waiver**. This Agreement may be amended or modified only in a writing signed by the parties. No waiver by either party of any breach by the other party shall be deemed a waiver of any other provision or condition, nor shall the failure of or delay by either party in exercising any right, power or privilege hereunder operate as a waiver or preclude any exercise thereof.

17. **Governing Law and Forum Selection**. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Indiana, without giving effect to any choice-of-law or conflict-of-law principle that would cause the application of the substantive law of any jurisdiction other than Indiana. Any legal action (whether based on contract, tort or other legal theory) arising out of or relating to this Agreement, Your employment with the Company or the termination of Your employment shall be commenced and maintained exclusively before any state or federal court having appropriate subject matter jurisdiction located in Evansville, Indiana, and You and the Company each consents and submits to the personal jurisdiction and venue of such courts located in Evansville, Indiana, and waives any right to challenge or otherwise object to personal jurisdiction or venue (including, without limitation, any objection based on inconvenient forum grounds) in any action commenced or maintained in such courts located in Evansville, Indiana.

18. **Severability**. If any term or provision of this Agreement is found to be invalid or unenforceable, the remaining provisions will remain effective and such term or provision shall be replaced with another term consistent with the purpose and intent of this Agreement.

19. **Counterparts**. This Agreement may be executed in separate counterparts, all of which taken together shall constitute one and the same agreement. Signatures transmitted by facsimile or other electronic means are acceptable the same as originals.

20. **Representations of the Employee**. You represent and warrant that Your acceptance of employment with the Company and the performance of Your duties hereunder will not violate any non-solicitation, non-competition, or other covenant or agreement of a prior employer and it will not conflict with or result in a violation of, a breach of, or a default under any contract, agreement or understanding to which You are a party or are otherwise bound.

21. **Acknowledgment and Full Understanding**. YOU ACKNOWLEDGE AND AGREE THAT YOU HAVE FULLY READ, UNDERSTAND AND VOLUNTARILY ENTER INTO THIS AGREEMENT. YOU ACKNOWLEDGE AND AGREE THAT YOU HAVE HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF YOUR CHOICE BEFORE SIGNING THIS AGREEMENT.

[*Remainder of page intentionally left blank; signature page follows.*]

MARK J. WORDEN

Page

IN WITNESS WHEREOF, the parties have executed this Employment and Noncompetition Agreement as of the above written Effective Date .

SHOE CARNIVAL, INC. EMPLOYEE

By: /s/ Sean M. Georges /s/ Mark J. Worden MARK J. WORDEN

Its: Senior Vice President, Human Resources

Date: September 10, 2018

Date: September 10, 2018

SUBSIDIARIES OF SHOE CARNIVAL, INC.

<u>Subsidiary</u>	<u>State of Incorporation/Organization</u>	<u>Percentage of Ownership</u>
SCHC, Inc.	Delaware	100%
SCLC, Inc.	Delaware	100% Owned by SCHC, Inc.
Shoe Carnival Ventures, LLC	Indiana	100%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-218694) relating to the 2017 Equity Incentive Plan of Shoe Carnival, Inc., Registration Statements on Form S-8 (Nos. 333-183748, as amended, 333-153421, 333-117231, and 333-60114) relating to the 2000 Stock Option and Incentive Plan of Shoe Carnival, Inc., and the Registration Statement on Form S-8 (No. 033-80979) relating to the Employee Stock Purchase Plan of Shoe Carnival, Inc., of our reports dated April 2, 2019, relating to the financial statements and financial statement schedule of Shoe Carnival, Inc., and the effectiveness of Shoe Carnival, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Shoe Carnival, Inc. for the year ended February 2, 2019.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
April 2, 2019

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 annual report on Form 10-K 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: April 2, 2019

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 annual report on Form 10-K 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: April 2, 2019

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 Annual Report of Shoe Carnival, Inc. (the "Company") on Form 10-K for the period ending February 2, 2019, 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: April 2, 2019

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 Annual Report of Shoe Carnival, Inc. (the "Company") on Form 10-K for the period ending February 2, 2019, 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: April 2, 2019

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