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SHOE CARNIVAL INC
Form 10-K
April 14, 2011

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: January 29, 2011

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 0-21360

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

Indiana 35-1736614
(State or other jurisdiction of (IRS Employer Identification Number)
incorporation or organization)

7500 East Columbia Street
Evansville, IN 47715
(Address of principal executive offices) (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 The NASDAQ Stock Market LLC
(Title of Each Class) (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Yes No

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 July 31, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$192,685,000 (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 April 6, 2011 was 13,246,347.

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 16, 2011 is incorporated by reference into PART III hereof.

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Shoe Carnival, Inc.
Evansville, Indiana

Annual Report to Securities and Exchange Commission
January 29, 2011

PART I

ITEM 1. BUSINESS

Forward-Looking Statements

This annual report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: general economic conditions in the areas of the United States in which our stores are located; the effects and duration of economic downturns and unemployment rates; changes in the overall retail environment and more specifically in the apparel and footwear retail sectors; our ability to generate increased sales at our stores; the potential impact of national and international security concerns on the retail environment; changes in our relationships with key suppliers; the impact of competition and pricing; changes in weather patterns, consumer buying trends and our ability to identify and respond to emerging fashion trends; the impact of disruptions in our distribution or information technology operations; the effectiveness of our inventory management; the impact of hurricanes or other natural disasters on our stores, as well as on consumer confidence and purchasing in general; risks associated with the seasonality of the retail industry; our ability to successfully execute our growth strategy, including the availability of desirable store locations at acceptable lease terms, our ability to open new stores in a timely and profitable manner and the availability of sufficient funds to implement our growth plans; higher than anticipated costs associated with the closing of underperforming stores; our ability to successfully develop and implement an e-commerce business; the inability of manufacturers to deliver products in a timely manner; changes in the political and economic environments in the People's Republic of China, Brazil, Italy and East Asia, where the primary manufacturers of footwear are located; the impact of regulatory changes in the United States and the countries where our manufacturers are located; and the continued favorable trade relations between the United States and China and the other countries which are the major manufacturers of footwear. See ITEM 1A. RISK FACTORS of this report.

General

Shoe Carnival, Inc. is one of the nation's largest family footwear retailers. We offer customers a broad assortment of moderately priced dress, casual and athletic footwear for men, women and children with emphasis on national and regional name brands. We differentiate our retail concept from our competitors' by our distinctive, highly promotional in-store marketing effort and large stores that average 10,800 square feet, generate an average of approximately \$2.4 million in annual sales and carry an average inventory of approximately 28,000 pairs of shoes per location. As of January 29, 2011, we operated 314 stores in 30 states primarily in the Midwest, South and Southeast regions of the United States.

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, 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 our website is not incorporated into this Form 10-K.

Our annual report on Form 10-K as filed with the Securities and Exchange Commission 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.

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

Business Strategy

Our goal is to continue to grow our net sales and earnings by strengthening our position as the logical destination store for our customers' footwear needs. Key elements of our business strategy are as follows.

We offer a distinctive shopping experience. Our stores combine competitive pricing with a highly promotional, in-store marketing effort that encourages customer participation and creates a fun and exciting shopping experience. We promote a high-energy retail environment by decorating with exciting graphics and bold colors, and by featuring a stage and barker as the focal point in each store. With a microphone, this barker, or "mic-person", announces current specials, 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 the customers to take immediate advantage of our value pricing. We believe this highly promotional atmosphere results in various competitive advantages, including increased multiple unit sales; the building of a loyal, repeat customer base; the creation of word-of-mouth advertising; and enhanced sell-through of in-season goods.

We offer a broad merchandise assortment. Our objective is to be the destination store-of-choice for a wide range of consumers seeking moderately priced, current season name brand and private label footwear. Our product assortment includes dress and casual shoes, sandals, boots and a wide assortment of athletic shoes for the entire family. The average store carries approximately 28,000 pairs of shoes in four general categories - men's, women's, children's and athletics. In addition to footwear, our stores carry selected accessory items complementary to the sale of footwear. We emphasize name brand merchandise to customers with creative signage and by prominently displaying selected brands 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. Expenses for signage and visual displays highlighting a particular brand will often be partially or fully reimbursed by the vendor.

We believe that by offering a wide selection of both athletic and non-athletic footwear, we are able to reduce our exposure to shifts in fashion preferences between those categories. Our ability to identify and react to fashion changes is a key factor in our sales and earnings performance.

We offer value to our customers. Our marketing effort targets moderate income, value conscious consumers seeking name brand footwear for all age groups. We believe that by offering a wide selection of popular styles of name brand merchandise at competitive prices, we generate broad customer appeal. Additionally, the time conscious customer appreciates the convenience of one stop shopping for the entire family. We also believe our highly promotional in-store shopping environment contributes to a reputation of value pricing throughout the store.

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

We rely heavily on information technology. We have invested significant resources in information technology. Our proprietary inventory management and state-of-the-art 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 analysis 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 POS reports to choose from among a number of product promotions supplied by our centralized merchandising staff.

Our 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 the merchandising staff to analyze sales, margin and inventory levels by store, 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 in the past to drive annual comparable store sales increases, manage our markdown activity and improve inventory turnover.

Growth Strategy and Store Location

In reaction to the economic downturn, we significantly slowed our net store growth during the past two years. In view of the recent improvement in consumer spending and commercial real estate development, in fiscal 2011, we expect to open approximately 20 new store stores and close five stores. These new stores will primarily be located in existing geographic areas. Our intention is to fill-in certain under-penetrated markets with additional stores, thereby increasing the performance of the overall market. We also intend to enter new smaller markets that we can fully penetrate with one or two stores. We generally can advertise more effectively in these markets, which helps to create immediate brand awareness. Historically, we have adjusted, and we will continue to adjust, our annual store growth rate based on our view of internal and external opportunities and challenges.

Critical to the success of opening new stores in larger markets or geographic areas is our ability to cluster stores. In larger markets (populations greater than 400,000), clustering involves opening two or more stores at approximately the same time, and 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.

The number of stores opened and closed was as follows:

Fiscal years	2010	2009	2008
Stores open at beginning of year	311	304	291
Opened during year	10	16	24
Closed during year	7	9	11
Stores open at end of year	314	311	304

On January 29, 2011, we had 314 stores located in 30 states, primarily in the Midwest, South and Southeast regions of the United States. We prefer strip shopping center locations where occupancy costs are typically lower and we enjoy greater operating freedom to implement our non-traditional retail methods. We feel that our target customers enjoy the convenience offered by strip shopping centers as opposed to enclosed malls. Our stores averaged approximately 10,800 square feet, ranging in size from 6,000 to 26,500 square feet. Our current store prototype utilizes between 8,000 and 12,000 square feet, depending upon, among other factors, the location of the store and the population base the store is expected to service. The sales area of most stores is approximately 85% of the gross store size.

All of our stores are leased rather than owned. We believe the flexibility afforded by leasing allows us to avoid the inherent risks of owning real estate, particularly with respect to under-performing 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, the tenant mix of a potential strip shopping center, 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 landlord's ability to deliver the premises. After we accept the premises from the landlord in turnkey condition, we can generally open a store within 60 days.

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

Merchandising and Pricing

Our merchandising strategy is designed to provide a large selection of moderately priced footwear for the entire family. Our stores carry an average of approximately 28,000 pairs of shoes featuring a broad assortment of current-season name brand footwear, supplemented with private label merchandise and select name brand closeouts. Our stores also carry complementary accessories such as handbags, shoe care items and socks. The mix of merchandise and the brands offered in a particular store are based upon the demographics of each market, among other factors.

Our pricing strategy is designed to emphasize value. By combining current season name brand product with promotional pricing, we feel that we create a better value for customers. Initial pricing decisions are guided by gross profit margin targets, which vary by merchandise category and depend on whether the item is name brand or private label merchandise. Markdowns are centrally managed by the buying staff.

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

Fiscal years	2010	2009	2008
Women's	26%	26%	26%
Men's	16	15	15
Children's (1)	17	17	17
Athletics (2)	37	38	38
Accessories and Miscellaneous Items	4	4	4
	100%	100%	100%

(1) Children's includes children's athletic shoes.

(2) Includes men's and women's sizes only.

Women's, men's and children's non-athletic footwear categories are further divided into dress, casual, sport, sandals and boots. Athletic shoes are classified by functionality, such as running, basketball or fitness shoes. In fiscal 2010, athletic styles, including children's sizes, represented approximately half of our footwear sales.

One of our major long-term goals is to improve our operating margins by increasing our gross margin and, to a lesser extent, leveraging general and administrative expenses against a higher sales base.

Advertising and Promotion

We use various forms of media advertising to communicate the exceptional values offered on specific shoes or entire product categories. Approximately 49% of our total advertising budget was directed to television, radio and digital media in fiscal 2010. Print media (including inserts, direct mail and newspaper ads) and outdoor advertising accounted for the balance of the budget. A special effort is made to utilize the cooperative advertising dollars offered by vendors whenever possible.

In-store promotions are a key element in our marketing effort. By utilizing both planned and impromptu contests and games, store managers create an environment that encourages customer interaction with store personnel. For example, a customer is enticed to purchase additional merchandise by winning an on-the-spot discount. Promotions of this type exemplify our emphasis on fun and excitement in order to enhance our customers' total shopping experience.

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 to establish the high-energy, promotional atmosphere that develops a loyal, repeat customer base and generates word-of-mouth advertising.

Distribution

We utilize a single distribution center located in Evansville, Indiana. This facility is leased from a third party and can support the processing and distribution needs of a minimum of 460 stores to facilitate future growth. We have the right to expand into a designated expansion area as long as we provide 120 days written notice to the property owner. Expansion under this option would provide us the processing capacity to support a total of approximately 650 stores.

The 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 one time per week. The majority of shipments are handled by a dedicated carrier, with occasional use of common carriers.

We will be executing a contract during the first quarter of fiscal 2011 with a third-party fulfillment agent. The agent will provide fulfillment services and serve as the call center for customer service related to our planned fiscal 2011 e-commerce initiative.

Buying Operations

Maintaining fresh, fashionable merchandise is critical to our success. Our buyers stay in touch with evolving trends by shopping fashion-leading markets, attending national trade shows, gathering vendor input and monitoring the current styles shown in leading fashion and lifestyle magazines. Management of the purchasing function is the responsibility of our Executive Vice President - General Merchandise Manager. Store operations personnel are expected to provide input to our merchandising staff regarding market specific fashion trends.

We purchase merchandise from over 130 footwear vendors. In fiscal 2010, two suppliers, Nike USA, Inc. and Skechers USA, Inc., each accounted for over 10% of our net sales and together accounted for over 35% of our net sales. 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.

Competition

The retail footwear business is highly competitive. We believe the principal competitive factors in our industry are merchandise selection, price, fashion, quality, location, store environment and service. We compete primarily with department stores, shoe stores, sporting goods stores and mass merchandisers.

We compete with most department stores and traditional shoe stores by offering lower 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 financial and other resources. 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 divisional managers, regional managers and the individual store general managers. In general, each store has a general manager and up to three assistant managers, depending on sales volume. Store operations personnel are charged with making certain merchandising decisions necessary to maximize sales and profits primarily through merchandise placement, signage and timely clearance of slower selling items. Administrative functions are centrally controlled from the corporate headquarters. These functions include accounting, purchasing, store maintenance, information systems, advertising, human resources, distribution and pricing.

Employees

At January 29, 2011, we had approximately 4,300 employees, of which approximately 2,500 were employed on a part-time basis. The number of employees fluctuates during the year primarily due to seasonality. None of our 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 a 401(k) retirement plan that is 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. Non-capital expenditures, such as advertising and payroll, incurred prior to the opening of a new store are charged to expense as incurred. Therefore, our results of operations may be adversely affected in any quarter in which we incur pre-opening expenses related to the opening of new stores.

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

Trademarks

We own the following federally registered trademarks and service marks: Shoe Carnival® and associated trade dress and related logos, The Carnival®, Donna Lawrence®, Oak Meadow®, Victoria Spenser®, Via Nova®, Innocence®, Carnival Lites®, Y-NOT?®, UNR8ED®, Solanz®, and 93 Octane®. 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 material 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 foreseeable future.

Executive Officers

Name	Age	Position
J. Wayne Weaver	76	Chairman of the Board and Director
Mark L. Lemond	56	President, Chief Executive Officer and Director
Timothy T. Baker	54	Executive Vice President - Store Operations
W. Kerry Jackson	49	Executive Vice President - Chief Financial Officer and Treasurer
Clifton E. Sifford	57	Executive Vice President - General Merchandise Manager
Kathy A. Yearwood	44	Senior Vice President – Controller and Chief Accounting Officer

Mr. Weaver is Shoe Carnival's largest shareholder and 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 40 years of experience in the footwear industry. Mr. Weaver is a former director of Nine West Group, Inc. Mr. Weaver serves as chairman and chief executive officer of Jacksonville Jaguars, LTD and is a member of LC Footwear, LLC.

Mr. Lemond has been employed as President and Chief Executive Officer since September 1996. From March 1988 to September 1996, Mr. Lemond served as Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary. On February 3, 1994, Mr. Lemond was promoted to the position of Chief Operating Officer. Mr. Lemond has served as a Director since March 1988. Prior to March 1988, he served in similar officer capacities with Russell's Shoe Biz, Inc. Prior to joining Russell's Shoe Biz, Inc. in 1987, Mr. Lemond was a partner 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. Jackson has been employed as Executive Vice President - Chief Financial Officer and Treasurer since August 2004. 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. Sifford has been employed as Executive Vice President - General Merchandise Manager since June 2001. From April 13, 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 Store Services, Inc.

Ms. Yearwood was promoted to Senior Vice President - Controller in March 2011 and has served as our principal accounting officer since March 2010 and as our Chief Accounting Officer since June 2010. From March 2005 through February 2011, Ms. Yearwood served as Vice President - Controller and prior to that served as corporate Controller since joining us in December 2002. Before joining us, Ms. Yearwood served in various financial positions in the radio, newspaper and public accounting industries. She is a Certified Public Accountant.

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.

(Pursuant to General Instruction G (3) of Form 10-K, the foregoing information is included as an unnumbered Item in PART I of this annual report in lieu of being included in our Proxy Statement for our 2011 Annual Meeting of Shareholders.)

ITEM 1A. RISK FACTORS

Carefully consider the following risk factors and all other information contained in this annual report 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 seriously harmed. See ITEM 1. BUSINESS - "Forward-Looking Statements" of this report.

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;
- 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;
- tax rates and policies; 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. We compete primarily with department stores, shoe stores, sporting goods stores and mass merchandisers. Many of our competitors are significantly larger and have substantially greater financial and other resources than we do. Economic pressures on 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.

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 customer 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 impact 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 impact 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;
- consumer trends, such as less disposable income due to the impact of higher gasoline prices;

- fashion trends;
- changes in our merchandise mix;
- our ability to distribute merchandise efficiently to our stores;
- 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.

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.

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 2010, two branded suppliers, Nike USA, Inc. and Skechers USA, Inc., collectively accounted for over 35% of our net sales. 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.

An increase in the cost or a disruption in the flow of our imported goods may decrease our sales and profits. We rely on imported goods to sell in our stores. Substantially all of the footwear product we sell is manufactured overseas, including the merchandise we import directly from overseas manufacturers and agents and the merchandise we purchase from domestic vendors. The primary footwear manufacturers are located in China, Brazil, Italy and East Asia. 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 or other laws by one of our vendors could have an adverse affect on our business.

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 and political unrest;
- problems with oceanic shipping, including shipping container shortages;
- 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;
- import duties, import quotas and other trade sanctions;
- increases in shipping rates imposed by the trans-Pacific shipping cartel; and
- the impact of regulatory changes in the United States and the countries where our manufacturers are located, including but not limited to requirements relating to product safety and testing and environmental requirements.

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. We intend to open new stores as a part of our growth strategy. 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 grow. Our growth strategy requires that we continue to expand and improve our operating and financial systems and to expand, train and manage our employee base. In addition, as we open new stores, we may be unable to hire a sufficient number of qualified store personnel or successfully integrate the new stores into our business.

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:

- our ability to locate suitable store sites and negotiate store leases (for new stores and renewals) on favorable terms;
- 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;
- particularly in new markets, our ability to open a sufficient number of new stores to provide the critical mass needed for efficient advertising and effective name 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.

Due to the risks involved, we may be unable to open new stores at the rates expected. 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.

We plan to invest in the development of an e-commerce business, which may not be successful or could distract management from our core business. During the second half of fiscal 2011, we intend to launch an e-commerce business to sell shoes and related accessories. The development of such a business channel could cost more than expected, distract management from our core business, take business from our existing store base resulting in lower sales in our stores, or be unsuccessful. In the event that we spend more than anticipated, lose focus on our core business, cannibalize our existing store base, or are unsuccessful in the development or execution of an e-commerce business, it may have a material adverse effect to our business, results of operations or financial condition.

We would be adversely affected if our distribution or information technology operations were disrupted. We currently operate a single, 410,000 square foot distribution center in Evansville, Indiana. Virtually all merchandise received by our stores, with the exception of a small amount of goods shipped directly to the stores, is and will be shipped through our distribution center. Our corporate computer network is essential to our distribution process. If our distribution center is shut down for any reason, such as a natural disaster, power outage or terrorist attack, or if our information technology systems do not operate effectively, or if we are the target of attacks or breaches, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores. Our insurance only covers costs relating to specified, limited matters such as a shutdown due to fire and windstorms, 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, we cannot assure you that our insurance will be sufficient, or that the insurance proceeds will be paid to us in a timely fashion. Shutdowns or information technology disruptions could have an adverse effect on our operating and financial performance.

In addition, our stores process debit and credit card transactions. We believe we have established appropriate controls to protect our customers' personal confidential information gathered when a debit or credit card is utilized. However, in the event that such confidential information is misused or obtained by an unauthorized third party, we could be subject to negative publicity that could harm our business, as well as have a material adverse effect on our financial conditions or results of operations.

We will require significant funds to implement our growth strategy and meet our other liquidity needs. We cannot assure you that we will continue to generate sufficient cash flow from operations or obtain sufficient borrowings under our existing credit agreement to finance our growth strategy and meet our other liquidity needs. In fiscal 2011, capital expenditures are expected to range from \$21 million to \$23 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. In addition, our results could be adversely affected if we borrow funds and interest rates materially increase from present levels.

Our failure to retain our existing senior management team and to continue to attract qualified personnel could adversely affect our business. Our success depends to a large extent on the continued service of our executive management team. Departures by executive officers could have a negative impact on our business, as we may not 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. Competition for these types of personnel is intense, and we cannot assure you that we will be successful in attracting, assimilating and retaining the personnel required to grow and operate our business profitably.

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.

Our quarterly operating results will fluctuate due to seasonality and other factors. Our quarterly results of operations have fluctuated in the past and can be expected to continue to fluctuate in the future. Our quarterly results of operations are affected by a variety of factors, including:

- fashion trends;
- calendar shifts of holiday or seasonal periods;
- the effectiveness of our inventory management;
- weather conditions;
- timing of opening of new stores;
- changes in general economic conditions and consumer spending patterns; and
- actions of competitors or co-tenants.

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 impact our profitability. Our operating results depend significantly upon the sales generated during these periods. If our future quarterly results fail to meet the expectations of research analysts, then the market price of our common stock could decline substantially.

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.

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 a 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 are controlled by our principal shareholder. J. Wayne Weaver, our Chairman of the Board of Directors and principal shareholder, his spouse and an adult child together own approximately 25.3% of our outstanding common stock. Accordingly, Mr. Weaver is able to exert substantial influence over our management and operations. In addition, his interests may differ from or be opposed to the interests of our other shareholders, and his control 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 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. Over 97% of the leases for our existing stores provide for fixed minimum rentals and approximately 60% 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.

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The following table identifies the number of our stores in each state as of January 29, 2011:

State	#	State	#
Alabama	11	Mississippi	6
Arkansas	8	North Carolina	17
Arizona	2	North Dakota	2
Colorado	4	Nebraska	1
Florida	21	Ohio	18
Georgia	14	Oklahoma	7
Idaho	4	Pennsylvania	5
Iowa	6	South Carolina	11
Illinois	27	South Dakota	2
Indiana	20	Tennessee	17
Kansas	3	Texas	37
Kentucky	12	Utah	6
Louisiana	12	Virginia	9
Michigan	5	Wisconsin	2
Missouri	20	West Virginia	5
		Total Stores	314

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, commencing on December 1, 2006. We have the right to extend the initial lease term for up to three additional periods of five years each.

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, commencing on June 1, 2007. We have the right to extend the initial lease term for up to three additional periods of five years each.

For additional information with respect to our properties, see ITEM 1. BUSINESS – "Growth Strategy and Store Location" 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 report.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings incidental to the conduct of our business. While the outcome of any legal proceeding is always 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. [REMOVED AND RESERVED]

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.

The quarterly high and low trading prices were as follows:

Fiscal year 2010	High	Low
First Quarter	\$ 28.75	\$ 17.27
Second Quarter	29.26	18.02
Third Quarter	23.63	16.24
Fourth Quarter	30.09	22.65
Fiscal year 2009		
First Quarter	\$ 12.25	\$ 6.05
Second Quarter	14.18	9.25
Third Quarter	17.38	11.63
Fourth Quarter	21.14	14.69

As of April 6, 2011, there were approximately 209 holders of record of our common stock.

No unregistered equity securities were sold by us during fiscal 2010.

Dividends

We have not paid, and do not currently intend to pay, cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, our general financial condition and general business conditions. Our credit agreement allows the payment of dividends as long as the dividends distributed do not exceed 30% of our consolidated net income for the preceding fiscal year.

Issuer Purchases of Equity Securities

Throughout fiscal 2010, we issued treasury shares to employees for the exercise of stock options and the issuance of restricted stock awards. We also repurchased 26,098 shares of common stock as a result of our withholding shares or allowing our employees to deliver shares to us to cover 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 August 23, 2010, our Board of Directors authorized a \$25 million share repurchase program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2011. The purchases may be made in the open market or through privately negotiated transactions from time-to-time and in accordance with applicable laws, rules and regulations. The program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We intend to fund the share repurchase program from cash on hand and any shares acquired will be available for stock-based compensation awards and other corporate purposes. The actual number and value of the shares to be purchased will depend on the performance of our stock price and other market conditions. As required by our credit agreement, consent was obtained from the Agent and the Majority Banks, each as defined in the credit agreement. No shares had been repurchased under this program as of January 29, 2011.

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The following table summarizes repurchase activity during the fourth quarter of fiscal 2010:

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
October 31, 2010 to November 27, 2010	0	\$ 0.00	0	\$ 25,000,000
November 28, 2010 to January 1, 2011	13,960	\$ 27.00	0	\$ 25,000,000
January 2, 2011 to January 29, 2011	0	\$ 0.00	0	\$ 25,000,000
	13,960		0	

-
- (1) Total number of shares purchased represents shares delivered to or withheld by us in connection with employee payroll tax withholding upon the vesting of certain restricted stock awards.
 - (2) On August 23, 2010, our Board of Directors authorized a \$25 million share repurchase program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2011.

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 report.

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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 report.

(In thousands, except per share and operating data)

Fiscal years (1)	2010	2009	2008	2007	2006
Income Statement Data:					
Net Sales	\$ 739,189	\$ 682,422	\$ 647,572	\$ 658,680	\$ 681,662
Cost of sales (including buying, distribution and occupancy costs)	517,650	488,816	473,244	472,831	482,888
Gross Profit	221,539	193,606	174,328	185,849	198,774
Selling, general and administrative expenses	179,154	168,476	165,953	166,717	161,144
Operating income	42,385	25,130	8,375	19,132	37,630
Interest income	(165)	(39)	(148)	(690)	(1,235)
Interest expense	258	174	153	264	152
Income before income taxes	42,292	24,995	8,370	19,558	38,713
Income tax expense	15,471	9,829	3,051	6,751	14,949
Net income	\$ 26,821	\$ 15,166	\$ 5,319	\$ 12,807	\$ 23,764
Net income per share:					
Basic	\$ 2.11	\$ 1.21	\$ 0.43	\$ 0.99	\$ 1.78
Diluted	\$ 2.05	\$ 1.20	\$ 0.43	\$ 0.97	\$ 1.73
Average shares outstanding:					
Basic	12,724	12,513	12,406	12,922	13,373
Diluted	13,060	12,660	12,492	13,158	13,744
Selected Operating Data (2):					
Stores open at end of year	314	311	304	291	271
Square footage of store space at year end (000's)	3,390	3,372	3,335	3,238	3,062
Average sales per store (000's)	\$ 2,384	\$ 2,219	\$ 2,206	\$ 2,364	\$ 2,544
Average sales per square foot	\$ 221	\$ 204	\$ 198	\$ 209	\$ 223
Comparable store sales (3)	8.2%	3.5%	(4.6)%	(5.2)%	1.5%
Balance Sheet Data:					
Cash and cash equivalents	\$ 60,193	\$ 44,168	\$ 24,817	\$ 9,177	\$ 34,839
Total assets	\$ 345,145	\$ 311,641	\$ 293,074	\$ 291,616	\$ 311,162
Long-term debt	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total shareholders' equity	\$ 254,343	\$ 221,829	\$ 204,636	\$ 196,612	\$ 209,949

(1) Our fiscal year is a 52/53 week year ending on the Saturday closest to January 31. Unless otherwise stated, references to years 2010, 2009, 2008, 2007, and 2006 relate respectively to the fiscal years ended January 29, 2011, January 30, 2010, January 31, 2009, February 2, 2008, and February 3, 2007. Fiscal year 2006 consisted of 53 weeks and the other fiscal years consisted of 52 weeks.

(2) Selected Operating Data has been adjusted to a comparable 52 week basis for fiscal 2006.

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

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 report.

Overview of Our Business

Shoe Carnival, Inc. is one of the nation's largest family footwear retailers. As of January 29, 2011, we operated 314 stores in 30 states primarily in the Midwest, South and Southeast regions of the United States. We offer a distinctive shopping experience, a broad merchandise assortment and value to our customers while maintaining an efficient store level cost structure.

Our stores combine competitive pricing with a highly promotional, in-store marketing effort that encourages customer participation and creates a fun and exciting shopping experience. We believe this highly promotional atmosphere results in various competitive advantages, including increased multiple unit sales; the building of a loyal, repeat customer base; the creation of word-of-mouth advertising; and enhanced sell-through of in-season goods. Our objective is to be the destination store-of-choice for a wide range of consumers seeking moderately priced, current season name brand and private label footwear. Our product assortment includes dress and casual shoes, sandals, boots and a wide assortment of athletic shoes for the entire family. We believe that by offering a wide selection of both athletic and non-athletic footwear, we are able to reduce our exposure to shifts in fashion preferences between those categories.

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

Our fiscal year is a 52/53 week year ending on the Saturday closest to January 31. Unless otherwise stated, references to years 2010, 2009 and 2008 relate respectively to the fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009.

Executive Summary

Fiscal 2010

For fiscal 2010, our consistent, positive quarterly execution enabled us to generate the highest annual comparable store sales and earnings in our history. We were able to take advantage of increased consumer demand for footwear, particularly in sandals, boots and toning footwear. Our strong sales performance in each quarter, when combined with higher gross profit margins and controlled expenses, produced record annual results.

- Q1 – Achieved an all-time quarterly record of \$0.72 per diluted share.
- Q2 – Achieved record second quarter earnings per diluted share of \$0.32.
- Q3 – Achieved record third quarter earnings per diluted share of \$0.70. This represented the highest third quarter earnings in our history and the second highest all-time quarterly earnings, trailing only the earnings per diluted share achieved in the first quarter of fiscal 2010.

- Q4 – Achieved fourth quarter earnings per diluted share of \$0.33. This represented the second highest fourth quarter earnings in our history, trailing only the earnings per diluted share achieved in the fourth quarter of fiscal 2006, which was a 14-week quarter.

On an annual basis:

- Comparable store sales increased 8.2%. This represented the highest annual comparable store sales growth in the history of Shoe Carnival. Our sales gains were largely driven by an increase in the number of footwear units sold, as the consumer responded favorably to our assortment of footwear. We recorded comparable store sales gains in each major merchandise category.
- Our gross profit margin increased to 30.0% from 28.4% for fiscal 2009. Our merchandise margin increased 1.0%. Buying, distribution and occupancy costs decreased 0.6%, as a percentage of sales, due to the leverage associated with the comparable store sales increase.
- Net income increased to \$26.8 million, or \$2.05 per diluted share, compared to \$15.2 million, or \$1.20 per diluted share for the prior fiscal year. The \$2.05 per diluted share represented the highest annual earnings in our history.
- We ended fiscal 2010 with \$60.2 million in cash and cash equivalents and no interest bearing debt.
- Inventories at January 29, 2011 when compared to the end of the prior year, increased \$15.5 million. Approximately half of this increase was attributable to an increase in inventory levels of toning product. While the average unit price obtained for this style of footwear has declined since its original introduction last year, we do not believe that the sale of this product during fiscal 2011 will have a material impact on our overall gross profit margin. Excluding toning product, the increase in inventory was in-line with our non-toning sales trend.
- We opened ten new stores and relocated three stores. Additionally, we remodeled approximately 5% of our store locations, which coincided with lease renewal activities.

Fiscal 2011

In fiscal 2011, we expect comparable store sales to increase in the low single digits. Additionally, we will be launching an e-commerce site during the second half of the year to sell shoes and related accessories through our website, www.shoecarnival.com. We will continue to be cautious with our inventories and selling, general and administrative expenses. Capital expenditures will reflect our return to a more normalized new store growth rate and an accelerated store remodel plan.

- Selling, general and administrative expenses are expected to rise moderately, primarily due to store growth.
- Capital expenditures are expected to increase \$5 million to \$7 million primarily due to returning to a more normalized new store growth rate, relocating stores to better locations in existing markets and increasing the rate of remodeling of existing stores.
- We anticipate opening approximately 20 stores, relocating nine and closing five. We are targeting approximately 10% of our store locations for remodel activities. The remodels at the majority of these locations are being performed to coincide with lease renewal activities.

By controlling the growth in our expense structure, inventories and capital expenditures in fiscal 2011, we anticipate having positive free cash flow for the year. This would be our eighth consecutive year of positive free cash flow.

Critical Accounting Policies

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

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

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

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

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

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

Results of Operations

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

	2010	2009	2008
Net Sales	100.0%	100.0%	100.0%
Cost of sales (including buying, distribution, and occupancy costs)	70.0	71.6	73.1
Gross profit	30.0	28.4	26.9
Selling, general and administrative expenses	24.3	24.7	25.6
Operating income	5.7	3.7	1.3
Interest income	(0.0)	(0.0)	(0.0)
Interest expense	0.0	0.0	0.0
Income before income taxes	5.7	3.7	1.3
Income tax expense	2.1	1.5	0.5
Net income	3.6%	2.2%	0.8%

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 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.

2010 Compared to 2009

Net Sales

Net sales increased \$56.8 million to \$739.2 million in fiscal 2010, an 8.3% increase from net sales of \$682.4 million in fiscal 2009. Comparable store sales increased 8.2%, or approximately \$53.1 million, compared to the prior fiscal year. The ten stores opened in fiscal 2010, along with the effect of a full year's worth of sales from the 16 stores opened in fiscal 2009, contributed an additional \$17.9 million in sales. These sales increases were partially offset by the \$14.2 million of sales lost from the 16 stores that were closed during fiscal 2009 and fiscal 2010.

Gross Profit

Gross profit increased \$27.9 million to \$221.5 million in fiscal 2010, a 14.4% increase from gross profit of \$193.6 million in fiscal 2009. The gross profit margin for fiscal 2010 increased to 30.0% from 28.4% in fiscal 2009. As a percentage of sales, the merchandise margin increased 1.0%, primarily as a result of the strong sales of seasonal footwear. Buying, distribution and occupancy costs decreased 0.6%, as a percentage of sales, due to the leverage associated with comparable store sales increases.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$10.7 million to \$179.2 million in fiscal 2010 from \$168.5 million in fiscal 2009; however, our sales gain enabled us to leverage these costs by 0.4%, as a percentage of sales. While we were able to significantly leverage our store operating expenses as a percentage of sales, we did incur an additional \$4.7 million in store selling expenses as compared to the prior year. The increase in store selling expenses was primarily due to increases in wages, advertising and credit and debit card processing fees, partially offset by a decrease in depreciation. Incentive compensation, inclusive of stock-based compensation, increased \$5.8 million when compared to the prior year due to our improved financial performance. Also during fiscal 2010, we recorded an additional \$1.3 million in store closing costs and non-cash asset impairment charges related to certain underperforming stores. The increases in selling, general and administrative expenses were partially offset by a \$2.2 million decrease in our self-insured health care costs as compared to the prior year when we experienced unusually high claim activity. The costs related to our self-insured health care programs are subject to a certain degree of volatility and can vary materially between reporting periods.

Pre-opening costs included in selling, general and administrative expenses were \$642,000, or 0.1% of sales, compared to \$850,000, or 0.1% of sales, in fiscal 2009. We opened ten stores in fiscal 2010 as compared to 16 stores in fiscal 2009. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred. The total amount of pre-opening expense incurred will vary by store depending on the specific market and the promotional activities involved. Our average pre-opening costs per store increased by \$11,000 to \$64,000 in fiscal 2010, primarily as a result of additional expenditures on marketing and supplies.

The portion of store closing costs and non-cash asset impairment charges included in selling, general and administrative expenses for fiscal 2010 was \$2.0 million, or 0.3% as a percentage of sales. These costs related to the closing of seven stores, the impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. In fiscal 2009, we incurred \$750,000, or 0.1% as a percentage of sales. These costs related to the closing of nine stores, the impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods.

Income Taxes

The effective income tax rate was 36.6% for fiscal 2010 and 39.3% for fiscal 2009. Included in income tax expense for fiscal 2010 was a \$937,000 income tax benefit related to the favorable resolution of certain tax positions. This cumulative benefit significantly lowered our effective income tax rate for fiscal 2010 as compared to the same period last year.

2009 Compared to 2008

Net Sales

Net sales increased \$34.8 million to \$682.4 million in fiscal 2009, a 5.4% increase from net sales of \$647.6 million in fiscal 2008. Comparable store sales increased 3.5%, or approximately \$20.8 million, compared to the prior fiscal year. The 16 stores opened in fiscal 2009, along with the effect of a full year's worth of sales from the 24 stores opened in fiscal 2008, contributed an additional \$32.2 million in sales. These sales increases were partially offset by the \$18.1 million of sales lost from the 20 stores that were closed during fiscal 2009 and fiscal 2008.

Gross Profit

Gross profit increased \$19.3 million to \$193.6 million in fiscal 2009, an 11.1% increase from gross profit of \$174.3 million in fiscal 2008. The gross profit margin for fiscal 2009 increased to 28.4% from 26.9% in fiscal 2008. As a percentage of sales, the merchandise margin increased 0.8% compared to the prior year, and buying, distribution and occupancy costs decreased 0.7%. Through tight control of inventories, we were able to reduce the level of promotional selling on a year-over-year basis. This, along with strong sales of boots and athletic footwear, positively affected our merchandise margin. The leverage on our buying, distribution and occupancy costs was the result of the sales increase combined with a \$932,000 decrease in expenses, primarily due to cost saving initiatives in distribution logistics. While additional occupancy costs were incurred for the operation of our new stores, these increases were largely offset by rent reductions on certain comparable stores and the elimination of rent from the 20 stores closed during fiscal 2009 and fiscal 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$2.5 million to \$168.5 million in fiscal 2009 from \$166.0 million in fiscal 2008; however, our sales gain enabled us to leverage these costs by 0.9%, as a percentage of sales. Incentive compensation increased \$3.5 million on a year-over-year basis due to our improved financial performance. Expenses related to employee benefits increased \$1.6 million. This increase was associated with our non-qualified deferred compensation plan, which experienced an increase in value as a result of the rebound from the fiscal 2008 broad-based decline in the stock market. Health care costs increased \$1.1 million in fiscal 2009 as compared to the prior year. These increases were partially offset by a decrease of \$2.2 million in non-cash asset impairments and disposal charges associated with store closings, along with other operational cost savings.

Pre-opening costs included in selling, general and administrative expenses were \$850,000, or 0.1% of sales, compared to \$1.0 million, or 0.2% of sales, in fiscal 2008. We opened 16 stores in fiscal 2009 as compared to 24 stores in fiscal 2008. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred. The total amount of pre-opening expense incurred will vary by store depending on the specific market and the promotional activities involved. Our average pre-opening costs per store increased by \$12,000 to \$53,000 in fiscal 2009, primarily as a result of an increase in advertising.

The portion of store closing costs included in selling, general and administrative expenses for fiscal 2009 was \$750,000, or 0.1% as a percentage of sales. These costs related to the closing of nine stores in fiscal 2009 and the impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. In fiscal 2008, we incurred \$3.3 million, or 0.5% as a percentage of sales, in costs related to the closing of 11 stores and the impairment of assets and acceleration of expenses associated with management's determination to close certain underperforming stores in future periods. The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout.

Interest Income and Expense, Net

Net interest expense increased to \$135,000 in fiscal 2009 from \$5,000 in fiscal 2008, primarily as a result of a reduction in interest income. As returns available on short-term investments fell to record lows, we held our excess funds for the first seven months of fiscal 2009 in non-interest bearing deposit accounts to offset bank service fees, which are included in selling, general and administrative expenses.

Income Taxes

The effective income tax rate was 39.3% for fiscal 2009 and 36.5% in fiscal 2008. The increase in rate between the two periods was primarily due to the federal tax rate falling below 35% in fiscal 2008 as a result of lower projected income before tax.

Liquidity and Capital Resources

Our sources and uses of cash are summarized as follows:

(In thousands)	2010	2009	2008
Net income plus depreciation and amortization	\$ 40,556	\$ 30,148	\$ 22,164
Deferred income taxes	(1,403)	(1,042)	780
Lease incentives	2,974	2,211	2,038
Changes in operating assets and liabilities	(19,340)	(4,635)	6,480
Other operating activities	6,636	1,215	616
Net cash provided by operating activities	29,423	27,897	32,078
Net cash used in investing activities	(14,000)	(9,685)	(18,201)
Net cash provided by financing activities	602	1,139	1,763
Net increase in cash and cash equivalents	\$ 16,025	\$ 19,351	\$ 15,640

Our primary sources of funds are cash flows from operations and borrowings under our revolving credit facility. For fiscal 2010, net cash provided by operating activities was \$29.4 million compared to net cash provided by operating activities of \$27.9 million for fiscal 2009. These amounts reflect the income from operations adjusted for non-cash items and working capital changes.

Working capital increased to \$210.7 million at January 29, 2011 from \$176.5 million at January 30, 2010. This was primarily attributable to a \$16.0 million increase in cash and cash equivalents and a \$15.5 million increase in merchandise inventories. The current ratio was 3.9 at January 29, 2011 and was 3.5 at January 30, 2010. We had no outstanding interest bearing debt at the end of either fiscal year.

Capital expenditures were \$14.4 million in fiscal 2010, \$9.8 million in fiscal 2009 and \$18.2 million in fiscal 2008. No capital lease obligations were incurred during this three-year period. Of the fiscal 2010 capital expenditures, approximately \$3.7 million was used for new stores and \$5.9 million was used for remodeling and store relocation activities. As part of our long-term growth strategy and to increase our distribution capabilities, we redesigned certain elements of the material handling system in our distribution center. During fiscal 2010, we spent \$1.4 million to complete these modifications. The remaining capital expenditures for fiscal 2010 were used for continued investments in technology and normal asset replacement activities. Lease incentives received from landlords were \$3.0 million, \$2.2 million and \$2.0 million for fiscal years 2010, 2009 and 2008, respectively.

Capital expenditures are expected to be \$21 million to \$23 million in fiscal 2011. We intend to open approximately 20 stores at an expected total cost of \$6.8 million, to relocate nine stores at an expected total cost of \$2.4 million, and to remodel 10% of our stores at an expected cost of \$7.4 million. Lease incentives to be received from landlords are expected to be approximately \$5 million to \$6 million, with approximately \$500,000 being received in the form of credits taken against rent payments. The remaining capital expenditures are expected to be incurred for various other store improvements, the implementation of an e-commerce platform, continued investments in technology and normal asset replacement activities. The actual amount of cash required for capital expenditures for store operations depends in part on the number of new stores opened, the amount of lease incentives, if any, received from landlords and the number of stores remodeled. The opening of new stores will be dependent upon, among other things, the availability of desirable locations, and the negotiation of acceptable lease terms and general economic and business conditions affecting consumer spending in areas we target for expansion.

Our current store prototype uses between 8,000 and 12,000 square feet depending upon, among other factors, the location of the store and the population base the store is expected to service. Capital expenditures for a new store in fiscal 2011 are expected to average approximately \$338,000 with landlord incentives averaging \$127,000. The average inventory investment in a new store is expected to range from \$460,000 to \$690,000 depending on the size and sales expectation of the store and the timing of the new store opening. Pre-opening expenses, such as advertising, salaries and supplies, are expected to average approximately \$61,000 per store in fiscal 2011. This represents an \$11,000 increase over our average fiscal 2010 expenditure. On a per-store basis, for the ten stores opened during fiscal 2010, the initial inventory investment averaged \$587,000, capital expenditures averaged \$341,000 and lease incentives received from landlords averaged \$146,800.

We closed seven stores during fiscal 2010. We have identified five stores for closure in fiscal 2011 and one for fiscal 2012. Depending upon the results of lease negotiations with certain landlords of underperforming stores, we may increase or decrease the number of store closures in future periods. The timing and actual amount of expense recorded in closing a store can vary significantly depending, in part, on the period in which management commits to a closing plan, the remaining basis in the fixed assets to be disposed of at closing and the amount of any lease buyout. We will continue to review our annual store growth rate based on our view of the internal and external opportunities and challenges in the marketplace.

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Significant contractual obligations as of January 29, 2011 and the fiscal years in which payments are due include:

(In thousands)	Payments Due By Fiscal Year				
	Total	2011	2012 & 2013	2014 & 2015	2016 and after
Contractual Obligations					
Letters of credit	\$ 9,465	\$ 9,465	\$ 0	\$ 0	\$ 0
Operating leases	266,907	43,726	79,469	52,805	90,907
Purchase commitments	248,848	247,628	784	436	0
Unrecognized tax positions	693	0	0	0	693
Deferred compensation	4,907	0	187	9	4,711
Total contractual obligations	\$ 530,820	\$ 300,819	\$ 80,440	\$ 53,250	\$ 96,311

Our unsecured credit agreement provides for up to \$50.0 million in cash advances and commercial and standby letters of credit with borrowing limits based on eligible inventory. It contains covenants which stipulate: (1) Total Shareholders' Equity, adjusted for the effect of any share repurchases, will not fall below that of the prior fiscal year-end; (2) the ratio of funded debt plus rent to EBITDA plus rent will not exceed 2.5 to 1.0; and (3) cash dividends for a fiscal year will not exceed 30% of consolidated net income for the immediately preceding fiscal year. We were in compliance with these covenants as of January 29, 2011. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. There were no borrowings outstanding under the credit facility and letters of credit outstanding were \$9.5 million at January 29, 2011. Estimated interest payments on our line of credit are not included in the above table as our line of credit provides for frequent borrowing and/or repayment activities, which does not lend itself to reliable forecasting for disclosure purposes. As of January 29, 2011, \$40.5 million was available to us for additional borrowings under the credit facility.

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 "2016 and after" column of the contractual obligations table includes amounts where we are not able to reasonably estimate the timing of the potential future payments.

See Note 5 – "Long-Term Debt", Note 6 – "Leases", Note 7 – "Income Taxes" and Note 8 – "Employee Benefit Plans" to our Notes to Consolidated Financial Statements contained in PART II, ITEM 8 of this report for a further discussion of our contractual obligations.

On August 23, 2010, our Board of Directors authorized a \$25 million share repurchase program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2011. The purchases may be made in the open market or through privately negotiated transactions from time-to-time and in accordance with applicable laws, rules and regulations. The program may be amended, suspended or discontinued at any time and does not commit us to repurchase shares of our common stock. We intend to fund the share repurchase program from cash on hand and any shares acquired will be available for stock-based compensation awards and other corporate purposes. The actual number and value of the shares to be purchased will depend on the performance of our stock price and other market conditions. As required by our credit agreement, consent was obtained from the Agent and the Majority Banks, each as defined in the credit agreement. No shares had been repurchased under this program as of January 29, 2011.

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

Off-Balance Sheet Arrangements

We did not assign any store operating leases to separate third parties during fiscal 2010. We remain liable on two assignments of operating leases covering former store locations. We believe that the likelihood of material liability being triggered under these leases is remote, and no liability has been accrued for these contingent lease obligations in our consolidated financial statements as of January 29, 2011. See Note 6 – "Leases" to our Notes to Consolidated Financial Statements contained in PART II, ITEM 8 of this report for further discussion.

Except for the assignment of certain store operating leases and operating leases entered into in the normal course of business, we have not entered into any off-balance sheet arrangements during fiscal 2010 or fiscal 2009, nor did we have any off-balance sheet arrangements outstanding at January 29, 2011 or January 30, 2010.

Seasonality

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

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

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 report.

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 2010 or fiscal 2009.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears beginning on page 28.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Shoe Carnival, Inc.
Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Shoe Carnival, Inc. and subsidiaries (the "Company") as of January 29, 2011 and January 30, 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended January 29, 2011, January 30, 2010, and January 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Shoe Carnival, Inc. and subsidiaries as of January 29, 2011 and January 30, 2010, and the results of their operations and their cash flows for the years ended January 29, 2011, January 30, 2010 and January 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 29, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 14, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Indianapolis, Indiana
April 14, 2011

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

	January 29, 2011	January 30, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 60,193	\$ 44,168
Accounts receivable	1,550	746
Merchandise inventories	212,929	197,452
Deferred income tax benefit	4,275	3,255
Other	2,407	2,480
Total Current Assets	281,354	248,101
Property and equipment – net	62,391	62,162
Other	1,400	1,378
Total Assets	\$ 345,145	\$ 311,641
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 55,219	\$ 57,235
Accrued and other liabilities	15,457	14,353
Total Current Liabilities	70,676	71,588
Deferred lease incentives	8,211	6,501
Accrued rent	5,082	5,115
Deferred income taxes	669	1,052
Deferred compensation	4,907	3,548
Other	1,257	2,008
Total Liabilities	90,802	89,812
Shareholders' Equity:		
Common stock, \$.01 par value, 50,000 shares authorized, 13,655 shares issued at January 29, 2011 and January 30, 2010	137	137
Additional paid-in capital	68,833	66,851
Retained earnings	195,853	169,032
Treasury stock, at cost, 456 and 622 shares at January 29, 2011 and January 30, 2010	(10,480)	(14,191)
Total Shareholders' Equity	254,343	221,829
Total Liabilities and Shareholders' Equity	\$ 345,145	\$ 311,641

See notes to consolidated financial statements.

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

	January 29, 2011	January 30, 2010	January 31, 2009
Net sales	\$ 739,189	\$ 682,422	\$ 647,572
Cost of sales (including buying, distribution and occupancy costs)	517,650	488,816	473,244
Gross profit	221,539	193,606	174,328
Selling, general and administrative expenses	179,154	168,476	165,953
Operating income	42,385	25,130	8,375
Interest income	(165)	(39)	(148)
Interest expense	258	174	153
Income before income taxes	42,292	24,995	8,370
Income tax expense	15,471	9,829	3,051
Net income	\$ 26,821	\$ 15,166	\$ 5,319
Net income per share:			
Basic	\$ 2.11	\$ 1.21	\$ 0.43
Diluted	\$ 2.05	\$ 1.20	\$ 0.43
Average shares outstanding:			
Basic	12,724	12,513	12,406
Diluted	13,060	12,660	12,492

See notes to consolidated financial statements.

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

	Common Stock		Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
	Issued	Treasury					
Balance at							
February 2, 2008	13,670	(1,205)	\$ 137	\$ 75,523	\$ 148,547	\$ (27,595)	\$ 196,612
Stock option exercises		124		(1,462)		2,837	1,375
Stock-based compensation income tax benefit				214			214
Employee stock purchase plan purchases		16		(191)		356	165
Restricted stock awards	(6)	320		(7,350)		7,350	0
Common stock repurchased						(1)	(1)
Stock-based compensation expense				952			952
Net income					5,319		5,319
Balance at							
January 31, 2009	13,664	(745)	137	67,686	153,866	(17,053)	204,636
Stock option exercises		125		(1,853)		2,851	998
Stock-based compensation income tax benefit				376			376
Employee stock purchase plan purchases		13		(157)		307	150
Restricted stock awards	(9)	4		(98)		98	0
Common stock repurchased		(19)				(394)	(394)
Stock-based compensation expense				897			897
Net income					15,166		15,166
Balance at							
January 30, 2010	13,655	(622)	137	66,851	169,032	(14,191)	221,829
Stock option exercises		50		(568)		1,146	578
Stock-based compensation income tax benefit				626			626
Employee stock purchase plan purchases		9		(30)		190	160
Restricted stock awards		133		(3,031)		3,031	0
Common stock repurchased		(26)				(656)	(656)
Stock-based compensation expense				4,985			4,985
Net income					26,821		26,821
Balance at							
January 29, 2011	13,655	(456)	\$ 137	\$ 68,833	\$ 195,853	\$ (10,480)	\$ 254,343

See notes to consolidated financial statements.

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

	January 29, 2011	January 30, 2010	January 31, 2009
Cash Flows From Operating Activities			
Net income	\$ 26,821	\$ 15,166	\$ 5,319
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,735	14,982	16,845
Stock-based compensation	5,468	1,648	977
Loss on retirement and impairment of assets	1,995	228	2,454
Deferred income taxes	(1,403)	(1,042)	780
Lease incentives	2,974	2,211	2,038
Other	(827)	(661)	(2,815)
Changes in operating assets and liabilities:			
Accounts receivable	(804)	961	(1,196)
Merchandise inventories	(15,477)	(7,958)	11,287
Accounts payable and accrued liabilities	(2,669)	40	(6,195)
Other	(390)	2,322	2,584
Net cash provided by operating activities	29,423	27,897	32,078
Cash Flows From Investing Activities			
Purchases of property and equipment	(14,412)	(9,794)	(18,204)
Proceeds from sale of property and equipment	312	9	3
Proceeds from note receivable	100	100	0
Net cash used in investing activities	(14,000)	(9,685)	(18,201)
Cash Flow From Financing Activities			
Borrowings under line of credit	0	0	6,625
Payments on line of credit	0	0	(6,625)
Proceeds from issuance of stock	738	1,148	1,540
Excess tax benefits from stock-based compensation	520	385	224
Common stock repurchased	(656)	(394)	(1)
Net cash provided by financing activities	602	1,139	1,763
Net increase in cash and cash equivalents	16,025	19,351	15,640
Cash and cash equivalents at beginning of year	44,168	24,817	9,177
Cash and Cash Equivalents at End of Year	\$ 60,193	\$ 44,168	\$ 24,817
Supplemental disclosures of cash flow information:			
Cash paid during year for interest	\$ 252	\$ 181	\$ 151
Cash paid during year for income taxes	\$ 17,433	\$ 7,216	\$ 3,022
Capital expenditures incurred but not yet paid	\$ 2,123	\$ 264	\$ 1,695
Supplemental disclosures of non-cash operating and investing activities:			
Forgiveness of accounts payable from litigation settlement (1)	\$ 0	\$ 1,160	\$ 0
Recording of note receivable from litigation settlement (1)	\$ 0	\$ 1,200	\$ 0

(1)

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On May 30, 2009, a settlement with SDI Industries, Inc. ("SDI") was reached. SDI agreed to forego the collection of the unpaid retainage and to pay \$1.2 million towards remediation of the distribution center's material handling system.

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" or "us"). All significant intercompany accounts and transactions have been eliminated. Our primary activity is the sale of footwear and related products through retail stores operated by us primarily in the Midwest, South and Southeast regions of the United States.

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 2010, 2009, and 2008 relate respectively to the fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009.

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 \$60.2 million at January 29, 2011 and \$44.2 million at January 30, 2010. Credit and debit card receivables (which generally settle within three days) totaling \$5.3 million and \$4.0 million were included in cash equivalents at January 29, 2011 and January 30, 2010, respectively.

We consider all certificates of deposit and other short-term investments with an original maturity date of three months or less to be cash equivalents. As of January 29, 2011, all invested cash was held in two money market accounts. While these 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 operating accounts.

Fair Value of Financial Instruments

Our financial assets as of January 29, 2011 and January 30, 2010 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 included on our consolidated balance sheet as of January 29, 2011 included long-lived assets that are measured at fair value after taking into account impairment charges. We did not have any non-financial liabilities measured at fair value for this period. 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 market using the first-in, first-out (FIFO) method. In determining market value, we estimate the future sales price of items of merchandise contained in the inventory as of the balance sheet date. Factors considered in this determination include, among others, current and recently recorded sales prices, the length of time product has been held in inventory and quantities of various product styles contained in inventory. The ultimate amount realized from the sale of certain product could differ materially from our estimates.

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.

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 years. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures, which 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 review our long-lived assets if events or circumstances indicate the carrying value may not be recoverable. The carrying value of long-lived assets is considered impaired when the carrying value of the assets exceeds the expected future cash flows to be derived from their use. We conduct our reviews at the lowest identifiable level. Our stores are reviewed on an individual basis. If the expected future cash flows related to the long-lived assets are less than the assets' carrying value, an impairment loss is recognized for the difference between estimated fair value and carrying value. Assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses. We estimate the fair value of our long-lived assets using company-specific assumptions, which would fall within Level 3 of the fair value hierarchy. Our assumptions and estimates used in the evaluation of impairment, including current and future economic trends for stores, are subject to a high degree of judgment. If actual results or market conditions differ from those anticipated, additional losses may be recorded. Based upon this review, we recorded non-cash impairment charges of \$1.7 million, \$90,000 and \$2.1 million in fiscal years 2010, 2009 and 2008, respectively.

Insurance Reserves

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

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.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

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

Revenue from sales of our merchandise is recognized at the time of sale, net of sales tax. 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.

Cash Consideration Received From a Vendor

Cash consideration is primarily received from merchandise vendors. Cash 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 cash 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.

Cash 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 time period. Cash consideration principally takes the form of credits that we can apply against trade amounts owed.

Cash 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 cash 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. Allowances received from vendors representing a reimbursement of specific, incremental and identifiable costs are offset to the same financial statement line item. 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 and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred.

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 \$31.1 million, \$29.1 million and \$28.7 million in fiscal years 2010, 2009 and 2008, respectively.

Segments of an Enterprise and Related Information

We have identified each retail store as individual operating segments, which have been aggregated into one reportable business segment that offers the same principal product and service throughout the Midwest, South and Southeast regions of the United States.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

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. 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.

Net Income Per Share

The computation of basic earnings per share of common stock is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share of common stock is based on the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming the exercise of dilutive stock options and the vesting of restricted stock. The number of incremental shares is calculated by applying the treasury stock method. The following table presents a reconciliation of our basic and diluted weighted average common shares outstanding in accordance with current authoritative guidance:

(In thousands)	2010	2009	2008
Basic shares	12,724	12,513	12,406
Dilutive effect of stock-based awards	336	147	86
Diluted shares	13,060	12,660	12,492

No options to purchase shares of common stock were excluded in the computation of diluted shares for fiscal 2010. Options to purchase 224,700 shares of common stock for fiscal 2009 and options to purchase 223,600 shares of common stock for fiscal 2008 were not included in the computation of diluted shares because the options' exercise prices were greater than the average market price of our common stock for the periods.

Stock-Based Compensation

We recognize compensation expense for stock-based awards based on the fair value of the awards. Stock-based awards include stock option grants, stock appreciation rights, restricted stock grants and certain transactions 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 grant date fair value and the employee purchase price. Stock-based compensation expense is included in selling, general and administrative expense.

We apply an estimated forfeiture rate in calculating the stock-based compensation expense for the period. Forfeiture estimates are adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from previous estimates.

New Accounting Pronouncements

During January 2010, the Financial Accounting Standards Board ("FASB") issued guidance, which provides amendments that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, the guidance provides amendments that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. The guidance became effective for financial statements issued for interim and annual periods ending after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which became effective for interim and annual periods ending after December 15, 2010. We adopted the guidance on January 31, 2010. This adoption did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

Note 3 – Fair Value Measurements

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

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

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

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

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
As of January 29, 2011				
Cash and short-term investments (1)	\$ 54,915	\$ 0	\$ 0	\$ 54,915
Credit and debit card receivables (2)	5,278	0	0	5,278
	\$ 60,193	\$ 0	\$ 0	\$ 60,193
As of January 30, 2010				
Cash and short-term investments (1)	\$ 40,148	\$ 0	\$ 0	\$ 40,148
Credit and debit card receivables (2)	4,020	0	0	4,020
	\$ 44,168	\$ 0	\$ 0	\$ 44,168

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

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

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

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

Impaired long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. During the fifty-two weeks ended January 29, 2011, long-lived assets held and used with a gross carrying amount of \$8.8 million were written down to their fair value of \$7.1 million, resulting in an impairment charge of \$1.7 million, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$500,000. During the fifty-two weeks ended January 30, 2010, long-lived assets held and used with a carrying amount of \$1.4 million were written down to their fair value of \$1.3 million, resulting in an impairment charge of \$90,000, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of \$11,000. We did not have any non-financial liabilities measured at fair value for these periods.

Note 4 – Property and Equipment-Net

The following is a summary of property and equipment:

(In thousands)	January 29, 2011	January 30, 2010
Furniture, fixtures and equipment	\$ 108,936	\$ 104,539
Leasehold improvements	63,391	60,657
Total	172,327	165,196
Less accumulated depreciation and amortization	(109,936)	(103,034)
Property and equipment – net	\$ 62,391	\$ 62,162

Note 5 – Long-Term Debt

We entered into a new unsecured credit agreement (the "Credit Agreement") effective January 20, 2010, which provides 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, adjusted for the effect of any share repurchases, will not fall below that of the prior fiscal year-end; (2) the ratio of funded debt plus rent to EBITDA plus rent will not exceed 2.5 to 1.0; and (3) cash dividends for a fiscal year will not exceed 30% of consolidated net income for the immediately preceding fiscal year. We were in compliance with these covenants as of January 29, 2011. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. As of January 29, 2011, there were \$9.5 million in letters of credit outstanding under the Credit Agreement and \$40.5 million was available to us for borrowings under the credit facility.

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 lesser 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" on commercial loans or (2) LIBOR plus 2.25% to 3.75%, depending on our achievement of certain performance criteria. A commitment fee is charged at 0.40% to 0.55% per annum, depending on our achievement of certain performance criteria, on the unused portion of the bank group's commitment. The Credit Agreement expires April 30, 2013.

Note 6 – Leases

We lease all of our retail locations and certain equipment under operating leases expiring at various dates through fiscal 2024. 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 payments and rent expense recognized on a straight-line basis is recorded as accrued rent. 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.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

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.

We did not assign any store operating leases during fiscal 2010. We remain liable on two assignments of operating leases covering former store locations, which were assigned to third parties in prior years. The assignments require us to make payments under the lease agreements in certain events of default. The maximum potential amount of future payments (undiscounted) that we could be required to make under all assignments was approximately \$953,000 at January 29, 2011. Both of the assignments remain in effect until the leases expire in fiscal year 2013. We believe that the likelihood of material liability being triggered under these leases is remote, and no liability has been accrued for these contingent lease obligations in our consolidated financial statements as of January 29, 2011.

Rental expense for our operating leases consisted of:

(In thousands)	2010	2009	2008
Rentals for real property	\$ 47,745	\$ 47,292	\$ 46,628
Contingent rent	136	52	50
Equipment rentals	133	334	393
Total	\$ 48,014	\$ 47,678	\$ 47,071

Future minimum lease payments at January 29, 2011 are as follows:

(In thousands)	Operating Leases
2011	\$ 43,726
2012	43,922
2013	35,547
2014	26,636
2015	26,169
Thereafter to 2024	90,907
Total	\$ 266,907

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

Note 7 – Income Taxes

The provision for income taxes consisted of:

(In thousands)	2010	2009	2008
Current:			
Federal	\$ 15,514	\$ 9,188	\$ 1,825
State	1,360	1,683	446
Total current	16,874	10,871	2,271
Deferred:			
Federal	(1,220)	(1,134)	758
State	(183)	92	22
Total deferred	(1,403)	(1,042)	780
Total provision	\$ 15,471	\$ 9,829	\$ 3,051

We realized a tax benefit of \$626,000, \$376,000 and \$214,000 in fiscal years 2010, 2009 and 2008, respectively, as a result of the exercise of stock options and the vesting of restricted stock, which is recorded in shareholders' equity.

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

Fiscal years	2010	2009	2008
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	2.8	7.1	5.6
Other	(1.2)	(2.8)	(4.1)
Effective income tax rate	36.6%	39.3%	36.5%

We recorded \$222,000 and \$304,000 in federal employment related tax credits in fiscal 2010 and 2009, respectively. In fiscal 2008, we recorded \$414,000 and \$35,000 in federal and state employment related tax credits, respectively. Each of these credits reduced our effective tax rate in the respective years. In fiscal 2010, we recognized a decrease in our state and local income tax rate due to favorable settlements with certain taxing authorities.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

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)	January 29, 2011	January 30, 2010
Deferred tax assets:		
Accrued rent	\$ 1,956	\$ 1,941
Accrued compensation	2,393	1,996
Accrued employee benefits	3,013	1,734
Inventory	875	686
Self-insurance reserves	551	600
Lease incentives	2,892	1,371
Unrecognized tax benefits	328	597
State bonus depreciation add-back	279	200
Other	296	306
Total deferred tax assets	12,583	9,431
Deferred tax liabilities:		
Depreciation	8,217	6,557
Capitalized costs	760	671
Total deferred tax liabilities	8,977	7,228
Net deferred tax asset	3,606	2,203
Less current deferred income tax benefit	(4,275)	(3,255)
Long-term deferred income taxes	\$ (669)	\$ (1,052)

As of January 29, 2011, we had no available state tax credits that could be carried forward.

Our unrecognized tax liabilities, as discussed below, relate to tax years encompassing our fiscal years 1999 through 2010, the tax years that remain subject to examination by major tax jurisdictions as of January 29, 2011. A reconciliation of the beginning and ending amount for our unrecognized tax positions, which exclude interest and penalties, is as follows:

(In thousands)	2010	2009	2008
Beginning balance	\$ 1,357	\$ 1,135	\$ 1,029
Increases – tax positions in prior period	0	150	0
Decreases – tax positions in prior period	(617)	0	(20)
Gross increases – current period tax positions	100	179	126
Decreases related to settlements with taxing authorities	(147)	(107)	0
Ending balance	\$ 693	\$ 1,357	\$ 1,135

We have recorded \$991,000 in unrecognized tax liabilities as of January 29, 2011 in Other liabilities on the Consolidated Balance Sheets. This liability is comprised of \$693,000 related to unrecognized tax positions, \$194,000 related to accrued interest and \$104,000 related to accrued penalties. Our policy is to record interest and penalty expense related to income taxes as a component of income tax expense in the Consolidated Statements of Income. If our uncertain tax positions become recognizable, the amount would affect our effective tax rate.

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

Note 8 – Employee Benefit Plans

Retirement Savings Plan

On February 24, 1994, our Board of Directors approved the Shoe Carnival Retirement Savings Plan (the "Retirement Plan"). The Retirement Plan is open to all employees who have been employed for 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 Retirement Plan is a 401(k) plan under which an employee may contribute up to 20% of 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 \$508,000, \$445,000 and \$450,000 in fiscal years 2010, 2009 and 2008, 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 300,000 shares of our common stock (subject to adjustment for any subsequent stock splits, stock dividends and certain other changes in the 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 stock, at 85% of the then fair market value up to a maximum of \$5,000 in any calendar year. Under the plan, 8,300, 13,400 and 15,600 shares of common stock were purchased by participants in the plan and proceeds to us for the sale of those shares were approximately \$160,000, \$150,000 and \$165,000 for fiscal years 2010, 2009 and 2008, respectively. At January 29, 2011, 106,401 shares of unissued common stock were 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)	2010 (1)	2009	2008
Stock-based compensation expense before the recognized income tax benefit (2)	\$ 28	\$ 26	\$ 29
Income tax benefit	\$ 11	\$ 10	\$ 11

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

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

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 \$879,000 for fiscal 2010 and \$621,000 for fiscal 2009. Due to the broad-based decline in the stock market, the plan recorded a loss of \$1.1 million in fiscal 2008, which resulted in net compensation income of \$977,000. The total deferred compensation liability at January 29, 2011 and January 30, 2010 was \$4.9 million and \$3.5 million, respectively.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

Note 9 – Stock Based Compensation

Compensation Plan Summaries

We have three stock-based compensation plans: the 1993 Stock Option and Incentive Plan (the "1993 Plan"), the Outside Directors Stock Option Plan (the "Directors Plan") and the 2000 Stock Option and Incentive Plan (the "2000 Plan").

The 1993 Plan was approved by our Board of Directors and shareholders effective January 15, 1993, and amended at the 1997 annual meeting of shareholders. The 1993 Plan reserved 1,500,000 shares of common stock for stock option grants (subject to adjustment for subsequent stock splits, stock dividends and certain other changes in the common stock). On January 14, 2003, the 1993 Plan expired. Previously issued stock options can be exercised for up to ten years from their date of grant. At January 29, 2011, all outstanding stock options granted under the 1993 Plan were fully vested.

The Directors Plan was approved by our Board of Directors on March 4, 1999. The plan reserves for issuance 25,000 shares of common stock (subject to adjustment for stock splits, stock dividends and certain other changes to the common stock). No grants have been made under this plan since fiscal 2006, and it is currently the intention of the Board of Directors not to grant stock options under this plan in the future. At January 29, 2011, 11,000 shares of unissued common stock were reserved for possible future grants under the Directors Plan. At January 29, 2011, all outstanding stock options granted under the Directors Plan were fully vested.

The 2000 Plan was approved by our Board of Directors and shareholders effective June 8, 2000. The 2000 Plan initially reserved 1,000,000 shares of common stock for stock option and restricted stock grants, but on June 11, 2004, the 2000 Plan was amended to increase the number of shares reserved for issuance to 1,500,000 (subject to adjustment for subsequent stock splits, stock dividends and certain other changes in the common stock). On June 14, 2005, the 2000 Plan was further amended to include our non-employee Directors as individuals eligible to receive awards; to stipulate that the exercise price of all options granted may not be less than the fair market value of our common stock on the date the option is granted; and to delete the provision permitting loans to participants. On June 12, 2008, the 2000 Plan was amended to increase the number of shares reserved for issuance to 2,000,000, and to extend the term of the 2000 Plan until the later of ten years from the date of adoption of the 2000 Plan by our shareholders or the approval of any amendment of the 2000 Plan by our shareholders. On October 8, 2008, the 2000 Plan was amended to modify the change in control provisions and to provide that upon a change in control (as defined in the 2000 Plan), any shares of restricted stock will become fully vested in the participants. On December 9, 2010, the 2000 Plan was further amended to modify the definition of a change in control. At January 29, 2011, 413,269 shares of unissued common stock were reserved for future grants under the 2000 Plan.

Stock options currently 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. Restricted stock awards issued to employees under the 2000 Plan either vest upon the achievement of specified levels of annual earnings per diluted share during a six-year period starting from the grant date or were granted such that one-third of the shares would vest on each of the first three anniversaries subsequent to the date of the grant. For the performance-based awards, 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. All restricted stock awards issued to date to non-employee Directors vested on January 2 of the year following the year of the grant.

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

Plan Specific Activity and End of Period Balance Summaries

Stock Options

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

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 30, 2010	393,632	\$ 14.29		
Granted	0			
Forfeited or expired	(750)	13.33		
Exercised	(50,164)	11.52		
Outstanding at January 29, 2011	342,718	\$ 14.70	2.25	\$ 3,393
Options outstanding at January 29, 2011, net of estimated forfeitures	342,521	\$ 14.70	2.25	\$ 3,390
Exercisable at January 29, 2011	335,217	\$ 14.72	2.14	\$ 3,313

The total fair value at grant date of previously non-vested stock options that vested was \$87,000 during fiscal 2010 and fiscal 2009.

No stock options were granted during fiscal 2010 or fiscal 2009. The weighted-average fair value of options granted was \$6.44 during fiscal 2008. The fair value of options granted was estimated at grant date using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Fiscal years	2008
Risk free interest rate	3.0%
Expected dividend yield	0.0%
Expected volatility	45.93%
Expected term	5 Years

The risk free interest rate was based on the U.S. Treasury yield curve in effect at the time of the grant. We had not paid and did not anticipate paying cash dividends; therefore, the expected dividend yield was assumed to be zero. Expected volatility was based on the historical volatility of our stock. The expected term of the options was based on our historical option exercise data taking into consideration the exercise and forfeiture patterns of the class of option holders during the option's life.

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

The following table summarizes information regarding options exercised:

(In thousands)	2010	2009	2008
Total intrinsic value (1)	\$ 656	\$ 1,290	\$ 640
Total cash received	\$ 578	\$ 998	\$ 1,375
Associated excess income tax benefits recorded	\$ 220	\$ 385	\$ 224

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

The following table summarizes information regarding outstanding and exercisable options at January 29, 2011:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price	
\$ 8.94 – 12.67	163,668	2.64	\$ 12.47	162,001	\$ 12.48	
\$ 13.68 – 17.12	179,050	1.89	\$ 16.74	173,216	\$ 16.81	

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

(In thousands)	2010 (1)	2009	2008
Stock-based compensation expense before the recognized income tax benefit	\$ 82	\$ 84	\$ 71
Income tax benefit	\$ 31	\$ 33	\$ 26

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

As of January 29, 2011, there was approximately \$15,000 of unrecognized compensation expense, net of estimated forfeitures, remaining related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of approximately 0.5 years.

Restricted Stock Awards

The following table summarizes the restricted share transactions pursuant to the 2000 Plan:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 30, 2010	366,334	\$ 16.89
Granted	132,781	21.65
Vested	(107,769)	11.79
Non-vested at January 29, 2011	391,346	\$ 19.91

The total fair value at grant date of previously non-vested stock awards that vested during fiscal 2010, 2009 and 2008 was \$1.3 million, \$764,000 and \$64,000, respectively. The weighted-average grant date fair value of stock awards granted during fiscal 2009 and fiscal 2008 was \$12.26 and \$11.38, respectively.

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

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

(In thousands)	2010 (1)	2009	2008
Stock-based compensation expense before the recognized income tax benefit	\$ 4,875	\$ 787	\$ 852
Income tax benefit	\$ 1,851	\$ 309	\$ 311

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

The \$787,000 of expense recognized in fiscal 2009 was comprised of compensation expense of \$1.4 million offset by income of \$653,000. The income was attributable to the first quarter reversal of the cumulative prior period expense for performance-based awards, which were deemed by management as not probable of vesting. However, based on our improved financial outlook, a cumulative catch-up of \$851,000 was recorded during fiscal 2010 for a portion of these awards now deemed probable of vesting.

As of January 29, 2011, there was approximately \$1.8 million of unrecognized compensation expense remaining related to both the performance-based and service-based non-vested stock awards. The cost is expected to be recognized over a weighted average period of approximately 0.5 years. This incorporates the current assumptions of the estimated requisite service period required to achieve the designated performance conditions for performance-based stock awards.

Cash-Settled Stock Appreciation Rights (SARs)

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

The following table summarizes the SARs activity:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding at January 30, 2010	103,364	\$ 9.72	
Granted	0	0.00	
Forfeited or expired	(2,001)	9.72	
Exercised	(50,677)	9.72	
Outstanding at January 29, 2011	50,686	\$ 9.72	2.88
Exercisable at January 29, 2011	0	\$ 0.00	0.00

The fair value of these liability awards is remeasured at each reporting period until the date of settlement. Increases or decreases in stock-based compensation expense are recognized over the vesting period, or immediately for vested awards. The weighted-average fair value of outstanding, non-vested SAR awards was \$7.76 as of January 29, 2011.

Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

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

	January 29, 2011
Risk free interest rate yield curve	0.13% - 1.92%
Expected dividend yield	0.0%
Expected volatility	58.82%
Maximum life	2.88 Years
Exercise multiple	1.71 - 1.74
Maximum payout	\$9.72
Employee exit rate	2.2% - 9.0%

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

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

(In thousands)	2010 (1)	2009	2008
Stock-based compensation expense before the recognized income tax benefit	\$ 483	\$ 751	\$ 26
Income tax benefit	\$ 183	\$ 295	\$ 9

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

As of January 29, 2011, there was approximately \$121,000 in unrecognized compensation expense related to non-vested SARs. The cost is expected to be recognized over a weighted-average period of 0.9 years.

Note 10 – Litigation Matters

We are involved in various legal proceedings incidental to the conduct of our business. While the outcome of any legal proceeding is always uncertain, we do not currently expect that any such proceedings will have a material adverse effect on our financial position or results of operations.

Note 11 – Related Party Transactions

Our Chairman and principal shareholder and his son are members of LC Footwear, LLC. They also were shareholders of PL Footwear, Inc., which during December 2007 became a wholly owned subsidiary of LC Footwear, LLC. We purchase name brand merchandise from LC Footwear, LLC, and PL Footwear, Inc. serves as an import agent for us. PL Footwear, Inc. represents us on a commission basis in dealings with shoe factories in mainland China, where most of our private label shoes are manufactured.

Purchases made from LC Footwear, LLC were \$50,000, \$8,000 and \$513,000 in fiscal years 2010, 2009 and 2008, respectively. Commissions paid to PL Footwear, Inc. were \$638,000, \$763,000 and \$894,000 in fiscal years 2010, 2009 and 2008, respectively.

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Shoe Carnival, Inc.

Notes to Consolidated Financial Statements - continued

Note 12 – 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 2010 and 2009 include results for 13 weeks.

(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2010				
Net sales	\$ 189,457	\$ 165,394	\$ 204,443	\$ 179,895
Gross profit	59,272	46,747	61,510	54,010
Operating income	14,991	5,989	14,414	6,991
Net income	9,247	4,118	9,096	4,360
Net income per share – Basic	\$ 0.73	\$ 0.32	\$ 0.71	\$ 0.34
Net income per share – Diluted	\$ 0.72	\$ 0.32	\$ 0.70	\$ 0.33
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2009				
Net sales	\$ 167,269	\$ 152,840	\$ 191,523	\$ 170,790
Gross profit	46,640	40,924	57,099	48,943
Operating income	6,584	1,904	12,219	4,423
Net income	4,132	982	7,498	2,554
Net income per share – Basic	\$ 0.33	\$ 0.08	\$.60	\$ 0.20
Net income per share – Diluted	\$ 0.33	\$ 0.08	\$.59	\$ 0.20

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

Descriptions (In thousands)	Balance at Beginning of Period	Charged to Cost and Expenses	Credited to Costs and Expenses	Balance at End of Period
Year ended January 31, 2009				
Reserve for sales returns and allowances	\$ 97	\$ 61,167	\$ 61,170	\$ 94
Inventory reserve	\$ 4,100	\$ 650	\$ 450	\$ 4,300
Year ended January 30, 2010				
Reserve for sales returns and allowances	\$ 94	\$ 69,621	\$ 69,609	\$ 106
Inventory reserve	\$ 4,300	\$ 1,069	\$ 1,269	\$ 4,100
Year ended January 29, 2011				
Reserve for sales returns and allowances	\$ 106	\$ 80,337	\$ 80,339	\$ 104
Inventory reserve	\$ 4,100	\$ 352	\$ 652	\$ 3,800

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. 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 January 29, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control-Integrated Framework.

Based on its assessment, management believes that the Company's internal control over financial reporting was effective as of January 29, 2011.

The Company's internal control over financial reporting as of January 29, 2011 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 January 29, 2011, that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no significant change in our internal controls over financial reporting that occurred during the quarter ended January 29, 2011 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 Board of Directors and Shareholders of
Shoe Carnival, Inc.
Evansville, Indiana

We have audited the internal control over financial reporting of Shoe Carnival, Inc. and subsidiaries (the "Company") as of January 29, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, 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. 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 29, 2011 of the Company and our report dated April 14, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/Deloitte & Touche LLP
Indianapolis, Indiana
April 14, 2011

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 2011 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, in accordance with General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

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 2011 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, 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 2011 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 2011 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 ACCOUNTANT 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 2011 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 report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at January 29, 2011 and January 30, 2010

Consolidated Statements of Income for the years ended January 29, 2011, January 30, 2010, and January 31, 2009

Consolidated Statements of Shareholders' Equity for the years ended January 29, 2011, January 30, 2010, and January 31, 2009

Consolidated Statements of Cash Flows for the years ended January 29, 2011, January 30, 2010, and January 31, 2009

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 report.

Schedule II Valuation and Qualifying Accounts

3. Exhibits:

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

SIGNATURES

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 14, 2011

By: /s/ Mark L. Lemond
 Mark L. Lemond
 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
/s/ J. Wayne Weaver J. Wayne Weaver	Chairman of the Board and Director	April 14, 2011
/s/ Mark L. Lemond Mark L. Lemond	President, Chief Executive Officer and Director (Principal Executive Officer)	April 14, 2011
/s/ William E. Bindley William E. Bindley	Director	April 14, 2011
/s/ Gerald W. Schoor Gerald W. Schoor	Director	April 14, 2011
/s/ Kent A. Kleeberger Kent A. Kleeberger	Director	April 14, 2011
/s/ W. Kerry Jackson W. Kerry Jackson	Executive Vice President - Chief Financial Officer and Treasurer (Principal Financial Officer)	April 14, 2011
/s/ Kathy A. Yearwood Kathy A. Yearwood	Senior Vice President – Controller and Chief Accounting Officer (Principal Accounting Officer)	April 14, 2011

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INDEX TO EXHIBITS

Exhibit No.	Description	Incorporated by Reference To			Filed Herewith
		Form	Exhibit	Filing Date	
3-A	Restated Articles of Incorporation of Registrant	10-K	3-A	4/25/2002	
3-B	By-laws of Registrant, as amended to date	10-Q	3-B	12/09/2010	
4-B	Credit Agreement, dated as of January 20, 2010, among Shoe Carnival, Inc., the financial institutions from time to time party thereto as Banks, and Wachovia Bank, National Association, as Agent	8-K	4.1	1/25/2010	
10-A	Lease, dated as of February 8, 2006, by and between Registrant and Big-Shoe Properties, LLC	10-K	10-A	4/13/2006	
10-B*	2006 Executive Incentive Compensation Plan	8-K	10-B	6/15/2006	
10-C*	Form of Award Agreement for restricted stock granted under the Shoe Carnival, Inc. 2000 Stock Option and Incentive Plan	8-K	10-C	3/24/2005	
10-D	Lease, dated as of June 22, 2006, by and between the Registrant and Outback Holdings, LLC	8-K	10-D	6/28/2006	
10-E*	1993 Stock Option and Incentive Plan of Registrant, as amended	10-Q	10-E	9/15/1997	
10-G*	Outside Directors Stock Option Plan	S-8	4.4	7/14/1999	
10-H*	Summary Compensation Sheet				X
10-I	Non-competition Agreement dated as of January 15, 1993, between Registrant and J. Wayne Weaver	S-1	10-I	2/4/1993	
10-L*	Employee Stock Purchase Plan of Registrant, as amended	10-Q	10-L	9/15/1997	
10-M*	Form of Notice of Grant of Stock Options and Option Agreement for incentive stock options granted under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10-A	9/2/2004	
10-N*	Form of Notice of Grant of Stock Options and Option Agreement for non-qualified stock options granted under the Registrant's 2000 Stock Option and Incentive Plan	8-K	10-B	9/2/2004	
10-O*	2000 Stock Option and Incentive Plan of Registrant, as amended	10-Q	10-O	12/09/2010	
10-S*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008,	8-K	10-S	12/17/2008	

between Registrant and Mark L. Lemond

10-T*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and Timothy Baker	8-K	10-T	12/17/2008
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INDEX TO EXHIBITS - Continued

Exhibit No.	Description	Incorporated by Reference To			Filed Herewith
		Form	Exhibit	Filing Date	
10-U*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and Clifton E. Sifford	8-K	10-U	12/17/2008	
10-V*	Amended and Restated Employment and Noncompetition Agreement dated December 11, 2008, between Registrant and W. Kerry Jackson	8-K	10-V	12/17/2008	
10-W*	Shoe Carnival, Inc. Deferred Compensation Plan	8-K	10-W	10/14/2008	
10-X*	Employment and Noncompetition Agreement dated April 7, 2011, between Registrant and Kathy A. Yearwood				X
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

* The indicated exhibit is a management contract, compensatory plan or arrangement required to be filed by Item 601 of Regulation S-K.