SHOE CARNIVAL INC
Form 10-Q
December 13, 2007

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

Form 10-Q

[X]	**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** For the quarterly period ended **November 3, 2007**
	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 incorporation or organization)	*(IRS Employer Identification Number)*
7500 East Columbia Street **Evansville, IN**	**47715**
(Address of principal executive offices)	*(Zip code)*

(812) 867-6471
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X]Yes [ ]No

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

[ ]Large accelerated filer [X]Accelerated filer [ ]Non-accelerated filer

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

[ ]Yes [X]No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Number of Shares of Common Stock, $.01 par value, outstanding at December 10, 2007 were 12,668,746.

SHOE CARNIVAL, INC.
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SHOE CARNIVAL, INC.
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands, except per share data)	November 3, 2007	February 3, 2007	October 28, 2006
Assets			

Current Assets			
Cash and cash equivalents	$ 6,671	$ 34,839	$ 19,484
Accounts receivable	1,579	948	2,126
Merchandise inventories	200,242	196,662	187,254
Deferred income tax benefit	2,558	2,088	1,301
Other	8,368	2,605	3,064
Total Current Assets	219,418	237,142	213,229
Property and equipment-net	74,194	74,020	70,380
Total Assets	$ 293,612	$ 311,162	$ 283,609
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable	$ 51,581	$ 70,352	$ 49,244
Accrued and other liabilities	13,355	14,576	14,376
Total Current Liabilities	64,936	84,928	63,620
Long-term debt	14,165	0	0
Deferred lease incentives	5,528	6,095	5,614
Accrued rent	6,124	6,260	6,346
Deferred income taxes	844	781	1,109
Deferred compensation	3,690	3,149	2,845
Other	809	0	0
Total Liabilities	96,096	101,213	79,534
Shareholders' Equity:			
Common stock, $.01 par value, 50,000 shares authorized, 13,671, 13,561 and 13,534 shares issued at November 3, 2007, February 3, 2007 and October 28, 2006	137	136	135
Additional paid-in capital	75,357	73,959	73,212
Retained earnings	147,420	135,854	130,728
Treasury stock, at cost, 1,002 shares at November 3, 2007 and 0 shares at February 3, 2007 and October 28, 2006	(25,398)	0	0
Total Shareholders' Equity	197,516	209,949	204,075
Total Liabilities and Shareholders' Equity	$ 293,612	$ 311,162	$ 283,609

See notes to condensed consolidated financial statements.

SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

(In thousands, except per share data)	**Thirteen Weeks Ended November 3, 2007**	**Thirteen Weeks Ended October 28, 2006**	**Thirty-nine Weeks Ended November 3, 2007**	**Thirty-nin Weeks En October 2006**
Net sales	$ 173,881	$ 189,086	$ 494,339	$ 504
Cost of sales (including buying,				

distribution and occupancy costs)	123,320	132,349	353,740	355
Gross profit	50,561	56,737	140,599	149
Selling, general and administrative expenses	43,627	43,275	123,070	119
Operating income	6,934	13,462	17,529	29
Interest income	(101)	(353)	(611)	
Interest expense	115	33	179	
Income before income taxes	6,920	13,782	17,961	30
Income tax expense	2,734	5,406	6,281	11
Net income	$ 4,186	$ 8,376	$ 11,680	$ 18
Net income per share:				
Basic	$ 0.33	$ 0.62	$ 0.89	$
Diluted	$ 0.33	$ 0.61	$ 0.87	$
Average shares outstanding:				
Basic	12,604	13,414	13,065	13
Diluted	12,777	13,751	13,362	13

See notes to condensed consolidated financial statements.

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

(In thousands)	Common Stock Issued	Common Stock Treasury	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock
Balance at February 3, 2007	13,561	0	$ 136	$ 73,959	$ 135,854	$ 0
Stock option exercises	23	5		241		168
Stock-based compensation income tax benefit				352		
Employee stock purchase plan purchases	2	5		21		121
Restricted stock awards	85	10	1	(287)		286
Common stock repurchased		(1,022)				(25,973)
Stock-based compensation expense				1,071		
Cumulative effect of adoption of FIN 48					(114)	
Net income					11,680	
Balance at November 3, 2007	13,671	(1,002)	$ 137	$ 75,357	$ 147,420	$ (25,398)

See notes to condensed consolidated financial statements.

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

(In thousands)		**Thirty-nine Weeks Ended November 3, 2007**		**Thirty-nine Weeks Ended October 28, 2006**
Cash Flows From Operating Activities				
Net income	$	11,680	$	18,638
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization		11,781		10,713
Stock-based compensation		1,071		1,267
Loss on retirement and impairment of assets		508		231
Deferred income taxes		(160)		(1,268)
Lease incentives		418		192
Other		(545)		(708)
Changes in operating assets and liabilities:				
Accounts receivable		(631)		(1,840)
Merchandise inventories		(3,580)		(3,261)
Accounts payable and accrued liabilities		(16,307)		(20,419)
Other		(6,543)		113
Net cash (used in) provided by operating activities		(2,308)		3,658
Cash Flows From Investing Activities				
Purchases of property and equipment		(15,263)		(14,331)
Proceeds from sale of property and equipment		379		7,201
Other		6		2
Net cash used in investing activities		(14,878)		(7,128)
Cash Flows From Financing Activities				
Borrowings under line of credit		49,970		0
Payments on line of credit		(35,805)		0
Proceeds from issuance of stock		551		2,469
Excess tax benefits from stock-based compensation		275		422
Common stock repurchased		(25,973)		(241)
Net cash (used in) provided by financing activities		(10,982)		2,650
Net decrease in cash and cash equivalents		(28,168)		(820)
Cash and cash equivalents at beginning of period		34,839		20,304
Cash and Cash Equivalents at End of Period	$	6,671	$	19,484
Supplemental disclosures of cash flow information:				
Cash paid during period for interest	$	130	$	106
Cash paid during period for income taxes	$	7,833	$	11,647
Capital expenditures incurred but not yet paid	$	2,405	$	7,948

See notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position and the results of our operations and our cash flows for the periods presented. Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted according to the rules and regulations of the Securities and Exchange Commission (the "SEC"), although we believe that the disclosures are adequate to make the information presented not misleading. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

Note 2 - Net Income Per Share

Net income per share of common stock is based on the weighted average number of shares and common share equivalents outstanding during the period. The following table presents a reconciliation of our basic and diluted weighted average common shares outstanding as required by Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share":

(In thousands)	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007	Thirty-nine Weeks Ended October 28, 2006
Basic shares	12,604	13,414	13,065	13,338
Dilutive effect of stock-based awards	173	337	297	368
Diluted shares	12,777	13,751	13,362	13,706

For the above current and prior year periods, there were no anti-dilutive shares.

Note 3 Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB No. 109 ("SFAS No. 109"). FIN 48 clarifies the accounting for the uncertainty in income taxes recognized by prescribing a recognition threshold that a tax position is required to meet before being recognized in the financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We adopted the provisions of FIN 48 on February 4, 2007. See Note 5 "Income Taxes", in this Quarterly Report on Form 10-Q for additional information, including the effects of adoption of this interpretation on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe the adoption of SFAS No. 157 will have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial LiabilitiesIncluding an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 allows companies the choice to measure many financial instruments and certain other items at fair value. This gives companies the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact the adoption of SFAS No. 159 will have on our consolidated financial statements.

Note 4 - Stock-Based Compensation

Stock Options

The following table summarizes the stock option transactions pursuant to the stock-based compensation plans for the thirty-nine week period ended November 3, 2007:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at February 3, 2007	652,946	$ 12.51		
Forfeited or expired	(6,301)	11.99		
Exercised	(28,836)	14.18		
Outstanding at November 3, 2007	617,809	$ 12.44	3.82	$ 1,944
Options outstanding at November 3, 2007, net of estimated forfeitures	617,412	$ 12.44	3.82	$ 1,943
Exercisable at November 3, 2007	616,141	$ 12.44	3.81	$ 1,941

The following table summarizes information regarding outstanding and exercisable options at November 3, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$ 4.38 – 5.75	61,662	3.08	$ 4.46	61,662	$ 4.46
$ 8.56 – 11.95	182,125	1.53	$ 10.51	181,291	$ 10.50
$ 12.14 – 15.54	209,902	5.53	$ 12.83	209,068	$ 12.83
$ 16.10 – 17.12	164,120	4.45	$ 17.09	164,120	$ 17.09

The following table summarizes information regarding options exercised during the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006:

	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007	Thirty-nine Weeks Ended October 28, 2006
Total intrinsic value (1)	$ 0	$ 1,300,000	$ 548,000	$ 2,800,000
Total cash received	$ 0	$ 656,000	$ 409,000	$ 2,500,000
Associated excess income tax benefits recorded	$ 0	$ 138,000	$ 180,000	$ 709,000

(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 stock-based compensation expense for non-vested options recognized during the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006:

	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007 (1)	Thirty-nine Weeks Ended October 28, 2006
Stock-based compensation expense before the recognized income tax benefit	$ 22,000	$ 39,000	$ 61,000	$ 184,000
Income tax benefit	$ 9,000	$ 15,300	$ 23,600	$ 71,400

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effect of a reduction in state income taxes from state incentives related to the investment in our new distribution center.

As of November 3, 2007, there was approximately $16,000 of unrecognized compensation remaining related to non-vested stock options. This expense is expected to be recognized over a period of less than one year.

Restricted Stock Awards

The following table summarizes the restricted share transactions for the thirty-nine week period ended November 3, 2007:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at February 3, 2007	79,517	$ 21.58
Granted	98,000	29.42
Forfeited	(3,768)	26.57
Vested	(41,228)	19.84
Non-vested at November 3, 2007	132,521	$ 27.78

The following table summarizes information regarding stock-based compensation for restricted stock awards recognized during the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006:

	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007 (1)	Thirty-nine Weeks Ended October 28, 2006
Stock-based compensation expense before the recognized income tax benefit	$ 212,000	$ 256,000	$ 985,000	$ 1,100,000
Income tax benefit	$ 84,000	$ 100,400	$ 383,600	$ 426,800

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effect of a reduction in state income taxes from state incentives related to the investment in our new distribution center.

The total fair value at grant date of previously non-vested stock awards that vested during the first nine months of fiscal 2007 and 2006 was $831,000 and $826,000, respectively. No stock awards vested during the third quarter of fiscal 2007 or 2006. The weighted-average grant date fair value of stock awards granted during the first nine months of fiscal 2007 and 2006 was $29.42 and $22.99, respectively.

As of November 3, 2007, there was approximately $2.6 million of unrecognized compensation expense remaining related to non-vested stock awards. The expense is expected to be recognized over a weighted average period of 2.8 years, incorporating the current assumptions of the estimated requisite service period required to achieve the designated performance conditions for performance-based stock awards.

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Employee Stock Purchase Plan

The following table summarizes information regarding stock-based compensation expense recognized for the employee stock purchase plan during the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006:

	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007 (1)	Thirty-nine Weeks Ended October 28, 2006
Stock based compensation expense before the recognized income tax benefit (2)	$ 7,000	$ 7,000	$ 25,000	$ 24,000
Income tax benefit	$ 3,000	$ 2,700	$ 9,700	$ 9,300

(1) Income tax benefit was calculated using an adjusted effective tax rate. The adjusted rate removes the tax effect of a reduction in state income taxes from state incentives related to the investment in our new distribution center.

(2) Amounts are representative of the 15% discount employees are provided for purchases under the employee stock purchase plan.

Note 5 Income Taxes

On February 4, 2007, we adopted the provisions of FIN 48. This interpretation of SFAS No. 109 clarifies the accounting for the uncertainty in income taxes recognized by prescribing a recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. The total effect of the adoption on our consolidated balance sheet as of February 4, 2007 was a $361,000 increase in tax liability including penalties and interest and a $247,000 increase in deferred income tax benefits. This resulted in a $114,000 net reduction to retained earnings. After recording these entries, we had a liability for unrecognized tax benefits, including interest and penalties, of $775,000 at February 4, 2007.

Our liability for unrecognized tax benefits is related to tax years encompassing our fiscal years 1999 through 2006, the tax years which remain subject to examination by major tax jurisdictions as of November 3, 2007.

Prior to the adoption of FIN 48, we recorded interest expense related to uncertain tax positions as a component of interest expense. Upon adoption of FIN 48 we changed this policy to record such interest expense as a component of income tax expense in the consolidated statement of income. Penalties have historically been included as a component of income tax expense and will continue to be recorded in this manner with the adoption of FIN 48. For the quarter ended November 3, 2007, we recorded $13,000 of interest expense related to uncertain tax positions. For the first nine months of fiscal 2007, we recorded $33,000 of interest expense related to uncertain tax positions.

Our liability for unrecognized tax benefits was $809,000 as of November 3, 2007. This total includes $567,000 related to unrecognized tax positions and $242,000 in accrued interest and penalties. This amount was classified as an Other liability on our consolidated balance sheet as of November 3, 2007. If our uncertain tax positions become recognizable, the amount would reduce our effective tax rate. We do not expect the amount of the liability for unrecognized tax benefits, excluding interest and penalties, will change significantly within the next 12 months.

Note 6 Stock Repurchase Program

In fiscal 2006, our Board of Directors authorized a $50.0 million stock buy-back program, which will terminate upon the earlier of the repurchase of the maximum amount or December 31, 2008. During the third quarter of fiscal 2007, we repurchased 339,000 shares of our outstanding common stock at a cost of $6.4 million under this program. As of November 3, 2007, approximately 1.0 million shares had been repurchased at an aggregate cost of $25.6 million. The amount that remained available under the existing repurchase authorization at November 3, 2007 was $24.4 million.

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

Factors That May Effect Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: general economic conditions in the areas of the United States in which our stores are located; changes in the overall retail environment and more specifically in the apparel and footwear retail sectors; 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 impact of hurricanes or other natural disasters on our stores, as well as on consumer confidence and purchasing in general; risks associated with the seasonality of the retail industry; the availability of desirable store locations at acceptable lease terms and our ability to open new stores in a timely and profitable manner; higher than anticipated costs associated with the closing of underperforming stores; the inability of manufacturers to deliver products in a timely manner; changes in the political and economic environments in the Peoples Republic of China, a major manufacturer of footwear; and the continued favorable trade relations between the United States and China and other countries which are the major manufacturers of footwear. For a more detailed discussion of certain risk factors, see the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

General

Managements Discussion and Analysis of Financial Condition and Results of Operations is intended to provide information to assist the reader in better understanding and evaluating our financial condition and results of operations. We encourage you to read this in conjunction with our condensed consolidated financial statements and the notes to those statements included in PART I, ITEM 1 FINANCIAL STATEMENTS of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 as filed with the SEC.

Overview

Shoe Carnival, Inc. is one of the nation's largest family footwear retailers. As of November 3, 2007, we operated 293 stores in 27 states 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 ability to identify and react to fashion changes is a key factor in our sales and earnings performance.

Our marketing effort targets low to 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 and earn attractive store level returns. Low labor costs are achieved by housing merchandise directly on the selling floor in an open-stock format, enabling customers who so choose to serve themselves. 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.

It is important to note that the 53rd week in fiscal 2006 caused a one-week shift in our fiscal 2007 calendar. Therefore, each of our fiscal 2007 quarters is shifted one week later. Due to this one-week shift, our year-over-year sales comparisons are impacted when there are seasonal sales influences that fall near the respective quarter-end dates. Our reported quarterly and year-to-date comparable store sales results for fiscal 2007, both in this Quarterly Report on Form 10-Q and in our other public disclosures, have been adjusted for the above shift. As such, changes in comparable store sales may not be consistent with changes in net sales reported for the fiscal period. Net sales for our thirteen week and thirty-nine week periods ended November 3, 2007 compare to the thirteen week and thirty-nine week periods ended October 28, 2006. To minimize the effect of the fiscal calendar shift on comparable store sales, we compare the thirteen week and thirty-nine week periods ended November 3, 2007 to the thirteen week and thirty-nine week periods ended November 4, 2006.

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.

Critical Accounting Policies

It is necessary for us to include certain judgements in our reported financial results. These judgements involve estimates that are inherently uncertain and actual results could differ materially from these estimates. The accounting policies that require the more significant judgements 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 review long-lived assets whenever events or circumstances indicate the carrying value of an asset may not be recoverable and annually when no such event has occurred. We evaluate the ongoing value of assets associated with retail stores that have been open longer than one year. When events such as these occur, the assets subject to impairment are adjusted to estimated fair value and, if applicable, an impairment loss is recorded in selling, general and administrative expenses. Our assumptions and estimates used in the evaluation of impairment, including current and future economic trends for stores, are subject to a high degree of judgement and if actual results or market conditions differ from those anticipated, additional losses may be recorded.

Income Taxes - We calculate income taxes in accordance with SFAS No. 109 and account for uncertain tax positions in accordance with FIN 48. Under SFAS No. 109, 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. Under FIN 48, we are 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. See our Notes to Condensed Consolidated Financial Statements, Note 5 "Income Taxes" included in PART I, ITEM 1 FINANCIAL STATEMENTS of this Quarterly Report on Form 10-Q for additional details on our uncertain tax positions.

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Results of Operations Summary Information

	Number of Stores				Store Square Footage		Comparable Store Sales Increase
Quarter Ended	Beginning Of Period	Opened	Closed	End of Period	Net Change	End of Period	(Decrease)
May 5, 2007	271	7	0	278	66,000	3,128,000	(3.7)%
August 4, 2007	278	6	0	284	59,000	3,187,000	(7.1)%
November 3, 2007	284	11	2	293	78,000	3,265,000	(5.0)%
Year-to-date 2007	271	24	2	293	203,000	3,265,000	(5.0)%
April 29, 2006	263	0	0	263	0	3,012,000	4.1%
July 29, 2006	263	4	2	265	12,000	3,024,000	(1.0)%
October 28, 2006	265	8	3	270	33,000	3,057,000	2.9%
Year-to-date 2006	263	12	5	270	45,000	3,057,000	2.3%

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

	Thirteen Weeks Ended November 3, 2007	Thirteen Weeks Ended October 28, 2006	Thirty-nine Weeks Ended November 3, 2007	Thirty-nine Weeks Ended October 28, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (including buying, distribution and occupancy costs)	70.9	70.0	71.5	70.5
Gross profit	29.1	30.0	28.5	29.5
Selling, general and administrative expenses	25.1	22.9	24.9	23.7
Operating income	4.0	7.1	3.6	5.8
Interest income	(0.1)	(0.2)	(0.1)	(0.2)
Interest expense	0.1	0.0	0.0	0.0
Income before income taxes	4.0	7.3	3.7	6.0
Income tax expense	1.6	2.9	1.3	2.3
Net income	2.4%	4.4%	2.4%	3.7%

Results of Operations for the Third Quarter Ended November 3, 2007

We believe the current challenging economic environment continued to directly affect our target consumer, and consequently, had a negative impact on both traffic and sales throughout the third quarter of fiscal 2007 as net sales declined 8.0% and sales for stores open more than a year fell by 5.0%. All of our product categories posted a decline in comparable store sales, except for the adult athletic product, which posted a small increase. The first nine months of fiscal 2007 have proved to be a difficult period for us and footwear retailers in general. Our low to moderate income consumer has been faced with financial challenges brought about by higher gasoline prices, housing and mortgage issues and increased consumer debt loads. This has resulted in lower traffic counts in our stores throughout the first nine months as compared to the same period last year.

Net Sales

Net sales decreased $15.2 million to $173.9 million during the third quarter ended November 3, 2007, an 8.0% decrease from net sales of $189.1 million in the third quarter ended October 28, 2006. The seasonal differences associated with the fiscal calendar shift noted above caused a $14.2 million decline in sales between the two comparative periods. Our 5.0% decline in comparable store sales resulted in an additional $8.4 million of lost sales. These decreases in net sales were partially offset by a $7.4 million increase in sales generated through operation of the 36 stores opened since August 4, 2006 net of the sales loss from the six stores which were closed during this same period.

Gross Profit

Gross profit decreased $6.1 million to $50.6 million in the third quarter of fiscal 2007 from gross profit of $56.7 million in the comparable prior year period. Our gross profit margin in the third quarter of fiscal 2007 decreased to 29.1% from 30.0% in the comparable prior year period. As a percentage of sales, the merchandise margin increased 0.5% while buying, distribution and occupancy costs increased 1.4%. The increase in the merchandise margin was primarily driven by improved inventory markdown management. Approximately half of the increase in buying, distribution and occupancy costs, as a percentage of sales, was attributable to lower sales for the quarter. The combined increases in occupancy and distribution costs due to operating more stores coupled with the increase in fixed costs associated with operating our new distribution center, accounted for the remainder of the increase as a percentage of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $352,000 to $43.6 million in the third quarter of fiscal 2007 from $43.3 million in the comparable prior year period. The increase in selling, general and administrative expenses necessary to operate and support the 30 net new stores opened since August 4, 2006 was partially offset by a decrease of approximately $1.2 million in advertising costs due to the shift in the retail calendar along with a $692,000 decrease in performance based incentive compensation expense. As a percentage of sales, selling, general and administrative expenses increased to 25.1% in the third quarter of fiscal 2007 from 22.9% for the comparable period last year. The increase, as a percentage of sales, resulted primarily from the deleveraging effect of lower sales.

Pre-opening costs were $407,000, or 0.2% of sales, for the third quarter of fiscal 2007 as compared to $298,000, or 0.2% of sales, for the third quarter of fiscal 2006. We opened 11 stores in the third quarter of fiscal 2007 as compared to eight stores in the third quarter of fiscal 2006. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred. The total amount of pre-opening expense incurred will vary on a store-by-store basis depending on the specific market and the promotional activities involved.

Store closing costs were $96,000, or 0.1% of sales, for the third quarter of fiscal 2007 as compared to $232,000, or 0.1% of sales, for the third quarter of fiscal 2006. We closed two stores in the third quarter of fiscal 2007 as compared to three stores in the third quarter of fiscal 2006. The timing and actual amount of expense recorded in closing a store can vary significantly on a store-by-store basis depending in part on the period in which management commits to a closing plan, the age of the store and possible lease buyout involved.

Interest (Income) Expense

We recorded net interest expense of $14,000 in the third quarter of fiscal 2007, resulting from the borrowings against our line of credit, compared to net interest income of $320,000 in the third quarter of the prior year. We had no borrowings during the third quarter of the prior year.

Income Taxes

The effective income tax rate for the third quarter of fiscal 2007 increased to 39.5% from 39.2% for the same time period in fiscal 2006.

Results of Operations for the Nine Months Ended November 3, 2007

Net Sales

Net sales decreased $10.1 million to $494.3 million in the first nine months of fiscal 2007, a 2.0% decrease over net sales of $504.4 million in the comparable prior year period. Of this decrease, approximately $24.6 million was attributable to our 5.0% comparable store sales decline, and approximately $2.8 million related to the seasonal differences associated with the fiscal calendar shift noted above. The decrease in net sales was partially offset by a $17.3 million increase in sales generated through operation of the 38 new stores opened during fiscal 2006 and fiscal 2007 net of the sales loss from eight stores which were closed during the same period.

Gross Profit

Gross profit decreased $8.4 million to $140.6 million in the first nine months of fiscal 2007 from $149.0 million in the comparable prior year period. Our gross profit margin decreased to 28.5% in the first nine months of fiscal 2007 from 29.5% for the first nine months of fiscal 2006. As a percentage of sales, the merchandise margin increased 0.1% while buying, distribution and occupancy costs increased 1.1%. The increase in buying, distribution and occupancy costs, as a percentage of sales, was primarily attributable to increases in occupancy and distribution costs due to operating more stores, coupled with the costs incurred during the first quarter of fiscal 2007 to convert to our new distribution center and the increased fixed costs associated with operating the new facility.

Selling, General and Administrative

Selling, general and administrative expenses increased $3.8 million to $123.1 million in the first nine months of fiscal 2007 from $119.3 million in the comparable prior year period. The increase in selling, general and administrative expenses necessary to operate and support the 30 net new stores opened during fiscal 2006 and fiscal 2007 was partially offset by a savings of approximately $2.4 million from expense controls in addition to a $1.5 million decrease in performance based incentive compensation expense. As a percentage of sales, selling, general and administrative expenses increased to 24.9% from 23.7% in the first nine months of last year. The increase, as a percentage of sales, resulted primarily from the deleveraging effect of lower store sales.

Pre-opening costs were $963,000, or 0.2% of sales, for the first nine months of fiscal 2007 as compared to $460,000, or 0.1% of sales, for the first nine months of fiscal 2006. We opened 24 stores in the first nine months of fiscal 2007 as compared to 12 stores in the first nine months of fiscal 2006. Pre-opening costs, such as advertising, payroll and supplies, incurred prior to the opening of a new store are charged to expense in the period they are incurred. The total amount of pre-opening expense incurred will vary on a store-by-store basis depending on the specific market and the promotional activities involved.

Store closing costs were $525,000, or 0.1% of sales, for the first nine months of fiscal 2007 as compared to $486,000, or 0.1% of sales, for the first nine months of fiscal 2006. We closed two stores in the first nine months of fiscal 2007 and five stores were closed in the first nine months of fiscal 2006. The timing and actual amount of expense recorded in closing a store can vary significantly on a store-by-store basis depending in part on the period in which management commits to a closing plan, the age of the store and possible lease buyout involved.

Interest (Income) Expense

For the first nine months of fiscal 2007, net interest income was $432,000 compared to net interest income of $756,000 for the first nine months of fiscal 2006. The change in net interest income was primarily related to a decrease in the first nine months of fiscal 2007 in the excess funds available for investment.

Income Taxes

The effective income tax rate for the first nine months of fiscal 2007 decreased to 35.0% from 38.8% when compared to the same time period in fiscal 2006. The reduction in the effective income tax rate for the nine months of fiscal 2007 as compared to fiscal 2006 was primarily due to a reduction in state income taxes from state incentives related to the investment in our new distribution center.

Liquidity and Capital Resources

Net cash used in operating activities was $2.3 million during the first nine months of fiscal 2007, as compared to net cash provided by operating activities of $3.7 million during the first nine months of fiscal 2006. These amounts reflect the income from operations adjusted for non-cash items and working capital changes. The $6.0 million decrease in cash provided by operating activities between the two respective periods related primarily to the decrease in net income.

Working capital increased to $154.5 million at November 3, 2007 from $149.6 million at October 28, 2006. The current ratio at November 3, 2007 was 3.4 and remained unchanged as compared to October 28, 2006. Long-term debt as a percentage of total capital (long-term debt plus shareholders' equity) was 6.7% at November 3, 2007. We had no long-term debt as of October 28, 2006.

Capital expenditures were $15.3 million in the first nine months of fiscal 2007. Of this amount, $4.4 million was incurred for our new distribution center, $5.9 million was incurred for new stores and $2.3 million was incurred for our new corporate headquarters. The remaining capital expenditures for the first nine months of fiscal 2007 were incurred for store remodeling and relocation, software and information technology, in-store graphics and miscellaneous equipment purchases. We received $418,000 in lease incentives from landlords during the first nine months of fiscal 2007.

During the first nine months of fiscal 2007, we opened 24 new stores and closed two stores. This compares to 12 store openings and five store closings in the first nine months of fiscal 2006. We anticipate opening an additional store and closing three stores in the fourth quarter of fiscal 2007. We expect to incur additional capital expenditures of $2 million in the fourth quarter of fiscal 2007 related primarily to fiscal 2007 and fiscal 2008 new store openings.

Our current store prototype uses between 6,500 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 2007 are expected to average approximately $298,000. The average inventory investment in a new store is expected to range from $350,000 to $750,000 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 $40,000 per store in fiscal 2007 with individual stores experiencing variances in expenditure levels based on the specific market.

Our unsecured credit facility provides for up to $70 million in cash advances on a revolving basis and commercial letters of credit. Borrowings under the revolving credit line are based on eligible inventory. The agreement governing the credit facility stipulates a minimum threshold for net worth, a maximum ratio of funded debt plus rent to EBITDA plus rent, and a maximum of total distributions for stock repurchases and cash dividends. We were in compliance with these requirements as of November 3, 2007. Should a default condition be reported, the lenders may preclude additional borrowings and call all loans and accrued interest at their discretion. The credit agreement and amendments thereto are filed as exhibits to (or incorporated by reference in) this Quarterly Report on Form 10-Q. At November 3, 2007, there were $14.2 million in borrowings outstanding under the credit facility and $3.0 million in letters of credit outstanding. As of November 3, 2007, $52.8 million was available to us for additional borrowings under the credit facility.

On December 15, 2006, the credit agreement was amended to extend the maturity date to April 30, 2010 and to allow us to repurchase shares of our outstanding common stock in an amount not to exceed $50 million. During December 2006, the Board of Directors authorized a $50 million stock buy-back program, which will terminate on the earlier of the repurchase of the maximum amount or December 31, 2008. As of November 3, 2007, approximately 1.0 million shares had been repurchased at an aggregate cost of $25.6 million. The amount that remained available under the existing repurchase authorization at November 3, 2007 was $24.4 million.

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, any future repurchase of our common stock under our current repurchase plan and other operating cash requirements for at least the next 12 months.

Seasonality

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

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

New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in that the interest payable under our credit facility is based on variable interest rates and therefore is affected by changes in market rates. We do not use interest rate derivative instruments to manage exposure to changes in market interest rates. A 1% change in the weighted average interest rate charged under the credit facility would have resulted in interest expense fluctuating by approximately $11,000 for the third quarter and first nine months of fiscal 2007. We did not incur borrowings against our revolving credit line during the first nine months of fiscal 2006.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of November 3, 2007, 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.

Management is continuously seeking to improve the efficiency and effectiveness of our operations and internal controls. This results in refinements to processes throughout the company. In the fourth quarter of fiscal 2006, we began conversion to our new distribution center. We believe the launch of our new distribution center has strengthened the overall system of internal controls due to enhanced automation and integration of related processes. Testing of the controls related to this system is ongoing and management will make its evaluation of the effectiveness of these controls upon completion of all components and enhanced functions of the new distribution center. There have been no other changes in our internal control over financial reporting that occurred during the third quarter ended November 3, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SHOE CARNIVAL, INC.
PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties we describe both in this Quarterly Report on Form 10-Q and in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 before deciding to invest in, or retain, shares of our common stock. These are not the only risks and uncertainties that we face. Additional risks and uncertainties that we do not currently know about, we currently believe are immaterial or we have not predicted may also harm our business operations or adversely affect us. If any of these risks or uncertainties actually occur, our business, financial condition, results of operations or cash flows could be materially adversely affected. There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number Of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
August 5, 2007 to September 1, 2007	339,288	$ 18.88	339,288	$ 24,378,000
September 2, 2007 to October 6, 2007	0	$ 0.00	0	$ 24,378,000
October 7, 2007 to November 3, 2007	0	$ 0.00	0	$ 24,378,000
	339,288		339,288	

(1) These shares are part of a publicly announced, $50.0 million stock buy-back program that our Board of Directors approved in December 2006. The program will terminate on the earlier of the repurchase of the maximum amount or December 31, 2008.

ITEM 6. EXHIBITS

(a) Exhibits

3-A Restated Articles of Incorporation of Registrant (incorporated herein by reference from the same exhibit number to the Registrant's Annual Report on Form 10-K for the year ended February 2, 2002)

3-B By-laws of Registrant, as amended to date (incorporated herein by reference from the same exhibit number to our Current Report on Form 8-K filed on March 19, 2007)

4 (i) Amended and Restated Credit Agreement and Promissory Notes dated April 16, 1999, between Registrant and Mercantile Bank National Association, First Union National Bank and Old National Bank (incorporated herein by reference from Exhibit 4(I) to the Registrant's Annual Report on Form 10-K for the year ended January 30, 1999)

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(a) Exhibits (continued)

(ii) Amendment to Amended and Restated Credit Agreement and Promissory Notes dated March 24, 2000, between Registrant and Mercantile Bank National Association, First Union National Bank and Old National Bank (incorporated herein by reference from the same exhibit number to the Registrant's Annual Report on Form 10-K for the year ended January 29, 2000)

(iii) Second Amendment to Amended and Restated Credit Agreement and Promissory Notes dated November 8, 2000, between Registrant and Firstar Bank N.A., First Union National Bank, Old National Bank and LaSalle Bank National Association (incorporated herein by reference from the same exhibit number to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 28, 2000)

(iv) Third Amendment to Amended and Restated Credit Agreement and Promissory Notes dated March 18, 2002, between Registrant and U.S. Bank National Association, First Union National Bank, Old National Bank and LaSalle Bank National Association (incorporated herein by reference from the same exhibit number to the Registrant's Annual Report on Form 10-K for the year ended February 2, 2002)

(v) Fourth Amendment to Amended and Restated Credit Agreement and Promissory Notes dated March 12, 2003, between Registrant and U.S. Bank National Association, Wachovia Bank National Association, Old National Bank and LaSalle Bank National Association (incorporated herein by reference from the same exhibit number to the Registrant's Annual Report on Form 10-K for the year ended February 1, 2003)

(vi) Fifth Amendment to Amended and Restated Credit Agreement and Promissory Notes dated April 5, 2004, between Registrant and U.S. Bank National Association, Wachovia Bank National Association, Old National Bank and LaSalle Bank National Association (incorporated herein by reference from the same exhibit number to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2004)

(vii) Assignment Agreement dated June 1, 2004 among LaSalle Bank National Association as Assignor, Fifth Third Bank (Southern Indiana) as Assignee, Registrant as Borrower and U.S. Bank National Association as Agent relating to the Amended and Restated Credit Agreement as further amended (incorporated herein by reference from the same exhibit number to the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 1, 2004)

(viii) Sixth Amendment to Amended and Restated Credit Agreement and Notes dated April 5, 2005, between Registrant and U.S. Bank National Association, Wachovia Bank National Association, Fifth Third Bank (Southern Indiana) and Old National Bank (incorporated herein by reference from the same exhibit number to the Registrant's Current Report on Form 8-K filed on April 11, 2005)

(ix) Seventh Amendment to Amended and Restated Credit Agreement and Notes dated March 31, 2006, between Registrant and U.S. Bank National Association, Wachovia Bank, National Association and Fifth Third Bank (incorporated herein by reference from the same exhibit number to the Registrant's Current Report on Form 8-K filed on April 4, 2006)

(x) Eighth Amendment to Amended and Restated Credit Agreement and Notes dated December 15, 2006, between Registrant and U.S. Bank National Association, Wachovia Bank, National Association and Fifth Third Bank (incorporated herein by reference from the same exhibit number to the Registrant's Current Report on Form 8-K filed on December 11, 2006)

(a) Exhibits (continued)

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

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

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

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

SHOE CARNIVAL, INC.
SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed, on its behalf by the undersigned thereunto duly authorized.

Date: December 13, 2007

SHOE CARNIVAL, INC.
(Registrant)

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