SHOE CARNIVAL INC
Form 10-Q
September 07, 2011

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 July 30, 2011

or

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

Commission File Number: 0-21360

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

Indiana (State or other jurisdiction of incorporation or organization)	35-1736614 (IRS Employer Identification Number)
7500 East Columbia Street Evansville, IN (Address of principal executive offices)	47715 (Zip code)

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

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

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

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes o No

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

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

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

o 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 August 24, 2011 were 13,272,796.

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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)	July 30, 2011	January 29, 2011	July 31, 2010
Assets			
Current Assets:			
Cash and cash equivalents	$44,096	$60,193	$40,560
Accounts receivable	2,889	1,550	1,684
Merchandise inventories	258,069	212,929	238,147
Deferred income tax benefit	3,307	4,275	3,342
Other	5,894	2,407	3,403
Total Current Assets	314,255	281,354	287,136
Property and equipment-net	66,660	62,391	61,503
Other	1,177	1,400	1,205
Total Assets	$382,092	$345,145	$349,844
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable	$76,293	$55,219	$79,016
Accrued and other liabilities	14,005	15,457	15,345
Total Current Liabilities	90,298	70,676	94,361
Deferred lease incentives	10,082	8,211	6,774
Accrued rent	5,681	5,082	5,164
Deferred income taxes	1,697	669	20
Deferred compensation	5,685	4,907	4,156
Other	816	1,257	1,374
Total Liabilities	114,259	90,802	111,849
Shareholders' Equity:			
Common stock, $.01 par value, 50,000 shares authorized, 13,652, 13,655, 13,655 shares issued at July 30, 2011, January 29, 2011 and July 31, 2010	137	137	137
Additional paid-in capital	68,391	68,833	66,243
Retained earnings	208,487	195,853	182,397
Treasury stock, at cost, 380, 456 and 472 shares at July 30, 2011, January 29, 2011 and July 31, 2010	(9,182)	(10,480)	(10,782)
Total Shareholders' Equity	267,833	254,343	237,995
Total Liabilities and Shareholders' Equity	$382,092	$345,145	$349,844

See notes to condensed consolidated financial statements.

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SHOE CARNIVAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Unaudited

(In thousands, except per share data)	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Net sales	$166,672	$165,394	$365,122	$354,851
Cost of sales (including buying, distribution and occupancy costs)	120,299	118,647	256,989	248,832
Gross profit	46,373	46,747	108,133	106,019
Selling, general and administrative expenses	42,259	40,758	87,884	85,039
Operating income	4,114	5,989	20,249	20,980
Interest income	(21)	(28)	(49)	(51)
Interest expense	71	63	132	132
Income before income taxes	4,064	5,954	20,166	20,899
Income tax expense	1,349	1,836	7,532	7,534
Net income	$2,715	$4,118	$12,634	$13,365
Net income per share:				
Basic	$0.20	$0.32	$.95	$1.05
Diluted	$0.20	$0.32	$.94	$1.04

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	Total
Balance at January 29, 2011	13,655	(456)	$ 137	$ 68,833	$ 195,853	$ (10,480)	$ 254,343
Stock option exercises	0	24		(228)		577	349
Stock-based compensation income tax benefit				1,348			1,348
Employee stock purchase plan purchases		4		1		104	105
Restricted stock awards	(3)	141		(3,254)		3,254	0
Common stock repurchased		(93)				(2,637)	(2,637)
Stock-based compensation expense				1,691			1,691
Net income					12,634		12,634
Balance at July 30, 2011	13,652	(380)	$ 137	$ 68,391	$ 208,487	$ (9,182)	$ 267,833

See notes to condensed consolidated financial statements.

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

(In thousands)	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Cash Flows From Operating Activities		
Net income	$ 12,634	$ 13,365
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,058	6,815
Stock-based compensation	1,822	2,398
Loss on retirement and impairment of assets	483	1,223
Deferred income taxes	1,996	(1,119)
Lease incentives	2,434	981
Other	(185)	(899)
Changes in operating assets and liabilities:		
Accounts receivable	(1,239)	(938)
Merchandise inventories	(45,140)	(40,695)
Accounts payable and accrued liabilities	20,635	22,196
Other	(3,627)	(1,336)
Net cash (used in) provided by operating activities	(3,129)	1,991
Cash Flows From Investing Activities		
Purchases of property and equipment	(12,165)	(6,565)
Proceeds from sale of property and equipment	4	311
Proceeds from note receivable	100	100
Net cash used in investing activities	(12,061)	(6,154)
Cash Flows From Financing Activities		
Proceeds from issuance of stock	454	415
Excess tax benefits from stock-based compensation	1,276	419
Purchase of treasury stock	(2,637)	(279)
Net cash (used in) provided by financing activities	(907)	555
Net decrease in cash and cash equivalents	(16,097)	(3,608)
Cash and cash equivalents at beginning of period	60,193	44,168
Cash and Cash Equivalents at End of Period	$ 44,096	$ 40,560
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$ 132	$ 125
Cash paid during period for income taxes	$ 6,862	$ 9,826
Capital expenditures incurred but not yet paid	$ 1,771	$ 1,387

See notes to condensed consolidated financial statements.

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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 normal recurring adjustments necessary to present fairly our financial position and the results of our operations and our cash flows for the periods presented. Certain information and disclosures normally included in the notes to 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 January 29, 2011.

Note 2 - Net Income Per Share

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

(In thousands except per share data)	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Numerator				
Net income	$2,715	$4,118	$12,634	$13,365
Less amount allocable to participating securities	52	0	297	0
Net income available for basic common shares	2,663	4,118	12,337	13,365
Adjustment for dilutive potential common shares	0	0	4	0
Net income available for diluted common shares	$2,663	$4,118	$12,341	$13,365
Denominator				
Weighted average common shares – basic	13,005	12,720	12,939	12,704
Adjustment for dilutive potential common shares	138	178	135	183
Weighted average common shares – diluted	13,143	12,898	13,074	12,887
Net income per common share				
Basic	$0.20	$0.32	$0.95	$1.05
Diluted	$0.20	$0.32	$0.94	$1.04

Our basic and diluted earnings per share are computed using the two-class method. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to participation rights in undistributed earnings. Non-vested stock awards that include non-forfeitable rights to dividends are considered participating securities. Per share amounts are computed by dividing net income attributable to common shareholders by the weighted average shares outstanding during each period. No options to purchase shares of common stock were excluded in the computation of diluted shares for the periods presented.

Note 3 – Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance which amends certain accounting and disclosure requirements related to fair value measurements. For fair value measurements categorized as Level 3, a reporting entity should disclose quantitative information of the unobservable inputs and assumptions, a description of the valuation processes and narrative description of the sensitivity of the fair value to changes in unobservable inputs. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011, with early adoption prohibited. We do not believe the guidance will have a material impact on our condensed consolidated financial statements.

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Note 4 - 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 July 30, 2011, January 29, 2011, and July 31, 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 July 30, 2011				
Cash and short-term investments (1)	$35,211	$0	$ 0	$35,211
Credit and debit card receivables (2)	8,885	0	0	8,885
	$44,096	$0	$ 0	$44,096
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 July 31, 2010				
Cash (1)	$32,363	$0	$ 0	$32,363
Credit and debit card receivables (2)	8,197	0	0	8,197
	$40,560	$0	$ 0	$40,560

(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.

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Impaired long-lived assets were measured at fair value on a non-recurring basis using Level 3 inputs as defined in the fair value hierarchy. During the thirteen and twenty six-weeks ended July 30, 2011, long-lived assets held and used with a gross carrying amount of $537,000 were written down to their fair value of $320,000, resulting in an impairment charge of $217,000, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of $84,000. During the thirteen-weeks ended July 31, 2010, there were no impairments recorded on long-lived assets held and used. During the twenty six-weeks ended July 31, 2010, long-lived assets held and used with a gross carrying amount of $7.2 million were written down to their fair value of $6.1 million, resulting in an impairment charge of $1.1 million, which was included in earnings for the period. Subsequent to this impairment, these long-lived assets had a remaining unamortized basis of $375,000.

Note 5 - Stock-Based Compensation

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 29, 2011	342,718	$14.70	2.25	3,393
Grants	0			
Forfeited or expired	0			
Exercised	(23,934)	14.55		
Outstanding July 30, 2011	318,784	$14.71	1.71	$5,380
Options outstanding at July 30, 2011, net of estimated forfeitures	318,729	$14.71	1.71	$5,379
Exercisable at July 30, 2011	316,283	$14.73	1.67	$5,332

The total fair value at grant date of previously non-vested stock options that vested during each of the twenty-six week periods ended July 30, 2011 and July 31, 2010 was $32,000. No stock options were granted during the first half of fiscal 2011 or fiscal 2010.

The following table summarizes information regarding options exercised:

(In thousands)	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Total intrinsic value (1)	$307	$32	$365	$230
Total cash received	$297	$12	$348	$325
Associated excess income tax benefits recorded	$117	$12	$139	$79

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

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The following table summarizes information regarding outstanding and exercisable options at July 30, 2011:

	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
11.44 – $13.68	156,984	2.28	$12.53	154,483	$12.53
13.87 – $17.12	161,800	1.16	$16.83	161,800	$16.83

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

(In thousands)	Thirteen Weeks Ended July 30, 2011 (1)	Thirteen Weeks Ended July 31, 2010 (1)	Twenty-six Weeks Ended July 30, 2011 (1)	Twenty-six Weeks Ended July 31, 2010 (1)
Stock-based compensation expense before the recognized income tax benefit	$8	$18	$17	$39
Income tax benefit	$3	$7	$6	$15

(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 July 30, 2011, there was approximately $3,000 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 0.4 years.

Restricted Stock Awards

The following table summarizes the share transactions for restricted stock awards:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 29, 2011	391,346	$19.91
Granted	141,393	25.62
Vested	(276,549)	20.83
Forfeited	(2,668)	25.72
Non-vested at July 30, 2011	253,522	$22.04

The total fair value at grant date of previously non-vested stock awards that vested during the first half of fiscal 2011 and the first half of fiscal 2010 was $5.8 million and $487,000, respectively. The weighted-average grant date fair value of stock awards granted during the twenty-six week period ended July 30, 2011 was $25.62. The weighted-average grant date fair value of stock awards granted during the twenty-six week period ended July 31, 2010 was $21.63.

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

(In thousands)	Thirteen Weeks Ended July 30, 2011 (1)	Thirteen Weeks Ended July 31, 2010 (1)	Twenty-six Weeks Ended July 30, 2011 (1)	Twenty-six Weeks Ended July 31, 2010 (1)
Stock-based compensation expense before the recognized income tax benefit	$522	$1,054	$1,655	$2,127
Income tax benefit	$200	$407	$632	$812

(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 July 30, 2011, there was approximately $3.7 million of unrecognized compensation expense remaining related to both our performance-based and service-based non-vested stock awards. The cost is expected to be recognized over a weighted average period of approximately 2.0 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 Condensed 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 29, 2011	50,686	$9.72	
Granted	0	0.00	
Forfeited or expired	(2,668)	9.72	
Exercised	0	0.00	
Outstanding at July 30, 2011	48,018	$9.72	2.37
Exercisable at July 30, 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 $9.40 as of July 30, 2011.

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

	July 30, 2011
Risk free interest rate yield curve	0.16% -1.35 %
Expected dividend yield	0.0 %
Expected volatility	58.46 %
Maximum life	2.39 Years
Exercise multiple	1.71
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)	Thirteen Weeks Ended July 30, 2011 (1)	Thirteen Weeks Ended July 31, 2010 (1)	Twenty-six Weeks Ended July 30, 2011 (1)	Twenty-six Weeks Ended July 31, 2010 (1)
Stock-based compensation expense before the recognized income tax benefit	$60	$36	$132	$215
Income tax benefit	$23	$14	$50	$82

(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 July 30, 2011, there was approximately $64,000 in unrecognized compensation expense related to non-vested SARs. The cost is expected to be recognized over a weighted-average period of approximately 0.4 years.

Employee Stock Purchase Plan

The following table summarizes information regarding stock-based compensation expense recognized for the employee stock purchase plan:

(In thousands)	Thirteen Weeks Ended July 30, 2011 (1)	Thirteen Weeks Ended July 31, 2010 (1)	Twenty-six Weeks Ended July 30, 2011 (1)	Twenty-six Weeks Ended July 31, 2010 (1)
Stock-based compensation expense before the recognized income tax benefit (2)	$7	$5	$19	$16
Income tax benefit	$3	$2	$7	$6

(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)