SHOE CARNIVAL INC
Form DEF 14A
May 08, 2007

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. ___)

Filed by the Registrant	[X]
Filed by a Party other than the Registrant	[ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement
[ ]	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X]	Definitive Proxy Statement
[ ]	Definitive Additional Materials
[ ]	Soliciting Material Pursuant to §240.14a-12

SHOE CARNIVAL, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

May 8, 2007

Dear Shareholder:

On behalf of the Board of Directors and management, we wish to extend an invitation to you to attend our 2007 annual meeting of shareholders to be held on Tuesday, June 12, 2007 at the new corporate headquarters for Shoe Carnival, Inc. located at 7500 East Columbia Street, Evansville, Indiana. The meeting will begin promptly at 9:00 a.m. C.D.T.

In addition to the matters described in the Notice of Annual Meeting of Common Shareholders and Proxy Statement, I will be providing a report on the financial position of the Company and opening the floor for questions from shareholders.

The members of the Board and management look forward to your attendance. However, whether or not you plan to attend personally, and regardless of the number of shares you own, it is important that your shares be represented. Please be sure you are represented at the meeting by signing, dating and mailing your proxy card promptly. A postage-paid return envelope is enclosed for your convenience.

Thank you for your ongoing support of and continued interest in Shoe Carnival.

Sincerely,

Mark L. Lemond
President and Chief Executive Officer

SHOE CARNIVAL, INC.

NOTICE OF ANNUAL MEETING OF COMMON SHAREHOLDERS TO BE HELD ON JUNE 12, 2007

The annual meeting of common shareholders of Shoe Carnival, Inc. will be held at the new corporate headquarters for Shoe Carnival, Inc. located at 7500 East Columbia Street, Evansville, Indiana, on Tuesday, June 12, 2007, at 9:00 a.m., C.D.T., for the following purposes:

(1) To elect one director to serve until the 2010 annual meeting of shareholders and until his successor is elected and has qualified, as set forth in the accompanying Proxy Statement;

(2) To ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for fiscal 2007; and

(3) To transact such other business as may properly come before the meeting.

All common shareholders of record at the close of business on April 20, 2007 will be eligible to vote.

It is important that your stock be represented at this meeting. Whether or not you expect to be present, please fill in, date, sign and return the enclosed proxy form in the accompanying addressed, postage-paid envelope. If you attend the meeting, your proxy will be canceled at your request.

David A. Kapp, Secretary

TABLE OF CONTENTS

SHOE CARNIVAL, INC.
8233 Baumgart Road
Evansville, Indiana 47725

PROXY STATEMENT
Annual Meeting of Common Shareholders

June 12, 2007

Why am I receiving these proxy materials?

We are providing these proxy materials to you in connection with the solicitation by the Board of Directors of Shoe Carnival, Inc. (the Company, we, us or our) for proxies to be voted at the annual meeting of common shareholders. We are holding this annual meeting at 9:00 a.m., C.D.T., on Tuesday, June 12, 2007, at the new corporate headquarters for Shoe Carnival, Inc. located at 7500 East Columbia Street, Evansville, Indiana. The approximate date on which these proxy materials are first being sent to shareholders is on or about May 8, 2007.

What proposals will be voted on at the annual meeting?

There are two proposals scheduled to be voted on at the annual meeting:

- To elect one director to serve until the 2010 annual meeting of shareholders and until his successor is elected and has been qualified; and
- To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2007.

In addition, any other business that may properly come before the annual meeting will be considered and voted on. The Board of Directors currently knows of no additional business that is to be brought before the meeting. However, if other matters properly come before the meeting, the persons indicated on the enclosed proxy will vote that proxy based on their judgment on such matters.

How does the Board of Directors recommend that I vote on the proposals?

The Board of Directors recommends that you vote your shares "FOR" the election of Mr. Lemond as director (Proposal 1) and "FOR" the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2007 (Proposal 2).

Who may vote?

You may vote at the annual meeting or by proxy if you were a shareholder of record of the Company at the close of business on April 20, 2007, the record date for the meeting. As of April 20, 2007, there were 13,655,894 shares of our common stock outstanding and entitled to vote at the meeting. On all matters, including the election of the director, each common shareholder will have one vote for each share held.

What constitutes a quorum for the annual meeting?

In order to constitute a quorum, a majority of the votes entitled to be cast at the annual meeting must be present either in person or by proxy. Abstentions and broker non-votes will be considered as present for the purpose of determining a quorum.

It is possible that a proxy would indicate that not all shares represented by it are being voted for specific proposals. For example, a broker cannot vote shares held in street name on certain proposals when the owner of those shares has not provided instructions on how he or she would like them to be voted.

What vote is required for each of the proposals to be approved?

For Proposal 1, the director will be elected if he receives a plurality of the votes cast "FOR" his election.

Proposal 2 will be approved if more shares are voted "FOR" the proposal than "AGAINST." The number of shares voted as "ABSTAIN" will not affect the outcome of Proposal 2.

Broker non-votes will not affect the votes required to approve any of the proposals.

How do I vote my shares?

Voting of Shares Registered Directly in the Name of the Shareholder. If you hold shares of our common stock in your own name as the holder of record, you may vote your shares by signing, dating and mailing the proxy card in the postage-paid envelope that has been provided to you. Shares held directly in your name as the shareholder of record may also be voted in person at the annual meeting. If you choose to vote in person at the meeting, please bring proof of identification. Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance so that your vote will be counted if you later decide not to attend the meeting.

Voting of Shares Registered in the Name of a Brokerage Firm or Bank. If your shares of our common stock are held in "street name" through a brokerage account or by a bank or other nominee, you will receive instructions from your nominee which you must follow in order to have your shares voted. If you are a "street name" shareholder and you wish to vote in person at the annual meeting, you must obtain a legal proxy from the record holder giving you the right to vote the shares. Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance so that your vote will be counted if you later decide not to attend the meeting.

What if I return my proxy but do not provide voting instructions?

Your shares will be voted in accordance with your instructions as specified on your proxy card. If you sign and return your proxy card but do not give voting instructions, your shares will be voted FOR the election of the director nominee listed under Proposal 1 and FOR Proposal 2. If any other matters properly come before the meeting, the persons indicated on the enclosed proxy will vote that proxy based on their judgment on such matters.

-2-

May I revoke my proxy?

If you have executed and submitted your proxy, you may still revoke it at any time as long as it has not been exercised. Your proxy may be revoked by giving written notice of revocation to us, executing a subsequently dated proxy that is delivered to us, or attending the annual meeting and voting in person.

How are votes counted?

Votes cast by proxy or in person at the annual meeting will be counted and certified by representatives of our transfer agent, Computershare Trust Company N.A.

Where can I find the voting results of the annual meeting?

We will announce preliminary voting results at the annual meeting and publish final results in our Quarterly Report on Form 10-Q for the second quarter of fiscal 2007.

Who pays for the cost of proxy preparation and solicitation?

The cost of this solicitation of proxies will be borne by us. Proxies may also be solicited personally or by telephone, facsimile transmission or other electronic means of communication by our employees acting without additional compensation.

-3-

PROPOSAL NO. 1
ELECTION OF DIRECTOR

Nominee and Director Information

The Company currently has five directors divided into three classes. Each director holds office for a three-year term expiring at the annual meeting of shareholders held in the year that is three years after his election and thereafter until his successor is elected and qualified.

The shareholders will be asked to elect one director. Mark L. Lemond has been nominated by the Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, for election as director for a term to expire at the 2010 annual meeting of shareholders and until his successor is elected and qualified. Mr. Lemond has served as a director since 1988.

Name	Age	Present Principal Occupation	Director Since	Shares Beneficially Owned on March 16, 2007(1)		Percent of Class
NOMINEE FOR DIRECTOR (Nominee for a three-year term to expire at the annual meeting of shareholders in 2010)						
Mark L. Lemond	52	President and Chief Executive Officer of the Company	1988	660,050	(2)	4.7%
DIRECTORS CONTINUING IN OFFICE (Term expiring at the annual meeting of shareholders in 2008)						
J. Wayne Weaver	72	Chairman of the Board of the Company, Chairman and Chief Executive Officer of Jacksonville Jaguars, LTD (professional football franchise), and Chairman and Chief Executive Officer of LC Footwear, LLC (footwear distributor) (4)	1988	3,833,230	(3)	28.1%
Gerald W. Schoor	72	Merchant Banker (self-employed) (6)	1993	10,000	(5)	*
(Term expiring at the annual meeting of shareholders in 2009)						
William E. Bindley	66	Chairman of the Board of Bindley Capital Partners, LLC (private equity investment fund) (8)	1993	8,000	(7)	*
Kent A. Kleeberger	55	Senior Vice President, Chief Financial Officer of Dollar Tree Stores, Inc. (single price-point retailer) (10)	2003	3,000	(9)	*

* Less than 1%

(1) Does not include shares subject to options that are not presently exercisable (i.e., within 60 days after March 16, 2007).

(2) Includes 11,500 shares directly owned by Mr. Lemond's spouse, 31,667 shares of restricted stock as to which Mr. Lemond has voting but not dispositive power and 291,874 shares issuable upon the exercise of presently exercisable options granted under our 1993 Stock Option and Incentive Plan ("1993 Stock Option Plan") and our 2000 Stock Option and Incentive Plan ("2000 Stock Option Plan").

(3) Includes 1,916,615 shares directly owned by Mr. Weaver's spouse.

(4) Mr. Weaver also serves on the Board of Directors of Stein Mart, Inc., a chain of off-price retail stores. From 1978 until February 2, 1993, Mr. Weaver's principal occupation was as president and chief executive officer of Nine West Group, Inc., a designer, developer and marketer of women's footwear.

(5) Includes 3,000 shares held as co-trustee for the benefit of Mr. Schoor's spouse, 6,000 shares issuable upon the exercise of presently exercisable options granted under our Outside Directors Stock Option Plan and 500 shares of restricted stock as to which Mr. Schoor has voting but not dispositive power.

(6) Prior to January 1997, Mr. Schoor was employed as president of Corporate Finance Associates, St. Louis (financial intermediary) and as executive vice president of National Industrial Services, Inc. (industrial asset management company).

(7) Includes 6,000 shares issuable upon the exercise of presently exercisable options granted under our Outside Directors Stock Option Plan and 500 shares of restricted stock as to which Mr. Bindley has voting but not dispositive power.

(8) From 1968 until February 2001, Mr. Bindley's principal occupation was chairman of the board and chief executive officer of Bindley Western Industries, Inc., a pharmaceutical wholesale distribution company. From July 1994 until October 2005, Mr. Bindley served as chairman of the board for Priority Healthcare Corporation, a specialty pharmacy and pharmaceutical distributor, and from July 1994 until May 1997 he also served as chief executive officer. Mr. Bindley also serves on the board of directors of Kite Realty Group Trust, a real estate company.

(9) Includes 1,000 shares issuable upon the exercise of presently exercisable options granted under our Outside Directors Stock Option Plan and 500 shares of restricted stock as to which Mr. Kleeberger has voting but not dispositive power.

(10) Since July 2004, Mr. Kleeberger has served as senior vice president and chief financial officer for Dollar Tree Stores, Inc., a single price-point retailer. From March 1998 until June 2004, Mr. Kleeberger served in various financial positions with Too, Inc., an apparel retailer, most recently as executive vice president, chief financial officer, treasurer and secretary.

Unless otherwise indicated in a footnote to the preceding table, the principal occupation of each director has been the same for the last five years, and each director possesses sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by him. There is no family relationship between any of our directors or executive officers.

The Board of Directors recommends a vote FOR the director nominee listed above.

A majority of the directors are "independent directors" as defined by the listing standards of The NASDAQ Stock Market LLC (NASDAQ), and the Board of Directors has determined that such independent directors have no relationship with the Company that would interfere with the exercise of their independent judgment in carrying out the responsibilities of a director. The independent directors are Messrs. Bindley, Kleeberger and Schoor. Mr. Schoor has been designated as the Lead Director, and presides at all executive sessions of the non-management directors.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND COMMITTEES

Meetings and Committees

During fiscal 2006, the Board of Directors held five meetings, one of which was conducted via teleconference. Each director during fiscal 2006 attended at least 75% of the total board meetings and the meetings of the respective committees on which he served. Directors are expected to attend the annual meeting of shareholders each year, and each of our directors attended our 2006 Annual Meeting of Shareholders.

The Board of Directors has an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Each of the Committees operates pursuant to a written charter, which can be viewed on our website at www.shoecarnival.com under Investors--Corporate Governance.

The Audit Committee is comprised of three of our non-employee directors: Messrs. Kleeberger (Chair), Bindley and Schoor. Our Board of Directors has established the Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Board of Directors and the Audit Committee believe that the Audit Committee's current member composition satisfies the listing standards of NASDAQ governing audit committee composition, including the requirement that the audit committee members all be "independent" directors, as that term for audit committee members is defined in the listing standards of NASDAQ and Rule 10A-3 of the Exchange Act. The Board of Directors has also determined that Mr. Kleeberger qualifies as the "audit committee financial expert" as defined by the Securities and Exchange Commission rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee met seven times during fiscal 2006, with three of these meetings being conducted via teleconference. The Audit Committee is solely responsible for the selection and hiring of the independent registered public accounting firm to audit our books and records and preapproves audit and permitted non-audit services undertaken by the independent registered public accounting firm. The Audit Committee is also responsible for the review of our (i) financial reports and other financial information, (ii) systems of internal controls regarding finance, accounting, legal compliance and ethics, and (iii) auditing, accounting and financial reporting processes. The Audit Committee also approves all related-person transactions, including our relationships with LC Footwear, LLC and PL Footwear, Inc. The Audit Committee meets with management and the independent registered public accounting firm as necessary.

The Compensation Committee consists of three of our non-employee directors: Messrs. Bindley (Chair), Kleeberger and Schoor. Each of the members of the Compensation Committee is "independent", as such term for compensation committee members is defined in the listing standards of NASDAQ, each is a "Non-Employee Director" as defined in Rule 16b-3 under the Exchange Act and each is an "Outside Director" as defined by the regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Compensation Committee held three meetings during fiscal 2006. The Compensation Committee is responsible for reviewing, determining and establishing the salaries, bonuses and other compensation of our executive officers and directors. The Compensation Committee also administers our 1993 Stock Option Plan, 2000 Stock Option Plan, Employee Stock Purchase Plan and 2006 Executive Incentive Compensation Plan.

During fiscal 2006, none of the Compensation Committee members were involved in a relationship requiring disclosure as an interlocking executive officer/director or as our former officer or employee. In addition, none of the Compensation Committee members was involved in a relationship requiring disclosure under Item 404(a) of Regulation S-K.

The Nominating and Corporate Governance Committee (the "Nominating Committee") consists of three of our non-employee directors: Messrs. Schoor (Chair), Bindley and Kleeberger. Mr. Schoor assumed the Chair role in December 2006 due to the resignation of the prior Chair, James A. Aschleman. Mr. Aschleman resigned as a member of the Board of Directors effective October 10, 2006. Mr. Aschleman advised us that because of his affiliation with Baker & Daniels LLP, which provides legal services to us, he believed that he should no longer serve as a director. We intend to continue to use Baker & Daniels LLP for legal services. Mr. Aschleman's decision to resign from the Board of Directors was not due to any disagreement with us on any matter relating to our operations, policies or procedures. Mr. Kleeberger was appointed to the Nominating Committee at the December 2006 meeting. Each member of the Nominating Committee is "independent," as such term for nominating committee members is defined in the listing standards of NASDAQ.

The Nominating Committee met three times during fiscal 2006. The Nominating Committee exercises a leadership role in shaping our corporate governance and recommends to the Board corporate governance principles on a number of topics, including (i) Board organization, membership and function, (ii) committee structure and membership, and (iii) oversight of evaluation of the Board. As the nominating body of the Board, the Nominating

Committee also interviews, evaluates, nominates and recommends individuals for membership on the Board and on the various committees of the Board. The Nominating Committee identifies potential nominees for director based on specified objectives in terms of the composition of the Board, taking into account such factors as areas of expertise and geographic, occupational, gender, race and age diversity. Nominees will be evaluated on the basis of their experience, judgment, integrity, ability to make independent inquiries, understanding of the Company and willingness to devote adequate time to Board duties.

The Nominating Committee also will consider director candidates recommended by shareholders. A shareholder who wishes to recommend a director candidate for consideration by the Nominating Committee should send such recommendation to our Secretary at 8233 Baumgart Road, Evansville, Indiana 47725, who will forward it to the Nominating Committee. Any such recommendation should include a description of the candidate's qualifications for board service, the candidate's written consent to be considered for nomination and to serve if nominated and elected, and addresses and telephone numbers for contacting the shareholder and the candidate for more information. A shareholder who wishes to nominate an individual as a director candidate at an annual meeting of shareholders, rather than recommend the individual to the Nominating Committee as a nominee, must comply with the advance notice requirements set forth in our By-Laws, a copy of which may be obtained from our Secretary. A summary of such requirements is provided in this proxy statement under Shareholder Proposals for 2008 Annual Meeting.

CODE OF BUSINESS CONDUCT AND ETHICS

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

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Such persons are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to us and written representations from certain reporting persons, we believe that during fiscal 2006 all filing requirements applicable to our executive officers, directors and greater than 10% shareholders were timely satisfied, except that Mr. Lemond failed to timely report the donation of 300 shares to a charity.

EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

<u>Overview</u>

We are one of the nation's largest family footwear retailers, offering 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 ourself from our competitors by our distinctive, highly promotional in-store marketing effort and large stores that average 11,400 square feet, generate an average of approximately $2.5 million in annual sales and house an average inventory of approximately 29,000 pairs of shoes per location. As of February 3, 2007, we operated 271 stores in 24 states primarily in the Midwest, South and Southeast regions of the United States.

For this proxy statement, our Chief Executive Officer, Chief Financial Officer, Chairman of the Board and two additional executive officers are defined as the Named Executive Officers (the Executives). This section includes information regarding, among other things, compensation policies and programs and the material decisions made under those policies and programs that affect the Executives. This section should be read in conjunction with the detailed tables and narrative descriptions on pages 15 through 26.

Compensation Committee

Our Compensation Committee is responsible for establishing our compensation philosophy and strategies and has overall responsibility for approving and evaluating the director and officer compensation plans, policies and programs. Annually, the Compensation Committee reviews and approves corporate goals and objectives relevant to Executive compensation, evaluates each Executive's individual performance as well as the group's performance in light of these goals and objectives, and sets compensation levels based on this evaluation. The Compensation Committee believes that its obligation is to structure programs that best serve our interests and the interests of our shareholders. The Compensation Committee currently consists of three directors, none of whom is a current or former employee and each of whom are deemed independent as defined in the listing standards of NASDAQ.

Compensation Philosophy and Objectives of the Overall Compensation Program

Our compensation philosophy is to design programs to attract, retain and motivate the finest talent possible for all levels of the organization. In addition, the programs are designed to maintain a performance and achievement-oriented environment, to be cost-competitive, to treat all employees fairly and to maximize the tax deductibility of employee compensation. All programs have the following characteristics:

- Compensation is based on the level of job responsibility, the individual's level of performance and our performance. As employees assume greater responsibility, a larger portion of their total compensation should be at risk incentive compensation (both annual and long-term), subject to corporate and individual performance metrics.
- Compensation also takes into consideration the value of the job in the marketplace. To retain our highly skilled work force, we strive to remain competitive with the pay of employers who compete with us for talent.
- A combination of short-term compensation plans (base salaries and annual cash incentives) and the long-term equity based compensation plan (restricted stock awards and stock option grants) are utilized to incent Executives for creating shareholder value through the attainment of both short and long-term goals.

What The Compensation Program is Designed to Reward

The Compensation Committee emphasizes the relationship of compensation to performance. In evaluating our performance and the performances of the Executives, the Compensation Committee focuses primarily on increases in store growth, sales, operating income, net earnings and earnings per share as compared to both our financial plan for the year and our prior year performance.

Regarding most compensation matters, including Executive and director compensation, management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its functions to others in setting compensation. We do not currently utilize external consultants in Executive or director compensation matters; however, we do review comparisons to other retailers. Details of our review process are contained in Determination of Compensation Amounts on page 10.

Compensation Program Components, Why Each Component Is Chosen and How Each Component Relates To Our Compensation Philosophy and Objectives

The basic components of our Executive compensation program consist of base salary, annual cash incentives, long-term equity based incentives, and other benefits, which include retirement plans, health and welfare benefits, limited perquisites and other fringe benefits.

Base Salary

The base salary component provides for fixed compensation and rewards the core competencies of each Executive relative to skill set, experience, tenure and individual performance.

Annual Cash Incentives

We utilize a performance-based cash incentive program which is designed to reward the Executives' focus on meeting annual financial and individual goals that will lead to our long-term success. Under the 2006 Executive Incentive Compensation Plan, performance targets may be based on one or more of the following business criteria: annual return to shareholders, net income, net income before nonrecurring items, net sales, operating income, return on assets, return on equity, EPS, EBITDA, or EBITDA before nonrecurring items. Each of the foregoing business criteria may also be calculated before bonus expense.

The Compensation Committee annually selects the business criteria that performance targets will be based on, determines the minimum threshold, target and maximum performance target levels and sets the percentage of salary each Executive can earn for the Company's achievement of the performance target levels. The Compensation Committee utilizes financial projections prepared by management in setting the performance targets. These projections incorporate various assumptions related to attainable comparative store sales increases, merchandise gross margin, new store openings, and selling, general and administrative expense levels. The Compensation Committee intends for the performance targets to be challenging, but attainable. The parameters under which the program will be administered are established by the Compensation Committee, typically within the first 60 days of each fiscal year. Mr. Weaver, Chairman of our Board of Directors, did not participate in the 2006 Executive Incentive Compensation Plan in fiscal 2006 and will not participate in fiscal 2007.

We may also award discretionary cash bonuses to Executives for their work on special projects, for promotions or when the Compensation Committee seeks to align compensation levels more closely to market conditions.

Long-Term Equity Based Incentives

We consider equity compensation, in the form of restricted stock or stock options, to be an important element in the overall compensation of our Executives and other key employees. Equity based incentive awards which typically vest over time, or upon the achievement of long-term goals, help to retain Executives and encourage them to improve our long-term performance. This philosophy serves to more closely align the interests of the Executives with the interests of our shareholders.

We currently utilize performance-based restricted stock awards as our primary form of equity based incentive compensation. The vesting of these awards is tied to the attainment of defined increases in earnings per diluted share and reward the Executive for the creation of shareholder value. Up to 100% of the number of shares of restricted stock may be forfeited if the performance goals are not achieved within a six-year window of time. These awards are issued pursuant to the terms and conditions of the 2000 Stock Option Plan.

Prior to fiscal 2005, we utilized time-based stock option awards as our primary form of equity based incentive compensation. Stock options currently outstanding 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.

Mr. Weaver does not receive long-term equity based incentive awards.

Other Benefits

We provide the Executives with health and welfare programs, a 401(k) retirement plan, and employee benefit plans, programs and arrangements generally available to all employees. We also provide the Executives, along with all other officers of the Company, with other executive benefit programs and perquisites in order to provide a competitive executive compensation program and to foster executive retention.

The additional levels of benefits available to Executives include an executive life insurance program, an executive long-term disability program, additional medical benefits and a non-qualified deferred compensation plan. The life insurance and long-term disability programs are designed to provide Executives with life and disability benefits greater than the benefits available under our standard broad-based life insurance and long term disability programs. The additional medical benefits serve to supplement our standard health benefits program and provide additional reimbursement of out-of-pocket expenses including co-payments and deductibles. The non-qualified deferred compensation plan is offered to the Executives due to the federally mandated maximum deferral limitation under our 401(k) plan. The non-qualified deferred compensation plan provides benefits comparable to those which would be available under the qualified plan if the federal regulations did not include limits on covered compensation and benefits. Further details on the non-qualified deferred compensation plan can be found under Non-Equity Based Compensation on page 19.

In addition, we currently offer limited perquisites to each Executive that include a leased vehicle and a country club membership.

Mr. Weaver does not participate in any of the Company sponsored benefit plans, nor does he receive any perquisites.

During January 2007, we completed negotiations with Mr. Lemond to terminate his split-dollar life insurance arrangement that had been entered into in 1999. Under the arrangement, the life insurance policy provided insurance in the amount of $1.0 million payable on the death of the last to survive of Mr. Lemond and his spouse. The proceeds of the policy were to be utilized to reimburse us for the premiums we had paid on the policy, with the balance payable to the estate of Mr. Lemond or his spouse. In connection with the termination of the agreement, we were reimbursed for the $82,890 in premiums that were previously paid by us, we released all of our interests in the policy and Mr. Lemond was paid a bonus in the amount of $144,471. The bonus represented the amount utilized to reimburse us for the premiums we paid and the tax liability to be incurred by Mr. Lemond in connection with the bonus. Termination of the split-dollar arrangement is expected to save us approximately $35,205 per year. This compensation paid to Mr. Lemond is included in the Summary Compensation Table in the All Other Compensation column.

Determination of Compensation Amounts

It is the Compensation Committee's intention to set total Executive compensation at a level to attract and retain a talented and motivated leadership team and balance the perception of other stakeholders that Executive compensation is reasonably competitive. In making compensation decisions, the Compensation Committee reviews executive compensation practices within the retail and footwear industries with consideration given to, among other factors, differences in sales, growth rates and total market capitalization. Our retail peer group consists of leading apparel retailers with sales greater than $350 million and less than $1.5 billion. Our footwear peer group consists of leading footwear retailers. We do not limit our comparisons to only footwear retailers as our competition for talent falls within a wide range of companies and industries.

-10-

A tally sheet is also utilized by the Compensation Committee to review the total compensation package provided to the Executives for the current and prior two fiscal years. The tally sheet sets forth the dollar amounts of all components including base salary, annual cash incentives, long-term equity based incentives, the incremental expense related to the additional level of benefits provided to Executives and perquisites.

Executives are compensated through a combination of short-term compensation components (base salary and annual cash incentives) and long-term equity based incentives. The determination by the Compensation Committee of the ratio of short-term and long-term compensation components is determined in part by using the industry data and the tally sheet. Accordingly, we do not have a specific policy for the allocation of compensation between short and long-term components or cash and equity based compensation. The Compensation Committee establishes all performance targets associated with compensation program components in a manner to encourage achievement of continuing increases in shareholder value. In setting total compensation, the Compensation Committee applies a consistent approach for all Executives and applies appropriate business judgement in how it applies the standard approaches to the facts and circumstances associated with each Executive.

The peer group information and tally sheets are compiled by the management of Shoe Carnival and provided to the Compensation Committee for its use. Amounts earned by each Executive in fiscal 2004, 2005 and 2006 are detailed in the Summary Compensation Table following this section.

Our current peer groups are comprised of the following companies:

Retail Companies With Sales Greater Than $350 Million and Less Than $1.5 Billion

Aeropostale Inc.	Mothers Work, Inc.	The Wet Seal, Inc.
Casual Male Retail Group, Inc.	Stage Stores, Inc.	Tween Brands Inc.
Charlotte Russe Holding, Inc.	The Buckle, Inc.	United Retail Group, Inc.
Chico's FAS, Inc.	The Cato Corporation	Urban Outfitters, Inc.
Christopher & Banks Corp.	The Dress Barn, Inc.	Wilsons The Leather Experts, Inc.
Hot Topic, Inc.	The Gymboree Corporation	

Footwear Companies

Brown Shoe Company, Inc.	Payless ShoeSource, Inc.
DSW Inc.	Skechers U.S.A., Inc.
Foot Locker, Inc.	Steven Madden, Ltd.
Genesco Inc.	The Finish Line, Inc.
Kenneth Cole Productions, Inc	The Stride Rite Corporation
K-Swiss Inc.	The Timberland Company
Nike, Inc.	Wolverine World Wide, Inc.

Base Salary

The Compensation Committee reviews and approves salaries for the Chief Executive Officer and other Executives on an annual basis or at other times as necessary to accommodate the hiring of new employees, promotions or other considerations. The Chief Executive Officer provides recommendations to the Compensation Committee for those reporting directly to him. Recommended base salaries are reviewed and set based on a number of factors, including job responsibilities, individual industry experience, individual performance, the Company's performance and industry data for comparable positions. No predetermined weight is given to any of the above factors.

Salary increases for the Executives have averaged approximately 4.5% annually for the past three years. Certain Executives have received greater salary increases corresponding to expanded responsibilities as a result of our continued growth. In particular, we have increased Mr. Jackson's salary significantly in order to make his compensation more competitive and to reflect his increasing responsibilities.

Annual Cash Incentives

A portion of the annual cash compensation of Executives for fiscal 2006 consisted of a performance-based bonus payment pursuant to the 2006 Executive Incentive Compensation Plan. For fiscal 2006, the Compensation Committee selected the Company's operating income before bonus expense (Operating Income) as the business criteria for all officers included in the plan and established the minimum threshold, target and maximum performance target levels. The following table reflects the percentage of salary each Executive could earn based upon the achievement of the various target levels of Operating Income.

	Percentage of Annual Salary		
Name	Threshold	Target	Maximum
Mark L. Lemond	0%	45%	60%

Timothy T. Baker	0%	35%	50%
W. Kerry Jackson	0%	35%	50%
Clifton E. Sifford	0%	35%	50%

The minimum threshold for fiscal 2006 was the Operating Income achieved by the Company in fiscal 2005. Once the minimum threshold was met, the Executives earned an incremental bonus, as a percentage of their base salary, as the fiscal 2006 Operating Income exceeded the fiscal 2005 level. Upon achievement of the target Operating Income, which for fiscal 2006 was a 19.1% increase in Operating Income from fiscal 2005, each Executive would earn his target bonus, and with the achievement of 120% of the target Operating Income, each Executive would earn his maximum allowable bonus, each as set forth above. For fiscal 2006, our target Operating Income was not achieved, but our Operating Income was in excess of that achieved in fiscal 2005. As a result, Mr. Lemond's calculated bonus under the plan was approximately 16.4% of his base salary. Calculations for Messrs. Baker, Jackson and Sifford resulted in bonuses of approximately 11.1% of each of their respective base salaries. The Compensation Committee met on March 13, 2007 to review our financial results and approved the payments as earned under this program.

During fiscal 2006, we undertook a number of infrastructure enhancement projects, one of which was the relocation to a new distribution center. Our Chief Financial Officer, Kerry Jackson, supervised this project and worked with our landlord to construct and successfully transition to the new distribution center in approximately 12 months. The Compensation Committee, during its March 2007 meeting, approved a discretionary bonus of $40,000 to reward Mr. Jackson for his efforts. No other Executive was awarded a discretionary bonus for fiscal 2006.

Long-Term Equity Based Incentives

Incentive awards are granted pursuant to the 2000 Stock Option Plan at the discretion of our Compensation Committee. The Compensation Committee relies in large part on the recommendation of the Chairman and Chief Executive Officer in determining the number of incentive awards to be granted to Executives. The Chairman and Chief Executive Officer make this assessment based on individual and Company performance. Consideration is also given to the dilutive effect of the proposed grant on the Company's shares outstanding. With the exception of new employees and promotions, incentive awards are typically granted on an annual basis at the Compensation Committee's regularly scheduled meeting in March of each year. This meeting is scheduled in advance and occurs before the release of our fourth quarter and annual earnings.

Based on individual and Company performance in fiscal 2005, the Compensation Committee granted an aggregate of 19,500 shares of performance-based restricted stock to Executives, excluding Mr. Weaver, at the regularly scheduled Board meeting on March 13, 2006. One-third of these restricted shares vest upon the achievement of each of three different levels of annual earnings per diluted share. Any restricted shares that are unvested after six fiscal years will be forfeited. The Compensation Committee seeks to set performance goals that lead to realistic, yet challenging levels of increases in diluted earnings per share. No other forms of equity-based compensation were awarded to the Executives during fiscal 2006.

Deductibility of Compensation and Other Related Issues

Section 162(m) of the Internal Revenue Code generally provides that publicly held companies may not deduct compensation paid to an Executive to the extent such compensation exceeds $1 million per officer in any year. However, pursuant to regulations issued by the Treasury Department, certain limited exceptions to Section 162(m) apply with respect to qualified performance-based compensation. Our Compensation Committee believes that tax deductibility is an important factor when evaluating executive compensation and has taken steps to provide that these exceptions will generally apply to incentive compensation paid to its Executives. However, our Compensation Committee may exercise its discretion to provide base salaries or other compensation that may not be fully tax deductible to us.

The Sarbanes-Oxley Act of 2002 subjects our Chief Executive Officer and our Chief Financial Officer to forfeiture of incentive compensation and profits from the sale of stock in the event of an accounting restatement associated with non-compliance, as a result of misconduct, with any financial reporting requirement under securities laws. Our Compensation Committee has not adopted at this time any additional forfeiture provisions for incentive compensation.

Termination and Change-in-Control Arrangements

During December 2006, we entered into negotiations with Messrs. Lemond, Baker and Sifford to replace their existing employment and noncompetition agreements with new agreements. Our objective was to make the agreements more in line with general industry practices. We also entered into negotiations with Mr. Jackson to arrive at an agreement covering his employment. We believe that employment and noncompetition agreements serve to ensure the continued dedication of the Executive team and minimize the likelihood of the transfer of trade secrets to our direct competitors.

Each Executive was covered by an employment and noncompetition agreement at February 3, 2007, which specifies various payments to be made to the Executive in the event his employment is terminated. The type and amount of payments vary by Executive and the nature of the termination. We believe these severance benefits are competitive with general industry practices.

Mr. Lemond's employment and noncompetition agreement does not contain a specific change-in-control provision; however, it does contain an assignment clause which requires any successor company to assume the agreement. Therefore, upon a change-in-control of the Company, the terms of the triggering events would still apply upon Mr. Lemond's termination from the Company. Messrs. Baker, Jackson and Sifford's individual employment and noncompetition agreements do contain specific types and amounts of payment in the event of a change-in-control.

Further information on termination and change-in-control arrangements is contained beginning on page 20.

Fiscal 2007 Executive Compensation

The Compensation Committee met on March 13, 2007 and completed its review and approval of the fiscal 2007 corporate goals and objectives relevant to Executive compensation, evaluated each Executive's individual performance as well as the group's performance in light of these goals and objectives, and set compensation levels for fiscal 2007 based on this evaluation. This process was consistent with that performed in fiscal 2006.

As a result of this review process, the Compensation Committee also granted an aggregate of 56,000 shares of performance-based restricted stock to Executives (excluding Mr. Weaver). One-third of these restricted shares vest upon the achievement of each of three different levels of annual earnings per diluted share. Any restricted shares that are unvested after six fiscal years will be forfeited. The Compensation Committee seeks to set performance goals that lead to realistic, yet challenging levels of increases in diluted earnings per share. No other forms of equity based compensation were awarded to the Executives.

For fiscal 2007, the Compensation Committee selected our Operating Income as the business criteria for all officers included in the 2006 Executive Incentive Compensation Plan and established the minimum threshold, target and maximum performance target levels. The following table reflects the percentage of salary each Executive could earn based upon the achievement of the various target levels of Operating Income.

	Percentage of Annual Salary		
Name	Threshold	Target	Maximum
Mark L. Lemond	0%	60%	100%
Timothy T. Baker	0%	45%	75%
W. Kerry Jackson	0%	45%	75%
Clifton E. Sifford	0%	45%	75%

The minimum threshold for fiscal 2007 was selected as the Operating Income achieved in fiscal 2006. If the minimum threshold is met, the Executives will earn an incremental bonus, as a percentage of their base salary, as the fiscal 2007 Operating Income exceeds the fiscal 2006 level. Upon achievement of the target Operating Income for fiscal 2007, each Executive would earn his target bonus, and with the achievement of 120% of the target Operating Income, each Executive would earn his maximum allowable bonus, each as set forth above. The performance targets selected are challenging, but the Compensation Committee believes they are attainable. Achievement of these goals will be reviewed by the Compensation Committee at the March 2008 Board meeting.

The above actions of the Compensation Committee were filed in a Current Report on Form 8-K on March 19, 2007 with the Securities and Exchange Commission.

Compensation Committee Report

We have reviewed and discussed with Company management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K under the Exchange Act. Based on the review and discussion referred to above, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 and in our Proxy Statement for the 2007 Annual Meeting of Shareholders for filing under the Exchange Act.

Compensation Committee

William E. Bindley (Chair)
Gerald W. Schoor
Kent A. Kleeberger

Summary Compensation Table

The following table sets forth a summary of the compensation paid by us for services rendered in all capacities to us during each of the three most recent fiscal years, to our Chief Executive Officer, Chief Financial Officer, and to each of our three other most highly compensated executive officers, based on total compensation earned in fiscal 2006.

Summary Compensation Table

Non-Equity