

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

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 27, 2012.

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: 001-35600

Five Below, Inc.

(Exact name of Registrant as Specified in its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

75-3000378
(I.R.S. Employer
Identification No.)

1818 Market Street, Suite 1900
Philadelphia, PA
(Address of Principal Executive Offices)

19103
(Zip Code)

(215) 546-7909
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of November 29, 2012 was 53,971,930.

FIVE BELOW, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIVE BELOW, INC.

Balance Sheets
(Unaudited)
(in thousands, except share data)

	October 27, 2012	January 28, 2012	October 29, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 7,245	\$ 41,293	\$ 1,767
Inventories	84,399	38,790	57,573
Prepaid income taxes	9,951	—	—
Deferred income taxes	—	4,863	3,031
Prepaid expenses and other current assets	12,250	7,303	7,928
Total current assets	113,845	92,249	70,299
Property and equipment, net	54,086	42,040	40,192
Deferred income taxes	—	—	164
Other assets	1,083	238	222
	<u>\$ 169,014</u>	<u>\$ 134,527</u>	<u>\$ 110,877</u>
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities:			
Line of credit	\$ —	\$ —	\$ —
Accounts payable	40,250	23,588	27,774
Income taxes payable	—	9,139	1,732
Accrued salaries and wages	1,693	9,254	1,536
Other accrued expenses	11,472	7,961	10,737
Deferred income taxes	1,710	—	—
Total current liabilities	55,125	49,942	41,779
Notes payable	34,500	250	250
Deferred rent	27,773	20,933	20,777
Deferred income taxes	2,216	1,306	—
Total liabilities	<u>119,614</u>	<u>72,431</u>	<u>62,806</u>
Commitments and contingencies (note 4)			
Preferred stock, \$0.01 par value. Authorized 100,000,000 shares; 10,000,000 shares undesignated; 90,000,000 shares designated as Series A 8% Convertible Preferred Stock, \$0.01 par value. Issued and outstanding zero, 89,291,773 and 89,291,773 shares, respectively, with a liquidation preference of zero, \$214,420 and \$210,210, respectively.	—	191,855	191,855
Shareholders' equity (deficit):			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 53,972,006, 16,248,797 and 16,084,358 shares, respectively.	540	162	161
Additional paid-in capital	268,499	3,691	2,094
Accumulated deficit	(219,639)	(133,612)	(146,039)
Total shareholders' equity (deficit)	<u>49,400</u>	<u>(129,759)</u>	<u>(143,784)</u>
	<u>\$ 169,014</u>	<u>\$ 134,527</u>	<u>\$ 110,877</u>

See accompanying notes to financial statements.

FIVE BELOW, INC.

Statements of Operations
(Unaudited)

(in thousands, except share and per share data)

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	\$ 86,587	\$ 61,895	\$ 245,236	\$ 171,288
Cost of goods sold	59,656	43,522	166,538	118,317
Gross profit	26,931	18,373	78,698	52,971
Selling, general and administrative expenses	25,090	17,634	74,087	46,883
Operating income	1,841	739	4,611	6,088
Interest expense, net	550	6	1,829	8
Loss on debt extinguishment	7	—	1,594	—
Other income	—	—	(258)	—
Income before income taxes	1,284	733	1,446	6,080
Income tax expense	555	293	627	2,429
Net income	729	440	819	3,651
Dividend paid to preferred and unvested restricted shareholders	—	—	(65,403)	—
Series A 8% Convertible Preferred Stock cumulative dividends	—	(3,964)	—	(11,703)
Net income attributable to participating securities	(19)	—	—	—
Net income (loss) attributable to common shareholders	\$ 710	\$ (3,524)	\$ (64,584)	\$ (8,052)
Basic income (loss) per common share	\$ 0.01	\$ (0.22)	\$ (2.21)	\$ (0.51)
Diluted income (loss) per common share	\$ 0.01	\$ (0.22)	\$ (2.21)	\$ (0.51)
Dividends declared and paid per common share	\$ —	\$ —	\$ 2.02	\$ —
Weighted average shares outstanding:				
Basic shares	52,565,576	15,884,527	29,282,385	15,845,372
Diluted shares	52,959,169	15,884,527	29,282,385	15,845,372

See accompanying notes to financial statements.

FIVE BELOW, INC.
Statement of Changes in Convertible Preferred Stock and Shareholders' Equity (Deficit)
(Unaudited)
(in thousands, except share data)

	Series A 8% Convertible Preferred Stock		Shareholders' Equity (Deficit)				Total shareholders' equity (deficit)
	Shares	Amount	Shares	Amount	Additional paid-in capital	Accumulated deficit	
Balance, January 28, 2012	89,291,773	\$ 191,855	16,248,797	\$ 162	\$ 3,691	\$(133,612)	\$ (129,759)
Issuance of warrants to purchase common stock to professional service providers	—	—	—	—	43	—	43
Stock-based compensation expense	—	—	2,027,678	20	10,137	—	10,157
Exercise of warrants to purchase common stock	—	—	23,012	1	200	—	201
Vesting of restricted shares related to stock option exercises	—	—	—	—	719	—	719
Repurchase of unvested restricted shares related to stock option exercises	—	—	(30,126)	—	3	—	3
Conversion of Preferred Stock	(89,291,773)	(191,855)	30,894,953	309	191,546	—	191,855
Issuance of common stock, net of issuance costs of \$8,467	—	—	4,807,692	48	73,215	—	73,263
Dividend paid to shareholders	—	—	—	—	(12,605)	(86,846)	(99,451)
Excess tax benefit related to restricted shares	—	—	—	—	1,550	—	1,550
Net income	—	—	—	—	—	819	819
Balance, October 27, 2012	—	\$ —	53,972,006	\$ 540	\$ 268,499	\$(219,639)	\$ 49,400

See accompanying notes to financial statements.

FIVE BELOW, INC.
Statements of Cash Flows
(Unaudited)
(in thousands)

	Thirty-nine weeks ended	
	October 27, 2012	October 29, 2011
Operating activities:		
Net income	\$ 819	\$ 3,651
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,841	5,001
Gain on conversion of note payable	(200)	—
Loss on debt extinguishment	1,594	—
Amortization of deferred financing costs	387	21
Warrant expense related to professional service providers for services rendered	43	31
Stock-based compensation expense	10,157	839
Deferred income tax expense	7,483	418
Other	(71)	322
Changes in operating assets and liabilities:		
Prepaid income taxes	(9,951)	20
Inventories	(45,609)	(30,819)
Prepaid expenses and other assets	(5,008)	(3,872)
Accounts payable	16,662	17,376
Income taxes payable	(9,139)	1,591
Accrued salaries and wages	(7,561)	(507)
Deferred rent	7,499	6,054
Other accrued expenses	2,207	5,025
Net cash (used in) provided by operating activities	<u>(23,847)</u>	<u>5,151</u>
Investing activities:		
Capital expenditures	(17,442)	(15,397)
Net cash used in investing activities	<u>(17,442)</u>	<u>(15,397)</u>
Financing activities:		
Borrowing under Term Loan Facility	100,000	—
Repayment of Term Loan Facility	(65,500)	—
Cash paid for debt financing costs	(2,751)	—
Repayment of note payable	(50)	—
Dividend paid to shareholders	(99,451)	—
Net proceeds from issuance of common stock	73,259	—
Proceeds from exercise of warrants to purchase common stock	201	—
Repurchase of unvested restricted shares related to stock option exercises	(17)	(140)
Excess tax benefit related to restricted shares	1,550	—
Net cash provided by (used in) financing activities	<u>7,241</u>	<u>(140)</u>
Net decrease in cash and cash equivalents	(34,048)	(10,386)
Cash and cash equivalents at beginning of period	41,293	12,153
Cash and cash equivalents at end of period	<u>\$ 7,245</u>	<u>\$ 1,767</u>

See accompanying notes to financial statements.

FIVE BELOW, INC.

Notes to Financial Statements
(Unaudited)

(in thousands, except store, share, per share and price data)

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Five Below, Inc. (the “Company”) is a specialty value retailer offering merchandise targeted at the teen and pre-teen demographic. The Company offers an edited assortment of products, priced at \$5 and below. The Company’s edited assortment of products includes select brands and licensed merchandise. The Company believes its merchandise is readily available, and that there are a number of potential vendors that could be utilized, if necessary, under approximately the same terms the Company is currently receiving; thus, it is not dependent on a single vendor or a group of vendors.

The Company is incorporated in the Commonwealth of Pennsylvania and as of October 27, 2012 operated 243 stores in Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Massachusetts, New Hampshire, West Virginia, North Carolina, New York, Connecticut, Rhode Island, Ohio, Illinois, Indiana, Michigan, Missouri and Georgia, each operating under the name “Five Below.”

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. The period from January 29, 2012 to February 2, 2013 consists of a 53-week fiscal year and is referenced as fiscal 2012 and the period from January 30, 2011 to January 28, 2012 consists of a 52-week fiscal year and is referenced as fiscal 2011. The fiscal quarters ended October 27, 2012 and October 29, 2011 refer to the 13-week periods ended as of those dates. The year-to-date periods ended October 27, 2012 and October 29, 2011 refer to the 39-week periods ended as of those dates.

(c) Basis of Presentation

The balance sheets as of October 27, 2012 and October 29, 2011, statements of operations for the thirteen weeks and thirty-nine weeks ended October 27, 2012 and October 29, 2011, the statement of changes in convertible preferred stock and shareholders’ equity (deficit) for the thirty-nine weeks ended October 27, 2012 and the statements of cash flows for the thirty-nine weeks ended October 27, 2012 and October 29, 2011 have been prepared by the Company in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim reporting and are unaudited. In the opinion of management, the financial statements include all known adjustments (which consist primarily of normal, recurring accruals, estimates and assumptions that impact the financial statements) necessary to present fairly the financial position at the balance sheet dates and the results of operations and cash flows for the periods ended October 27, 2012 and October 29, 2011. The balance sheet as of January 28, 2012, presented herein, has been derived from the audited balance sheet included in the Company’s prospectus, as amended, filed with the Securities and Exchange Commission (“SEC”) pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on July 19, 2012, and referred to herein as the “Prospectus,” but does not include all disclosures required by U.S. GAAP. These financial statements should be read in conjunction with the financial statements for the fiscal year ended January 28, 2012 and footnotes thereto included in the Prospectus. The results of operations for the thirteen weeks and thirty-nine weeks ended October 27, 2012 and October 29, 2011 are not necessarily indicative of operating results for the year ending February 2, 2013 or any other period.

On July 17, 2012, the Company amended its articles of incorporation to reflect a 0.3460-for-1 reverse stock split of its common stock. The amendment also changed the authorized shares of the Company’s common stock to 120,000,000 shares. Concurrent with the reverse stock split, the Company adjusted (i) the conversion price of its Series A 8% Convertible Preferred Stock, (ii) the number of shares subject to and the exercise price of its outstanding stock option awards under its equity incentive plan and (iii) the number of shares subject to and the exercise price of its outstanding warrants to equitably reflect the split. All common stock share and per-share data included in these financial statements give effect to the reverse stock split and the change in authorized shares and have been adjusted retroactively for all periods presented.

(d) Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU No. 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and international financial reporting standards (“IFRS”) and change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of the new requirements of ASU No. 2011-04 did not have an impact on the Company’s financial position or results of operations.

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(e) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation at the measurement date:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than Level 1, that are either directly or indirectly observable.

Level 3: Unobservable inputs developed using the Company's estimates and assumptions which reflect those that market participants would use.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement.

The Company's financial instruments consist primarily of cash equivalents, accounts payable, and borrowings under a line of credit and Term Loan Facility (as defined in note 3). The Company believes that: (1) the carrying value of cash equivalents and accounts payable are representative of their respective fair value due to the short-term nature of these instruments; (2) the carrying value of the borrowings under the line of credit approximates their fair value because the line of credit's interest rates vary with market interest rates; and (3) the carrying value of the borrowings under the Term Loan Facility approximates fair value because the debt's interest component varies with market interest rates. The Company considers the inputs utilized to determine the fair value of the borrowings under the Term Loan Facility to be Level 2 inputs. At October 27, 2012, January 28, 2012 and October 29, 2011, the Company had cash equivalents of \$622, \$41,023 and \$8, respectively. The Company's cash equivalents consist of credit card receivables and a money market account for which fair value was determined based on Level 1 inputs.

(2) Income (Loss) Per Common Share

Basic income (loss) per common share amounts are calculated using the weighted-average number of common shares outstanding for the period. Diluted income (loss) per common share amounts are calculated using the weighted-average number of common shares outstanding for the period and include the dilutive impact of preferred stock using the if-converted method and exercise of stock options and warrants as well as assumed lapse of restrictions on restricted stock awards using the treasury stock method.

The two-class method is used to calculate basic and diluted income (loss) per common share since the Company's preferred and restricted stock are participating securities under Accounting Standards Codification ("ASC") 260 *Earnings per share*. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, basic income (loss) per common share is computed by dividing net income (loss) attributable to common shares after allocation of income to participating securities by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per common share is computed using the more dilutive of the two-class method or the if-converted method. In periods of net loss, no effect is given to participating securities since they do not contractually participate in the losses of the Company. The two-class method is the more dilutive method for the thirteen and thirty-nine weeks ended October 27, 2012 and October 29, 2011.

The following table reconciles the weighted average common shares outstanding used in the computations of basic and diluted income (loss) per share:

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Numerator:				
Net income	\$ 729	\$ 440	\$ 819	\$ 3,651
Dividend paid to preferred shareholders	—	—	(62,504)	—
Dividend paid to unvested restricted shareholders	—	—	(2,899)	—
Series A 8% Convertible Preferred Stock cumulative dividends	—	(3,964)	—	(11,703)
Net income attributable to participating securities	(19)	—	—	—
Net income (loss) attributable to common shareholders	<u>\$ 710</u>	<u>\$ (3,524)</u>	<u>\$ (64,584)</u>	<u>\$ (8,052)</u>
Denominator:				
Weighted-average common shares outstanding - basic	52,565,576	15,884,527	29,282,385	15,845,372
Dilutive impact of options	393,593	—	—	—
Weighted-average common share outstanding - diluted	<u>52,959,169</u>	<u>15,884,527</u>	<u>29,282,385</u>	<u>15,845,372</u>
Per common share:				
Basic income (loss) per common share	\$ 0.01	\$ (0.22)	\$ (2.21)	\$ (0.51)
Diluted income (loss) per common share	\$ 0.01	\$ (0.22)	\$ (2.21)	\$ (0.51)

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As discussed above, the Company is required to use the two-class method to compute basic and diluted income (loss) per common share. During the thirty-nine weeks ended October 27, 2012 and the thirteen and thirty-nine weeks ended October 29, 2011, the dividends paid or accumulated to preferred and unvested restricted shareholders reduced undistributed earnings, to be allocated between common shares and participating securities, to zero, for purposes of calculating net income per share using the two-class method. As such, net losses were solely attributable to common shareholders.

For the thirteen and thirty-nine weeks ended October 29, 2011, preferred stock that could be converted to 30,894,953 shares of common stock were not included in the computations of diluted earnings per share, as the effect of doing so would have been anti-dilutive. The preferred stock was converted to common stock on July 24, 2012 and was included in the computation of income (loss) per share during the thirteen and thirty-nine weeks ended October 27, 2012 on a weighted-average basis.

For the thirteen weeks ended October 27, 2012, the effects of the assumed exercise of combined stock options and warrants of 15,668, were excluded from the calculation of diluted net income as their impact would have been anti-dilutive.

The effects of the assumed exercise of combined stock options and warrants and vesting of restricted share awards of 2,553,707 shares of common stock for the thirty-nine weeks ended October 27, 2012 and 2,724,839 shares of common stock for the thirteen and thirty-nine weeks ended October 29, 2011 were excluded from the calculation of diluted net loss as the effect would be anti-dilutive due to the net losses attributable to common shareholders. The aforementioned excluded shares do not reflect the impact of any incremental repurchases under the treasury stock method.

(3) Financing Transactions, Line of Credit and Note Payable

Financing Transactions

On May 16, 2012, the Company entered into a \$100,000 term loan facility with Goldman Sachs Bank USA as administrative agent for a syndicate of lenders (the "Term Loan Facility"). The Company used the net proceeds from the Term Loan Facility and cash on hand to pay a dividend on its common and preferred stock (note 5), totaling \$99,451. On the same day, the Company amended and restated its existing senior secured Revolving Credit Facility with Wells Fargo Bank, National Association, which is defined below under "—Line of Credit." The Company refers to the Term Loan Facility, the Revolving Credit Facility and related transactions as the "Financing Transactions."

The Term Loan Facility provided for a term loan of \$100,000 and matures on the earlier of (i) May 16, 2015 and (ii) the date on which such facility is accelerated following the occurrence of an event of default. The Term Loan Facility provides for interest on borrowings, at the option of the Company, at an alternate base rate which is the greater of (i) the administrative agent's prime rate in effect on such day and (ii) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor, plus a margin of 3.25%, or a London Interbank Offer Rate ("LIBOR") based rate with a 1.00% floor plus a margin of 4.25%. The credit agreement for the Term Loan Facility includes a maximum consolidated net leverage ratio financial covenant, the calculation of which allows the Company to net up to \$10,000 of its cash and cash equivalents against its indebtedness. The Company's leverage ratio must not exceed 3.25x for the testing periods in calendar year 2012, 2.75x to 2.50x for the testing periods in calendar year 2013, 2.00x for the testing periods in calendar year 2014 and 1.75x thereafter.

The credit agreement for the Term Loan Facility also includes customary negative and affirmative covenants including, among others, limitations on the Company's ability to: (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change its business.

The Term Loan Facility is subject to repayment upon the receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The Term Loan Facility was also subject to repayment of \$50,000 upon the receipt of proceeds from the Company's initial public offering (the "IPO"). The Company closed its IPO on July 24, 2012. On July 27, 2012, the Company repaid \$65,250 of principal on the Term Loan Facility and \$683 of interest. On October 26, 2012, the Company repaid \$250 of principal on the Term Loan Facility. As of October 27, 2012, the balance outstanding under the Term Loan Facility was \$34,500, bearing interest at a rate of 5.25%. Pursuant to the terms of the Term Loan Facility, due to the repayment of \$65,250 of principal under the Term Loan Facility in July, the Company is no longer required to make minimum quarterly payments and the unpaid balance will be due upon maturity. In connection with the Term Loan Facility, the Company incurred deferred financing costs of \$2,701 which are being amortized over the term of the Term Loan Facility. The amortization is included in interest expense, net, in the statements of operations. In connection with the repayment in July 2012, \$1,594 of the deferred financing costs were written off and included in loss on debt extinguishment in the statements of operations. The remaining deferred financing costs, net of amortization, are included in other assets in the balance sheet at October 27, 2012.

Amounts under the credit agreement for the Term Loan Facility may become due upon certain events of default including, among others, failure to comply with the credit agreement's covenants, bankruptcy, default on certain other indebtedness or a change in control. The default rate under the Term Loan Facility is 2.00% per annum.

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All obligations under the Term Loan Facility are secured by substantially all of the Company's assets.

As of October 27, 2012, the Company was in compliance with the financial covenant and other covenants applicable to it under the Term Loan Facility.

Line of Credit

On August 18, 2006, the Company entered into a loan and security agreement (the "Loan and Security Agreement") with a bank that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement has been amended and/or restated several times, the latest on May 16, 2012 (as amended and restated, the "Revolving Credit Facility"), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates and modify certain definitions. The Revolving Credit Facility allows maximum borrowings of \$20,000 with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the Term Loan Facility or (iii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to \$30,000 upon certain conditions. The Revolving Credit Facility includes a \$5,000 sublimit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves. In connection with the Revolving Credit Facility, the Company incurred deferred financing costs of \$50 in May 2012 which are being amortized over the remaining term of the Revolving Credit Facility.

The Revolving Credit Facility provides for interest on borrowings, at the option of the Company, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of \$12 per year.

The Revolving Credit Facility includes a covenant which requires the Company to maintain minimum excess collateral availability of no less than the greater of (i) 10% of the then effective maximum credit and (ii) \$3,000.

The Revolving Credit Facility also includes customary negative and affirmative covenants including, among others, limitations on the Company's ability to (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change its business.

Additionally, the Revolving Credit Facility is subject to payment upon the receipt of certain proceeds, including those from the sale of certain assets and is subject to an increase in the interest rate on borrowings and the letter of credit fee of 2.0% upon an event of default. Amounts under the Revolving Credit Facility may become due upon certain events of default including among others, failure to comply with the Revolving Credit Facility covenants, bankruptcy, default on certain other indebtedness or a change in control.

All obligations under the Revolving Credit Facility are secured by substantially all of the Company's assets.

As of October 27, 2012, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility. During the thirty-nine weeks ended October 27, 2012, there were no borrowings under the Revolving Credit Facility.

Note Payable

On December 10, 2010 the Company entered into a loan and security agreement (the "Note") for \$250 with a governmental authority. On May 13, 2012, a portion of the Note (\$200) was converted to a grant upon the Company meeting certain non-financial conditions and the remainder of \$50 was paid back in full along with interest outstanding.

(4) Commitments and Contingencies

The Company leases property and equipment under non-cancelable operating leases. Certain retail store lease agreements provide for contingent rental payments if the store's net sales exceed stated levels (percentage rents) and/or contain escalation clauses, which provide for increases in base rental for increases in future operating costs. Many of the Company's leases provide for one or more renewal options for periods ranging from five to seven years. The Company's operating lease agreements, including assumed extensions which are generally those that take the lease to a ten-year term, expire through 2022.

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The Company's minimum rental commitments under operating lease agreements, including assumed extensions, as of October 27, 2012, are as follows:

	Retail stores	Corporate office and distribution centers ⁽¹⁾	Total
Fiscal year:			
Remaining 2012	\$ 8,382	\$ 528	\$ 8,910
2013	36,481	2,858	39,339
2014	36,252	4,413	40,665
2015	34,207	4,678	38,885
2016	31,086	3,097	34,183
Thereafter	133,678	15,564	149,242
	<u>\$280,086</u>	<u>\$ 31,138</u>	<u>\$311,224</u>

- (1) On September 27, 2012, the Company executed a lease agreement for a second distribution center located in Olive Branch, Mississippi. The building is approximately 600,000 square feet with a lease term of 10 years and provides renewal options for three successive five-year periods. The future minimum lease payments for the new distribution center are approximately \$16,725 over the initial ten year period.

Rent expense, including base and contingent rent under operating leases, was \$8,658 and \$6,789 for the thirteen weeks ended October 27, 2012 and October 29, 2011, respectively. Contingent rents were \$147 and \$77 for the thirteen weeks ended October 27, 2012 and October 29, 2011, respectively. Rent expense, including base and contingent rent under operating leases, was \$23,890 and \$17,768 for the thirty-nine weeks ended October 27, 2012 and October 29, 2011, respectively. Contingent rents were \$321 and \$271 for the thirty-nine weeks ended October 27, 2012 and October 29, 2011, respectively.

The Company has employment agreements with certain key employees that provide for, among other things, salary, bonus, severance, and change-in-control provisions. The severance and change of control provisions under these agreements provide for additional payments upon employee separation of up to approximately \$3,800.

From time to time, the Company is involved in certain legal actions arising in the ordinary course of business. In management's opinion, the outcome of such actions will not have a material adverse effect on the Company's financial condition or results of operations.

As of October 27, 2012, the Company has other purchase commitments of approximately \$3,341 consisting of purchase agreements for materials for approximately \$241 that will be used in the construction of new stores and approximately \$3,100 consisting of purchase commitments for infrastructure and systems that will be implemented in the construction of the second distribution center.

(5) Shareholders' Equity (Deficit)

Preferred Stock

Prior to the closing of the IPO on July 24, 2012, the Company had outstanding 89,291,773 shares of Series A 8% Convertible Preferred Stock, which were entitled to receive cumulative dividends of 8% of their original issue price of \$2.17 per share per year compounded annually and payable in cash when and if declared by the Company's board of directors; however, the Company could not pay, unless otherwise consented to by the holders of Series A 8% Convertible Preferred Stock, any dividends on common stock unless an equal amount of dividends per share (on an as converted basis) was simultaneously paid to the holders of the Series A 8% Convertible Preferred Stock. Effective immediately prior to the closing of the IPO on July 24, 2012, all outstanding shares of Series A 8% Convertible Preferred Stock were converted into 30,894,953 shares of common stock and ceased to be entitled to the payment of any dividends that accrued on such shares as of the effective time of the conversion.

In the event of any liquidation, dissolution, or winding up of the Company, as defined, or deemed liquidation event, as defined, the holders of the Series A 8% Convertible Preferred Stock were entitled to receive the greater of the original issue price of \$2.17 per share plus any accrued and unpaid dividends, or the amount that would have been paid if the Series A 8% Convertible Preferred Stock was converted to common stock, before any payment was made to the common shareholders. The

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Series A 8% Convertible Preferred Stock was presented outside of shareholders' equity (deficit) since its redemption under certain circumstances was beyond the control of the Company's management.

Common Stock

In March 2012, options to purchase 2,020,620 shares of common stock granted during Fiscal 2010, including options to purchase 1,010,310 shares that were subject to time-based and performance-based vesting, were cancelled and an equal number of restricted shares were granted. One-third of the shares vested in March 2012 and the remaining two-thirds vest in equal installments on the first and second anniversary of the grant.

In connection with the cancellation and grant, the Company will record total compensation expense of \$17,400 including \$5,300 which was recorded on the date of the modification and the remainder on a straight-line basis over the two-year vesting period.

In March 2012, the Company granted warrants to purchase 11,245 shares of common stock at an exercise price of \$11.21 per share to professional service providers. During the thirty-nine weeks ended October 27, 2012, 23,012 warrants were exercised and, as of October 27, 2012, no warrants remained outstanding.

On July 18, 2012, two members of the board of directors were each issued 3,529 restricted shares of common stock. These shares vest and become free of forfeiture restrictions on the earlier of: (i) the one-year anniversary of the issuance date or (ii) the date of the Company's next annual shareholder meeting following the issuance date.

On July 24, 2012, the Company completed the IPO of 11,057,692 shares of common stock at a price of \$17.00 per share. The common stock was listed on The NASDAQ Global Select Market under the symbol "FIVE." The shares sold in the IPO were registered under the Securities Act of 1933, as amended, pursuant to the Company's Registration Statement on Form S-1 (File No. 333-180780), which was declared effective by the SEC on July 18, 2012. Of the 11,057,692 shares sold in the IPO, the Company issued 4,807,692 shares, and 6,250,000 shares were sold by selling shareholders of the Company, including 1,442,308 shares sold pursuant to the exercise in full of the underwriters' over-allotment option. The Company did not receive any proceeds from shares sold by the selling shareholders. The Company received proceeds of \$73,263, net of \$8,467 in underwriting discounts and legal, accounting and other fees incurred in connection with the IPO. Of the \$73,263 net proceeds received from the IPO, \$65,250 and \$683, respectively, were used to repay principal and interest under the Term Loan Facility that existed as of the date of the IPO. The remaining net proceeds of the IPO were used for general corporate purposes, including working capital.

On September 27, 2012, the Company's board of directors approved the Five Below, Inc. 2012 Employee Stock Purchase Plan (the "ESPP"), subject to shareholder approval at the next annual meeting. If the shareholder's do not approve the ESPP, then the ESPP will be terminated and any contributions will be returned to the participants without interest and without the purchase of shares. Subject to shareholder approval, the ESPP will become effective January 1, 2013 and is intended to be qualified as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986. The ESPP allows eligible employees the opportunity to purchase shares of the Company's common stock through payroll deductions at a discount of 10% of the fair market value of such shares on the purchase date. Under the ESPP, the number of shares of common stock reserved for issuance, which is subject to other limitations, is 500,000 shares and the purchase of shares by any participant is limited to (i) the number of shares obtained by dividing \$10,000 by the fair market value in any offering period or (ii) \$10,000 worth of such stock in any calendar year.

Dividends

On May 15, 2012, the Company declared and subsequently paid on May 16, 2012 a dividend of \$2.02 per share on shares of common stock (including restricted shares) and on an as-converted basis on shares of Series A 8% Convertible Preferred Stock totaling \$99,451. Refer to note 6 for additional information regarding changes to outstanding stock options resulting from the dividend payment.

(6) Common Stock Options

Effective July 26, 2002, the Company adopted the 2002 Equity Incentive Plan (the "Plan") pursuant to which the Company's board of directors may grant stock options and restricted shares to officers, directors, key employees, and professional service providers. The Plan, as amended as of July 24, 2012, increased the number of shares authorized for issuance under the Plan to a total of 7,600,000 shares. All stock options have a term not greater than 10 years. Stock options vest and become exercisable in whole or in part, in accordance with vesting conditions set by the Company's board of directors. Options granted to date generally vest over four years from the date of grant. As of October 27, 2012, 5,046,157 stock options or restricted shares were available for grant.

On May 23, 2012, the Company's board of directors, in accordance with the Plan's documents, approved an equitable adjustment to all options outstanding on the date of the Company's dividend declaration to reflect the dividend value received

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by the Company's common and preferred shareholders. The exercise price of each outstanding option was reduced by \$2.02. The adjustment did not result in additional compensation expense given the adjustment was required under the Plan's documents and there was no increase in the fair value of the awards before and after payment of the dividend and adjustment of the awards.

On August 25, 2010, the Company's board of directors agreed to allow option holders, as of that date, to exercise, during a twenty day offer period, all options issued and outstanding under the Plan, regardless if those options were vested and exercisable ("Vested Options") or were not currently vested and exercisable ("Unvested Options").

On October 13, 2010, the holders of the stock options exercised all of their outstanding Vested Options and Unvested Options to purchase shares of the Company's common stock. The Unvested Options were exercised for restricted shares of common stock that have the same vesting schedule as the Unvested Options that were exercised for those shares. The restricted shares are subject to repurchase by the Company should the option holder's employment be terminated prior to the vesting at a purchase price equal to the lesser of: (i) the exercise price paid for the restricted shares, and (ii) the fair market value of the restricted shares at the time of repurchase. For accounting purposes, as the shares remain subject to their original vesting provisions, the early exercises are being recorded as if the original options remain outstanding until the respective shares vest. Exercise proceeds received prior to the shares vesting are recorded as a deposit liability in other accrued expenses on the balance sheets. As of October 27, 2012, \$392 was recorded as a deposit liability.

The following table summarizes the activity related to the restricted shares of common stock:

	Number of shares	Deposit liability
Unvested, January 28, 2012	141,927	\$1,131
Vested	(95,347)	(719)
Repurchases upon employee termination	(3,308)	(20)
Unvested, October 27, 2012	<u>43,272</u>	<u>\$ 392</u>

Stock option activity under the Plan was as follows:

	Options outstanding	Weighted average exercise price	Weighted average remaining contractual term
Balance at January 28, 2012	2,627,955	\$ 6.47	9.0
Granted	642,210	15.09	
Forfeited	(93,266)	9.19	
Cancelled (see note 5)	(2,020,620)	6.30	
Exercised	—	—	
Balance at October 27, 2012 ⁽¹⁾	<u>1,156,279</u>	\$ 9.57	9.4
Exercisable at October 27, 2012	<u>10,408</u>	\$ 6.31	8.1

- (1) The weighted-average exercise price at October 27, 2012 reflects the adjustment of \$2.02 per share resulting from the dividend declared on May 15, 2012, as described above.

The fair value of each option award granted to employees, including outside directors, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Thirty-nine Weeks Ended	
	October 27, 2012	October 29, 2011
Expected volatility	50.0%	50.0%
Risk-free interest rate	1.4%	2.1%
Expected life of options	6.3 years	7.0 years
Expected dividend yield	—	—

The Company uses the simplified method to estimate the expected term of the option. Expected volatility was based upon historical volatility analysis of public company peers, and the risk-free rate for the expected term of the option was based on the U.S. Treasury yield curve in effect at the time of grant.

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The per-share weighted average grant-date fair value of stock options granted to employees, including outside directors, for the thirty-nine weeks ended October 27, 2012 and October 29, 2011 was \$7.54 and \$3.45 respectively.

As of October 27, 2012, there was \$16,209 of total unrecognized compensation costs related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted average vesting period of 1.7 years.

(7) Income Taxes

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen and thirty-nine weeks ended October 27, 2012 and October 29, 2011:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Income before income taxes	\$ 1,284	\$ 733	\$ 1,446	\$ 6,080
Income tax expense	555	293	627	2,429
Effective tax rate	43.2%	40.0%	43.4%	40.0%

The effective tax rates for the thirteen and thirty-nine weeks ended October 27, 2012 and October 29, 2011 were based on the Company's forecasted annualized effective tax rates, adjusted for discrete items primarily related to changes in state apportionment factors.

For the thirteen weeks ended October 27, 2012 and October 29, 2011, total income taxes paid were zero and \$107, respectively. For the thirty-nine weeks ended October 27, 2012 and October 29, 2011, total income taxes paid were \$10,683 and \$305, respectively.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's balance sheets at October 27, 2012, January 28, 2012 or October 29, 2011, and has not recognized any material uncertain tax positions or interest and/or penalties related to income taxes in the statement of operations for the thirteen or thirty-nine weeks ended October 27, 2012 or October 29, 2011.

The Company files a federal income tax return as well as state tax returns. The Company's U.S. federal income tax returns for the years ended January 30, 2010 and thereafter remain subject to examination by the U.S. Internal Revenue Service ("IRS"). State returns are filed in various state jurisdictions, as appropriate, with varying statutes of limitation and remain subject to examination for varying periods.

(8) Related-Party Transactions

During the thirteen weeks ended October 27, 2012 and October 29, 2011, the Company incurred fees of \$574 and \$80, respectively, related to services provided by certain shareholders and professional service firms for which certain shareholders are partners. Fees related to the thirteen weeks ended October 27, 2012 were primarily IPO-related fees.

During the thirty-nine weeks ended October 27, 2012 and October 29, 2011, the Company incurred fees of \$3,312 and \$301, respectively, related to services provided by certain shareholders and professional service firms for which certain shareholders are partners. Fees related to the thirty-nine weeks ended October 27, 2012 were primarily IPO-related fees.

(9) Subsequent Events

From October 27, 2012 to November 29, 2012, the Company committed to 6 new fully executed retail leases with terms of 10 years that have future minimum lease payments of approximately \$9,000.

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

You should read the following discussion together with "Selected Financial and Other Data," and the financial statements and related notes included in our prospectus, as amended, filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on July 19, 2012, which we refer to as the "Prospectus" and the financial statements and related notes as of and for the thirteen and thirty-nine weeks ended October 27, 2012 included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The statements in this discussion regarding expectations of our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described below in "Special Note Regarding Forward-Looking Statements" and in Part II, Item 1A, "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2012" or "fiscal 2012" refer to the fiscal year ended February 2, 2013 and consists of a 53-week period and references to "fiscal year 2011" or "fiscal 2011" refer to the fiscal year ended January 28, 2012 and consists of a 52-week period. The quarters and year-to-date periods ended October 27, 2012 and October 29, 2011, respectively, each contain 13 and 39 weeks. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new merchandise, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Quarterly Report on Form 10-Q reflect our views as of the date of this report about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described below and in Part II, Item 1A "Risk Factors." These factors include without limitation:

- *failure to successfully implement our growth strategy;*
- *disruptions in our ability to select, obtain, distribute and market merchandise profitably;*
- *our ability to successfully expand our distribution network capacity;*
- *disruptions to our distribution network or the timely receipt of inventory;*
- *inability to attract and retain qualified employees;*
- *ability to increase sales and improve the efficiencies, costs and effectiveness of our operations;*
- *our dependence on our executive officers and other key personnel or our inability to hire additional qualified personnel;*
- *our ability to successfully manage our inventory balances and inventory shrinkage;*
- *our lease obligations;*
- *changes in our competitive environment, including increased competition from other retailers;*
- *increasing costs due to inflation, increased operating costs or energy prices;*
- *the seasonality of our business;*
- *disruptions to our information technology systems in the ordinary course or as a result of system upgrades;*
- *our failure to maintain adequate internal controls;*
- *our ability to obtain additional financing;*

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- *failure to secure customers' confidential or credit card information, or other private data relating to our employees or our company;*
- *natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism;*
- *current economic conditions and other economic factors;*
- *the impact of governmental laws and regulations and the outcomes of legal proceedings;*
- *our inability to protect our brand name, trademarks and other intellectual property rights;*
- *increased costs as a result of being a public company; and*
- *restrictions imposed by our indebtedness on our current and future operations.*

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this quarterly report are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across our category worlds. As of October 27, 2012, we operated 243 stores in 18 states.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. These key measures include net sales, comparable store sales, cost of goods sold, gross profit, selling, general and administrative expenses, and operating income.

Net Sales

Net sales constitute gross sales net of merchandise returns for damaged or defective goods. Net sales consist of sales from comparable stores and non-comparable stores. Revenue from the sale of gift cards is deferred and not included in net sales until the gift cards are redeemed to purchase merchandise.

Our business is seasonal and as a result, our net sales fluctuate from quarter to quarter. Net sales are usually highest in the fourth fiscal quarter due to the year-end holiday season.

Comparable Store Sales

Comparable store sales include net sales from stores that have been open for at least 15 full months from their opening date.

Comparable stores include the following:

- Stores that have been remodeled while remaining open;
- Stores that have been relocated within the same trade area, to a location that is not significantly different in size, in which the new store opens at about the same time as the old store closes; and
- Stores that have expanded, but are not significantly different in size, within their current locations.

For stores that are relocated or expanded, the following periods are excluded when calculating comparable store sales:

- The period of construction and pre-opening during which the store is closed through:
 - the last day of the fiscal year in which the store was relocated or expanded (for stores that increased significantly in size); or
 - the last day of the fiscal month in which the store re-opens (for all other stores); and
- The period beginning on the first anniversary of the date the store closed for construction through the first anniversary of the date the store re-opened.

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There may be variations in the way in which some of our competitors and other retailers calculate comparable or “same store” sales. As a result, data in this quarterly report regarding our comparable store sales may not be comparable to similar data made available by other retailers. Non-comparable store sales are comprised of new store sales, sales for stores not open for a full 15 months, and sales from existing store relocation and expansion projects that were temporarily closed and not included in comparable store sales.

Measuring the change in fiscal year-over-year comparable store sales allows us to evaluate how our store base is performing. Various factors affect comparable store sales, including:

- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to customer preferences and trends;
- our ability to provide an assortment of high-quality, trend-right and everyday product offerings that generate new and repeat visits to our stores;
- the customer experience we provide in our stores;
- the level of traffic near our locations in the power, community and lifestyle centers in which we operate;
- competition;
- changes in our merchandise mix;
- pricing;
- our ability to source and distribute products efficiently;
- the timing of promotional events and holidays;
- the timing of introduction of new merchandise and customer acceptance of new merchandise;
- our opening of new stores in the vicinity of existing stores; and
- the number of items purchased per store visit.

Opening new stores is an important part of our growth strategy. As we continue to pursue our growth strategy, we expect that a significant percentage of our net sales will continue to come from new stores not included in comparable store sales. Accordingly, comparable store sales are only one measure we use to assess the success of our growth strategy.

Cost of Goods Sold and Gross Profit

Gross profit is equal to our net sales less our cost of goods sold. Gross margin is gross profit as a percentage of our net sales. Cost of goods sold reflects the direct costs of purchased merchandise and inbound freight, as well as store occupancy, distribution and buying expenses. Store occupancy costs include rent, common area maintenance, utilities and property taxes for all store locations. Distribution costs include costs for receiving, processing, warehousing and shipping of merchandise to or from our distribution center and between store locations. Buying costs include compensation expense and other costs for our internal buying organization.

These costs are significant and can be expected to continue to increase as our company grows. The components of our cost of goods sold may not be comparable to the components of cost of goods sold or similar measures of our competitors and other retailers. As a result, data in this quarterly report regarding our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

The variable component of our cost of goods sold is higher in higher volume quarters because the variable component of our cost of goods sold generally increases as net sales increase. We regularly analyze the components of gross profit as well as gross margin. Any inability to obtain acceptable levels of initial markups, a significant increase in our use of markdowns, and a significant increase in inventory shrinkage or inability to generate sufficient sales leverage on the store occupancy, distribution and buying components of costs of goods sold could have an adverse impact on our gross profit and results of operations. Changes in the mix of our products may also impact our overall cost of goods sold.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A, expenses are composed of payroll and other compensation, marketing and advertising expense, depreciation and amortization expense and other selling and administrative expenses. SG&A expenses as a percentage of net sales are usually higher in lower sales volume quarters and lower in higher sales volume quarters.

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The components of our SG&A expenses may not be comparable to those of other retailers. We expect that our SG&A expenses will increase in future periods due to our continuing store growth and in part due to additional legal, accounting, insurance and other expenses we expect to incur as a result of being a public company. Among other things, we expect that compliance with the Sarbanes-Oxley Act of 2002 and related rules and regulations could result in significant incremental legal, accounting and other overhead costs. In addition, any increase in future stock option or other stock-based grants or modifications will increase our stock-based compensation expense included in SG&A.

Operating Income

Operating income equals gross profit less SG&A expenses. Operating income excludes interest expense or income and income tax expense or benefit. We use operating income as an indicator of the productivity of our business and our ability to manage SG&A expenses. Operating income percentage measures operating income as a percentage of our net sales.

Stock Split

On July 17, 2012, we amended our articles of incorporation to reflect a 0.3460-for-1 reverse stock split of our common stock. The amendment also changed the authorized shares of our common stock to 120,000,000 shares. Concurrent with the reverse stock split, we adjusted (i) the conversion price of our Series A 8% convertible preferred stock, (ii) the number of shares subject to and the exercise price of our outstanding stock option awards under our equity incentive plan and (iii) the number of shares subject to and the exercise price of our outstanding warrants to equitably reflect the split. All common stock share and per-share data presented in this quarterly report gives effect to the reverse stock split and the change in authorized shares and have been adjusted retroactively for all periods presented.

Initial Public Offering

On July 24, 2012, we completed our initial public offering (the “IPO”) of 11,057,692 shares of common stock at a price of \$17.00 per share. The common stock was listed on The NASDAQ Global Select Market under the symbol “FIVE.” The shares sold in the IPO were registered under the Securities Act of 1933, as amended, pursuant to our Registration Statement on Form S-1 (File No. 333-180780), which was declared effective by the Securities and Exchange Commission on July 18, 2012. Of the 11,057,692 shares sold in the IPO, we issued 4,807,692 shares, and 6,250,000 shares were sold by selling shareholders, including 1,442,308 shares sold pursuant to the exercise in full of the underwriters’ over-allotment option. We did not receive any proceeds from shares sold by the selling shareholders. We received proceeds of approximately \$73.3 million, net of approximately \$8.5 million in underwriting discounts and legal, accounting and other fees incurred in connection with the IPO. Of the \$73.3 million net proceeds received from the IPO, approximately \$65.3 million and \$0.7 million, respectively, were used to repay principal and interest under our Term Loan Facility (defined in “—Financing Transactions”) that existed as of the date of the IPO. The remaining net proceeds of the IPO were used for general corporate purposes, including working capital.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of our net sales.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
	(in thousands, except total stores)			
Statements of Operations Data:				
Net sales	\$ 86,587	\$ 61,895	\$ 245,236	\$ 171,288
Cost of goods sold	59,656	43,522	166,538	118,317
Gross profit	26,931	18,373	78,698	52,971
Selling, general and administrative expenses	25,090	17,634	74,087	46,883
Operating income	1,841	739	4,611	6,088
Interest expense, net	550	6	1,829	8
Loss on debt extinguishment	7	—	1,594	—
Other income	—	—	(258)	—
Income before income taxes	1,284	733	1,446	6,080
Income tax expense	555	293	627	2,429
Net income	<u>\$ 729</u>	<u>\$ 440</u>	<u>\$ 819</u>	<u>\$ 3,651</u>
Percentage of Net Sales:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	68.9%	70.3%	67.9%	69.1%
Gross profit	31.1%	29.7%	32.1%	30.9%
Selling, general and administrative expenses	29.0%	28.5%	30.2%	27.4%
Operating income	2.1%	1.2%	1.9%	3.6%
Interest expense, net	0.6%	— %	0.7%	— %
Loss on debt extinguishment	— %	— %	0.6%	— %
Other income	— %	— %	(0.1)%	— %
Income before income taxes	1.5%	1.2%	0.6%	3.5%
Income tax expense	0.6%	0.5%	0.3%	1.4%
Net income	<u>0.8%</u>	<u>0.7%</u>	<u>0.3%</u>	<u>2.1%</u>
Operational Data:				
Total stores at end of period	243	189	243	189
Comparable store sales growth	8.8%	7.6%	9.2%	5.1%
Average net sales per store(1)	\$ 358	\$ 333	\$ 1,123	\$ 1,022

(1) Only includes stores open during the full period.

Thirteen Weeks Ended October 27, 2012 Compared to the Thirteen Weeks Ended October 29, 2011

Net Sales

Net sales increased to \$86.6 million in the thirteen weeks ended October 27, 2012 from \$61.9 million in the thirteen weeks ended October 29, 2011, an increase of \$24.7 million, or 39.9%. The increase was the result of a non-comparable store sales increase of \$20.3 million and a comparable store sales increase of \$4.4 million. We plan to open one additional store during the remainder of the fiscal year. The increase in non-comparable store sales was driven by new stores and stores that opened in fiscal 2011 but have not been open for 15 full months.

Comparable store sales increased 8.8% for the thirteen weeks ended October 27, 2012 compared to the thirteen weeks ended October 29, 2011. This increase resulted from an increase of approximately 8.2% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.6%.

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Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$59.7 million in the thirteen weeks ended October 27, 2012 from \$43.5 million in the thirteen weeks ended October 29, 2011, an increase of \$16.1 million, or 37.1%. The increase in cost of goods sold was primarily the result of a \$12.2 million increase in the direct costs of goods resulting from an increase in sales and a \$2.8 million increase in store occupancy costs as a result of new store openings.

Gross profit increased to \$26.9 million in the thirteen weeks ended October 27, 2012 from \$18.4 million from the thirteen weeks ended October 29, 2011, an increase of \$8.6 million, or 46.6%. Gross margin increased to 31.1% in the thirteen weeks ended October 27, 2012 from 29.7% for the thirteen weeks ended October 29, 2011, an increase of 142 basis points. The increase in gross margin was primarily the result of the combined increase in store occupancy, distribution and buying expense, increasing at a lower rate than the increase in net sales and increased margin by 110, 14 and 11 basis points, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$25.1 million in the thirteen weeks ended October 27, 2012 from \$17.6 million in the thirteen weeks ended October 29, 2011, an increase of \$7.5 million, or 42.3%. As a percentage of net sales, selling, general and administrative expenses increased 49 basis points to 29.0% in the thirteen weeks ended October 27, 2012 compared to 28.5% in the thirteen weeks ended October 29, 2011. The increase in selling, general and administrative expense was primarily the result of increases of \$3.8 million of store-related expenses to support new store growth, \$1.6 million of stock-based compensation expense primarily associated with the ongoing expense recognition over the remaining vesting period related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012 and \$2.0 million in corporate-related expense.

Interest Expense, Net

Interest expense, net increased to \$0.6 million in the thirteen weeks ended October 27, 2012 from \$6,000 in the thirteen weeks ended October 29, 2011, an increase of \$0.5 million. The increase in interest expense resulted from the outstanding balance of our Term Loan Facility (defined below).

Income Tax Expense

Income tax expense for the thirteen weeks ended October 27, 2012 was \$0.6 million compared to \$0.3 million for the thirteen weeks ended October 29, 2011, an increase of \$0.3 million, or 89.4%. This increase in income tax expense was primarily the result of a \$0.6 million increase in pre-tax income. Our effective tax rate was 43.2% for the thirteen weeks ended October 27, 2012 compared to 40.0% for October 29, 2011. For the remainder of fiscal 2012, we believe our effective tax rate will be approximately 40.5%.

Net Income

As a result of the foregoing, net income increased to \$0.7 million in the thirteen weeks ended October 27, 2012 from \$0.4 million in the thirteen weeks ended October 29, 2011, an increase of \$0.3 million, or 65.7%.

Thirty-Nine Weeks Ended October 27, 2012 Compared to the Thirty-Nine Weeks Ended October 29, 2011

Net Sales

Net sales increased to \$245.2 million in the thirty-nine weeks ended October 27, 2012 from \$171.3 million in the thirty-nine weeks ended October 29, 2011, an increase of approximately \$73.9 million, or 43.2%. The increase was the result of a comparable store sales increase of \$13.6 million and a non-comparable store sales increase of \$60.3 million. During the thirty-nine weeks ended October 27, 2012, we opened 51 new stores compared to 47 net new stores during the thirty-nine weeks ended October 29, 2011. We plan to open one additional store during the remainder of the fiscal year. The primary driver for our increase in non-comparable store sales was from the increase in the number of stores that opened in fiscal 2011 but have not been open for 15 full months, as well as new stores.

Comparable store sales increased 9.2% for the thirty-nine weeks ended October 27, 2012 compared to the thirty-nine weeks ended October 29, 2011. This increase resulted from an increase of approximately 8.7% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.5%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$166.5 million in the thirty-nine weeks ended October 27, 2012 from \$118.3 million in the thirty-nine weeks ended October 29, 2011, an increase of \$48.2 million, or 40.8%. The increase in cost of goods sold was

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primarily the result of a \$36.5 million increase in the direct costs of goods resulting from an increase in sales and an \$8.7 million increase in store occupancy costs as a result of new store openings.

Gross profit increased to \$78.7 million in the thirty-nine weeks ended October 27, 2012 from \$53.0 million in the thirty-nine weeks ended October 29, 2011, an increase of \$25.7 million, or 48.6%. Gross margin increased to 32.1% in the thirty-nine weeks ended October 27, 2012 from 30.9% for the thirty-nine weeks ended October 29, 2011, an increase of 117 basis points. The increase in gross margin was primarily the result of the combined increase in store occupancy and distribution expense, increasing at a lower rate than the increase in net sales and increased margin by 67 and 38 basis points, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$74.1 million in the thirty-nine weeks ended October 27, 2012 from \$46.9 million in the thirty-nine weeks ended October 29, 2011, an increase of \$27.2 million, or 58.0%. As a percentage of net sales, selling, general and administrative expenses increased 284 basis points to 30.2% in the thirty-nine weeks ended October 27, 2012 compared to 27.4% in the thirty-nine weeks ended October 29, 2011. The increase in selling, general and administrative expense was primarily the result of increases of \$12.4 million of store-related expenses to support new store growth, \$9.0 million of stock-based compensation expense associated with the cancellation of certain stock options in exchange for the grant of restricted shares and \$5.8 million in corporate-related expense.

Interest Expense, Net

Interest expense, net increased to \$1.8 million in the thirty-nine weeks ended October 27, 2012 from \$8,000 in the thirty-nine weeks ended October 29, 2011, an increase of \$1.8 million. The increase in interest expense resulted from the outstanding balance of our Term Loan Facility.

Loss on Debt Extinguishment

In connection with the \$65.3 million repayment of the \$100.0 million Term Loan Facility, we wrote-off \$1.6 million of deferred financing costs in the thirty-nine weeks ended October 27, 2012.

Income Tax Expense

Income tax expense for the thirty-nine weeks ended October 27, 2012 was \$0.6 million compared to \$2.4 million for the thirty-nine weeks ended October 29, 2011, a decrease of \$1.8 million, or 74.2%. This decrease in income tax was primarily the result of a \$4.6 million decrease in pre-tax income. Our effective tax rate was 43.4% during the thirty-nine weeks ended October 27, 2012 and 40.0% during the thirty-nine weeks ended October 29, 2011. For the remainder of fiscal 2012, we believe our effective tax rate will be approximately 40.5%.

Net Income

As a result of the foregoing, net income decreased to \$0.8 million in the thirty-nine weeks ended October 27, 2012 from \$3.7 million in the thirty-nine weeks ended October 29, 2011, a decrease of \$2.8 million, or 77.6%.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash flows from operations, historical equity financings and borrowings under our Revolving Credit Facility (defined in “-Line of Credit”). Our primary cash needs are for capital expenditures and working capital. During the thirty-nine weeks ended October 27, 2012, we also entered into a Term Loan Facility and used the proceeds to pay a dividend in May 2012.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately \$22.9 million in fiscal 2012, which we expect to fund from cash generated from operations. We expect to devote approximately \$16.8 million of our capital expenditure budget in fiscal 2012 to construct and open 52 new stores and a new distribution center, which will continue into fiscal 2013, with the remainder projected to be spent on corporate infrastructure and store relocations and remodels. As of October 27, 2012, material commitments for capital expenditures included: (1) our new lease for our second distribution center located in Olive Branch, Mississippi, which has an initial lease term of ten years and future minimum lease payments of approximately \$16.7 million and (2) the purchase and installation of the distribution center’s infrastructure and systems, which is approximately \$3.1 million.

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Our primary working capital requirements are for the purchase of store inventory and payment of payroll, rent, other store operating costs and distribution costs. Our working capital requirements fluctuate during the year, rising in the third and fourth fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak, year-end holiday shopping season in the fourth fiscal quarter. Fluctuations in working capital are also driven by the timing of new store openings.

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our Revolving Credit Facility. We did not have any direct borrowings under our Revolving Credit Facility during the thirty-nine weeks ended October 27, 2012. When we have used our Revolving Credit Facility, the amount of indebtedness outstanding under it has tended to be the highest in the beginning of the fourth quarter of each fiscal year. Over the past three fiscal years, to the extent that we have drawn on the facility, we have paid down the borrowings before the end of the fiscal year with cash generated during our peak selling season in the fourth quarter.

Based on our growth plans, we believe that our cash position, net cash provided by operating activities and availability under our Revolving Credit Facility will be adequate to finance our planned capital expenditures, working capital requirements and debt service over the next 12 months and for the foreseeable future thereafter. If cash flows from operations and borrowings under our Revolving Credit Facility are not sufficient or available to meet our requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

Cash Flows

A summary of our cash flows from operating, investing and financing activities is presented in the following table:

	Thirty-nine Weeks Ended	
	October 27, 2012	October 29, 2011
	(in millions)	
Net cash (used in) provided by operating activities	\$ (23.8)	\$ 5.2
Net cash used in investing activities	(17.4)	(15.4)
Net cash provided by (used in) financing activities	7.2	(0.1)
Net decrease during period in cash and cash equivalents	<u>\$ (34.0)</u>	<u>\$ (10.4)</u>

Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the thirty-nine weeks ended October 27, 2012 was \$23.8 million, a decrease of approximately \$29.0 million compared to the thirty-nine weeks ended October 29, 2011. The increase in net cash used in operating activities was primarily the result of an increase in income taxes paid of \$10.4 million, the settlement of \$6.8 million of book overdrafts that were outstanding at January 28, 2012, the payment of \$6.0 million of non-contractual bonuses to certain executive officers for performance which were accrued at January 28, 2012 and an increase in working capital needs to support our growth. Partially offsetting the increases were increased operating cash flows from store performance.

Cash Used in Investing Activities

Net cash used in investing activities for the thirty-nine weeks ended October 27, 2012 was \$17.4 million, an increase of \$2.0 million compared to the thirty-nine weeks ended October 29, 2011 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction and corporate infrastructure.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the thirty-nine weeks ended October 27, 2012 was \$7.2 million, an increase of \$7.4 million compared to the thirty-nine weeks ended October 29, 2011. The increase in net cash provided by financing activities was primarily the result of \$100.0 million of proceeds from our Term Loan Facility and \$73.3 million of proceeds from our IPO, partially offset by \$99.5 million of dividend payments, a \$65.5 million repayment of the Term Loan Facility and \$2.8 million in debt financing costs. See “—Financing Transactions” for further details.

Financing Transactions

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On May 16, 2012, we entered into a \$100.0 million Term Loan Facility with Goldman Sachs Bank USA as administrative agent for a syndicate of lenders (“Term Loan Facility”). We used the net proceeds from the Term Loan Facility and cash on hand to pay a dividend on our common and preferred stock, totaling \$99.5 million. On the same day, we amended and restated our existing senior secured Revolving Credit Facility with Wells Fargo Bank, National Association, which is described below under “—Line of Credit.” We refer to the Term Loan Facility, the Revolving Credit Facility and related transactions as the “Financing Transactions.”

The Term Loan Facility provided for a term loan of \$100.0 million and matures on the earlier of (i) May 16, 2015 and (ii) the date on which such facility is accelerated following the occurrence of an event of default. The Term Loan Facility provides for interest on borrowings, at our option, at an alternate base rate which is the greater of (i) the administrative agent’s prime rate in effect on such day and (ii) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor, plus a margin of 3.25%, or a London Interbank Offer Rate (“LIBOR”) based rate with a 1.00% floor plus a margin of 4.25%. The credit agreement for the Term Loan Facility includes a maximum consolidated net leverage ratio financial covenant, the calculation of which allows us to net up to \$10.0 million of our cash and cash equivalents against our indebtedness. Our leverage ratio must not exceed 3.25x for the testing periods in calendar year 2012, 2.75x to 2.50x for the testing periods in calendar year 2013, 2.00x for the testing periods in calendar year 2014 and 1.75x thereafter.

The credit agreement for the Term Loan Facility also includes customary negative and affirmative covenants including, among others, limitations on our ability to: (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change our business.

The Term Loan Facility is subject to repayment upon the receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The Term Loan Facility was also subject to repayment of \$50.0 million upon the receipt of proceeds from the IPO. We closed the IPO on July 24, 2012. On July 27, 2012, we repaid \$65.3 million of principal against the Term Loan Facility and \$0.7 million of interest. On October 26, 2012, the Company repaid \$0.3 million of principal on the Term Loan Facility. As of October 27, 2012, the balance outstanding under the Term Loan Facility was \$34.5 million bearing interest at a rate of 5.25%. Pursuant to the terms of the Term Loan Facility, due to our repayment of \$65.3 million of principal under the Term Loan Facility in July, we are no longer required to make minimum quarterly payments and the unpaid balance will be due upon maturity. In connection with the Term Loan Facility, we incurred deferred financing costs of \$2.7 million which are being amortized over the term of the Term Loan Facility. The amortization is included in interest expense, net, in the statements of operations. In connection with the repayment in July 2012, \$1.6 million of the deferred financing costs were written off. The remaining deferred financing costs, net of amortization, are included in other assets in the balance sheet at October 27, 2012.

Amounts under the credit agreement for the Term Loan Facility may become due upon certain events of default including, among others, failure to comply with the credit agreement’s covenants, bankruptcy, default on certain other indebtedness or a change in control. The default rate under the Term Loan Facility is 2.00% per annum.

All obligations under the Term Loan Facility are secured by substantially all of our assets.

As of October 27, 2012, we were in compliance with the financial covenant and other covenants applicable to us under the Term Loan Facility.

Line of Credit

On August 18, 2006, we entered into a loan and security agreement (the “Loan and Security Agreement”) with a bank that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement has been amended and/or restated several times, the latest on May 16, 2012 (as amended and restated, the “Revolving Credit Facility”), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates and modify certain definitions. The Revolving Credit Facility allows maximum borrowings of \$20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the Term Loan Facility or (iii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to \$30.0 million upon certain conditions. The Revolving Credit Facility includes a \$5.0 million sublimit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves. In connection with the Revolving Credit Facility, we incurred deferred financing costs of \$50,000 in May 2012 which are being amortized over the remaining term of the Revolving Credit Facility.

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The Revolving Credit Facility provides for interest on borrowings, at our option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of \$12,000 per year.

The Revolving Credit Facility includes a covenant which requires us to maintain minimum excess collateral availability of no less than the greater of (i) 10% of the then effective maximum credit and (ii) \$3.0 million.

The Revolving Credit Facility also includes customary negative and affirmative covenants including, among others, limitations on our ability to (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change our business.

Additionally, the Revolving Credit Facility is subject to payment upon the receipt of certain proceeds, including those from the sale of certain assets and is subject to an increase in the interest rate on borrowings and the letter of credit fee of 2.0% upon an event of default. Amounts under the Revolving Credit Facility may become due upon certain events of default including among others, failure to comply with the Revolving Credit Facility covenants, bankruptcy, default on certain other indebtedness or a change in control.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets.

As of October 27, 2012, we were in compliance with the covenants applicable to us under the Revolving Credit Facility. During the thirty-nine weeks ended October 27, 2012, there were no borrowings under the Revolving Credit Facility.

Note Payable

On December 10, 2010 we entered into a loan and security agreement (the “Note”) for \$250,000 with a governmental authority. At May 13, 2012, a portion of the note (\$200,000) was converted to a grant upon us meeting certain non-financial conditions and the remainder of \$50,000 was paid back in full along with interest outstanding.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in the Prospectus. We believe that there have been no significant changes to our critical accounting policies during the thirty-nine weeks ended October 27, 2012.

Contractual Obligations

Except as set forth below, there have been no material changes to our contractual obligations as disclosed in the Prospectus, other than those which occur in the ordinary course of business.

Since January 28, 2012, we have entered into 48 new fully executed retail leases with an average term of 10 years and other lease modifications that have future minimum lease payments of approximately \$93.2 million, a second distribution center lease with an initial term of 10 years that has future minimum lease payments of approximately \$16.7 million and purchase commitments for infrastructure and systems that will be implemented in the construction of the second distribution center of approximately \$3.1 million. In addition, we entered into the Term Loan Facility in May 2012 increasing our notes payable to \$34.5 million as of October 27, 2012. The balance bears an interest rate of 5.25%.

Off Balance Sheet Arrangements

As of and for the thirty-nine weeks ended October 27, 2012, except for operating leases entered into in the normal course of business, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU No. 2011-04 result in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles, or U.S. GAAP, and international financial reporting standards, or IFRS, and change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of the new requirements of ASU No. 2011-04 did not have an impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. We have a Revolving Credit Facility which includes a revolving line of credit with advances tied to a borrowing base, and a Term Loan Facility, both of which bear interest at a variable rate. Because our Revolving Credit Facility and Term Loan Facility bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates.

As of October 27, 2012, we had no outstanding borrowings under our Revolving Credit Facility, nor did we have any borrowings during fiscal year 2012.

As of October 27, 2012, the principal amount of the Term Loan Facility was \$34.5 million. The Term Loan Facility carries a variable interest rate that is tied to our lender's prime rate, the federal funds effective rate plus 0.50% with a 2.0% floor plus a margin of 3.25% or a LIBOR-based rate with a 1.0% floor plus a margin of 4.25%. Based on a sensitivity analysis at October 27, 2012, a 100 basis point increase in market interest rates would increase our annual interest expense on the Term Loan Facility by approximately \$0.3 million. We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rule 13(a)-15(e), as of the end of the period covered by this Quarterly Report on Form 10-Q pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q are effective at a reasonable assurance level in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation

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of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control over Financial Reporting

There was no change to our internal control over financial reporting during the thirteen weeks ended October 27, 2012 that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various proceedings, lawsuits, disputes, and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us from time to time include commercial, intellectual property, customer, and employment actions, including class action lawsuits. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. Actions are in various procedural stages, and some are covered in part by insurance. We cannot predict with assurance the outcome of actions brought against us. Accordingly, adverse developments, settlements, or resolutions may occur and negatively impact income in the quarter of such development, settlement, or resolution. If a potential loss arising from these lawsuits, claims and pending actions is probable and reasonably estimable, we record the estimated liability based on circumstances and assumptions existing at the time. Although the outcome of these and other claims cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Risk factors that affect our business and financial results are discussed under the heading “Risk Factors” beginning on page 11 of the Prospectus. There have been no material changes in our risk factors from those previously disclosed in the Prospectus, which are incorporated herein by reference.

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

Use of Proceeds

On July 24, 2012, we completed the IPO of an aggregate of 11,057,692 shares of our common stock at a price of \$17.00 per share. On that date, we issued and sold 4,807,692 shares, and certain of our shareholders sold 6,250,000 shares, including 1,442,308 shares of common stock pursuant to the underwriters’ exercise of their option to purchase additional shares to cover over-allotment (“over-allotment shares”). We did not receive any proceeds from the sale of shares by the selling shareholders. The shares were registered pursuant to our Registration Statement on Form S-1, which was declared effective on July 18, 2012. The IPO commenced on July 18, 2012 and closed on July 24, 2012. As of the date of filing this report, the IPO has terminated, and all of the securities registered pursuant to the IPO have been sold prior to termination.

Goldman, Sachs & Co, Barclays Capital Inc. and, Jefferies & Company, Inc. served as joint representatives of the several underwriters for the IPO. The total price to the public for the shares offered and sold in the IPO, including the over-allotment shares, was \$187,980,764. The amount of expenses incurred by the Company in connection with the IPO is as follows:

	(in millions)
Underwriting discount and commissions	\$ 3.7
Finders’ fees	—
Expenses paid to or for underwriters	—
Other expenses	4.8
Total expenses	<u>\$ 8.5</u>

The foregoing expenses are a reasonable estimate of the expenses incurred by us in the IPO and do not represent the exact amount of expenses incurred. All of the foregoing expenses were direct or indirect payments to persons other than (i) our directors, officers or any of their associates; (ii) persons owning 10% or more of our common stock; or (iii) our affiliates.

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The net proceeds of the IPO to us (after deducting the foregoing expenses) were \$73.3 million. On July 24, 2012, the closing date of the IPO, we received the proceeds from the IPO, which have been utilized to repay \$65.3 million and \$0.7 million of principal and interest, respectively, under our new Term Loan Facility that existed as of the date of the IPO and the remaining net proceeds of the IPO were used for general corporate purposes, including working capital.

There has been no material change in the use of proceeds from the IPO as described in our Prospectus under “Use of Proceeds”.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On September 10, 2012, the Company issued a press release announcing its fiscal 2012 second quarter earnings for the period ended July 28, 2012. A copy of this press release is furnished as Exhibit 99.1 to the Securities and Exchange Commission pursuant to Item 2.02 of Form 8-K and shall not be deemed “filed” for any purpose.

ITEM 6. EXHIBITS

(a) Exhibits

No.	Description
10.1	Five Below, Inc. 2012 Employee Stock Purchase Plan.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 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 required by Rule 13a-14(a) or Rule 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. 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. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Press Release regarding earnings, dated September 10, 2012.
101†	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended October 27, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Balance Sheets as of October 27, 2012, January 28, 2012 and October 29, 2011; (ii) the Unaudited Statements of Operations for the Thirteen and Thirty-nine Weeks Ended October 27, 2012 and October 29, 2011; (iii) the Unaudited Statement of Changes in Convertible Preferred Stock and Shareholders' Equity (Deficit) for the Thirty-nine Weeks Ended October 27, 2012; (iv) Unaudited Statements of Cash Flows for the Thirty-nine Weeks Ended October 27, 2012 and October 29, 2011 and (v) the Notes to Unaudited Financial Statements, tagged as blocks of text.

* This exhibit is furnished pursuant to Item 2.02 and shall not be deemed to be “filed.”

† Pursuant to applicable securities laws and regulations, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

SIGNATURES

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.

FIVE BELOW, INC.

Date: November 29, 2012

/s/ Thomas G. Vellios

Thomas G. Vellios

President and Chief Executive Officer
(Principal Executive Officer)

Date: November 29, 2012

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit Index

No.	Description
10.1	Five Below, Inc. 2012 Employee Stock Purchase Plan.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 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 required by Rule 13a-14(a) or Rule 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. 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. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Press Release regarding earnings, dated September 10, 2012.
101†	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended October 27, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Balance Sheets as of October 27, 2012, January 28, 2012 and October 29, 2011; (ii) the Unaudited Statements of Operations for the Thirteen and Thirty-nine Weeks Ended October 27, 2012 and October 29, 2011; (iii) the Unaudited Statement of Changes in Convertible Preferred Stock and Shareholders' Equity (Deficit) for the Thirty-nine Weeks Ended October 27, 2012; (iv) Unaudited Statements of Cash Flows for the Thirty-nine Weeks Ended October 27, 2012 and October 29, 2011 and (v) the Notes to Unaudited Financial Statements, tagged as blocks of text.

* This exhibit is furnished pursuant to Item 2.02 and shall not be deemed to be "filed."

† Pursuant to applicable securities laws and regulations, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

**FIVE BELOW, INC.
2012 EMPLOYEE STOCK PURCHASE PLAN**

1. Purpose.

The Five Below, Inc. 2012 Employee Stock Purchase Plan (the “Plan”) is intended to encourage and facilitate the purchase of Shares of the common stock of Five Below, Inc. (the “Company”) by employees of the Company and any Participating Companies, thereby providing employees with a personal stake in the Company and a long range inducement to remain in the employ of the Company and Participating Companies. It is the intention of the Company that the Plan qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Code.

2. Definitions.

(a) “Account” means a bookkeeping account established by the Committee on behalf of a Participant to hold Payroll Deductions.

(b) “Approved Leave of Absence” means a leave of absence that has been approved by the applicable Participating Company in such a manner as the Board may determine from time to time.

(c) “Board” means the Board of Directors of the Company.

(d) “Business Day” means a day on which national stock exchanges and the NASDAQ System are open for trading.

(e) “Code” means the Internal Revenue Code of 1986, as amended.

(f) “Committee” means the Committee appointed pursuant to Section 14 of the Plan.

(g) “Company” means Five Below, Inc.

(h) “Compensation” means the regular base salary paid to a Participant by one or more Participating Company during such individual’s period of participation in the Plan, plus any pre-tax contributions made by the Participant to any cash-or-deferred arrangement that meets the requirements of section 401(k) of the Code or any cafeteria benefit program that meets the requirements of section 125 of the Code, now or hereafter established by any Participating Company. The following items of compensation shall not be included in Compensation: (i) all overtime payments, bonuses, commissions (other than those functioning as base salary equivalents), profit-sharing distributions and other incentive-type payments and (ii) any and all contributions (other than contributions subject to sections 401(k) and 125 of the Code) made on the Participant’s behalf by a Participating Company under any employee benefit or welfare plan now or hereafter established.

(i) “Election Form” means the form acceptable to the Committee which an Employee shall use to make an election to purchase Shares through Payroll Deductions pursuant to the Plan.

(j) “Eligible Employee” means an Employee who meets the requirements for eligibility under Section 3 of the Plan.

(k) “Employee” means any person, including an officer, whose wages and other salary is required to be reported by a Participating Company on Internal Revenue Service Form W-2 for federal income tax purposes.

(l) “Enrollment Date” means, with respect to a given Offering Period, a date established from time to time by the Committee or the Board, which shall not be later than the first day of such Offering Period.

(m) "Fair Market Value" means the closing price per Share on the principal national securities exchange on which the Shares are listed or admitted to trading or, if not listed or traded on any such exchange, on the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or if not listed or traded on any such exchange or system, the fair market value as reasonably determined by the Board, which determination shall be in accordance with the standards set forth in Treasury Regulation §1.421-1(e)(2) and shall be conclusive.

(n) "Five Percent Owner" means an Employee who, with respect to a Participating Company, is described in Section 423(b) of the Code.

(o) "Offering" means an offering of Shares to Eligible Employees pursuant to the Plan.

(p) "Offering Commencement Date" means the first Business Day on or after January 1 or the first Business Day on or after July 1 of each year.

(q) "Offering Period" means the period extending from an Offering Commencement Date through the following Offering Termination Date.

(r) "Offering Termination Date" means the last Business Day in the period ending each June 30 and December 31 immediately following the applicable Offering Commencement Date, or the date of a Change in Control (as defined in the Company's Amended and Restated Equity Incentive Plan), which occurs in an Offering Period.

(s) "Option Price" means, with respect to a particular Offering Period, an amount equal to 90% of the Fair Market Value per Share determined on the Offering Termination Date, or if such date is not a trading day, then on the next trading day thereafter.

(t) "Participant" means an Employee who meets the requirements for eligibility under Section 3 of the Plan and who has timely delivered an Election Form to the Committee.

(u) "Participating Company" means, as identified on Schedule A, the Company and subsidiaries of the Company, within the meaning of Section 424(f) of the Code, if any, that are approved by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(v) "Payroll Deductions" means amounts withheld from a Participant's Compensation pursuant to the Plan, as described in Section 5 of the Plan.

(w) "Plan" means the Five Below, Inc. 2012 Employee Stock Purchase Plan, as set forth in this document, and as may be amended from time to time.

(x) "Plan Termination Date" means the earlier of: (1) the Offering Termination Date for the Offering in which the maximum number of Shares specified in Section 4 of the Plan have been issued pursuant to the Plan; (2) the date as of which the Board chooses to terminate the Plan as provided in Section 15 of the Plan; (3) the date of a Change in Control or (4) in the event that the Company's shareholders do not approve the Plan at the Company's annual meeting of shareholders that immediately follows the Effective Date, the date of such annual meeting.

(y) "Shares" means shares of common stock of the Company, \$0.01 par value per Share.

(z) "Successor-in-Interest" means the Participant's executor or administrator, or such other person or entity to whom the Participant's rights under the Plan shall have passed by will or the laws of descent and distribution.

(aa) "Termination Form" means the form acceptable to the Committee which an Employee shall use to withdraw from an Offering pursuant to Section 8 of the Plan.

3. Eligibility and Participation.

(a) Initial Eligibility. Except as provided in Section 3(b) of the Plan, each individual who is an Employee on an Offering Commencement Date shall be eligible to participate in the Plan with respect to the Offering that commences on that date.

(b) Ineligibility. An Employee shall not be eligible to participate in the Plan if such Employee:

- (1) is a Five Percent Owner;
- (2) has not customarily worked more than 20 hours per week;
- (3) has not customarily worked more than 5 months in any calendar year;
- (4) has been employed with the Company for less than 6 months; or
- (5) is restricted from participating under Section 3(d) of the Plan.

(c) Leave of Absence. An Employee on an Approved Leave of Absence shall be eligible to participate in the Plan, subject to the provisions of Sections 5(d) and 8(d) of the Plan. An Approved Leave of Absence shall be considered active employment for purposes of Sections 3(b)(2) and 3(b)(3) of the Plan.

(d) Restrictions on Participation. Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an option to participate in the Plan if:

- (1) immediately after the grant, such Employee would be a Five Percent Owner; or
- (2) such option would permit such Employee's rights to purchase stock under all employee stock purchase plans of the Participating Companies which meet the requirements of Section 423(b) of the Code to accrue at a rate which exceeds \$25,000 in fair market value (as determined pursuant to Section 423(b)(8) of the Code) for each calendar year in which such option is outstanding.

(e) Commencement of Participation. An Employee who meets the eligibility requirements of Sections 3(a) and 3(b) of the Plan as of an applicable Enrollment Date and whose participation is not restricted under Section 3(d) of the Plan shall become a Participant by completing an Election Form and filing it with the Committee on or before the applicable Enrollment Date. Payroll Deductions for a Participant shall commence on the applicable Offering Commencement Date when his or her authorization for Payroll Deductions becomes effective, and shall end on the Plan Termination Date, unless sooner terminated by the Participant pursuant to Section 8 of the Plan. Notwithstanding the foregoing sentence, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(d) of the Plan, a Participant's payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period; *provided*, that such Payroll Deductions shall recommence at the rate as provided in such Participant's Enrollment Form at the beginning of the first Offering Period that is scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 8 of the Plan.

4. Shares Per Offering.

The Plan shall be implemented by a series of Offerings that shall terminate on the Plan Termination Date. Offerings shall be made with respect to Compensation payable for each Offering Period occurring on or after adoption of the Plan by the Board and ending with the Plan Termination Date. Shares available for any Offering shall be the difference between the maximum number of Shares that may be issued under the Plan, as determined pursuant to Section 10(a) of the Plan, for all of the Offerings, less the actual number of Shares purchased by Participants pursuant to prior Offerings. If the total number of Shares for which options are exercised on any Offering Termination Date exceeds the maximum number of Shares available, the Committee shall make a

pro rata allocation of Shares available for delivery and distribution in as nearly a uniform manner as practicable, and as it shall determine to be fair and equitable, and the unapplied Account balances shall be returned to Participants as soon as practicable following the Offering Termination Date.

5. Payroll Deductions.

(a) Amount of Payroll Deductions. An Eligible Employee who wishes to participate in the Plan shall file an Election Form (authorizing payroll deductions) with the Committee prior to the applicable Enrollment Date.

(b) Participants' Accounts. All Payroll Deductions with respect to a Participant pursuant to Section 5(a) of the Plan shall commence on the first payroll following the Enrollment Date and shall end of the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 8. All Payroll Deductions will be credited to the Participant's Account under the Plan. The amounts collected from the Participant shall not be held in any segregated account or trust fund and may be commingled with the general assets of the Company and used for general corporate purposes.

(c) Changes in Payroll Deductions. A Participant may discontinue his participation in the Plan as provided in Section 8(a) of the Plan, but no other change can be made during an Offering Period, including, but not limited to, changes in the amount of Payroll Deductions for such Offering. A Participant may change the amount of Payroll Deductions for subsequent Offerings by giving written notice of such change to the Committee on or before the applicable Enrollment Date for such Offering Period.

(d) Leave of Absence. A Participant who goes on an Approved Leave of Absence before the Offering Termination Date after having filed an Election Form with respect to such Offering may:

- (1) withdraw the balance credited to his or her Account pursuant to Section 8(b) of the Plan;
- (2) discontinue contributions to the Plan but remain a Participant in the Plan through the earlier of (i) the Offering Termination Date or (ii) the close of business on the 90th day of such Approved Leave of Absence unless such Employee shall have returned to regular non-temporary employment before the close of business on such 90th day;
- (3) remain a Participant in the Plan during such Approved Leave of Absence through the earlier of (i) the Offering Termination Date or (ii) the close of business on the 90th day of such Approved Leave of Absence unless such Employee shall have returned to regular non-temporary employment before the close of business on such 90th day, and continue the authorization for the Participating Company to make Payroll Deductions for each payroll period out of continuing payments to such Participant, if any.

6. Granting of Options.

On each Offering Termination Date, each Participant shall be deemed to have been granted an option to purchase a minimum of one (1) Share and a maximum number of Shares that shall be a number of whole Shares equal to the quotient obtained by dividing the balance credited to the Participant's Account as of the Offering Termination Date, by the Option Price. Notwithstanding the foregoing and subject to the limitations described in Section 3(d)(2), on each applicable Offering Termination Date, no Participant may purchase more than the number of Shares obtained by dividing (i) \$10,000 by (ii) the Fair Market Value as of the applicable Offering Termination Date. Notwithstanding the foregoing, no participant may purchase more than \$10,000 worth of stock in any calendar year, and if a Participant's contributions exceed this limit, then any such excess contributions will be returned to Participant without interest and will not be used to purchase Shares under the Plan.

7. Exercise of Options.

(a) Automatic Exercise. With respect to each Offering, a Participant's option for the purchase of Shares granted pursuant to Section 6 of the Plan shall be deemed to have been exercised automatically on the Offering Termination Date applicable to such Offering. Notwithstanding the foregoing, upon the occurrence of a Plan Termination Date as described in Section 2(x)(3) or Section 2(x)(4), all Shares or Payroll Deductions (to the extent not yet applied to the purchase of Shares) under the Plan shall be distributed to the Participants as soon as administratively practicable following such Plan Termination Date.

(b) Fractional Shares and Minimum Number of Shares. Fractional Shares shall not be issued under the Plan. Amounts credited to an Account remaining after the application of such Account to the exercise of options for a minimum of one (1) full Share shall be credited to the Participant's Account for the next succeeding Offering, or, at the Participant's election, returned to the Participant as soon as practicable following the Offering Termination Date, without interest.

(c) Transferability of Option. No option granted to a Participant pursuant to the Plan shall be transferable other than by will or by the laws of descent and distribution, and no such option shall be exercisable during the Participant's lifetime other than by the Participant.

(d) Delivery of Certificates for Shares. The Company shall deliver certificates for Shares acquired on the exercise of options during an Offering Period as soon as practicable following the Offering Termination Date.

8. Withdrawals.

(a) Withdrawal of Account. A Participant may elect to withdraw the balance credited to the Participant's Account by providing a Termination Form to the Committee at any time before the Offering Termination Date applicable to any Offering.

(b) Amount of Withdrawal. A Participant may withdraw all, but not less than all, of the amounts credited to the Participant's Account by giving a Termination Form to the Committee. All amounts credited to such Participant's Account shall be paid as soon as practicable following the Committee's receipt of the Participant's Termination Form, and no further Payroll Deductions will be made with respect to the Participant.

(c) Termination of Employment. Upon termination of a Participant's employment for any reason other than death, including termination due to disability or continuation of a leave of absence beyond 90 days, all amounts credited to such Participant's Account shall be returned to the Participant. In the event of a Participant's (1) termination of employment due to death or (2) death after termination of employment but before the Participant's Account has been returned, all amounts credited to such Participant's Account shall be returned to the Participant's Successor-in-Interest.

(d) Leave of Absence. A Participant who is on an Approved Leave of Absence shall, subject to the Participant's election pursuant to Section 5(d) of the Plan, continue to be a Participant in the Plan until the earlier of (i) the end of the first Offering ending after commencement of such Approved Leave of Absence or (ii) the close of business on the 90th day of such Approved Leave of Absence unless such Employee shall have returned to regular non-temporary employment before the close of business on such 90th day. A Participant who has been on an Approved Leave of Absence for more than 90 days shall not be eligible to participate in any Offering that begins on or after the commencement of such Approved Leave of Absence so long as such leave of absence continues.

9. Interest.

No interest shall be paid or allowed with respect to amounts paid into the Plan or credited to any Participant's Account.

10. Shares.

(a) Maximum Number of Shares. No more than 500,000 Shares may be issued under the Plan. Such Shares shall be authorized but unissued or reacquired Shares of the Company, including Shares purchased on the open market. The number of Shares available for any Offering and all Offerings shall be adjusted if the number of outstanding Shares of the Company is increased or reduced by split-up, reclassification, stock dividend or the like. All Shares issued pursuant to the Plan shall be validly issued, fully paid and nonassessable.

(b) Participant's Interest in Shares. A Participant shall have no interest in Shares subject to an option until such option has been exercised.

(c) Registration of Shares. Shares to be delivered to a Participant under the Plan shall be registered in the name of the Participant.

(d) Restrictions on Exercise. The Board may, in its discretion, require as conditions to the exercise of any option such conditions as it may deem necessary to assure that the exercise of options is in compliance with applicable securities laws.

11. Expenses.

The Participating Companies shall pay all fees and expenses incurred (excluding individual Federal, state, local or other taxes) in connection with the Plan. No charge or deduction for any such expenses will be made to a Participant upon the termination of his or her participation under the Plan or upon the distribution of certificates representing Shares purchased with his or her contributions.

12. Taxes.

The Participating Companies shall have the right to withhold from each Participant's Compensation an amount equal to all Federal, state, city or other taxes as the Participating Companies shall determine are required to be withheld by them in connection with the grant, exercise of the option or disposition of Shares. In connection with such withholding, the Participating Companies may make any such arrangements as are consistent with the Plan as it may deem appropriate, including the right to withhold from Compensation paid to a Participant other than in connection with the Plan and the right to withdraw such amount from the amount standing to the credit of the Participant's Account.

13. Plan and Contributions Not to Affect Employment.

The Plan shall not confer upon any Eligible Employee any right to continue in the employ of the Participating Companies.

14. Administration.

The Plan shall be administered by the Board, which may delegate responsibility for such administration to a committee of the Board (the "Committee"). If the Board fails to appoint the Committee, any references in the Plan to the Committee shall be treated as references to the Board. The Board, or the Committee, shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, and to make all other determinations deemed necessary or advisable in administering the Plan, with or without the advice of counsel. The determinations of the Board or the Committee on the matters referred to in this paragraph shall be conclusive and binding upon all persons in interest.

15. Amendment and Termination.

The Board may terminate the Plan at any time and may amend the Plan from time to time in any respect; *provided, however*, that upon any termination of the Plan, all Shares or Payroll Deductions (to the extent not yet applied to the purchase of Shares) under the Plan shall be distributed to the Participants, *provided further*, that no amendment to the Plan shall affect the right of a Participant to receive his or her proportionate interest in the Shares or his or her Payroll Deductions (to the extent not yet applied to the purchase of Shares) under the Plan, and

provided further, that the Company may seek shareholder approval of an amendment to the Plan if such approval is determined to be required by or advisable under the regulations of the Securities or Exchange Commission or the Internal Revenue Service, the rules of any stock exchange or system on which the Shares are listed or other applicable law or regulation.

16. Effective Date.

The Plan shall be effective on January 1, 2013 (the “Effective Date”), with its initial Offering Period beginning January 1, 2013.

17. Government and Other Regulations.

(a) In General. The purchase of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies as may be required.

(b) Securities Law. The Committee shall have the power to make each grant under the Plan subject to such conditions as it deems necessary or appropriate to comply with the then-existing requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including Rule 16b-3 (or any similar rule) of the Securities and Exchange Commission.

18. Non-Alienation.

No Participant shall be permitted to assign, alienate, sell, transfer, pledge or otherwise encumber his interest under the Plan prior to the distribution to him of Share certificates. Any attempt at assignment, alienation, sale, transfer, pledge or other encumbrance shall be void and of no effect.

19. Notices.

Any notice required or permitted hereunder shall be sufficiently given only if delivered personally, telecopied, or sent by first class mail, postage prepaid, and addressed:

If to the Company:

Five Below, Inc.
1818 Market Street
Suite 1900
Philadelphia, PA 19103
Attention: Employee Stock Purchase Plan Committee
or any other address provided pursuant to written notice.

If to the Participant: At the address on file with the Company from time to time, or to such other address as either party may hereafter designate in writing by notice similarly given by one party to the other.

20. Successors.

The Plan shall be binding upon and inure to the benefit of any successor, successors or assigns of the Company.

21. Severability.

If any part of this Plan shall be determined to be invalid or void in any respect, such determination shall not affect, impair, invalidate or nullify the remaining provisions of this Plan which shall continue in full force and effect.

22. Acceptance.

The election by any Eligible Employee to participate in this Plan constitutes his or her acceptance of the terms of the Plan and his or her agreement to be bound hereby.

23. Applicable Law.

This Plan shall be construed in accordance with the law of the Commonwealth of Pennsylvania, to the extent not preempted by applicable Federal law.

SCHEDULE A
Participating Companies

Five Below, Inc.

CERTIFICATION

Exhibit 31.1

I, Thomas G. Vellios, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Thomas G. Vellios

Name: Thomas G. Vellios

Title: President and Chief Executive Officer

Dated: November 29, 2012

CERTIFICATION

Exhibit 31.2

I, Kenneth R. Bull, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Kenneth R. Bull

Name: Kenneth R. Bull

Title: Chief Financial Officer, Secretary and Treasurer

Dated: November 29, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended October 27, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas G. Vellios, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas G. Vellios

Thomas G. Vellios

President and Chief Executive Officer

Date: November 29, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended October 27, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bull, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer, Secretary and Treasurer

Date: November 29, 2012



NEWS RELEASE

Five Below, Inc. Announces Second Quarter Fiscal 2012 Financial Results

- *Net sales increase of 40%; comparable store sales increase of 8.6%*
- *GAAP operating income increase of 28%; adjusted operating income increase of 61%*

PHILADELPHIA, PA – (Sept. 10, 2012) – Five Below, Inc. (Nasdaq: FIVE) today announced financial results for the thirteen weeks and twenty-six weeks ended July 28, 2012.

For the thirteen weeks ended July 28, 2012:

- Net sales increased by 40% to \$86.8 million from \$62.0 million in the second quarter of fiscal 2011; comparable store sales increased by 8.6%.
- Operating income increased to \$4.7 million from \$3.7 million in the second quarter of fiscal 2011. Adjusted for the impact of the founders' transactions in both periods (see GAAP/Non-GAAP reconciliation table), operating income increased 61% to \$6.2 million from \$3.9 million in the second quarter of fiscal 2011.
- The Company opened 27 new stores and ended the quarter with 226 stores in 18 states, an increase of 35% from the end of the second quarter of fiscal 2011.
- Net interest expense increased to \$1.3 million from \$5,000 in the second quarter of fiscal 2011. The increase in net interest expense resulted from a \$100 million term loan entered into in the second quarter of fiscal 2012, of which \$65.3 million was repaid subsequent to the completion of the Company's initial public offering ("IPO") on July 24, 2012.
- Loss on debt extinguishment was \$1.6 million for the second quarter of fiscal 2012 and was the result of a write-off of deferred financing costs in connection with the partial repayment of the Company's term loan.
- Net income was \$1.2 million compared to \$2.2 million in the second quarter of fiscal 2011. Adjusted net income, which excludes the impact of the founders' transactions in both periods (see GAAP/Non-GAAP reconciliation table), was \$2.2 million compared to \$2.3 million for the second quarter of fiscal 2011.
- U.S. generally accepted accounting principles, or GAAP, diluted loss per common share was \$(3.41) compared to \$(0.10) in the second quarter of fiscal 2011 and includes dividends paid to preferred and unvested restricted shareholders and GAAP adjustments for the potential impact of the Company's Series A 8% Convertible Preferred Stock cumulative dividends. Adjusted diluted income per common share, which is adjusted net income on an adjusted diluted weighted average common shares outstanding basis (see GAAP/Non-GAAP reconciliation table), was \$0.04 compared to \$0.04 in the second quarter of fiscal 2011.

Thomas Vellios, Co-Founder, President and CEO, stated: "We are pleased to have delivered net sales, comparable store sales, and operating income growth for the second quarter that reflects the strength of our dynamic business model. Our unique concept that delivers trend-right merchandise to our core teen and pre-teen customer in an engaging store environment and at the \$1 to \$5 value price points resonates with our customers and continues to drive our success. With a current base of 226 stores, we believe we have a considerable runway for store growth ahead of us and we are focused on delivering against that opportunity while maintaining our profitability and return goals."

For the twenty-six weeks ended July 28, 2012:

- Net sales increased by 45% to \$158.6 million from \$109.4 million in the comparable period in fiscal 2011; comparable store sales increased by 9.4%.

- Operating income was \$2.8 million as compared to \$5.3 million in the comparable period in fiscal 2011. Adjusted for the impact of the founders' transactions in both periods (see GAAP/Non-GAAP reconciliation table), operating income increased 84% to \$10.5 million from \$5.7 million in the comparable period in fiscal 2011.
- The Company opened 34 new stores compared to 26 net new stores opened in the comparable period in fiscal 2011.
- Net interest expense increased to \$1.3 million from \$2,000 in the corresponding period of fiscal 2011. The increase in net interest expense resulted from a \$100 million term loan entered into in the second quarter of fiscal 2012, of which \$65.3 million was repaid subsequent to the completion of the Company's IPO on July 24, 2012.
- Loss on debt extinguishment was \$1.6 million for the twenty-six week period of fiscal 2012 and was the result of a write-off of deferred financing costs in connection with the partial repayment of the Company's term loan.
- Net income was \$90,000 compared to \$3.2 million in the corresponding period of fiscal 2011. Adjusted net income, which excludes the impact of the founders' transactions in both periods (see GAAP/Non-GAAP reconciliation table), was \$4.7 million compared to \$3.4 million in the corresponding period of fiscal 2011.
- GAAP diluted loss per common share was \$(3.71) compared to \$(0.29) in the corresponding period of fiscal 2011 and includes dividends paid to preferred and unvested restricted shareholders and GAAP adjustments for the potential impact of the Company's Series A 8% Convertible Preferred Stock cumulative dividends. Adjusted diluted income per common share, which is adjusted net income on an adjusted diluted weighted average common shares outstanding basis (see GAAP/Non-GAAP reconciliation table), was \$0.09 compared to \$0.07 in the corresponding period of fiscal 2011.

Balance sheet highlights as of July 28, 2012:

The Company's IPO closed on July 24, 2012. Proceeds from the IPO are reflected in the Company's financial statements for the second quarter ended July 28, 2012.

- Cash: \$17.7 million
- Total debt: \$34.8 million
- Total liquidity (cash plus availability on a \$20 million revolver facility): \$37.7 million

Third Quarter and Fiscal 2012 Outlook:

For the third quarter of fiscal 2012, net sales are expected to be in the range of \$79 million to \$81 million based on opening 14 new stores and an increase in comparable sales in the mid-single digit range. GAAP net loss is expected to be in the range of \$0.7 million to \$0.3 million, with a GAAP diluted loss per common share of \$0.01 on approximately 52.6 million estimated weighted average common shares outstanding. Excluding \$0.9 million, or \$0.02 per adjusted diluted share, in tax-effected expenses related to the founders' transaction, adjusted net income is expected to be in the range of \$0.2 million to \$0.6 million, or \$0.00 to \$0.01 per diluted share based on estimated adjusted diluted weighted average common shares outstanding of approximately 54.4 million.

For fiscal 2012, net sales are expected to be in the range of \$402 million to \$407 million based on opening 52 new stores for the full year and an increase in comparable store sales in the 6.0% to 6.5% range. GAAP net income is expected to be in the range of \$18.2 million to \$19.1 million, with a GAAP diluted loss per common share of \$1.33 to \$1.31 (which includes the impact of \$65.4 million of dividends paid to preferred and unvested restricted shareholders) on approximately 35.4 million estimated weighted average common shares outstanding. Excluding \$6.5 million, or \$0.12 per adjusted diluted share, in tax-effected expenses related to the founders' transaction, adjusted net income for fiscal 2012 is expected to be in the range of \$24.6 million to \$25.6 million, or \$0.45 to \$0.47 per diluted share based on estimated adjusted diluted weighted average common shares outstanding of 54.2 million.

Conference Call Information:

A conference call to discuss second quarter fiscal 2012 financial results is scheduled for today, September 10, 2012, at 4:30 PM Eastern Time. Investors and analysts interested in participating in the call are invited to dial (888) 208-1617 (international callers please dial (913) 981-5588) approximately 10 minutes prior to the start of the call. A live audio webcast of the conference call will be available online at www.fivebelow.com in the investor relations section of the website.

A taped replay of the conference call will be available within two hours of the conclusion of the call and can be accessed both online and by dialing (877) 870-5176. The pin number to access the telephone replay is 7947518. The replay will be available until September 17, 2012.

Non-GAAP Information

This press release includes non-GAAP adjusted operating income, adjusted net income, adjusted diluted weighted average common shares outstanding and adjusted diluted income per common share, each a non-GAAP financial measure. The Company has reconciled these non-GAAP financial measures with the most directly comparable GAAP financial measures in a table accompanying this release. The Company believes that these non-GAAP financial measures not only provide its management with comparable financial data for internal financial analysis but also provide meaningful supplemental information to investors. Specifically, these non-GAAP financial measures allow investors to better understand the performance of the Company's business and facilitate a meaningful evaluation of its quarterly and fiscal year 2012 diluted income per common share and actual results on a comparable basis with its quarterly and fiscal year 2011 results. In evaluating these non-GAAP financial measures, investors should be aware that in the future the Company may incur expenses or be involved in transactions that are the same as or similar to some of the adjustments in this presentation. The Company's presentation of non-GAAP financial measures should not be construed to imply that its future results will be unaffected by any such adjustments. The Company has provided this information as a means to evaluate the results of its ongoing operations. Other companies in the Company's industry may calculate these items differently than it does. Each of these measures is not a measure of performance under GAAP and should not be considered as a substitute for the most directly comparable financial measures prepared in accordance with GAAP. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

Forward-Looking Statements:

This news release includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect management's current views and estimates regarding the Company's industry, business strategy, goals and expectations concerning its market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. Investors can identify these statements by the fact that they use words such as "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "future" and similar terms and phrases. The Company cannot assure investors that future developments affecting the Company will be those that it has anticipated. Actual results may differ materially from these expectations due to risks relating to the Company's strategy and expansion plans, the availability of suitable new store locations, risks that consumer spending may decline and that U.S. and global macroeconomic conditions may worsen, risks related to the Company's continued retention of its senior management and other key personnel, risks relating to changes in consumer preferences and economic conditions, risks relating to the Company's distribution center, quality or safety concerns about the Company's merchandise, events that may affect the Company's vendors, increased competition from other retailers, risks relating to trade restrictions, risks associated with leasing substantial amounts of space, and other factors that are set forth in the Company's filings with the Securities and Exchange Commission ("SEC"), including risk factors contained in the final prospectus relating to the IPO dated July 18, 2012 filed with the SEC and available at www.sec.gov. If one or more of these risks or uncertainties materialize, or if any of the Company's assumptions prove incorrect, the Company's actual results may vary in material respects from those projected in these forward-looking statements. Any forward-looking statement made by the Company in this news release speaks only as of the date on which the Company makes it. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.

About Five Below

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. Five Below offers a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across a number of category worlds – *Style, Room, Sports, Media, Crafts, Party, Candy* and *Seasonal*. Five Below is headquartered in Philadelphia, Pennsylvania.

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FIVE BELOW, INC.
Balance Sheets
(Unaudited)
(in thousands, except share and per share data)

	July 28, 2012	January 28, 2012	July 30, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 17,676	\$ 41,293	\$ 5,695
Inventories	63,631	38,790	43,012
Prepaid income taxes	10,577	—	—
Deferred income taxes	—	4,863	2,928
Prepaid expenses and other current assets	12,155	7,303	7,408
Total current assets	104,039	92,249	59,043
Property and equipment, net	49,039	42,040	36,672
Deferred income taxes	—	—	439
Other assets	1,116	238	165
	<u>\$ 154,194</u>	<u>\$ 134,527</u>	<u>\$ 96,319</u>
Liabilities and Shareholders' Equity (Deficit)			
Current liabilities:			
Line of credit	\$ —	\$ —	\$ —
Current portion of note payable	1,000	—	—
Accounts payable	28,064	23,588	18,521
Income taxes payable	—	9,139	1,718
Accrued salaries and wages	2,830	9,254	1,837
Other accrued expenses	11,496	7,961	9,078
Deferred income taxes	1,045	—	—
Total current liabilities	44,435	49,942	31,154
Notes payable	33,750	250	250
Deferred rent	26,294	20,933	17,686
Deferred income taxes	2,949	1,306	—
Total liabilities	<u>107,428</u>	<u>72,431</u>	<u>49,090</u>
Preferred stock, \$0.01 par value. Authorized 100,000,000 shares; 10,000,000 shares undesignated; 90,000,000 shares designated as Series A 8% Convertible Preferred Stock, \$0.01 par value. Issued and outstanding zero, 89,291,773 and 89,291,773 shares, respectively, with a liquidation preference of zero, \$214,420 and \$206,246, respectively	<u>—</u>	<u>191,855</u>	<u>191,855</u>
Shareholders' equity (deficit):			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 53,972,006, 16,248,797 and 16,084,358 shares, respectively.	540	162	161
Additional paid-in capital	266,594	3,691	1,692
Accumulated deficit	(220,368)	(133,612)	(146,479)
Total shareholders' equity (deficit)	46,766	(129,759)	(144,626)
	<u>\$ 154,194</u>	<u>\$ 134,527</u>	<u>\$ 96,319</u>

FIVE BELOW, INC.
Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net sales	\$ 86,820	\$ 61,966	\$ 158,649	\$ 109,393
Cost of goods sold	58,073	41,955	106,882	74,795
Gross profit	28,747	20,011	51,767	34,598
Selling, general and administrative expenses	24,012	16,323	48,997	29,249
Operating income	4,735	3,688	2,770	5,349
Interest expense, net	1,316	5	1,279	2
Loss on debt extinguishment	1,587	—	1,587	—
Other income	(258)	—	(258)	—
Income before income taxes	2,090	3,683	162	5,347
Income tax expense	843	1,471	72	2,136
Net income	1,247	2,212	90	3,211
Dividend paid to preferred and unvested restricted shareholders	(65,403)	—	(65,403)	—
Series A 8% Convertible Preferred Stock cumulative dividends	—	(3,870)	—	(7,739)
Net loss attributable to common shareholders	\$ (64,156)	\$ (1,658)	\$ (65,313)	\$ (4,528)
Basic loss per common share	\$ (3.41)	\$ (0.10)	\$ (3.71)	\$ (0.29)
Diluted loss per common share	\$ (3.41)	\$ (0.10)	\$ (3.71)	\$ (0.29)
Dividends declared and paid per common share	\$ 2.02	\$ —	\$ 2.02	\$ —
Weighted average shares outstanding:				
Basic shares	18,803,979	15,854,003	17,627,376	15,826,046
Diluted shares	18,803,979	15,854,003	17,627,376	15,826,046

FIVE BELOW, INC.
Statements of Cash Flows
(Unaudited)
(in thousands)

	Twenty-six weeks ended	
	July 28, 2012	July 30, 2011
Operating activities:		
Net income	\$ 90	\$ 3,211
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,342	3,091
Gain on conversion of note payable	(200)	—
Loss on debt extinguishment	1,587	—
Amortization of deferred financing costs	305	14
Warrant expense related to professional service providers for services rendered	43	25
Stock-based compensation expense	8,241	595
Deferred income tax expense	7,551	246
Other	(71)	—
Changes in operating assets and liabilities:		
Prepaid income taxes	(10,577)	20
Inventories	(24,841)	(16,258)
Prepaid expenses and other assets	(4,884)	(3,287)
Accounts payable	4,717	7,714
Income taxes payable	(9,139)	1,577
Accrued salaries and wages	(6,424)	(206)
Deferred rent	6,228	2,578
Other accrued expenses	2,460	3,490
Net cash (used in) provided by operating activities	(20,572)	2,810
Investing activities:		
Capital expenditures	(11,603)	(9,236)
Net cash used in investing activities	(11,603)	(9,236)
Financing activities:		
Borrowing under Term Loan Facility	100,000	—
Repayment of Term Loan Facility	(65,250)	—
Cash paid for debt financing costs	(2,738)	—
Repayment of note payable	(50)	—
Dividend paid to shareholders	(99,451)	—
Net proceeds from issuance of common stock	74,308	—
Proceeds from exercise of warrants to purchase common stock	201	—
Repurchase of unvested restricted shares related to stock option exercises	(17)	(32)
Excess tax benefit related to restricted shares	1,555	—
Net cash provided by (used in) financing activities	8,558	(32)
Net decrease in cash and cash equivalents	(23,617)	(6,458)
Cash and cash equivalents at beginning of period	41,293	12,153
Cash and cash equivalents at end of period	\$ 17,676	\$ 5,695

FIVE BELOW, INC.
GAAP to Non-GAAP Reconciliation of Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

Reconciliation of operating income, as reported, to adjusted operating income

	Thirteen weeks ended		Twenty-six weeks ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Operating income	\$ 4,735	\$ 3,688	\$ 2,770	\$ 5,349
Adjustments:				
Founders' transaction (1)	1,515	182	7,767	364
Adjusted operating income	<u>\$ 6,250</u>	<u>\$ 3,870</u>	<u>\$ 10,537</u>	<u>\$ 5,713</u>

Reconciliation of net loss attributable to common shareholders, as reported, to adjusted net income

	Thirteen weeks ended		Twenty-six weeks ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net loss attributable to common shareholders	\$(64,156)	\$(1,658)	\$(65,313)	\$(4,528)
Adjustments:				
Dividends paid to preferred and unvested restricted shareholders	65,403	—	65,403	—
Series A 8% Convertible Preferred Stock ("Preferred stock") cumulative dividends	—	3,870	—	7,739
Net income	1,247	2,212	90	3,211
Adjustments:				
Founders' transaction (1)	1,515	182	7,767	364
Less tax benefit	(611)	(73)	(3,113)	(145)
Adjusted net income	<u>\$ 2,151</u>	<u>\$ 2,321</u>	<u>\$ 4,744</u>	<u>\$ 3,430</u>

Reconciliation of diluted weighted average common shares outstanding, as reported, to adjusted diluted weighted average common shares outstanding

	Thirteen weeks ended		Twenty-six weeks ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Diluted weighted average common shares outstanding	18,803,979	15,854,003	17,627,376	15,826,046
Adjustments:				
Preferred shares conversion	29,197,429	30,894,953	30,046,192	30,894,953
Initial public offering shares issuance	4,543,534	4,807,682	4,675,614	4,807,682
Unvested and vested restricted stock (2)	1,423,756	204,252	1,644,105	232,208
Diluted effect of stock options and warrants (3)	167,614	—	93,025	—
Adjusted diluted weighted average common shares outstanding	<u>54,136,312</u>	<u>51,760,890</u>	<u>54,086,312</u>	<u>51,760,889</u>

FIVE BELOW, INC.
GAAP to Non-GAAP Reconciliation of Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

Reconciliation of diluted loss per common share, as reported, to adjusted diluted income per common share

	Thirteen weeks ended		Twenty-six weeks ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Diluted loss per common share, as reported	\$ (3.41)	\$ (0.10)	\$ (3.71)	\$ (0.29)
Adjustments:				
Dividends paid to preferred and unvested restricted shareholders per share	3.48	—	3.71	—
Series A 8% Convertible Preferred Stock cumulative dividends per share	—	0.24	—	0.49
Founders' transaction per share (1)	0.08	0.01	0.44	0.02
Income tax benefit per share	(0.03)	—	(0.18)	(0.01)
Adjustments to weighted average common shares outstanding per share	(0.08)	(0.11)	(0.17)	(0.14)
Adjusted diluted income per common share	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.07</u>

- (1) Founders' transaction relates to the amortization of expense for options granted to the founders in Fiscal 2010 and their modification in March 2012, which cancelled the Fiscal 2010 option award to purchase 2,020,620 shares of common stock and granted an equal number of restricted shares that vest through March 2014.
- (2) Assumes the impact of all unvested and vested restricted stock as of the beginning of the period.
- (3) Assumes the diluted impact of stock options and warrants utilizing the treasury stock method.

