

**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 August 3, 2013.

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 September 9, 2013 was 54,040,270.

FIVE BELOW, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

FIVE BELOW, INC.

Consolidated Balance Sheets
(Unaudited)
(in thousands, except share and per share data)

	August 3, 2013	February 2, 2013	July 28, 2012
Assets			
Current assets:			
Cash and cash equivalents	\$ 21,088	\$ 56,081	\$ 17,676
Inventories	83,470	60,831	63,631
Prepaid income taxes	837	36	10,577
Deferred income taxes	1,807	1,295	—
Prepaid expenses and other current assets	14,182	11,433	12,155
Total current assets	<u>121,384</u>	<u>129,676</u>	<u>104,039</u>
Property and equipment, net of accumulated depreciation and amortization of \$37,717, \$31,530, and \$27,046 respectively	65,555	59,040	49,039
Other assets	601	944	1,116
	<u>\$ 187,540</u>	<u>\$ 189,660</u>	<u>\$ 154,194</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	\$ —	\$ —	\$ —
Current portion of notes payable	—	15,000	1,000
Accounts payable	32,174	27,952	28,064
Income taxes payable	1,910	7,083	—
Accrued salaries and wages	2,044	4,204	2,830
Other accrued expenses	14,402	14,545	11,496
Deferred income taxes	—	—	1,045
Total current liabilities	<u>50,530</u>	<u>68,784</u>	<u>44,435</u>
Notes payable	19,500	19,500	33,750
Deferred rent and other	33,894	29,082	26,294
Deferred income taxes	1,645	1,550	2,949
Total liabilities	<u>105,569</u>	<u>118,916</u>	<u>107,428</u>
Commitments and contingencies (note 4)			
Shareholders' equity:			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,039,838, 53,980,797, and 53,972,006 shares, respectively.	540	540	540
Additional paid-in capital	276,225	270,637	266,594
Accumulated deficit	(194,794)	(200,433)	(220,368)
Total shareholders' equity	<u>81,971</u>	<u>70,744</u>	<u>46,766</u>
	<u>\$ 187,540</u>	<u>\$ 189,660</u>	<u>\$ 154,194</u>

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net sales	\$ 117,087	\$ 86,820	\$ 212,691	\$ 158,649
Cost of goods sold	77,687	58,073	143,078	106,882
Gross profit	39,400	28,747	69,613	51,767
Selling, general and administrative expenses	32,214	24,012	59,238	48,997
Operating income	7,186	4,735	10,375	2,770
Interest expense, net	391	1,316	902	1,279
Loss on debt extinguishment	266	1,587	266	1,587
Other income	—	(258)	—	(258)
Income before income taxes	6,529	2,090	9,207	162
Income tax expense	2,460	843	3,568	72
Net income	4,069	1,247	5,639	90
Dividend paid to preferred and unvested restricted shareholders	—	(65,403)	—	(65,403)
Net income attributable to participating securities	(52)	—	(91)	—
Net income (loss) attributable to common shareholders	\$ 4,017	\$ (64,156)	\$ 5,548	\$ (65,313)
Basic income (loss) per common share	\$ 0.08	\$ (3.41)	\$ 0.10	\$ (3.71)
Diluted income (loss) per common share	\$ 0.07	\$ (3.41)	\$ 0.10	\$ (3.71)
Dividends declared and paid per common share	\$ —	\$ 2.02	\$ —	\$ 2.02
Weighted average shares outstanding:				
Basic shares	53,334,551	18,803,979	53,138,198	17,627,376
Diluted shares	53,804,539	18,803,979	53,601,459	17,627,376

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

Consolidated Statement of Shareholders' Equity
(Unaudited)
(in thousands, except share data)

	Shareholders' Equity				
	Common stock		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Shares	Amount			
Balance, February 2, 2013	53,980,797	\$ 540	\$ 270,637	\$ (200,433)	\$ 70,744
Stock-based compensation expense	8,419	—	4,588	—	4,588
Exercise of options to purchase common stock	48,875	—	209	—	209
Vesting of restricted shares related to stock option exercises	—	—	120	—	120
Repurchase of unvested restricted shares related to stock option exercises	(259)	—	—	—	—
Excess tax benefit related to exercises of stock options	—	—	590	—	590
Issuance of common stock to employees under employee stock purchase plan	2,006	—	81	—	81
Net income	—	—	—	5,639	5,639
Balance, August 3, 2013	54,039,838	\$ 540	\$ 276,225	\$ (194,794)	\$ 81,971

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012
Operating activities:		
Net income	\$ 5,639	\$ 90
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6,187	4,342
Gain on conversion of note payable	—	(200)
Loss on disposal of software, property, and equipment	384	—
Loss on debt extinguishment	266	1,587
Amortization of deferred financing costs	130	305
Warrant expense related to professional service providers for services rendered	—	43
Stock-based compensation expense	4,825	8,241
Deferred income tax (benefit) expense	(417)	7,551
Other	—	(71)
Changes in operating assets and liabilities:		
Prepaid income taxes	(801)	(10,577)
Inventories	(22,639)	(24,841)
Prepaid expenses and other assets	(2,764)	(4,884)
Accounts payable	3,426	4,717
Income taxes payable	(5,173)	(9,139)
Accrued salaries and wages	(2,160)	(6,424)
Deferred rent	5,803	6,228
Other accrued expenses	1,604	2,460
Net cash used in operating activities	(5,690)	(20,572)
Investing activities:		
Capital expenditures	(15,140)	(11,603)
Net cash used in investing activities	(15,140)	(11,603)
Financing activities:		
Borrowing under Term Loan Facility	—	100,000
Repayment of Term Loan Facility	(15,000)	(65,250)
Cash paid for debt financing costs	(40)	(2,738)
Repayment of note payable	—	(50)
Dividend paid to shareholders	—	(99,451)
Net proceeds from issuance of common stock	81	74,308
Proceeds from exercise of warrants and stock options to purchase common stock	209	201
Repurchase of unvested restricted shares related to stock option exercises	(3)	(17)
Excess tax benefit related to restricted shares and the exercise of stock options	590	1,555
Net cash (used in) provided by financing activities	(14,163)	8,558
Net decrease in cash and cash equivalents	(34,993)	(23,617)
Cash and cash equivalents at beginning of period	56,081	41,293
Cash and cash equivalents at end of period	\$ 21,088	\$ 17,676

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

Notes to Consolidated Financial Statements (Unaudited)

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Five Below, Inc. (individually and/or collectively with its wholly-owned subsidiary referred to as 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 August 3, 2013, operated 276 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, Georgia and Texas, each operating under the name “Five Below.”

On June 12, 2013, the Company completed an internal business restructuring pursuant to which the Company formed Five Below Merchandising, Inc., a wholly-owned subsidiary (the “Subsidiary”), and transferred to the Subsidiary assets, operations and employees related to the Company’s merchandising operations (the “Restructuring”). Following the Restructuring, the Subsidiary purchases and sells to the Company certain goods for sale at the Company’s retail locations, and the Company provides to the Subsidiary back office support, office space and other services, in each case, pursuant to agreements between the Company and the Subsidiary. In connection with the Restructuring, on June 12, 2013, the Company amended and restated the Loan and Security Agreement (note 3) and certain other ancillary documents to the Company’s Revolving Credit Facility (note 3) in order to, among other things, allow the Company to form and capitalize the Subsidiary and make the Subsidiary a party to the Loan and Security Agreement as a guarantor of the Company’s obligations thereunder. The Subsidiary also acceded to the credit agreement and certain ancillary documents to the Company’s Term Loan Facility (note 3) as a guarantor of the Company’s obligations thereunder. For accounting purposes, the Company’s consolidated financial statements include the accounts of the Company and the Subsidiary. All intercompany transactions and accounts are eliminated in consolidation.

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to “fiscal year 2013” or “fiscal 2013” refer to the period from February 3, 2013 to February 1, 2014 and consists of a 52-week fiscal year. References to “fiscal year 2012” or “fiscal 2012” refer to the period from January 29, 2012 to February 2, 2013 and consisted of a 53-week fiscal year. The fiscal quarters ended August 3, 2013 and July 28, 2012 refer to the thirteen week periods ended as of those dates. The year-to-date periods ended August 3, 2013 and July 28, 2012 refer to the twenty-six week periods ended as of those dates.

(c) Basis of Presentation

The consolidated balance sheets as of August 3, 2013 and July 28, 2012, the consolidated statements of operations for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012, the consolidated statement of shareholders’ equity for the twenty-six weeks ended August 3, 2013 and the consolidated statements of cash flows for the twenty-six weeks ended August 3, 2013 and July 28, 2012 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 aforementioned 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 August 3, 2013 and July 28, 2012. The balance sheet as of February 2, 2013, presented herein, has been derived from the audited balance sheet included in the Company’s Annual Report on Form 10-K for fiscal 2012 as filed with the Securities and Exchange Commission on March 28, 2013 and referred to herein as the “Annual Report,” but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended February 2, 2013 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012 are not necessarily indicative of the consolidated operating results for the year ending February 1, 2014 or any other period.

(d) 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 the 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; and (2) the carrying value of the borrowings under the line of credit and Term Loan Facility approximates their fair value because the line of credit's and Term Loan Facility's interest rates vary 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. As of August 3, 2013, February 2, 2013, and July 28, 2012, the Company had cash equivalents of \$5.9 million, \$35.7 million and \$11.6 million, 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 and shares currently available for purchase under the Company's Employee Stock Purchase Plan, which is minor, 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 following table reconciles net income and the weighted average common shares outstanding used in the computations of basic and diluted income (loss) per common share (in thousands, except for share and per share data):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Numerator:				
Net income	\$ 4,069	\$ 1,247	\$ 5,639	\$ 90
Dividend paid to preferred shareholders	—	(62,504)	—	(62,504)
Dividend paid to unvested restricted shareholders	—	(2,899)	—	(2,899)
Net income attributable to participating securities	(52)	—	(91)	—
Net income (loss) attributable to common shareholders	<u>\$ 4,017</u>	<u>\$ (64,156)</u>	<u>\$ 5,548</u>	<u>\$ (65,313)</u>
Denominator:				
Weighted-average common shares outstanding - basic	53,334,551	18,803,979	53,138,198	17,627,376
Dilutive impact of options and employee stock purchase plan	469,988	—	463,261	—
Weighted-average common shares outstanding - diluted	<u>53,804,539</u>	<u>18,803,979</u>	<u>53,601,459</u>	<u>17,627,376</u>
Per common share:				
Basic income (loss) per common share	\$ 0.08	\$ (3.41)	\$ 0.10	\$ (3.71)
Diluted income (loss) per common share	\$ 0.07	\$ (3.41)	\$ 0.10	\$ (3.71)

For the thirteen and twenty-six weeks ended August 3, 2013, \$52.0 thousand and \$91.0 thousand, respectively, of net income was attributable to participating securities, as the two-class method was more dilutive, and the remainder was attributable to common shareholders. For the thirteen and twenty-six weeks ended July 28, 2012, as the Company was in a net loss position, the net losses were solely attributable to common shareholders.

The Company's preferred stock (note 5) was converted to common stock on July 24, 2012 and was included in the computation of loss per share during the thirteen and twenty-six weeks ended July 28, 2012 on a weighted-average basis.

The effects of the assumed exercise of stock options for 376,040 and 245,996 shares of common stock for the thirteen and twenty-six weeks ended August 3, 2013, respectively, were excluded from the calculation of diluted net income as their impact would have been anti-dilutive.

The effects of the assumed exercise of the combined stock options and warrants and vesting of restricted share awards of 2,588,032 shares of common stock as of July 28, 2012 were excluded from the calculation of diluted net loss for the thirteen and twenty-six weeks ended July 28, 2012, 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) Term Loan Facility and Line of Credit

Term Loan Facility

On May 16, 2012, the Company entered into a \$100.0 million 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 all outstanding shares of the Company's common and preferred stock (note 5), totaling \$99.5 million. 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 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 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 \$10.0 million of its cash and cash equivalents against its indebtedness. The Company's leverage ratio must not exceed 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 \$50.0 million upon the receipt of proceeds from the Company's initial public offering (the "IPO"). The Company closed its IPO on July 24, 2012. In July 2012, the Company repaid \$65.3 million of principal on the Term Loan Facility and \$0.7 million of interest. In October 2012 and May 2013, the Company repaid \$0.3 million and \$15.0 million, respectively, of principal on the Term Loan Facility. As of August 3, 2013, the balance outstanding under the Term Loan Facility was \$19.5 million, bearing interest at a rate of 5.25%. During the thirteen and twenty-six weeks ended August 3, 2013, the Company paid interest of approximately \$0.3 million and \$0.8 million, respectively, related to the Term Loan Facility. Pursuant to the terms of the Term Loan Facility, due to the repayment of \$65.3 million of principal under the Term Loan Facility in July 2012, the Company is no longer required to make minimum quarterly payments. The remaining unpaid balance will be due upon maturity.

In connection with the Term Loan Facility, the Company 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 consolidated statements of operations. In connection with the \$65.3 million principal repayment on the Term Loan Facility in July 2012 and the \$15.0 million principal repayment on the Term Loan Facility in May 2013, approximately \$1.6 million and \$0.3 million, respectively, of the deferred financing costs were written off and included in loss on debt extinguishment in the consolidated statements of operations for the thirteen and twenty-six weeks ended July 28, 2012 and August 3, 2013. The remaining deferred financing costs, net of amortization, are included in other assets on the balance sheet as of August 3, 2013.

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.

On June 12, 2013, in connection with the Restructuring, the Subsidiary acceded to the credit agreement and certain ancillary documents to the Company's Term Loan Facility as a guarantor of the Company's obligations thereunder.

All obligations under the Term Loan Facility are secured by substantially all of the Company's assets and are guaranteed by the Subsidiary. As of August 3, 2013, 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 Wachovia Bank National Association (predecessor in interest to Wells Fargo Bank, National Association) 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 June 12, 2013 (as amended and restated, the "Revolving Credit Facility"), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates, permit the formation and capitalization of subsidiaries, make the Subsidiary a party to the agreement as a guarantor of the Company's obligations 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 if the Term Loan Facility remains outstanding 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 sub limit 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 thousand 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 Company's 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 approximately \$12 thousand 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) \$3.0 million.

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 the Company's 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's covenants, bankruptcy, default on certain other indebtedness or a change in control.

As of August 3, 2013, the Company had no borrowings outstanding and had approximately \$19.1 million of the \$20.0 million available on the line of credit under the Revolving Credit Facility, as approximately \$0.9 million was outstanding in letters of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of the Company's assets and are guaranteed by the Subsidiary. As of August 3, 2013, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility.

(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 2023.

The Company's minimum rental commitments under operating lease agreements, including assumed extensions, as of August 3, 2013, are as follows (in thousands):

	Retail stores	Corporate office and distribution centers	Total
Fiscal year:			
Remaining 2013	\$ 21,366	\$ 1,762	\$ 23,128
2014	44,476	4,413	48,889
2015	44,014	4,678	48,692
2016	43,033	3,097	46,130
2017	42,609	2,610	45,219
Thereafter	165,118	13,031	178,149
	<u>\$ 360,616</u>	<u>\$ 29,591</u>	<u>\$ 390,207</u>

Rent expense, including base and contingent rent under operating leases, was \$10.1 million and \$8.2 million for the thirteen weeks ended August 3, 2013 and July 28, 2012, respectively. Contingent rents were \$0.2 million and \$0.1 million for the thirteen weeks ended August 3, 2013 and July 28, 2012, respectively.

Rent expense, including base and contingent rent under operating leases, was \$19.6 million and \$15.2 million for the twenty-six weeks ended August 3, 2013 and July 28, 2012, respectively. Contingent rents were \$0.3 million and \$0.2 million for the twenty-six weeks ended August 3, 2013 and July 28, 2012, 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 \$3.9 million.

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 August 3, 2013, the Company has other purchase commitments of approximately \$0.4 million consisting of purchase agreements for materials that will be used in the construction of new stores.

(5) Shareholders' Equity

As of August 3, 2013, the Company is authorized to issue 120,000,000 shares of common stock, \$0.01 par value, and 5,000,000 shares of preferred stock, \$0.01 par value. The holders of common stock are entitled to one vote per share of common stock and are entitled to receive dividends if declared by the board of directors. The preferred stock may be issued from time to time in series as designated by the board of directors. The designations, powers, preferences, voting rights, privileges, options, conversion rights and other special rights of the shares of each such series of preferred stock and the qualifications, limitations and restrictions thereof shall be designated by the board of directors.

Preferred Stock

On October 14, 2010, the Company issued 89,291,773 shares of Series A 8% Convertible Preferred Stock for cash proceeds of \$191.9 million, net of offering costs of \$2.1 million. The shares of Series A 8% Convertible Preferred Stock 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 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 the fiscal year ended January 29, 2011, 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 immediately in March 2012 and another one-third of the shares vested in March 2013. The remaining one-third will vest in March 2014. In connection with the cancellation and grant, the Company will record total compensation expense of \$17.4 million, of which \$5.3 million was recorded on the date of the modification and the remainder is being recorded on a straight-line basis over the two-year vesting 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 the consolidated financial statements and footnotes thereto give effect to the reverse stock split and the change in authorized shares and have been adjusted retroactively for all periods presented.

On September 27, 2012, the Company's board of directors approved the Five Below, Inc. 2012 Employee Stock Purchase Plan (the "ESPP"), which remained subject to shareholder approval. The Company's shareholders approved the ESPP on May 30, 2013, at the Company's annual meeting of shareholders. The number of shares of common stock reserved for issuance, which is subject to other limitations, is 500,000 shares. 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. The ESPP's effective date is retroactive to 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.

On February 4, 2013, the Company completed a secondary public offering of 13,012,250 shares of common stock at a price of \$35.65 per share. The shares sold in the secondary public offering were registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to the Company's registration statements on Form S-1 (File No. 333-186043 and File No. 333-186275), which were declared effective by the Securities and Exchange Commission on January 29, 2013. All of the shares sold in the secondary public offering were sold by selling shareholders and the Company did not receive any proceeds. The Company incurred fees of approximately \$1.0 million related to legal, accounting and other fees in connection with the secondary public offering, which are included in selling, general and administrative expenses in the fiscal 2012 statement of operations.

On July 1, 2013, the Company completed a secondary public offering of 6,900,000 shares of common stock at a price of \$36.00 per share. The shares sold in the secondary public offering were registered under the Securities Act pursuant to the Company's registration statement on Form S-1 (File No. 333-188578), which was declared effective by the Securities and Exchange Commission on June 26, 2013. All of the shares sold in the secondary public offering were sold by selling shareholders and the Company did not receive any proceeds. The Company incurred fees of approximately \$1.0 million related to legal, accounting and other fees in connection with the secondary public offering, which are included in selling, general and administrative expenses in the consolidated statements of operations for the thirteen and twenty-six weeks ended August 3, 2013.

(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, allows for the issuance of up to a total of 7,600,000 shares under the Plan. 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 August 3, 2013, 4,520,782 stock options or restricted shares were available for grant.

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 August 3, 2013, \$0.2 million was recorded as a deposit liability.

The following table summarizes the activity related to the restricted shares of common stock (in thousands, except share data):

	Number of shares	Deposit liability
Unvested, February 2, 2013	31,542	\$ 308
Vested	(17,019)	(120)
Repurchases upon employee termination	(259)	(3)
Unvested, August 3, 2013	14,264	\$ 185

Stock option activity under the Plan was as follows:

	Options outstanding	Weighted average exercise price	Weighted average remaining contractual term
Balance at February 2, 2013	1,187,817	\$ 10.43	9.3
Granted	518,500	37.98	
Forfeited	(19,467)	9.35	
Cancelled	(35,300)	30.19	
Exercised	(48,875)	4.28	
Balance at August 3, 2013	1,602,675	\$ 19.11	9.0
Exercisable at August 3, 2013	83,767	\$ 4.37	7.8

The fair value of each option award granted to employees, including outside directors, is estimated on the date of grant and the fair value of each option award granted to non-employees is estimated on the date of grant and is required to be periodically revalued over the contractual period until the option award is exercised or forfeited using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012
Expected volatility	50.0%	50.0%
Risk-free interest rate	1.5%	1.4%
Expected life of options - for employee grants	6.3 years	6.3 years
Expected dividend yield	—%	—%

The Company uses the simplified method to estimate the expected term of the option. The expected volatility incorporates historical and implied volatility of similar entities whose share price are publicly available. 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.

The per-share weighted average grant-date fair value of stock options granted to employees, including outside directors, for the twenty-six weeks ended August 3, 2013 and July 28, 2012 was \$18.62 and \$4.85, respectively.

As of August 3, 2013, there was \$17.7 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan, which is expected to be recognized over a weighted average vesting period of 2.7 years.

(7) Income Taxes

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012 (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Income (loss) before income taxes	\$ 6,529	\$ 2,090	\$ 9,207	\$ 162
Income tax expense (benefit)	\$ 2,460	\$ 843	\$ 3,568	\$ 72
Effective tax rate	37.7%	40.3%	38.8%	44.4%

The effective tax rates for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented. The effective tax rate for the thirteen and twenty-six weeks ended August 3, 2013 is being impacted by changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring.

For the thirteen weeks ended August 3, 2013 and July 28, 2012, total income taxes paid were \$1.3 million and \$1.8 million, respectively. For the twenty-six weeks ended August 3, 2013 and July 28, 2012, total income taxes paid were \$9.4 million and \$10.7 million, respectively.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's consolidated balance sheets at August 3, 2013, February 2, 2013 and July 28, 2012, and has not recognized any material uncertain tax positions or material interest and/or penalties related to income taxes in the consolidated statements of operations for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012.

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 fiscal 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 up to 3 to 4 years depending on the state.

(8) Related-Party Transactions

During the thirteen weeks ended August 3, 2013 and July 28, 2012, the Company incurred fees of \$0.7 million and \$1.4 million, 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 July 28, 2012 were primarily IPO-related fees.

During the twenty-six weeks ended August 3, 2013 and July 28, 2012, the Company incurred fees of \$1.0 million and \$2.7 million, respectively, related to services provided by certain shareholders and professional service firms for which certain shareholders are partners. Fees related to the twenty-six weeks ended July 28, 2012 were primarily IPO-related fees.

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

You should read the following discussion together with "Selected Financial Data" and the financial statements and related notes included in our Annual Report on Form 10-K for our fiscal year ended February 2, 2013 and referred to herein as the "Annual Report," and the consolidated financial statements and related notes as of and for the thirteen and twenty-six weeks ended August 3, 2013 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 2013" or "fiscal 2013" refer to the period from February 3, 2013 to February 1, 2014 and consists of a 52-week fiscal year. References to "fiscal year 2012" or "fiscal 2012" refer to the period from January 29, 2012 to February 2, 2013 and consisted of a 53-week fiscal year. The fiscal quarters and year-to-date periods ended August 3, 2013 and July 28, 2012 refer to the 13-week and 26-week periods ended as of those dates. 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 pursuant to the "safe harbor" provisions 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," "should," "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 in Part I, "Item 1A. Risk Factors" in our Annual Report, as amended by the risk factors included in Part II, "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. These factors include without limitation:

- *failure to successfully implement our growth strategy;*
- *disruptions in our ability to select, obtain, distribute and market merchandise profitably;*
- *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;*
- *dependence on our executive officers and other key personnel or our inability to hire additional qualified personnel;*
- *ability to successfully manage our inventory balances and inventory shrinkage;*
- *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;*
- *failure to maintain adequate internal controls;*
- *ability to obtain additional financing;*

- *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;*
- *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, Inc. 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 August 3, 2013, we operated 276 stores in 19 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 and 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 beginning when the closing store receives its last merchandise delivery from one of our distribution centers 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 received its last merchandise delivery from one of our distribution centers through the first anniversary of the date the store re-opened.

We had historically excluded stores that are relocated or expanded during the period of construction and pre-opening starting when the store closed. During the second quarter of 2013, we changed our comparable store sales calculation to exclude relocated or expanded stores starting when a store receives its last merchandise delivery from one of our distribution centers. This change would not significantly impact our historical comparable store sales calculations as previously reported.

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;
- the number of items purchased per store visit; and
- weather conditions.

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 is 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 centers 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.

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.

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		Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
(in millions, except total stores)				
Statements of Operations Data: ⁽¹⁾				
Net sales	\$ 117.1	\$ 86.8	\$ 212.7	\$ 158.6
Cost of goods sold	77.7	58.1	143.1	106.9
Gross profit	39.4	28.7	69.6	51.8
Selling, general and administrative expenses	32.2	24.0	59.2	49.0
Operating income	7.2	4.7	10.4	2.8
Interest expense, net	0.4	1.3	0.9	1.3
Loss on debt extinguishment	0.3	1.6	0.3	1.6
Other income	—	(0.3)	—	(0.3)
Income before income taxes	6.5	2.1	9.2	0.2
Income tax expense	2.5	0.8	3.6	0.1
Net income	\$ 4.1	\$ 1.2	\$ 5.6	\$ 0.1
Percentage of Net Sales:				
Net sales	100.0%	100.0 %	100.0%	100.0 %
Cost of goods sold	66.3%	66.9 %	67.3%	67.4 %
Gross profit	33.7%	33.1 %	32.7%	32.6 %
Selling, general and administrative expenses	27.5%	27.7 %	27.9%	30.9 %
Operating income	6.1%	5.5 %	4.9%	1.7 %
Interest expense, net	0.3%	1.5 %	0.4%	0.8 %
Loss on debt extinguishment	0.2%	1.8 %	0.1%	1.0 %
Other income	—%	(0.3)%	—%	(0.2)%
Income before income taxes	5.6%	2.4 %	4.3%	0.1 %
Income tax expense	2.1%	1.0 %	1.7%	— %
Net income	3.5%	1.4 %	2.7%	0.1 %
Operational Data:				
Total stores at end of period	276	226	276	226
Comparable store sales growth	6.6%	8.6 %	5.4%	9.4 %
Average net sales per store ⁽²⁾	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8

(1) Components may not add to total due to rounding.

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

Thirteen Weeks Ended August 3, 2013 Compared to the Thirteen Weeks Ended July 28, 2012

Net Sales

Net sales increased to \$117.1 million in the thirteen weeks ended August 3, 2013 from \$86.8 million in the thirteen weeks ended July 28, 2012, an increase of \$30.3 million, or 34.9%. The increase was the result of a non-comparable store sales increase of \$25.2 million and a comparable store sales increase of \$5.1 million. The increase in non-comparable store sales was driven by stores that opened in fiscal 2012 but have not been open for 15 full months and new stores. We plan to open 60 net new stores during fiscal 2013.

Comparable store sales increased 6.6% for the thirteen weeks ended August 3, 2013 compared to the thirteen weeks ended July 28, 2012. This increase resulted from an increase of approximately 5.9% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.7%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$77.7 million in the thirteen weeks ended August 3, 2013 from \$58.1 million in the thirteen weeks ended July 28, 2012, an increase of \$19.6 million, or 33.8%. The increase in cost of goods sold was primarily the result of a \$14.7 million increase in the merchandise costs of goods resulting from an increase in sales, a \$2.6 million increase in store occupancy costs as a result of new store openings, and a \$1.8 million increase in distribution costs primarily due to an increase in sales as well as the opening of a second distribution center.

Gross profit increased to \$39.4 million in the thirteen weeks ended August 3, 2013 from \$28.7 million in the thirteen weeks ended July 28, 2012, an increase of \$10.7 million, or 37.1%. Gross margin increased to 33.7% in the thirteen weeks ended August 3, 2013 from 33.1% for the thirteen weeks ended July 28, 2012, an increase of approximately 60 basis points. The increase in gross margin was primarily the result of the store occupancy costs increasing at a lower rate than the increase in net sales as well as the timing of new store openings, which increased margin by approximately 110 basis points. This increase was partially offset by the increase in distribution costs due to the opening of a second distribution center, which decreased margin by approximately 60 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$32.2 million in the thirteen weeks ended August 3, 2013 from \$24.0 million in the thirteen weeks ended July 28, 2012, an increase of \$8.2 million, or 34.2%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 20 basis points to 27.5% in the thirteen weeks ended August 3, 2013 compared to 27.7% in the thirteen weeks ended July 28, 2012. The increase in selling, general and administrative expense was primarily the result of increases of \$4.8 million in store-related expenses primarily to support new store growth, \$2.0 million of corporate related expenses, and \$1.0 million of fees incurred for our secondary public offering.

Interest Expense, Net

Interest expense, net decreased to \$0.4 million in the thirteen weeks ended August 3, 2013 from \$1.3 million of interest expense, net in the thirteen weeks ended July 28, 2012, a decrease of \$0.9 million. The decrease in interest expense resulted from the decrease in the outstanding balance of our Term Loan Facility (see –“Liquidity and Capital Resources-Term Loan Facility” section below).

Loss on Debt Extinguishment

Loss on debt extinguishment decreased to \$0.3 million in the thirteen weeks ended August 3, 2013 from \$1.6 million in the thirteen weeks ended July 28, 2012, a decrease of \$1.3 million. The decrease in the loss on debt extinguishment is due to the \$15.0 million repayment on the \$100.0 million Term Loan Facility during the thirteen weeks ended August 3, 2013 compared to the \$65.3 million repayment that we made during the thirteen weeks ended July 28, 2012.

Income Tax Expense

Income tax expense for the thirteen weeks ended August 3, 2013 was \$2.5 million compared to \$0.8 million in income tax expense for the thirteen weeks ended July 28, 2012, an increase of \$1.6 million. This increase in income tax expense was primarily the result of a \$4.4 million increase in pre-tax income. Our effective tax rate was 37.7% for the thirteen weeks ended August 3, 2013 compared to 40.3% for the thirteen weeks ended July 28, 2012. Our effective tax rate for the thirteen weeks ended August 3, 2013 was lower than the comparable period as a result of changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring. For the remainder of fiscal 2013, we believe our effective tax rate will be approximately 38.8%.

Net Income

As a result of the foregoing, net income increased to \$4.1 million in the thirteen weeks ended August 3, 2013 from net income of \$1.2 million in the thirteen weeks ended July 28, 2012, an increase of \$2.8 million, or 226.3%.

Twenty-Six Weeks Ended August 3, 2013 Compared to the Twenty-Six Weeks Ended July 28, 2012***Net Sales***

Net sales increased to \$212.7 million in the twenty-six weeks ended August 3, 2013 from \$158.6 million in the twenty-six weeks ended July 28, 2012, an increase of \$54.0 million, or 34.1%. The increase was the result of a non-comparable store sales increase of \$46.0 million and a comparable store sales increase of \$8.0 million. The increase in non-comparable store sales was driven by stores that opened in fiscal 2012 but have not been open for 15 full months and new stores. We plan to open 60 net new stores during fiscal 2013.

Comparable store sales increased 5.4% for the twenty-six weeks ended August 3, 2013 compared to the twenty-six weeks ended July 28, 2012. This increase resulted from an increase of approximately 4.4% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 1.0%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$143.1 million in the twenty-six weeks ended August 3, 2013 from \$106.9 million in the twenty-six weeks ended July 28, 2012, an increase of \$36.2 million, or 33.9%. The increase in cost of goods sold was primarily the result of a \$26.5 million increase in the merchandise costs of goods resulting from an increase in sales, a \$5.7 million increase in store occupancy costs as a result of new store openings, and a \$3.2 million increase in distribution costs primarily due to an increase in sales as well as the opening of a second distribution center.

Gross profit increased to \$69.6 million in the twenty-six weeks ended August 3, 2013 from \$51.8 million in the twenty-six weeks ended July 28, 2012, an increase of \$17.8 million, or 34.5%. Gross margin increased to 32.7% in the twenty-six weeks ended August 3, 2013 from 32.6% for the twenty-six weeks ended July 28, 2012, an increase of approximately 10 basis points. The increase in gross margin was primarily the result of the increase in store occupancy and buying expense increasing at a lower rate than the increase in net sales as well as the timing of new store openings, which increased margin by approximately 80 basis points. This increase was partially offset by the increase in distribution costs due to the opening of a second distribution center, which decreased margin by approximately 60 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$59.2 million in the twenty-six weeks ended August 3, 2013 from \$49.0 million in the twenty-six weeks ended July 28, 2012, an increase of \$10.2 million, or 20.9%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 300 basis points to 27.9% in the twenty-six weeks ended August 3, 2013 compared to 30.9% in the twenty-six weeks ended July 28, 2012. The increase in selling, general and administrative expense was primarily the result of increases of \$9.5 million in store-related expenses to support new store growth, \$3.5 million of corporate related expenses, and \$1.0 million of fees incurred for our secondary public offering, partially offset by a decrease of \$3.7 million in stock-based compensation expense primarily related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012.

Interest Expense, Net

Interest expense, net decreased to \$0.9 million in the twenty-six weeks ended August 3, 2013 from \$1.3 million of interest expense, net in the twenty-six weeks ended July 28, 2012, a decrease of \$0.4 million. The decrease in interest expense resulted mainly from the decrease in the outstanding balance of our Term Loan Facility (see –“Liquidity and Capital Resources-*Term Loan Facility*” section below).

Loss on Debt Extinguishment

Loss on Debt Extinguishment decreased to \$0.3 million in the twenty-six weeks ended August 3, 2013 from \$1.6 million in the twenty-six weeks ended July 28, 2012, a decrease of \$1.3 million. The decrease in the loss on debt extinguishment is due to the \$15.0 million repayment on the \$100.0 million Term Loan Facility during the twenty-six weeks ended August 3, 2013 compared to the \$65.3 million repayment that was made during the twenty-six weeks ended July 28, 2012.

Income Tax Expense

Income tax expense for the twenty-six weeks ended August 3, 2013 was \$3.6 million compared to a \$0.1 million income tax expense for the twenty-six weeks ended July 28, 2012, an increase of \$3.5 million. This increase in income tax expense was primarily the result of a \$9.0 million increase in pre-tax income. Our effective tax rate was 38.8% for the twenty-six weeks ended August 3, 2013 compared to 44.4% for the twenty-six weeks ended July 28, 2012. Our effective tax rate for the twenty-six weeks ended August 3, 2013 was lower than the comparable period as a result of changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring. For the remainder of fiscal 2013, we believe our effective tax rate will be approximately 38.8%.

Net Income

As a result of the foregoing, net income increased to \$5.6 million in the twenty-six weeks ended August 3, 2013 from net income of \$0.1 million in the twenty-six weeks ended July 28, 2012, an increase of \$5.5 million.

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 fiscal 2012, we also entered into a Term Loan Facility (defined in “-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 \$28 million in fiscal 2013, which we expect to fund from cash generated from operations. We expect to devote approximately \$16 million of our capital expenditure budget in fiscal 2013 to construct and open 60 net new stores with the remainder projected to be spent on store relocations, remodels, and expansion projects, the distribution centers, and corporate infrastructure.

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 twenty-six weeks ended August 3, 2013. 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.

On June 12, 2013, we completed an internal business restructuring pursuant to which we formed Five Below Merchandising, Inc., a wholly-owned subsidiary (the “Subsidiary”), and transferred to the Subsidiary assets, operations and employees related to our merchandising operations (the “Restructuring”). Following the Restructuring, the Subsidiary purchases and sells to us certain goods for sale at our retail locations and we provide to the Subsidiary back office support, office space and other services, in each case, pursuant to agreements between us and the Subsidiary. In connection with the Restructuring, on June 12, 2013, we amended and restated the Loan and Security Agreement (defined in “-Line of Credit”) and certain other ancillary documents to our Revolving Credit Facility in order to, among other things, allow us to form and capitalize the Subsidiary and make the Subsidiary a party to the Loan and Security Agreement as a guarantor of our obligations thereunder. The Subsidiary also acceded to the credit agreement and certain ancillary documents to our Term Loan Facility as a guarantor of our obligations thereunder. For accounting purposes, our consolidated financial statements include the accounts of Five Below, Inc. and the Subsidiary. All intercompany transactions and accounts are eliminated in consolidation.

The balance outstanding under the Term Loan Facility was \$19.5 million as of August 3, 2013. Pursuant to the terms of the Term Loan Facility, due to the repayment of \$65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. In May 2013, we repaid \$15.0 million of principal on the Term Loan Facility. This amount was classified as a current liability as of February 2, 2013. The remaining unpaid balance will be due upon maturity.

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:

	Twenty-Six Weeks Ended	
	August 3, 2013	July 28, 2012
	(in millions) ⁽¹⁾	
Net cash used in operating activities	\$ (5.7)	\$ (20.6)
Net cash used in investing activities	(15.1)	(11.6)
Net cash (used in) provided by financing activities	(14.2)	8.6
Net decrease during period in cash and cash equivalents	\$ (35.0)	\$ (23.6)

(1) Components may not add to total due to rounding.

Cash Used in Operating Activities

Net cash used in operating activities for the twenty-six weeks ended August 3, 2013 was \$5.7 million, a decrease of approximately \$14.9 million compared to the twenty-six weeks ended July 28, 2012. The decrease in net cash used in operating activities was primarily the result of an increase in operating cash flows from the addition of new stores and existing store performance, as well as a decrease in bonus payments of approximately \$4.4 million primarily driven by a decrease in payments to certain executive officers.

Cash Used in Investing Activities

Net cash used in investing activities for the twenty-six weeks ended August 3, 2013 was \$15.1 million, an increase of \$3.5 million compared to the twenty-six weeks ended July 28, 2012 related solely to capital expenditures. The increase in capital expenditures was primarily for the build-out of our second distribution center, our new store construction, and corporate infrastructure.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the twenty-six weeks ended August 3, 2013 was \$14.2 million, an increase of \$22.7 million compared to the net cash provided by financing activities for the twenty-six weeks ended July 28, 2012. The increase in net cash used in financing activities was primarily the result of the \$15.0 million principal repayment on the Term Loan Facility (see below) during the twenty-six weeks ended August 3, 2013 compared to \$100.0 million of proceeds from our Term Loan Facility and \$74.3 million of net proceeds from our initial public offering, partially offset by \$99.5 million of dividend payments, and a \$65.3 million principal repayment on the Term Loan Facility during the twenty-six weeks ended July 28, 2012.

Term Loan Facility

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 (the "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.

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 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 our initial public offering (the "IPO"). We closed the IPO on

July 24, 2012. In July 2012, we repaid \$65.3 million of principal against the Term Loan Facility and \$0.7 million of interest. In October 2012 and May 2013, we repaid \$0.3 million and \$15.0 million, respectively, of principal on the Term Loan Facility. As of August 3, 2013, the balance outstanding under the Term Loan Facility was \$19.5 million bearing interest at a rate of 5.25%. Pursuant to the terms of the Term Loan Facility, due to the repayment of \$65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. The remaining 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 consolidated statements of operations. In connection with the \$65.3 million principal repayment on the Term Loan Facility in July 2012 and the \$15.0 million principal repayment on the Term Loan Facility in May 2013, approximately \$1.6 million and \$0.3 million, respectively, of the deferred financing costs were written off and included in loss on debt extinguishment in the consolidated statements of operations for the thirteen and twenty-six weeks ended July 28, 2012 and August 3, 2013. The remaining deferred financing costs, net of amortization, are included in other assets on the balance sheet at August 3, 2013.

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.

On June 12, 2013, in connection with the Restructuring, the Subsidiary acceded to the credit agreement and certain ancillary documents to the Company's Term Loan Facility as a guarantor of the Company's obligations thereunder.

All obligations under the Term Loan Facility are secured by substantially all of our assets and are guaranteed by the Subsidiary. As of August 3, 2013, 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 June 12, 2013 (as amended and restated, the "Revolving Credit Facility"), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates, permit the formation and capitalization of subsidiaries, make the Subsidiary a party to the agreement as a guarantor of our obligations 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 if the Term Loan Facility remains outstanding 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 sub limit 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.

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.

As of August 3, 2013, we had no borrowings outstanding and had approximately \$19.1 million of the \$20.0 million available on the line of credit under the Revolving Credit Facility as approximately \$0.9 million was outstanding in letters of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets and are guaranteed by the Subsidiary. As of August 3, 2013, we were in compliance with the covenants applicable to us under the Revolving Credit Facility.

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 Annual Report. We believe that there have been no significant changes to our critical accounting policies during the twenty-six weeks ended August 3, 2013.

Contractual Obligations

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

From February 2, 2013 to August 3, 2013 we have entered into 23 new fully executed retail leases with an average term of 10 years and other lease modifications that have future minimum lease payments of approximately \$37.5 million. In addition, as of August 3, 2013, the balance outstanding under the Term Loan Facility was \$19.5 million. Pursuant to the terms of the Term Loan Facility, due to the repayment of \$65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. The remaining unpaid balance will be due upon maturity. The balance bears an interest rate of 5.25%.

Off Balance Sheet Arrangements

As of and for the twenty-six weeks ended August 3, 2013, 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.

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 August 3, 2013, we had no borrowings outstanding and had approximately \$19.1 million of the \$20.0 million available on the line of credit under the Revolving Credit Facility as approximately \$0.9 million was outstanding in letters of credit. 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%.

As of August 3, 2013, the principal amount of the Term Loan Facility was \$19.5 million. 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 LIBOR-based rate with a 1.00% floor plus a margin of 4.25%. Based on a sensitivity analysis at August 3, 2013, a 100 basis point increase in market interest rates would increase our annual interest expense on the Term Loan Facility by approximately \$0.2 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 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 August 3, 2013 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 in Part I, “Item 1A. Risk Factors,” in our Annual Report. Except as set forth below, there have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report and below, which could materially affect our business, financial condition or future results. The risks described in our Annual Report and below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

New regulations related to conflict minerals could adversely impact our business.

The Securities and Exchange Commission has promulgated final rules mandated by the Dodd-Frank Act regarding disclosure of the use of tin, tantalum, tungsten and gold, known as conflict minerals, included in components of products either manufactured by public companies or for which public companies have contracted to manufacture. These new rules require due diligence to determine whether such minerals originated from the Democratic Republic of Congo (the “DRC”) or an adjoining country and whether such minerals helped finance the armed conflict in the DRC. The first conflict minerals report required by the new rules is due by May 31, 2014 and annually thereafter. While we do not manufacture products, we may be deemed to contract to manufacture products. There will be costs associated with complying with these disclosure requirements, including costs to determine the origin of conflict minerals used in any products we are deemed to contract to manufacture. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. Also, we may face reputational challenges if the due diligence procedures we implement do not enable us to verify the origins for all conflict minerals or to determine that such minerals are DRC conflict-free.

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

The table below sets forth information regarding repurchases of our common stock during the second fiscal quarter of 2013. The shares represent shares of our common stock that we have elected to repurchase due to a termination of employment prior to vesting. We do not consider this a share buyback program.

	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Period				
May 5, 2013 through June 1, 2013	259	\$ 11.45	—	\$ —
June 2, 2013 through July 6, 2013	—	—	—	—
July 7, 2013 through August 3, 2013	—	—	—	—
Total	259	\$ 11.45	—	\$ —

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

No.	Description
10.3	Form of Non-Qualified Stock Option Agreement (Employees)
10.4	Form of Non-Qualified Stock Option Agreement (Executives)
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.
101†	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of August 3, 2013, February 2, 2013 and July 28, 2012; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended and Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Twenty-Six Weeks Ended August 3, 2013; (iv) the Unaudited Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.
* Incorporated by reference.	
† 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: September 10, 2013

/s/ Thomas G. Vellios

Thomas G. Vellios

President and Chief Executive Officer

(duly authorized officer and Principal Executive Officer)

Date: September 10, 2013

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

No.	Description
10.3	Form of Non-Qualified Stock Option Agreement (Employees)
10.4	Form of Non-Qualified Stock Option Agreement (Executives)
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.
101†	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of August 3, 2013, February 2, 2013 and July 28, 2012; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended and Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Twenty-Six Weeks Ended August 3, 2013; (iv) the Unaudited Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.

† 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.
AMENDED AND RESTATED EQUITY INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AGREEMENT

Five Below, Inc. (the “Company”) hereby grants to [] (the “Optionee”) an option (the “Option”) to purchase a total of [] shares of Common Stock of the Company (the “Option Shares”), at the price and on the terms set forth herein, and in all respects subject to the terms, definitions and provisions of the Five Below, Inc. Amended and Restated Equity Incentive Plan (the “Plan”) applicable to non-qualified stock options, which terms and provisions are hereby incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings when used herein.

1. Nature of the Option. This Option is intended to be a nonstatutory stock option and is not intended to be an Incentive Stock Option within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or to otherwise qualify for any special tax benefits to the Optionee.

2. Date of Grant; Term of Option. This Option is granted this [] day of [], 20__ (the “Date of Grant”) and it may not be exercised later than the date that is ten (10) years after the Date of Grant, subject to earlier termination, as provided in the Plan or Section 5 hereof. For purposes of this Agreement, the term “Effective Date of Grant” shall mean [], 20__.

3. Option Exercise Price. The Option exercise price is [\$] per Share.

4. Exercise of Option. This Option shall be exercisable during its term only in accordance with the terms and provisions of the Plan and this Award Agreement as follows:

(a) Right to Exercise.

(i) In General. Subject to Section 4(a)(ii) and 4(a)(iii) of this Option, the Option will vest and become exercisable according to the following schedule:

If the Optionee has remained an active employee of the Company or an Affiliate of the Company from the Effective Date of Grant to the:	Then the Option will vest and become exercisable with respect to:
Second Anniversary of the Effective Date of Grant	50% of the Option Shares
Third Anniversary of the Effective Date of Grant	An additional 25% of the Option Shares
Fourth Anniversary of the Effective Date of Grant	The remaining 25% of the Option Shares

(ii) Accelerated Vesting on Change in Control. In the event of a Change in Control, the Option will vest and become exercisable with respect to fifty percent (50%) of the then unvested Option Shares, as of the date of such Change in Control.

(iii) Accelerated Vesting for Certain Terminations. If the Optionee ceases to be employed by the Company (and its Affiliates, as applicable) after the first anniversary of the Effective Date of Grant and prior to the Second Anniversary as a result of: (i) his or her Disability, or (ii) his or her death, then the Option will vest and become exercisable with respect to twenty five percent

(25%) of the Option Shares and will remain exercisable for the applicable time period provided in Section 5.

(b) Method of Exercise. The Optionee may exercise this Option by providing written notice stating the election to exercise this Option. Such written notice must be signed by the Optionee and must be delivered in person or by certified mail to the Secretary of the Company or such other person as may be designated by the Company. The written notice must be accompanied by payment of the option exercise price in the manner described in Section 4(c), and by any other agreements required by the Board or its Committee and/or the terms of the Plan. This Option will be deemed to be exercised only upon the receipt by the Company of such written notice, payment of the option exercise price and any other agreements required by the Board or its Committee, the terms of the Plan and/or this Award Agreement. The Optionee will have no right to vote or receive dividends and will have no other rights as a stockholder with respect to such Shares notwithstanding the exercise of this Option, until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate(s) evidencing Shares that are being issued upon exercise of this Option. The certificate(s) for the Shares will be registered in the name of the Optionee and will contain any legend as may be required under the Plan, this Award Agreement, and/or applicable law.

(c) Method of Payment. The method of payment of the option exercise price will be determined by the Board or its Committee and may consist entirely of cash, certified check, or such other consideration or method of payment as may be authorized under the Plan.

(d) Partial Exercise. This Option may be exercised in whole or in part; *provided, however*, that any exercise may apply only with respect to a whole number of Shares.

(e) Restrictions on Exercise. This Option may not be exercised if the issuance of these Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations. In addition, as a further condition to the exercise of this Option, the Company may require the Optionee to make any representation or warranty to the Company as may be required by or advisable under any applicable law or regulation.

5. Termination of Relationship with the Company.

(a) Voluntary Termination. If the Optionee terminates his or her employment with the Company (and its Affiliates, as applicable) for any reason other than death or Disability, the Option (to the extent exercisable at the time of such termination) may be exercised at any time within ninety (90) days after the date of such termination. To the extent that the Option is not exercisable at the time of such termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(b) Disability. If the Optionee's employment by the Company (and its Affiliates, as applicable) terminates due to Disability, the Option (to the extent exercisable at the time of such termination) may be exercised by the Optionee or his or her legal guardian or representative at any time within twelve (12) months after such termination. To the extent that the Option is not exercisable on the date of termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(c) Death. If the Optionee's employment by the Company (and its Affiliates, as applicable) terminates due to his or her death, the Option (to the extent exercisable at the time of such death) will remain exercisable for twelve (12) months after the date of death by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. To the extent that the

Option is not exercisable on the date of death, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(d) Termination Without Cause. If the Company (or its Affiliate(s), as applicable) terminates Optionee's employment with the Company (and its Affiliates, as applicable) without Cause, the Option (to the extent exercisable at the time of such termination) may be exercised at any time within ninety (90) days after the date of such termination. To the extent that the Option is not exercisable at the time of such termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(e) Termination for Cause. If the Company (or its Affiliate(s), as applicable) terminates Optionee's employment with the Company (and its Affiliates, as applicable) for Cause, the Option will then terminate immediately and automatically, and the Optionee shall have no further rights therein.

Notwithstanding any other provision of this Section 5, the Option shall not be exercisable after the expiration of the term set forth in Section 2 hereof.

6. Non-Transferability of Option. This Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent or distribution. During the Optionee's lifetime, this Option is exercisable only by the Optionee (or by such Optionee's legal guardian or representative as provided in Section 5). Subject to the foregoing and the terms of the Plan, the terms of this Option will be binding upon the executors, administrators, legal guardians, representatives and heirs of the Optionee, meaning for purposes of this Award Agreement, both testamentary heirs and heirs by intestacy.

7. No Continuation of Employment or Engagement. Neither the Plan nor this Option shall confer upon any Optionee any right to continue in the service of the Company or any of its Affiliates or limit, in any respect, the right of the Company (or its Affiliates, as applicable) to discharge the Optionee at any time, with or without Cause and with or without notice.

8. Withholding. The Company and its Affiliates reserve the right to withhold, in accordance with any applicable laws, from any consideration payable or property transferable to Optionee any taxes required to be withheld by federal, state or local law as a result of the grant or exercise of this Option or the sale or other disposition of the Shares. If the amount of any consideration payable to the Optionee is insufficient to pay such taxes or if no consideration is payable to the Optionee, upon the request of the Company or its Affiliate, the Optionee (or such other person entitled to exercise this Option pursuant to Section 5 hereof) will pay to the Company or its Affiliate (as applicable) an amount sufficient for the Company or its Affiliate to satisfy any federal, state or local tax withholding requirements applicable to and as a condition to the grant or exercise of this Option or the sale or other disposition of the Shares issued upon the exercise of this Option.

9. The Plan. The Optionee has received a copy of the Plan (a copy of which is attached hereto), has read the Plan and is familiar with its terms, and hereby accepts the Option subject to all of the terms and provisions of the Plan, as amended from time to time. Pursuant to the Plan, the Board or its Committee is authorized to interpret the Plan and to adopt rules and regulations not inconsistent with the Plan as it deems appropriate. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or its Committee upon any questions arising under the Plan.

10. Spousal Consent. As a condition to the effectiveness of the grant of the Option, the Optionee's spouse (if any) is required to execute the attached "Consent of Spouse."

11. Governing Law. This Award Agreement will be construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the application of the principles of conflicts of laws.

12. Amendment. Subject to the provisions of the Plan, this Award Agreement may be amended at any time by the Company or its delegate; provided, however, that any modification or amendment of this Award Agreement which adversely affects the Optionee shall require the written consent of the Optionee.

13. Entire Agreement. This Award Agreement, together with the Plan and the other exhibits attached thereto or hereto, represents the entire agreement between the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature relating to the award of Options to Optionee by the Company.

[signature page follows]

IN WITNESS WHEREOF, this Award Agreement has been executed by the parties on the date(s) indicated below.

FIVE BELOW, INC.

By: _____

Name: _____

Title: _____

Date: _____

OPTIONEE

Signature

Address

Date: _____

ACKNOWLEDGMENT

The Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she has read and is familiar with the terms and provisions thereof and hereby accepts this Option subject to all of the terms and provisions of the Award Agreement and the Five Below, Inc. Equity Incentive Plan (the "Plan"). The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or the Committee upon any questions arising under the Plan.

Date: _____
Signature of Optionee

Name of Optionee

Address

City, State, Zip Code

CONSENT OF SPOUSE

I, , spouse of [_____] , have read the foregoing Non-Qualified Stock Option Agreement (the "Agreement"). I am aware by the terms of the Five Below, Inc. Amended and Restated Equity Incentive Plan (the "Plan") and the Agreement that the transfer of the stock option awarded pursuant to the Agreement (the "Option") is restricted. I hereby consent to such restrictions, approve of the provisions of the Agreement, and agree that if I pre-decease my spouse, the successors of my community property or other interest (if any) in such Option or shares will hold such shares subject to the provisions of the Agreement. In consideration of the grant of the Option as set forth in that Agreement, I hereby appoint my spouse as my attorney-in-fact with respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares issued pursuant thereto under the community property laws or similar laws relating to marital property.

Signature of Spouse

Date

FIVE BELOW, INC.
AMENDED AND RESTATED EQUITY INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AGREEMENT

Five Below, Inc. (the “Company”) hereby grants to [] (the “Optionee”) an option (the “Option”) to purchase a total of [] shares of Common Stock of the Company (the “Option Shares”), at the price and on the terms set forth herein, and in all respects subject to the terms, definitions and provisions of the Five Below, Inc. Amended and Restated Equity Incentive Plan (the “Plan”) applicable to non-qualified stock options, which terms and provisions are hereby incorporated by reference herein. Unless the context herein otherwise requires, the terms defined in the Plan shall have the same meanings when used herein.

1. Nature of the Option. This Option is intended to be a nonstatutory stock option and is not intended to be an Incentive Stock Option within the meaning of section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or to otherwise qualify for any special tax benefits to the Optionee.

2. Date of Grant; Term of Option. This Option is granted this [] day of [], 20__ (the “Date of Grant”) and it may not be exercised later than the date that is ten (10) years after the Date of Grant, subject to earlier termination, as provided in the Plan or Section 5 hereof. For purposes of this Agreement, the term “Effective Date of Grant” shall mean [], 20__.

3. Option Exercise Price. The Option exercise price is [\$] per Share.

4. Exercise of Option. This Option shall be exercisable during its term only in accordance with the terms and provisions of the Plan and this Award Agreement as follows:

(a) Right to Exercise.

(i) In General. Subject to Section 4(a)(ii) and 4(a)(iii) of this Option, the Option will vest and become exercisable according to the following schedule:

If the Optionee has remained an active employee of the Company or an Affiliate of the Company from the Effective Date of Grant to the:	Then the Option will vest and become exercisable with respect to:
Second Anniversary of the Effective Date of Grant	50% of the Option Shares
Third Anniversary of the Effective Date of Grant	An additional 25% of the Option Shares
Fourth Anniversary of the Effective Date of Grant	The remaining 25% of the Option Shares

(ii) Accelerated Vesting on Change in Control. In the event of a Change in Control, the Option will vest and become fully exercisable with respect to all then unvested Option Shares, as of the date of such Change in Control.

(iii) Accelerated Vesting for Certain Terminations. If the Optionee ceases to be employed by the Company (and its Affiliates, as applicable) after the first anniversary of the Effective Date of Grant and prior to the Second Anniversary as a result of: (i) his or her Disability, or (ii) his or her death, then the Option will vest and become exercisable with respect to twenty five percent

(25%) of the Option Shares and will remain exercisable for the applicable time period provided in Section 5.

(b) Method of Exercise. The Optionee may exercise this Option by providing written notice stating the election to exercise this Option. Such written notice must be signed by the Optionee and must be delivered in person or by certified mail to the Secretary of the Company or such other person as may be designated by the Company. The written notice must be accompanied by payment of the option exercise price in the manner described in Section 4(c), and by any other agreements required by the Board or its Committee and/or the terms of the Plan. This Option will be deemed to be exercised only upon the receipt by the Company of such written notice, payment of the option exercise price and any other agreements required by the Board or its Committee, the terms of the Plan and/or this Award Agreement. The Optionee will have no right to vote or receive dividends and will have no other rights as a stockholder with respect to such Shares notwithstanding the exercise of this Option, until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate(s) evidencing Shares that are being issued upon exercise of this Option. The certificate(s) for the Shares will be registered in the name of the Optionee and will contain any legend as may be required under the Plan, this Award Agreement, and/or applicable law.

(c) Method of Payment. The method of payment of the option exercise price will be determined by the Board or its Committee and may consist entirely of cash, certified check, or such other consideration or method of payment as may be authorized under the Plan.

(d) Partial Exercise. This Option may be exercised in whole or in part; *provided, however*, that any exercise may apply only with respect to a whole number of Shares.

(e) Restrictions on Exercise. This Option may not be exercised if the issuance of these Shares upon such exercise would constitute a violation of any applicable federal or state securities laws or other laws or regulations. In addition, as a further condition to the exercise of this Option, the Company may require the Optionee to make any representation or warranty to the Company as may be required by or advisable under any applicable law or regulation.

5. Termination of Relationship with the Company.

(a) Voluntary Termination. If the Optionee terminates his or her employment with the Company (and its Affiliates, as applicable) for any reason other than death or Disability, the Option (to the extent exercisable at the time of such termination) may be exercised at any time within ninety (90) days after the date of such termination. To the extent that the Option is not exercisable at the time of such termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(b) Disability. If the Optionee's employment by the Company (and its Affiliates, as applicable) terminates due to Disability, the Option (to the extent exercisable at the time of such termination) may be exercised by the Optionee or his or her legal guardian or representative at any time within twelve (12) months after such termination. To the extent that the Option is not exercisable on the date of termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(c) Death. If the Optionee's employment by the Company (and its Affiliates, as applicable) terminates due to his or her death, the Option (to the extent exercisable at the time of such death) will remain exercisable for twelve (12) months after the date of death by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. To the extent that the

Option is not exercisable on the date of death, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(d) Termination Without Cause. If the Company (or its Affiliate(s), as applicable) terminates Optionee's employment with the Company (and its Affiliates, as applicable) without Cause, the Option (to the extent exercisable at the time of such termination) may be exercised at any time within ninety (90) days after the date of such termination. To the extent that the Option is not exercisable at the time of such termination, or to the extent the Option is not exercised within the time specified herein, the Option shall terminate.

(e) Termination for Cause. If the Company (or its Affiliate(s), as applicable) terminates Optionee's employment with the Company (and its Affiliates, as applicable) for Cause, the Option will then terminate immediately and automatically, and the Optionee shall have no further rights therein.

Notwithstanding any other provision of this Section 5, the Option shall not be exercisable after the expiration of the term set forth in Section 2 hereof.

6. Non-Transferability of Option. This Option may not be sold, pledged, assigned, hypothecated, gifted, transferred or disposed of in any manner either voluntarily or involuntarily by operation of law, other than by will or by the laws of descent or distribution. During the Optionee's lifetime, this Option is exercisable only by the Optionee (or by such Optionee's legal guardian or representative as provided in Section 5). Subject to the foregoing and the terms of the Plan, the terms of this Option will be binding upon the executors, administrators, legal guardians, representatives and heirs of the Optionee, meaning for purposes of this Award Agreement, both testamentary heirs and heirs by intestacy.

7. No Continuation of Employment or Engagement. Neither the Plan nor this Option shall confer upon any Optionee any right to continue in the service of the Company or any of its Affiliates or limit, in any respect, the right of the Company (or its Affiliates, as applicable) to discharge the Optionee at any time, with or without Cause and with or without notice.

8. Withholding. The Company and its Affiliates reserve the right to withhold, in accordance with any applicable laws, from any consideration payable or property transferable to Optionee any taxes required to be withheld by federal, state or local law as a result of the grant or exercise of this Option or the sale or other disposition of the Shares. If the amount of any consideration payable to the Optionee is insufficient to pay such taxes or if no consideration is payable to the Optionee, upon the request of the Company or its Affiliate, the Optionee (or such other person entitled to exercise this Option pursuant to Section 5 hereof) will pay to the Company or its Affiliate (as applicable) an amount sufficient for the Company or its Affiliate to satisfy any federal, state or local tax withholding requirements applicable to and as a condition to the grant or exercise of this Option or the sale or other disposition of the Shares issued upon the exercise of this Option.

9. The Plan. The Optionee has received a copy of the Plan (a copy of which is attached hereto), has read the Plan and is familiar with its terms, and hereby accepts the Option subject to all of the terms and provisions of the Plan, as amended from time to time. Pursuant to the Plan, the Board or its Committee is authorized to interpret the Plan and to adopt rules and regulations not inconsistent with the Plan as it deems appropriate. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or its Committee upon any questions arising under the Plan.

10. Spousal Consent. As a condition to the effectiveness of the grant of the Option, the Optionee's spouse (if any) is required to execute the attached "Consent of Spouse."

11. Governing Law. This Award Agreement will be construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the application of the principles of conflicts of laws.

12. Amendment. Subject to the provisions of the Plan, this Award Agreement may be amended at any time by the Company or its delegate; provided, however, that any modification or amendment of this Award Agreement which adversely affects the Optionee shall require the written consent of the Optionee.

13. Entire Agreement. This Award Agreement, together with the Plan and the other exhibits attached thereto or hereto, represents the entire agreement between the parties hereto relating to the subject matter hereof, and merges and supersedes all prior and contemporaneous discussions, agreements and understandings of every nature relating to the award of Options to Optionee by the Company.

[signature page follows]

IN WITNESS WHEREOF, this Award Agreement has been executed by the parties on the date(s) indicated below.

FIVE BELOW, INC.

By: _____

Name: _____

Title: _____

Date: _____

OPTIONEE

Signature

Address

Date: _____

ACKNOWLEDGMENT

The Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she has read and is familiar with the terms and provisions thereof and hereby accepts this Option subject to all of the terms and provisions of the Award Agreement and the Five Below, Inc. Equity Incentive Plan (the "Plan"). The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or the Committee upon any questions arising under the Plan.

Date: _____

Signature of Optionee

Name of Optionee

Address

City, State, Zip Code

CONSENT OF SPOUSE

I, , spouse of [_____] , have read the foregoing Non-Qualified Stock Option Agreement (the "Agreement"). I am aware by the terms of the Five Below, Inc. Amended and Restated Equity Incentive Plan (the "Plan") and the Agreement that the transfer of the stock option awarded pursuant to the Agreement (the "Option") is restricted. I hereby consent to such restrictions, approve of the provisions of the Agreement, and agree that if I pre-decease my spouse, the successors of my community property or other interest (if any) in such Option or shares will hold such shares subject to the provisions of the Agreement. In consideration of the grant of the Option as set forth in that Agreement, I hereby appoint my spouse as my attorney-in-fact with respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares issued pursuant thereto under the community property laws or similar laws relating to marital property.

Signature of Spouse

Date

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 Vellios

Name: Thomas G. Vellios

Title: President and Chief Executive Officer

Dated: September 10, 2013

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: September 10, 2013

**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 August 3, 2013 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 Vellios

Thomas G. Vellios

President and Chief Executive Officer

Dated: September 10, 2013

**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 August 3, 2013 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

Dated: September 10, 2013

