

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 May 3, 2014.
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 2000
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 June 4, 2014 was 54,267,356

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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)

	May 3, 2014	February 1, 2014	May 4, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$ 17,816	\$ 50,184	\$ 36,722
Inventories	98,576	89,377	75,339
Prepaid income taxes	5,981	1,497	621
Deferred income taxes	4,757	4,586	1,441
Prepaid expenses and other current assets	16,605	15,255	10,481
Total current assets	143,735	160,899	124,604
Property and equipment, net of accumulated depreciation and amortization of \$47,526, \$43,997, and \$34,463, respectively	78,046	70,381	61,611
Deferred income taxes	556	232	—
Other assets	296	542	877
	\$ 222,633	\$ 232,054	\$ 187,092
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	\$ —	\$ —	\$ —
Current portion of note payable	—	19,500	15,000
Accounts payable	35,524	34,013	27,971
Income taxes payable	13	6,007	558
Accrued salaries and wages	4,083	2,672	2,725
Other accrued expenses	20,210	17,550	13,569
Total current liabilities	59,830	79,742	59,823
Note payable	—	—	19,500
Deferred rent and other	39,558	35,439	31,187
Deferred income taxes	—	—	1,431
Total liabilities	99,388	115,181	111,941
Commitments and contingencies (note 4)			
Shareholders' equity:			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,267,222, 54,190,724 and 54,019,137 shares, respectively.	543	542	540
Additional paid-in capital	287,913	284,622	273,474
Accumulated deficit	(165,211)	(168,291)	(198,863)
Total shareholders' equity	123,245	116,873	75,151
	\$ 222,633	\$ 232,054	\$ 187,092

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	
	May 3, 2014	May 4, 2013
Net sales	\$ 126,004	\$ 95,604
Cost of goods sold	87,069	65,391
Gross profit	38,935	30,213
Selling, general and administrative expenses	33,673	27,024
Operating income	5,262	3,189
Interest expense, net	72	511
Loss on debt extinguishment	244	—
Income before income taxes	4,946	2,678
Income tax expense	1,866	1,108
Net income	3,080	1,570
Net income attributable to participating securities	(20)	(31)
Net income attributable to common shareholders	\$ 3,060	\$ 1,539
Basic income per common share	\$ 0.06	\$ 0.03
Diluted income per common share	\$ 0.06	\$ 0.03
Weighted average shares outstanding:		
Basic shares	53,864,972	52,943,243
Diluted shares	54,293,467	53,399,778

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 1, 2014	54,190,724	\$ 542	\$ 284,622	\$ (168,291)	\$ 116,873
Stock-based compensation expense	1,003	—	1,815	—	1,815
Exercise of options to purchase common stock	75,582	1	483	—	484
Vesting of restricted shares	—	—	61	—	61
Repurchase of unvested restricted shares related to stock option exercises	(87)	—	—	—	—
Excess tax benefit related to exercises of stock options	—	—	932	—	932
Net income	—	—	—	3,080	3,080
Balance, May 3, 2014	54,267,222	\$ 543	\$ 287,913	\$ (165,211)	\$ 123,245

See accompanying notes to consolidated financial statements.

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

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Operating activities:		
Net income	\$ 3,080	\$ 1,570
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,869	2,933
Loss on debt extinguishment	244	—
Loss on disposal of property and equipment	47	—
Amortization of deferred financing costs	5	78
Stock-based compensation expense	1,818	2,359
Deferred income taxes	(495)	(265)
Changes in operating assets and liabilities:		
Prepaid income taxes	(4,484)	(585)
Inventories	(9,199)	(14,508)
Prepaid expenses and other assets	(1,354)	941
Accounts payable	1,162	703
Income taxes payable	(5,994)	(6,525)
Accrued salaries and wages	1,411	(1,479)
Deferred rent	3,581	2,405
Other accrued expenses	2,196	602
Net cash used in operating activities	<u>(4,113)</u>	<u>(11,771)</u>
Investing activities:		
Capital expenditures	(10,170)	(8,148)
Net cash used in investing activities	<u>(10,170)</u>	<u>(8,148)</u>
Financing activities:		
Repayment of note payable under Term Loan Facility	(19,500)	—
Proceeds from exercise of options to purchase common stock	484	158
Repurchase of unvested restricted shares related to stock option exercises	(1)	—
Excess tax benefit related to exercises of stock options	932	402
Net cash (used in) provided by financing activities	<u>(18,085)</u>	<u>560</u>
Net decrease in cash and cash equivalents	<u>(32,368)</u>	<u>(19,359)</u>
Cash and cash equivalents at beginning of period	50,184	56,081
Cash and cash equivalents at end of period	<u>\$ 17,816</u>	<u>\$ 36,722</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 94	\$ 482
Income taxes paid	\$ 12,137	\$ 8,081
Non-cash investing activities		
Increase (decrease) in accrued purchases of property & equipment	\$ 1,411	\$ (2,644)

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, 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 May 3, 2014, operated 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, Texas, and Tennessee. As of May 3, 2014 and May 4, 2013, the Company operated 323 stores and 258 stores, respectively, 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. The Company's consolidated financial statements include the accounts of Five Below, Inc. and the Subsidiary. All intercompany transactions and accounts are eliminated in the consolidation of the Company's and Subsidiary's financial statements.

(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 2014" or "fiscal 2014" refer to the period from February 2, 2014 to January 31, 2015 and consists of a 52-week fiscal 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 consists of a 53-week fiscal year. The fiscal quarters ended May 3, 2014 and May 4, 2013 refer to the thirteen week periods ended as of those dates.

(c) *Basis of Presentation*

The consolidated balance sheets as of May 3, 2014 and May 4, 2013, the consolidated statements of operations for the thirteen weeks ended May 3, 2014 and May 4, 2013, the consolidated statement of shareholders' equity for the thirteen weeks ended May 3, 2014 and the consolidated statements of cash flows for the thirteen weeks ended May 3, 2014 and May 4, 2013 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 May 3, 2014 and May 4, 2013. The balance sheet as of February 1, 2014, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for fiscal 2013 as filed with the Securities and Exchange Commission on March 26, 2014 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 1, 2014 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen weeks ended May 3, 2014 and May 4, 2013 are not necessarily indicative of the consolidated operating results for the year ending January 31, 2015 or any other period. The Company's business is seasonal and as a result, the Company's net sales fluctuate from quarter to quarter. Net sales are usually highest in the fourth fiscal quarter due to the year-end holiday season.

(d) *Use of Estimates*

The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for inventories, income taxes and stock-based compensation expense.

(e) *Fair Value of Financial Instruments*

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

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

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

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

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

The Company's financial instruments consist primarily of cash equivalents, accounts payable, and borrowings, if any, under a line of credit. 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, if any, under the line of credit approximates fair value because the line of credit's interest rates vary with market interest rates. The Company considers the inputs utilized to determine the fair value of any of the borrowings under the line of credit to be Level 2 inputs. As of May 3, 2014, February 1, 2014, and May 4, 2013, the Company had cash equivalents of \$3.1 million, \$2.3 million and \$2.4 million, respectively. The Company's cash equivalents consist of credit card receivables and fair value was determined based on Level 1 inputs.

(2) *Income Per Common Share*

Basic income per common share amounts are calculated using the weighted-average number of common shares outstanding for the period. Diluted income per common share amounts are calculated using the weighted-average number of common shares outstanding for the period and include the dilutive impact of exercise of stock options 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, using the treasury stock method.

The two-class method is used to calculate basic and diluted income per common share since the Company's restricted stock are participating securities under 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 per common share is computed by dividing net income attributable to common shares after allocation of income to participating securities by the weighted-average number of common shares outstanding during the year. Diluted income 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 per common share (in thousands, except for share and per share data):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Numerator:		
Net income	\$ 3,080	\$ 1,570
Net income attributable to participating securities	(20)	(31)
Net income attributable to common shareholders	\$ 3,060	\$ 1,539
Denominator:		
Weighted average common shares outstanding - basic	53,864,972	52,943,243
Dilutive impact of options and employee stock purchase plan	428,495	456,535
Weighted average common shares outstanding - diluted	54,293,467	53,399,778
Per common share:		
Basic income per common share	\$ 0.06	\$ 0.03
Diluted income per common share	\$ 0.06	\$ 0.03

For the thirteen weeks ended May 3, 2014 and May 4, 2013, \$20.0 thousand and \$31.0 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.

The effects of the assumed exercise of stock options for 607,173 shares of common stock for the thirteen weeks ended May 3, 2014 were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of stock options for 115,953 shares of common stock for the thirteen weeks ended May 4, 2013 were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

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"). 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. In February 2014, the Company repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million. As of May 3, 2014, there was no balance outstanding under the Term Loan Facility.

All obligations under the Term Loan Facility were secured by substantially all of the Company's assets and were guaranteed by the Subsidiary. The credit agreement for the Term Loan Facility also included customary negative and affirmative covenants. The Company was in compliance with the financial covenant and other covenants applicable to the Company under the Term Loan Facility at each measurement period.

In connection with the Term Loan Facility, the Company incurred deferred financing costs of \$2.7 million, which were 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 \$19.5 million principal repayment on the Term Loan Facility in February 2014, the remaining deferred financing costs of approximately \$0.2 million were written off and included in loss on debt extinguishment in the consolidated statement of operations for the thirteen weeks ended May 3, 2014.

Line of Credit

On August 18, 2006, the Company entered into a loan and security agreement (the "Loan and Security Agreement") 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 or (ii) 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 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 \$12.0 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 May 3, 2014, the Company had no borrowings under the Revolving Credit Facility and had approximately \$20.0 million available on the line 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 May 3, 2014 and May 4, 2013, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility.

(4) Commitments and Contingencies

During the thirteen weeks ended May 3, 2014, the Company committed to 23 new store leases with terms of 10 years that have future minimum lease payments of approximately \$37.5 million.

From May 4, 2014 to June 5, 2014, the Company committed to 3 new store leases with terms of 10 years that have future minimum lease payments of approximately \$8.0 million.

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 \$4.2 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 May 3, 2014, the Company has other purchase commitments of approximately \$0.9 million consisting of purchase agreements for materials that will be used in the construction of new stores.

(5) Shareholders' Equity

In March 2012, options to purchase 2,020,620 shares of common stock granted during fiscal 2010, including options to purchase 1,010,310 shares that were subject to time-based and performance-based vesting, were cancelled and an equal number of restricted shares were granted. One-third of the shares vested in March 2012, one-third of the shares vested in March 2013, and the last one-third vested in March 2014.

In connection with the cancellation and grant, the Company recorded total compensation expense of \$17.4 million including \$5.3 million which was recorded on the date of the modification and the remainder, which was recorded on a straight-line basis over the two-year vesting period. The remaining expense related to the cancellation and grant was recognized during the thirteen weeks ended May 3, 2014.

(6) Common Stock Options

Equity Incentive Plan

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 ten 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 May 3, 2014, 4,639,263 stock options or restricted shares were available for grant.

Stock option activity under the Plan was as follows:

	Options outstanding	Weighted average exercise price	Weighted average remaining contractual term
Balance as of February 1, 2014	1,304,620	\$ 20.90	8.5
Granted	68,750	37.37	
Forfeited	(39,422)	33.41	
Exercised	(75,582)	6.41	
Balance as of May 3, 2014	1,258,366	22.28	8.3
Exercisable as of May 3, 2014	343,718	\$ 9.08	7.6

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

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Expected volatility	50.0%	50.0%
Risk-free interest rate	1.9%	1.1%
Expected life of options	6.4 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 prices are publicly available. The risk-free rate for the expected term of the option is 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 thirteen weeks ended May 3, 2014 and May 4, 2013 was \$18.82 and \$18.15, respectively.

As of May 3, 2014, there was \$10.3 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average vesting period of 2.9 years.

(7) Income Taxes

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen weeks ended May 3, 2014 and May 4, 2013 (in thousands):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Income before income taxes	\$ 4,946	\$ 2,678
Income tax expense	\$ 1,866	\$ 1,108
Effective tax rate	37.7%	41.4%

The effective tax rates for the thirteen weeks ended May 3, 2014 and May 4, 2013 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 weeks ended May 3, 2014 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.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's balance sheets as of May 3, 2014, February 1, 2014, or May 4, 2013 and has not recognized any material uncertain tax positions or interest and/or penalties related to income taxes in the consolidated statements of operations for the thirteen weeks ended May 3, 2014 or May 4, 2013.

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, 2011 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.

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

You should read the following discussion together with "Selected Financial and Other Data," and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for our fiscal year ended February 1, 2014 and referred to herein as the "Annual Report," and the consolidated financial statements and related notes as of and for the thirteen weeks ended May 3, 2014 included in Part I, Item I 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 2014" or "fiscal 2014" refer to the period from February 2, 2014 to January 31, 2015 and consists of a 52-week fiscal 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 consists of a 53-week fiscal year. The fiscal quarters ended May 3, 2014 and May 4, 2013 refer to the thirteen 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;*
- *extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations;*
- *our ability to successfully expand our distribution network capacity;*
- *disruptions to our distribution network or the timely receipt of inventory;*
- *inability to attract and retain qualified employees;*
- *ability to increase sales and improve the efficiencies, costs and effectiveness of our operations;*
- *our dependence on our executive officers and other key personnel or our inability to hire additional qualified personnel;*
- *our ability to successfully manage our inventory balances and inventory shrinkage;*

- *our lease obligations;*
- *changes in our competitive environment, including increased competition from other retailers and the presence of online retailers;*
- *increasing costs due to inflation, increased operating costs or energy prices;*
- *the seasonality of our business;*
- *disruptions to our information technology systems in the ordinary course or as a result of system upgrades;*
- *our failure to maintain adequate internal controls;*
- *our ability to obtain additional financing;*
- *our failure to secure customers' confidential or credit card information, or other private data relating to our employees or our company;*
- *natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism;*
- *current economic conditions and other economic factors;*
- *the impact of governmental laws and regulations and the outcomes of legal proceedings;*
- *our inability to protect our brand name, trademarks and other intellectual property rights;*
- *increased costs as a result of being a public company; and*
- *restrictions imposed by our indebtedness on our current and future operations.*

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this Quarterly Report on Form 10-Q are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across our category worlds. As of May 3, 2014, we operated 323 stores in 20 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.

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 on Form 10-Q 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 (or not receiving deliveries) 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, including our merchandising and product development team and our planning and allocation group.

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 on Form 10-Q 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 are incurring as a result of being a public company. Among other things, the on-going compliance with the Sarbanes-Oxley Act of 2002 and related rules and regulations have resulted 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, loss on debt extinguishment 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.

Results of Consolidated Operations

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

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
	(in millions, except total stores)	
Consolidated Statements of Operations Data ⁽¹⁾:		
Net sales	\$ 126.0	\$ 95.6
Cost of goods sold	87.1	65.4
Gross profit	38.9	30.2
Selling, general and administrative expenses	33.7	27.0
Operating income	5.3	3.2
Interest expense, net	0.1	0.5
Loss on debt extinguishment	0.2	—
Income before income taxes	4.9	2.7
Income tax expense	1.9	1.1
Net income	\$ 3.1	\$ 1.6
Percentage of Net Sales ⁽¹⁾:		
Net sales	100.0%	100.0%
Cost of goods sold	69.1%	68.4%
Gross profit	30.9%	31.6%
Selling, general and administrative expenses	26.7%	28.3%
Operating income	4.2%	3.3%
Interest expense, net	0.1%	0.5%
Loss on debt extinguishment	0.2%	—%
Income before income taxes	3.9%	2.8%
Income tax expense	1.5%	1.2%
Net income	2.4%	1.6%
Operational Data:		
Total stores at end of period	323	258
Comparable stores sales growth	6.2%	4.2%
Average net sales per store ⁽²⁾	\$ 0.4	\$ 0.4

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

(2) Only includes stores open during the full fiscal quarter at each respective period.

Thirteen Weeks Ended May 3, 2014 Compared to the Thirteen Weeks Ended May 4, 2013

Net Sales

Net sales increased to \$126.0 million in the thirteen weeks ended May 3, 2014 from \$95.6 million in the thirteen weeks ended May 4, 2013, an increase of \$30.4 million, or 31.8%. The increase was the result of a non-comparable store sales increase of \$24.7 million and a comparable store sales increase of \$5.7 million. The increase in non-comparable store sales was primarily driven by the number of stores that opened in fiscal 2013 but have not been open for 15 full months and new stores in fiscal 2014. We plan to open approximately 62 stores in fiscal 2014.

Comparable store sales increased 6.2% for the thirteen weeks ended May 3, 2014 compared to the thirteen weeks ended May 4, 2013. This increase resulted from an increase of approximately 5.5% 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 \$87.1 million in the thirteen weeks ended May 3, 2014 from \$65.4 million in the thirteen weeks ended May 4, 2013, an increase of \$21.7 million, or 33.2%. The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from the increase in net sales. Also contributing to the increase in cost of goods sold were an increase in store occupancy costs resulting from new store openings and an increase in distribution costs primarily due to the increase in net sales.

Gross profit increased to \$38.9 million in the thirteen weeks ended May 3, 2014 from \$30.2 million in the thirteen weeks ended May 4, 2013, an increase of \$8.7 million, or 28.9%. Gross margin decreased to 30.9% for the thirteen weeks ended May 3, 2014 from 31.6% in the thirteen weeks ended May 4, 2013, a decrease of approximately 70 basis points. The decrease in gross margin was the result of an increase in buying expense due primarily to the incremental investment in merchandising talent.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$33.7 million in the thirteen weeks ended May 3, 2014 from \$27.0 million in the thirteen weeks ended May 4, 2013, an increase of \$6.6 million, or 24.6%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 150 basis points to 26.7% in the thirteen weeks ended May 3, 2014 compared to 28.3% in the thirteen weeks ended May 4, 2013. The increase in selling, general and administrative expense was primarily the result of increases of \$5.7 million in store-related expenses to support new store growth and \$1.7 million of corporate-related expenses, partially offset by a decrease of \$0.7 million in stock-based compensation expense driven by the decrease of expense related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012. The remaining expense related to the cancellation of certain stock options in exchange for the grant of restricted shares from March 2012 was recognized during thirteen weeks ended May 3, 2014 and these shares have fully vested.

Interest Expense, Net

Interest expense, net decreased to \$0.1 million in the thirteen weeks ended May 3, 2014 from \$0.5 million of interest expense, net in the thirteen weeks ended May 4, 2013, 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” below). In February 2014, we repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million.

Loss on Debt Extinguishment

Loss on debt extinguishment was \$0.2 million during the thirteen weeks ended May 3, 2014 and is due to the \$19.5 million principal repayment on the \$100.0 million Term Loan Facility in February 2014. As of May 3, 2014, there was no balance outstanding under the Term Loan Facility.

Income Tax Expense

Income tax expense increased to \$1.9 million in the thirteen weeks ended May 3, 2014 from \$1.1 million in the thirteen weeks ended May 4, 2013, an increase of \$0.8 million, or approximately 68.4%. The increase in income tax expense was primarily the result of a \$2.3 million increase in pre-tax income. Our effective tax rate for the thirteen weeks ended May 3, 2014 was 37.7% compared to 41.4% in the thirteen weeks ended May 4, 2013. Our effective tax rate for the thirteen weeks ended May 3, 2014 was lower than the comparable period as a result of changes in the mix of pretax income across state jurisdictions and changes in our operating entities as a result of the Restructuring (see -“Liquidity and Capital Resources-Overview” below).

Net Income

As a result of the foregoing, net income increased to \$3.1 million in the thirteen weeks ended May 3, 2014 from \$1.6 million in the thirteen weeks ended May 4, 2013, an increase of approximately \$1.5 million, or 96.2%.

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 entered into a Term Loan Facility (defined in “-Term Loan Facility”). We repaid the remaining principal balance outstanding under the Term Loan Facility during the thirteen weeks ended May 3, 2014. As of May 3, 2014, there was no balance outstanding under the Term Loan Facility.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately \$35 million in fiscal 2014, which we expect to fund from cash generated from operations. We expect to devote approximately \$17 million of our capital expenditure budget in fiscal 2014 to construct and open new stores, with the remainder projected to be spent on corporate infrastructure, store relocations and remodels and our distribution centers.

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, net cash provided by operating activities and borrowings under our Revolving Credit Facility. We did not have any direct borrowings under our Revolving Credit Facility during the thirteen weeks ended May 3, 2014. 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. Our consolidated financial statements include the accounts of Five Below, Inc. and the Subsidiary. All intercompany transactions and accounts are eliminated in the consolidation of our financial statements.

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 (in millions):

	Thirteen Weeks Ended	
	May 3, 2014	May 4, 2013
Net cash used in operating activities	\$ (4.1)	\$ (11.8)
Net cash used in investing activities	(10.2)	(8.1)
Net cash (used in) provided by financing activities	(18.1)	0.6
Net decrease during period in cash and cash equivalents ⁽¹⁾	\$ (32.4)	\$ (19.4)

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

Cash Used in Operating Activities

Net cash used in operating activities for the thirteen weeks ended May 3, 2014 was \$4.1 million, a decrease of \$7.7 million compared to the thirteen weeks ended May 4, 2013. The decrease was primarily due to an increase in operating cash flows from store performance offset by an increase in income taxes paid of \$4.0 million.

Cash Used in Investing Activities

Net cash used in investing activities for the thirteen weeks ended May 3, 2014 was \$10.2 million, an increase of \$2.1 million compared to the thirteen weeks ended May 4, 2013 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction, corporate infrastructure and our distribution facilities.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the thirteen weeks ended May 3, 2014 was \$18.1 million, an increase of \$18.7 million compared to net cash provided by financing activities of \$0.6 million in the thirteen weeks ended May 4, 2013. The increase in net cash used in financing activities was primarily the result of the \$19.5 million principal repayment on the Term Loan Facility during the thirteen weeks ended May 3, 2014. As of May 3, 2014, there was no balance outstanding under the Term Loan Facility.

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"). 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. In February 2014, we repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million. As of May 3, 2014, there was no balance outstanding under the Term Loan Facility.

All obligations under the Term Loan Facility were secured by substantially all of our assets and are guaranteed by the Subsidiary. The credit agreement for the Term Loan Facility also includes customary negative and affirmative covenants. We were in compliance with the financial covenant and other covenants applicable to us under the Term Loan Facility at each measurement period.

In connection with the Term Loan Facility, we incurred deferred financing costs of \$2.7 million which were 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 \$19.5 million principal repayment on the Term Loan Facility in February 2014, the remaining deferred financing costs of approximately \$0.2 million were written off and included in loss on debt extinguishment in the consolidated statement of operations for the thirteen weeks ended May 3, 2014.

Line of Credit

On August 18, 2006, we entered into a loan and security agreement (the "Loan and Security Agreement") 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 or (ii) 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 approximately \$12.0 thousand 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's covenants, bankruptcy, default on certain other indebtedness or a change in control.

During the thirteen weeks ended May 3, 2014, the Company had no borrowings under the Revolving Credit Facility. As of May 3, 2014, the Company had approximately \$20.0 million available on the line 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 May 3, 2014, 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 thirteen weeks ended May 3, 2014.

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, 2014 to May 3, 2014, 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 May 3, 2014, there was no remaining balance outstanding under the Term Loan Facility due to the \$19.5 million repayment in February 2014.

Off-Balance Sheet Arrangements

For the quarterly period ended May 3, 2014, 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, which bears interest at a variable rate. Because our Revolving Credit Facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates.

As of May 3, 2014, we had no borrowings outstanding under 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%. 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) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q pursuant to Rule 13a-15(b) of 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 were no changes to our internal control over financial reporting during the thirteen weeks ended May 3, 2014 that have materially affected, or that are 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. 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, which could materially affect our business, financial condition or future results. The risks described in our Annual Report 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.

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 first fiscal quarter of 2014. 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				
February 2, 2014 through March 1, 2014	—	\$ —	—	\$ —
March 2, 2014 through April 5, 2014	87	11.42	—	—
April 6, 2014 through May 3, 2014	—	—	—	—
Total	87	\$ 11.42	—	\$ —

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6.**EXHIBITS***(a) Exhibits*

No.	Description
10.1	Five Below, Inc. Compensation Policy for Non-Employee Directors (incorporated by reference to Exhibit 10.30 of the Annual Report on Form 10-K filed with the Commission on March 26, 2014).
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 May 3, 2014, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of May 3, 2014, February 1, 2014 and May 4, 2013; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended May 3, 2014 and May 4, 2013; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirteen Weeks Ended May 3, 2014; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirteen Weeks Ended May 3, 2014 and May 4, 2013 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.

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: June 5, 2014

/s/ Thomas G. Vellios

Thomas G. Vellios
President and Chief Executive Officer
(duly authorized officer and Principal Executive Officer)

Date: June 5, 2014

/s/ Kenneth R. Bull

Kenneth R. Bull
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

No.	Description
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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 May 3, 2014, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of May 3, 2014, February 1, 2014 and May 4, 2013; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended May 3, 2014 and May 4, 2013; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirteen Weeks Ended May 3, 2014; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirteen Weeks Ended May 3, 2014 and May 4, 2013 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.

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Thomas G. Vellios

Name: Thomas G. Vellios

Title: President and Chief Executive Officer

Dated: June 5, 2014

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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: June 5, 2014

**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 May 3, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas G. Vellios, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Thomas G. Vellios

Thomas G. Vellios

President and Chief Executive Officer

Date: June 5, 2014

**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 May 3, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bull, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer, Secretary and Treasurer

Date: June 5, 2014

