

FIVE BELOW, INC  
Form 10-Q  
June 04, 2015  
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 2, 2015.

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

19103  
(Zip 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

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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 3, 2015 was 54,478,587.

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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 2, 2015	January 31, 2015	May 3, 2014
Assets			
Current assets:			
Cash and cash equivalents	\$52,391	\$63,186	\$17,816
Inventories	119,820	115,652	98,576
Prepaid income taxes	6,941	1,939	5,981
Deferred income taxes	8,706	8,623	4,757
Prepaid expenses and other current assets	16,736	18,180	16,605
Total current assets	204,594	207,580	143,735
Property and equipment, net of accumulated depreciation and amortization of \$63,573, \$59,385 and \$47,526, respectively.	98,134	86,998	78,046
Deferred income taxes	—	—	556
Other assets	293	284	296
	\$303,021	\$294,862	\$222,633
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	\$—	\$—	\$—
Accounts payable	42,146	39,222	35,524
Income taxes payable	253	14,442	13
Accrued salaries and wages	4,590	5,275	4,083
Other accrued expenses	30,463	20,462	20,210
Total current liabilities	77,452	79,401	59,830
Deferred rent and other	43,659	40,450	39,558
Deferred income taxes	173	742	—
Total liabilities	121,284	120,593	99,388
Commitments and contingencies (note 4)			
Shareholders' equity:			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,478,408, 54,420,228 and 54,267,222 shares, respectively.	545	544	543
Additional paid-in capital	297,181	293,992	287,913
Accumulated deficit	(115,989)	) (120,267	) (165,211
Total shareholders' equity	181,737	174,269	123,245
	\$303,021	\$294,862	\$222,633

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 2, 2015	May 3, 2014
Net sales	\$153,727	\$126,004
Cost of goods sold	106,566	87,069
Gross profit	47,161	38,935
Selling, general and administrative expenses	40,140	33,673
Operating income	7,021	5,262
Interest expense, net	9	72
Loss on debt extinguishment	—	244
Income before income taxes	7,012	4,946
Income tax expense	2,734	1,866
Net income	4,278	3,080
Net income attributable to participating securities	—	(20 )
Net income attributable to common shareholders	\$4,278	\$3,060
Basic income per common share	\$0.08	\$0.06
Diluted income per common share	\$0.08	\$0.06
Weighted average shares outstanding:		
Basic shares	54,448,634	53,864,972
Diluted shares	54,717,146	54,293,467
See accompanying notes to consolidated financial statements.		

## FIVE BELOW, INC.

## Consolidated Statement of Shareholders' Equity

(Unaudited)

(in thousands, except share data)

	Common stock		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Shares	Amount			
Balance, January 31, 2015	54,420,228	\$544	\$293,992	\$(120,267 )	\$174,269
Share-based compensation expense	—	—	2,393	—	2,393
Issuance of unrestricted stock awards	2,030	—	70	—	70
Exercise of options to purchase common stock	56,150	1	367	—	368
Excess tax benefit related to exercises of stock options	—	—	359	—	359
Net income	—	—	—	4,278	4,278
Balance, May 2, 2015	54,478,408	\$545	\$297,181	\$(115,989 )	\$181,737

See accompanying notes to consolidated financial statements.

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

	Thirteen Weeks Ended	
	May 2, 2015	May 3, 2014
Operating activities:		
Net income	\$4,278	\$3,080
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,740	3,869
Loss on debt extinguishment	—	244
Loss on disposal of property and equipment	6	47
Amortization of deferred financing costs	7	5
Share-based compensation expense	2,465	1,818
Deferred income tax benefit	(652	) (495
Changes in operating assets and liabilities:		
Prepaid income taxes	(5,002	) (4,484
Inventories	(4,168	) (9,199
Prepaid expenses and other assets	1,428	(1,354
Accounts payable	(7,307	) 1,162
Income taxes payable	(14,189	) (5,994
Accrued salaries and wages	(685	) 1,411
Deferred rent	3,192	3,581
Other accrued expenses	15,103	2,196
Net cash used in operating activities	(784	) (4,113
Investing activities:		
Capital expenditures	(10,738	) (10,170
Net cash used in investing activities	(10,738	) (10,170
Financing activities:		
Repayment of note payable under Term Loan Facility	—	(19,500
Proceeds from exercise of options to purchase common stock	368	484
Repurchase of unvested restricted shares related to stock option exercises	—	(1
Excess tax benefit related to exercises of stock options	359	932
Net cash provided by (used in) financing activities	727	(18,085
Net decrease in cash and cash equivalents	(10,795	) (32,368
Cash and cash equivalents at beginning of period	63,186	50,184
Cash and cash equivalents at end of period	\$52,391	\$17,816
Supplemental disclosures of cash flow information:		
Non-cash investing activities		
(Decrease) increase in accrued purchases of property and equipment	\$(5,144	) \$1,411
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. (collectively with its wholly owned subsidiary 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 May 2, 2015, operated in 23 states that include 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, Tennessee, Maine, Alabama and Kentucky. As of May 2, 2015 and May 3, 2014, the Company operated 385 stores and 323 stores, respectively, each operating under the name "Five Below."

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to "fiscal year 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016 and consists of a 52-week fiscal 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. The fiscal quarters ended May 2, 2015 and May 3, 2014 refer to the thirteen week periods ended as of those dates.

(c) Basis of Presentation

The consolidated balance sheets as of May 2, 2015 and May 3, 2014, the consolidated statements of operations for the thirteen weeks ended May 2, 2015 and May 3, 2014, the consolidated statement of shareholders' equity for the thirteen weeks ended May 2, 2015 and the consolidated statements of cash flows for the thirteen weeks ended May 2, 2015 and May 3, 2014 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 2, 2015 and May 3, 2014. The balance sheet as of January 31, 2015, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for fiscal 2014 as filed with the Securities and Exchange Commission on March 26, 2015 and referred to herein as the "Annual Report," but does not include all annual disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended January 31, 2015 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen weeks ended May 2, 2015 and May 3, 2014 are not necessarily indicative of the consolidated operating results for the year ending January 30, 2016 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 share-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, if any, under the line of credit to be Level 2 inputs. As of May 2, 2015, January 31, 2015, and May 3, 2014, the Company had cash equivalents of \$43.9 million, \$43.1 million and \$3.1 million, respectively. The Company's cash equivalents consist of credit and debit card receivables and money market funds. Fair value for cash equivalents 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. Performance-based restricted stock units are considered contingently issuable shares for diluted income per common share purposes and the dilutive impact, if any, is not included in the weighted-average shares until the performance conditions are met.

The two-class method was used to calculate basic and diluted income per common share for the thirteen weeks ended May 3, 2014 since certain of the Company's restricted stock were participating securities. 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 two-class method is the more dilutive method for the thirteen weeks ended May 3, 2014. For the thirteen weeks ended May 2, 2015, the Company did not have any outstanding participating securities.

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 2, 2015	May 3, 2014
Numerator:		
Net income	\$4,278	\$3,080
Net income attributable to participating securities	—	(20 )
Net income attributable to common shareholders	\$4,278	\$3,060
Denominator:		
Weighted average common shares outstanding - basic	54,448,634	53,864,972
Dilutive impact of options, restricted stock units and employee stock purchase plan	268,512	428,495
Weighted average common shares outstanding - diluted	54,717,146	54,293,467
Per common share:		
Basic income per common share	\$0.08	\$0.06
Diluted income per common share	\$0.08	\$0.06

For the thirteen weeks ended May 2, 2015 there were no participating securities. For the thirteen weeks ended May 3, 2014, \$20.0 thousand 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 689,025 shares of common stock for the thirteen weeks ended May 2, 2015 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 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 aforementioned excluded shares do not reflect the impact of any incremental repurchases under the treasury stock method.

### (3) 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").

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 2, 2015, 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 Company's subsidiary. As of May 2, 2015 and May 3, 2014, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility.

### (4) Commitments and Contingencies

#### Commitments

#### Leases

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 of five 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 fiscal 2025.

During the thirteen weeks ended May 2, 2015, the Company committed to 24 new store leases with terms of 10 years that have future minimum lease payments of approximately \$46.5 million.



In July 2014, the Company signed a lease for a new distribution center in Pedricktown (Oldmans Township), New Jersey, to support the Company's anticipated growth, which the Company expects to be fully operational during the fiscal year ending January 30, 2016. The Company will initially occupy approximately 700,000 square feet and will expand to approximately one million square feet. The Company took possession of the new distribution center in June 2015. The lease agreement has future minimum lease payments of approximately \$44.6 million and expires in 2025 with options to renew for three successive five-year periods.

#### Other contractual commitments

As of May 2, 2015, the Company has other purchase commitments of approximately \$1.7 million consisting of purchase agreements for materials that will be used in the construction of new stores.

#### Contingencies

#### Legal Matters

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. On January 9, 2015, a putative class action was filed against Five Below, Inc. and certain of the Company's current and former senior officers in the United States District Court for the Eastern District of Pennsylvania, purportedly on behalf of a class of the Company's investors who purchased our publicly traded securities between June 5, 2014 and December 4, 2014. The complaint alleged violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder in connection with various public statements made by the Company. By Order entered March 30, 2015, the Court appointed Arkansas Teacher Retirement System as Lead Plaintiff and approved its selection of counsel. On May 27, 2015, Lead Plaintiff filed a notice of voluntary dismissal dismissing all claims without prejudice.

On February 25, 2015, a shareholder derivative complaint was filed on behalf of Five Below, as nominal defendant, and asserting claims against certain of the Company's directors in the United States District Court for the District of Rhode Island. The complaint in this action alleges various violations of state law, including breach of fiduciary duties, arising from the alleged federal securities violations asserted in the securities class action. On March 31, 2015, the Court approved a stipulation staying the derivative action pending a ruling on the anticipated motion to dismiss the federal complaint. On June 3, 2015, the Plaintiff filed a notice of voluntary dismissal dismissing all claims without prejudice.

#### (5) Share-Based Compensation

#### 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, restricted shares, and restricted stock units 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. As of May 2, 2015, 3,787,175 stock options, restricted shares, or restricted stock units were available for grant.

#### Common Stock Options

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 compensation committee of the Company's board of directors. Options granted to date generally vest over four years from the date of grant.

Stock option activity under the Plan was as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Balance as of January 31, 2015	1,160,934	\$24.80	8.0
Granted	116,894	28.58	
Forfeited	(51,247 )	34.82	

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Exercised	(56,150	)	6.55	
Balance as of May 2, 2015	1,170,431		25.61	7.9
Exercisable as of May 2, 2015	396,932		\$12.25	6.8

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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 2, 2015		May 3, 2014	
Expected volatility	47.0	%	50.0	%
Risk-free interest rate	1.8	%	1.9	%
Expected life of options	6.4 years		6.4 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 2, 2015 and May 3, 2014 was \$13.67 and \$18.82, respectively.

Restricted Stock Units and Performance-Based Restricted Stock Units

All restricted stock units ("RSU") and performance-based restricted stock units ("PSU") vest in accordance with vesting conditions set by the compensation committee of the Company's board of directors. RSU's granted to date have vesting periods ranging from less than one year to five years from the date of grant. PSU's granted to date vest 100% at the end of a cumulative three year performance period, subject to satisfaction of the applicable performance goals established for the respective grant. The Company periodically assesses the probability of achievement of the performance criteria and adjusts the amount of compensation expense accordingly. Compensation is recognized over the vesting period and adjusted for the probability of achievement of the performance criteria.

RSU and PSU activity during the thirteen weeks ended May 2, 2015 was as follows:

	Restricted Stock Units		Performance-Based Restricted Stock Units	
	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Non-vested balance as of January 31, 2015	147,770	35.95	392,181	38.20
Granted	92,578	28.58	85,282	28.58
Forfeited	(774)	38.71	—	—
Non-vested balance as of May 2, 2015	239,574	33.09	477,463	36.48

As of May 2, 2015, there was \$30.4 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements (including stock options, restricted stock units and performance-based restricted stock units) granted under the Plan. That cost is expected to be recognized over a weighted average vesting period of 3.2 years.

#### (6) Income Taxes

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen weeks ended May 2, 2015 and May 3, 2014 (in thousands):

	Thirteen Weeks Ended			
	May 2, 2015		May 3, 2014	
Income before income taxes	\$7,012		\$4,946	
Income tax expense	\$2,734		\$1,866	
Effective tax rate	39.0	%	37.7	%

The effective tax rates for the thirteen weeks ended May 2, 2015 and May 3, 2014 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 2, 2015 is being impacted by changes in state tax rates.



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 2, 2015, January 31, 2015, or May 3, 2014 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 2, 2015 or May 3, 2014.

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 January 31, 2015 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 2, 2015 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 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016 and consists of a 52-week fiscal 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. The fiscal quarters ended May 2, 2015 and May 3, 2014 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 other 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;
- increased competition from online retailers due to our lack of online sales;
- extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations;
- inability to successfully expand our distribution network capacity;
- disruptions to our distribution network or the timely receipt of inventory;
- failure to secure customers' confidential or credit card information, or other private data relating to our employees or our company;
- inability to attract and retain qualified employees;

- inability to increase sales and improve the efficiencies, costs and effectiveness of our operations;

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- dependence on our executive officers and other key personnel or inability to hire additional qualified personnel;
- inability 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;
- failure to maintain adequate internal controls;
- complications with the design or implementation of the new enterprise resource system;
- 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;
- the costs and consequences of legal proceedings;
- inability to protect our brand name, trademarks and other intellectual property rights;
- the impact of product and food safety claims and effects of legislation;
- increased costs as a result of being a public company;
- inability to obtain additional financing, if needed; 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 2, 2015, we operated 385 stores in 23 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.

In July 2014, we signed a lease for a new distribution center in Pedricktown (Oldmans Township), New Jersey to support our anticipated growth, which we expect to be fully operational during the fiscal year ended January 30, 2016. We will initially occupy approximately 700,000 square feet and will expand to approximately one million square feet. Delays in opening this new distribution center could adversely affect our future operations by slowing store growth, which could in turn reduce sales

growth. In addition, any distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of this new distribution center, planned for the fiscal year ending January 30, 2016, could differ significantly from initial expectations due to construction-related or other reasons. In addition, the timing and amount of investments in our infrastructure and systems could affect the comparability of our results of operations in future periods.

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. In addition, any increase in future share-based grants or modifications will increase our share-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 2, 2015	May 3, 2014		
	(in millions, except total stores)			
Consolidated Statements of Operations Data <sup>(1)</sup> :				
Net sales	\$153.7	\$126.0		
Cost of goods sold	106.6	87.1		
Gross profit	47.2	38.9		
Selling, general and administrative expenses	40.1	33.7		
Operating income	7.0	5.3		
Interest expense, net	—	0.1		
Loss on debt extinguishment	—	0.2		
Income before income taxes	7.0	4.9		
Income tax expense	2.7	1.9		
Net income	\$4.3	\$3.1		
Percentage of Net Sales <sup>(1)</sup> :				
Net sales	100.0	% 100.0		%
Cost of goods sold	69.3	% 69.1		%
Gross profit	30.7	% 30.9		%
Selling, general and administrative expenses	26.1	% 26.7		%
Operating income	4.6	% 4.2		%
Interest expense, net	—	% 0.1		%
Loss on debt extinguishment	—	% 0.2		%
Income before income taxes	4.6	% 3.9		%
Income tax expense	1.8	% 1.5		%
Net income	2.8	% 2.4		%
Operational Data:				
Total stores at end of period	385	323		
Comparable stores sales growth	1.7	% 6.2		%
Average net sales per store <sup>(2)</sup>	\$0.4	\$0.4		

<sup>(1)</sup> Components may not add to total due to rounding.

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

## Thirteen Weeks Ended May 2, 2015 Compared to the Thirteen Weeks Ended May 3, 2014

## Net Sales

Net sales increased to \$153.7 million in the thirteen weeks ended May 2, 2015 from \$126.0 million in the thirteen weeks ended May 3, 2014, an increase of \$27.7 million, or 22.0%. The increase was the result of a non-comparable store sales increase of \$25.6 million and a comparable store sales increase of \$2.1 million. The increase in non-comparable store sales was primarily driven by the number of stores that opened in fiscal 2014 but have not been open for 15 full months and new stores in fiscal 2015. We plan to open approximately 70 stores in fiscal 2015. Comparable store sales increased 1.7% for the thirteen weeks ended May 2, 2015 compared to the thirteen weeks ended May 3, 2014. This increase resulted from an increase of approximately 2.6% in the average dollar value of transactions, partially offset by a decrease of approximately 0.9% in the number of transactions in our stores.



#### Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$106.6 million in the thirteen weeks ended May 2, 2015 from \$87.1 million in the thirteen weeks ended May 3, 2014, an increase of \$19.5 million, or 22.4%. 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 \$47.2 million in the thirteen weeks ended May 2, 2015 from \$38.9 million in the thirteen weeks ended May 3, 2014, an increase of \$8.2 million, or 21.1%. Gross margin decreased to 30.7% for the thirteen weeks ended May 2, 2015 from 30.9% in the thirteen weeks ended May 3, 2014, a decrease of approximately 20 basis points. The decrease in gross margin was the result of an increase in merchandise cost of goods sold.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$40.1 million in the thirteen weeks ended May 2, 2015 from \$33.7 million in the thirteen weeks ended May 3, 2014, an increase of \$6.5 million, or 19.2%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 60 basis points to 26.1% in the thirteen weeks ended May 2, 2015 compared to 26.7% in the thirteen weeks ended May 3, 2014. The increase in selling, general and administrative expense was primarily the result of increases of \$4.0 million in store-related expenses to support new store growth, \$1.7 million of corporate-related expenses, and \$0.8 million in share-based compensation expense driven by our leadership investments. Share-based compensation expense for the thirteen weeks ended May 2, 2015 was partially offset by the decrease of expense related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012 that was recognized during the thirteen weeks ended May 2, 2014.

#### Income Tax Expense

Income tax expense increased to \$2.7 million in the thirteen weeks ended May 2, 2015 from \$1.9 million in the thirteen weeks ended May 3, 2014, an increase of \$0.9 million, or approximately 46.5%. The increase in income tax expense was primarily the result of a \$2.1 million increase in pre-tax income. Our effective tax rate for the thirteen weeks ended May 2, 2015 was 39.0% compared to 37.7% in the thirteen weeks ended May 3, 2014. Our effective tax rate for the thirteen weeks ended May 2, 2015 was higher than the comparable period as a result of changes in state tax rates.

#### Net Income

As a result of the foregoing, net income increased to \$4.3 million in the thirteen weeks ended May 2, 2015 from \$3.1 million in the thirteen weeks ended May 3, 2014, an increase of approximately \$1.2 million, or 38.9%.

## 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.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately \$56 million in fiscal 2015, which we expect to fund from cash generated from operations. We expect to devote approximately \$22 million of our capital expenditure budget in fiscal 2015 to construct and open 70 new stores, with the remainder projected to be spent on our distribution centers, including the new distribution center in Pedricktown, New Jersey, corporate infrastructure and store relocations and remodels.

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. 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. We did not have any direct borrowings under our Revolving Credit Facility during the thirteen weeks ended May 2, 2015.

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 2, 2015	May 3, 2014
Net cash used in operating activities	\$(0.8)	\$(4.1)
Net cash used in investing activities	(10.7)	(10.2)
Net cash provided by (used in) financing activities	0.7	(18.1)
Net decrease during period in cash and cash equivalents <sup>(1)</sup>	\$(10.8)	\$(32.4)

<sup>(1)</sup> 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 2, 2015 was \$0.8 million, a decrease of \$3.3 million compared to the thirteen weeks ended May 3, 2014. The decrease was primarily due to an increase in operating cash flows from store performance offset by an increase in income taxes paid.

### Cash Used in Investing Activities

Net cash used in investing activities for the thirteen weeks ended May 2, 2015 was \$10.7 million, an increase of \$0.6 million compared to the thirteen weeks ended May 3, 2014 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction, our distribution facilities, and our corporate infrastructure.



#### Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the thirteen weeks ended May 2, 2015 was \$0.7 million, an increase of \$18.8 million compared to net cash used in financing activities of \$18.1 million in the thirteen weeks ended May 3, 2014. The increase in net cash provided by 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.

#### 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"). 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) 1.00% 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.

As of May 2, 2015, we 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 our assets and are guaranteed by the Company's subsidiary. As of May 2, 2015 and 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 2, 2015.



### 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 1, 2015 to May 2, 2015, we have entered into 24 new fully executed retail leases with an average term of 10 years and other lease modifications that have future minimum lease payments of approximately \$46.5 million.

### Off-Balance Sheet Arrangements

For the quarterly period ended May 2, 2015, 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 2, 2015, 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 2, 2015 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

On January 9, 2015, a putative class action was filed against Five Below, Inc. and certain of our current and former senior officers in the United States District Court for the Eastern District of Pennsylvania, purportedly on behalf of a class of our investors who purchased our publicly traded securities between June 5, 2014 and December 4, 2014. The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder in connection with various public statements made by us. By Order entered March 30, 2015, the Court appointed Arkansas Teacher Retirement System as Lead Plaintiff and approved its selection of counsel. On May 27, 2015, Lead Plaintiff filed a notice of voluntary dismissal dismissing all claims without prejudice.

On February 25, 2015, a shareholder derivative complaint was filed on behalf of Five Below, as nominal defendant, asserting claims against certain of our directors in the United States District Court for the District of Rhode Island. The complaint in this action alleges various violations of state law, including breach of fiduciary duties, arising from the alleged federal securities violations asserted in the securities class action. On March 31, 2015, the Court approved a stipulation staying the derivative action pending a ruling on the anticipated motion to dismiss the federal complaint. On June 3, 2015, the Plaintiff filed a notice of voluntary dismissal dismissing all claims without prejudice.

In addition, 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**

None.

**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
3.1	Amended Bylaws, as currently in effect (incorporated by reference to Exhibit 3.1 of the Annual Report on Form 10-K filed with the Commission on March 26, 2015)
10.1	Amendment, dated February 18, 2015, to Employment Letter, dated October 14, 2010, as amended, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on February 23, 2015)
10.2	Five Below, Inc. Compensation Policy for Non-Employee Directors (filed herewith)
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†	<p>The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of May 2, 2015, January 31, 2015 and May 3, 2014; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended May 2, 2015 and May 3, 2014; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirteen Weeks Ended May 2, 2015; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirteen Weeks Ended May 2, 2015 and May 3, 2014 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.</p> <p>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.</p>

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 4, 2015

/s/ Joel D. Anderson  
Joel D. Anderson  
President and Chief Executive Officer (Principal Executive Officer)

Date: June 4, 2015

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

EXHIBIT INDEX

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