FIVE BELOW, INC
Form 10-Q
December 06, 2013

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

Form 10-Q

(mark one)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 2, 2013.
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 001-35600

Five Below, Inc.
(Exact name of Registrant as Specified in its Charter)

Pennsylvania	75-3000378
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1818 Market Street, Suite 1900	
Philadelphia, PA	19103
(Address of Principal Executive Offices)	(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 ý 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 ý 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 x (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 ý

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of December 5, 2013 was 54,161,611.

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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)

	November 2, 2013	February 2, 2013	October 27, 2012
Assets			
Current assets:			
Cash and cash equivalents	$5,550	$56,081	$7,245
Inventories	115,484	60,831	84,399
Prepaid income taxes	5,675	36	9,951
Deferred income taxes	2,060	1,295	—
Prepaid expenses and other current assets	17,286	11,433	12,250
Total current assets	146,055	129,676	113,845
Property and equipment, net of accumulated depreciation and amortization of $41,129, $31,530, and $29,417, respectively	69,564	59,040	54,086
Other assets	596	944	1,083
	$216,215	$189,660	$169,014
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	$—	$—	$—
Current portion of notes payable	—	15,000	—
Accounts payable	52,422	27,952	40,250
Income taxes payable	37	7,083	—
Accrued salaries and wages	4,125	4,204	1,693
Other accrued expenses	15,587	14,545	11,472
Deferred income taxes	—	—	1,710
Total current liabilities	72,171	68,784	55,125
Notes payable	19,500	19,500	34,500
Deferred rent and other	34,396	29,082	27,773
Deferred income taxes	1,063	1,550	2,216
Total liabilities	127,130	118,916	119,614
Commitments and contingencies (note 4)			
Shareholders' equity:			
Common stock, $0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,161,553, 53,980,797, and 53,972,006 shares, respectively.	542	540	540
Additional paid-in capital	281,660	270,637	268,499
Accumulated deficit	(193,117)	(200,433)	(219,639)
Total shareholders' equity	89,085	70,744	49,400
	$216,215	$189,660	$169,014

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		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net sales	$110,747	$86,587	$323,438	$245,236
Cost of goods sold	76,513	59,656	219,591	166,538
Gross profit	34,234	26,931	103,847	78,698
Selling, general and administrative expenses	31,213	25,090	90,451	74,087
Operating income	3,021	1,841	13,396	4,611
Interest expense, net	321	550	1,223	1,829
Loss on debt extinguishment	—	7	266	1,594
Other income	—	—	—	(258)
Income before income taxes	2,700	1,284	11,907	1,446
Income tax expense	1,023	555	4,591	627
Net income	1,677	729	7,316	819
Dividend paid to preferred and unvested restricted shareholders	—	—	—	(65,403)
Net income attributable to participating securities	(21)	(19)	(110)	—
Net income (loss) attributable to common shareholders	$1,656	$710	$7,206	$(64,584)
Basic income (loss) per common share	$0.03	$0.01	$0.14	$(2.21)
Diluted income (loss) per common share	$0.03	$0.01	$0.13	$(2.21)
Dividends declared and paid per common share	$—	$—	$—	$2.02
Weighted average shares outstanding:				
Basic shares	53,409,601	52,565,576	53,227,393	29,282,385
Diluted shares	53,801,797	52,959,169	53,662,570	29,282,385

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	Accumulated	Total shareholders'
	Shares	Amount	paid-in capital	deficit	equity
Balance, February 2, 2013	53,980,797	$540	$270,637	$(200,433)	$70,744
Stock-based compensation expense	9,115	—	7,272	—	7,272
Exercise of options to purchase common stock	170,023	2	1,330	—	1,332
Vesting of restricted shares related to stock option exercises	—	—	184	—	184
Repurchase of unvested restricted shares related to stock option exercises	(388)	—	—	—	—
Excess tax benefit related to exercises of stock options	—	—	2,156	—	2,156
Issuance of common stock to employees under employee stock purchase plan	2,006	—	81	—	81
Net income	—	—	—	7,316	7,316
Balance, November 2, 2013	54,161,553	$542	$281,660	$(193,117)	$89,085

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

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

	Thirty-Nine Weeks Ended			
	November 2, 2013		October 27, 2012	
Operating activities:				
Net income	$7,316		$819	
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization	9,859		6,841	
Gain on conversion of note payable	—		(200	)
Loss on disposal of property and equipment	438		—	
Loss on debt extinguishment	266		1,594	
Amortization of deferred financing costs	170		387	
Warrant expense related to professional service providers for services rendered	—		43	
Stock-based compensation expense	7,511		10,157	
Deferred income tax (benefit) expense	(1,252	)	7,483	
Other	—		(71	)
Changes in operating assets and liabilities:				
Prepaid income taxes	(5,639	)	(9,951	)
Inventories	(54,653	)	(45,609	)
Prepaid expenses and other assets	(5,900	)	(5,008	)
Accounts payable	22,717		16,662	
Income taxes payable	(7,046	)	(9,139	)
Accrued salaries and wages	(79	)	(7,561	)
Deferred rent	6,976		7,499	
Other accrued expenses	2,018		2,207	
Net cash used in operating activities	(17,298	)	(23,847	)
Investing activities:				
Capital expenditures	(21,758	)	(17,442	)
Net cash used in investing activities	(21,758	)	(17,442	)
Financing activities:				
Borrowing under Term Loan Facility	—		100,000	
Repayment of Term Loan Facility	(15,000	)	(65,500	)
Cash paid for debt financing costs	(40	)	(2,751	)
Repayment of note payable	—		(50	)
Dividend paid to shareholders	—		(99,451	)
Net proceeds from issuance of common stock	81		73,259	
Proceeds from exercise of warrants and stock options to purchase common stock	1,332		201	
Repurchase of unvested restricted shares related to stock option exercises	(4	)	(17	)
Excess tax benefit related to restricted shares and the exercise of stock options	2,156		1,550	
Net cash (used in) provided by financing activities	(11,475	)	7,241	
Net decrease in cash and cash equivalents	(50,531	)	(34,048	)
Cash and cash equivalents at beginning of period	56,081		41,293	
Cash and cash equivalents at end of period	$5,550		$7,245	

See accompanying notes to consolidated financial statements.

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FIVE BELOW, INC.
Notes to Consolidated Financial Statements
(Unaudited)

(1)Summary of Significant Accounting Policies

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

The Company is incorporated in the Commonwealth of Pennsylvania and, as of November 2, 2013, operated 304 stores in Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Massachusetts, New Hampshire, West Virginia, North Carolina, New York, Connecticut, Rhode Island, Ohio, Illinois, Indiana, Michigan, Missouri, Georgia and Texas, each operating under the name “Five Below.”

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

(b)Fiscal Year
The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to “fiscal year 2013” or “fiscal 2013” refer to the period from February 3, 2013 to February 1, 2014 and consists of a 52-week fiscal year. References to “fiscal year 2012” or “fiscal 2012” refer to the period from January 29, 2012 to February 2, 2013 and consisted of a 53-week fiscal year. The fiscal quarters ended November 2, 2013 and October 27, 2012 refer to the thirteen week periods ended as of those dates. The year-to-date periods ended November 2, 2013 and October 27, 2012 refer to the thirty-nine week periods ended as of those dates.

(c)Basis of Presentation
The consolidated balance sheets as of November 2, 2013 and October 27, 2012, the consolidated statements of operations for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012, the consolidated statement of shareholders’ equity for the thirty-nine weeks ended November 2, 2013 and the consolidated statements of cash flows for the thirty-nine weeks ended November 2, 2013 and October 27, 2012 have been prepared by the Company in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim reporting and are unaudited. In the opinion of management, the aforementioned financial statements include all known adjustments (which consist primarily of normal, recurring accruals, estimates and assumptions that impact the financial statements)

necessary to present fairly the financial position at the balance sheet dates and the results of operations and cash flows for the periods ended November 2, 2013 and October 27, 2012. The balance sheet as of February 2, 2013, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for fiscal 2012 as filed with the Securities and Exchange Commission on March 28, 2013 and referred to herein as the “Annual Report,” but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended February 2, 2013 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012 are not necessarily indicative of the consolidated operating results for the year ending February 1, 2014 or any other period.

(d)Fair Value of Financial Instruments
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation at the measurement date:
Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Inputs, other than Level 1, that are either directly or indirectly observable.
Level 3: Unobservable inputs developed using the Company’s estimates and assumptions, which reflect those that market participants would use.
The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. The Company’s financial instruments consist primarily of cash equivalents, accounts payable and borrowings under a line of credit and the Term Loan Facility (as defined in note 3). The Company believes that: (1) the carrying value of cash equivalents and accounts payable are representative of their respective fair value due to the short-term nature of these instruments; and (2) the carrying value of the borrowings under the line of credit and Term Loan Facility approximates their fair value because the line of credit’s and Term Loan Facility's interest rates vary with market interest rates. The Company considers the inputs utilized to determine the fair value of the borrowings under the Term Loan Facility to be Level 2 inputs. As of November 2, 2013, February 2, 2013, and October 27, 2012, the Company had cash equivalents of $2.7 million, $35.7 million and $0.6 million, respectively. The Company’s cash equivalents consist of credit card receivables and a money market account for which fair value was determined based on Level 1 inputs.

(2)Income (Loss) Per Common Share

Basic income (loss) per common share amounts are calculated using the weighted-average number of common shares outstanding for the period. Diluted income (loss) per common share amounts are calculated using the weighted-average number of common shares outstanding for the period and include the dilutive impact of preferred stock using the if-converted method and exercise of stock options and warrants, as well as assumed lapse of restrictions on restricted stock awards and shares currently available for purchase under the Company's Employee Stock Purchase Plan, which is minor, using the treasury stock method.

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Numerator:				
Net income	$1,677	$729	$7,316	$819
Dividend paid to preferred shareholders	—	—	—	(62,504)
Dividend paid to unvested restricted shareholders	—	—	—	(2,899)
Net income attributable to participating securities	(21)	(19)	(110)	—
Net income (loss) attributable to common shareholders	$1,656	$710	$7,206	$(64,584)
Denominator:				
Weighted-average common shares outstanding - basic	53,409,601	52,565,576	53,227,393	29,282,385
Dilutive impact of options and employee stock purchase plan	392,196	393,593	435,177	—
Weighted-average common shares outstanding - diluted	53,801,797	52,959,169	53,662,570	29,282,385
Per common share:				
Basic income (loss) per common share	$0.03	$0.01	$0.14	$(2.21)
Diluted income (loss) per common share	$0.03	$0.01	$0.13	$(2.21)

For the thirteen weeks ended November 2, 2013 and October 27, 2012, $21 thousand and $19 thousand, respectively, of net income was attributable to participating securities, as the two-class method was more dilutive, and the remainder was attributable to common shareholders. For the thirty-nine weeks ended November 2, 2013, $0.1 million of net income was attributable to participating securities, as the two-class method was more dilutive, and the remainder was attributable to common shareholders. For the thirty-nine weeks ended October 27, 2012, as the Company was in a net loss position after recognition of the payment of dividends, the net losses were solely attributable to common shareholders.

The Company's preferred stock (note 5) was converted to common stock on July 24, 2012 and was included in the computation of loss per share during the thirteen and thirty-nine weeks ended October 27, 2012 on a weighted-average basis.

The effects of the assumed exercise of stock options for 547,051 and 346,001 shares of common stock for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, were excluded from the calculation of diluted net income as their impact would have been anti-dilutive.

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

The effects of the assumed exercise of combined stock options and warrants and vesting of restricted share awards of 2,553,707 shares of common stock for the thirty-nine weeks ended October 27, 2012 were excluded from the calculation of diluted net loss as the effect would have been anti-dilutive due to the net losses attributable to common shareholders.

The aforementioned excluded shares do not reflect the impact of any incremental repurchases under the treasury stock method.

(3)Term Loan Facility and Line of Credit

Term Loan Facility

On May 16, 2012, the Company entered into a $100.0 million term loan facility with Goldman Sachs Bank USA as administrative agent for a syndicate of lenders (the “Term Loan Facility”). The Company used the net proceeds from the Term Loan Facility and cash on hand to pay a dividend on all outstanding shares of the Company's common and preferred stock (note 5), totaling $99.5 million. On the same day, the Company amended and restated its existing senior secured Revolving Credit Facility with Wells Fargo Bank, National Association, which is defined below under "—Line of Credit."

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

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

The Term Loan Facility is subject to repayment upon the receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The Term Loan Facility was also subject to repayment of $50.0 million upon the receipt of proceeds from the Company's initial public offering (the "IPO"). The Company closed its IPO on July 24, 2012. In July 2012, the Company repaid $65.3 million of principal on the Term Loan Facility and $0.7 million of interest. In October 2012 and May 2013, the Company repaid $0.3 million and $15.0 million, respectively, of principal on the Term Loan Facility. As of November 2, 2013, the balance outstanding under the Term Loan Facility was $19.5 million, bearing interest at a rate of 5.25%. During the thirteen and thirty-nine weeks ended November 2, 2013, the Company paid interest of approximately $0.3 million and $1.1 million, respectively, related to the Term Loan Facility. Pursuant to the terms of the Term Loan Facility, due to the repayment of $65.3 million of principal under the Term Loan Facility in July 2012, the Company is no longer required to make minimum quarterly payments. The remaining unpaid balance will be due upon maturity.

In connection with the Term Loan Facility, the Company incurred deferred financing costs of $2.7 million which are being amortized over the term of the Term Loan Facility. The amortization is included in interest expense, net, in the consolidated statements of operations. In connection with the $65.5 million of principal repayments on the Term Loan Facility in fiscal 2012 and the $15.0 million principal repayment on the Term Loan Facility in May 2013, approximately $1.6 million and $0.3 million, respectively, of the deferred financing costs were written off and included in loss on debt extinguishment in the consolidated statements of operations for the thirty-nine weeks ended October 27, 2012 and November 2, 2013. The remaining deferred financing costs, net of amortization, are included in other assets on the balance sheet as of November 2, 2013.

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

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

All obligations under the Term Loan Facility are secured by substantially all of the Company's assets and are guaranteed by the Subsidiary. As of November 2, 2013, the Company was in compliance with the financial covenant and other covenants applicable to it under the Term Loan Facility.

Line of Credit

On August 18, 2006, the Company entered into a loan and security agreement (the “Loan and Security Agreement”) with Wachovia Bank National Association (predecessor in interest to Wells Fargo Bank, National Association) that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement has been amended and/or restated several times, the latest on June 12, 2013 (as amended and restated, the “Revolving Credit Facility”), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates, permit the formation and capitalization of subsidiaries, make the Subsidiary a party to the agreement as a guarantor of the Company's obligations and modify certain definitions. The Revolving Credit Facility allows maximum borrowings of $20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the Term Loan Facility if the Term Loan Facility remains outstanding or (iii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to $30.0 million upon certain conditions. The Revolving Credit Facility includes a $5.0 million sub limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves. In connection with the Revolving Credit Facility, the Company incurred deferred financing costs of $50 thousand in May 2012, which are being amortized over the remaining term of the Revolving Credit Facility.

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

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

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

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

As of November 2, 2013, the Company had no borrowings outstanding and the total $20.0 million available on the line of credit under the Revolving Credit Facility, as there were no outstanding letters of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of the Company’s assets and are guaranteed by the Subsidiary. As of November 2, 2013, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility.

(4)Commitments and Contingencies

The Company leases property and equipment under non-cancelable operating leases. Certain retail store lease agreements provide for contingent rental payments if the store’s net sales exceed stated levels (percentage rents) and/or contain escalation clauses, which provide for increases in base rental for increases in future operating costs. Many of the Company’s leases provide for one or more renewal options for periods ranging from five to ten years. The Company’s operating lease agreements, including assumed extensions which are generally those that take the lease to a ten-year term, expire through 2023.

The Company’s minimum rental commitments under operating lease agreements, including assumed extensions, as of November 2, 2013, are as follows (in thousands):

	Retail stores	Corporate office and distribution centers	Total
Fiscal year:			
Remaining 2013	$10,965	$1,140	$12,105
2014	45,699	4,936	50,635
2015	45,600	5,225	50,825
2016	44,807	3,655	48,462
2017	44,427	3,191	47,618
Thereafter	180,039	15,476	195,515
	$371,537	$33,623	$405,160

Rent expense, including base and contingent rent under operating leases, was $10.9 million and $8.7 million for the thirteen weeks ended November 2, 2013 and October 27, 2012, respectively. Contingent rents were $0.1 million and $0.1 million for the thirteen weeks ended November 2, 2013 and October 27, 2012, respectively.

Rent expense, including base and contingent rent under operating leases, was $30.4 million and $23.9 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. Contingent rents were $0.4 million and $0.3 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively.

The Company has employment agreements with certain key employees that provide for, among other things, salary, bonus, severance and change-in-control provisions. The severance and change of control provisions under these agreements provide for additional payments upon employee separation of up to approximately $3.9 million.

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

As of November 2, 2013, the Company has other purchase commitments of approximately $0.6 million consisting of purchase agreements for materials that will be used in the construction of new stores.

(5)Shareholders’ Equity

As of November 2, 2013, the Company is authorized to issue 120,000,000 shares of common stock, $0.01 par value, and 5,000,000 shares of preferred stock, $0.01 par value. The holders of common stock are entitled to one vote per share of common stock and are entitled to receive dividends if declared by the board of directors. The preferred stock may be issued from time to time in series as designated by the board of directors. The designations, powers, preferences, voting rights, privileges, options, conversion rights and other special rights of the shares of each such series of preferred stock and the qualifications, limitations and restrictions thereof shall be designated by the board of directors.

Preferred Stock

On October 14, 2010, the Company issued 89,291,773 shares of Series A 8% Convertible Preferred Stock for cash proceeds of $191.9 million, net of offering costs of $2.1 million. The shares of Series A 8% Convertible Preferred Stock were entitled to receive cumulative dividends of 8% of their original issue price of $2.17 per share per year compounded annually and payable in cash when and if declared by the Company's board of directors; however, the Company could not pay, unless otherwise consented to by the holders of Series A 8% Convertible Preferred Stock, any dividends on common stock unless an equal amount of dividends per share (on an as converted basis) was simultaneously paid to the holders of the Series A 8% Convertible Preferred Stock. Effective immediately prior to the closing of the IPO on July 24, 2012, all outstanding shares of Series A 8% Convertible Preferred Stock were converted into 30,894,953 shares of common stock and ceased to be entitled to the payment of any dividends that accrued on such shares as of the effective time of the conversion.

In the event of any liquidation, dissolution, or winding up of the Company, as defined, or deemed liquidation event, as defined, the holders of the Series A 8% Convertible Preferred Stock were entitled to receive the greater of the original issue price of $2.17 per share plus any accrued and unpaid dividends, or the amount that would have been paid if the Series A 8% Convertible Preferred Stock was converted to common stock, before any payment was made to the common shareholders. The Series A 8% Convertible Preferred Stock was presented outside of shareholders' equity (deficit) since its redemption under certain circumstances was beyond the control of the Company's management.

Common Stock
In March 2012, options to purchase 2,020,620 shares of common stock granted during the fiscal year ended January 29, 2011, including options to purchase 1,010,310 shares that were subject to time-based and performance-based vesting, were cancelled and an equal number of restricted shares were granted. One-third of the shares vested immediately in March 2012 and another one-third of the shares vested in March 2013. The remaining one-third will vest in March 2014. In connection with the cancellation and grant, the Company will record total compensation expense of $17.4 million, of which $5.3 million was recorded on the date of the modification and the remainder is being recorded on a straight-line basis over the two-year vesting period.

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

On September 27, 2012, the Company's board of directors approved the Five Below, Inc. 2012 Employee Stock Purchase Plan (the "ESPP"), which remained subject to shareholder approval. The Company's shareholders approved the ESPP on May 30, 2013, at the Company's annual meeting of shareholders. The number of shares of common stock reserved for issuance, which is subject to other limitations, is 500,000 shares. The ESPP allows eligible employees the opportunity to purchase shares of the Company's common stock through payroll deductions at a discount of 10% of the fair market value of such shares on the purchase date. The ESPP's effective date is retroactive to January 1, 2013 and is intended to be qualified as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986.

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

On July 1, 2013, the Company completed a secondary public offering of 6,900,000 shares of common stock at a price of $36.00 per share. The shares sold in the secondary public offering were registered under the Securities Act pursuant to the Company's registration statement on Form S-1 (File No. 333-188578), which was declared effective by the Securities and Exchange Commission on June 26, 2013. All of the shares sold in the secondary public offering were sold by selling shareholders and the Company did not receive any proceeds. The Company incurred fees of approximately $1.0 million related to legal, accounting and other fees in connection with the secondary public offering, which are included in selling, general and administrative expenses in the consolidated statements of operations for the thirty-nine weeks ended November 2, 2013.

On September 23, 2013, the Company completed a secondary public stock offering of 7,100,000 shares of common stock at a price of $46.65 per share. The shares sold in the secondary public offering were registered under the Securities Act pursuant to the Company's registration statement on Form S-3 (File 333-191210), which was declared effective by the Securities and Exchange Commission on September 17, 2013. All of the shares sold in the secondary public offering were sold by selling shareholders, and the Company did not receive any proceeds. The selling shareholders agreed to bear all of the offering expenses related to legal, accounting and other fees in connection with the secondary public offering.

(6)Common Stock Options

Effective July 26, 2002, the Company adopted the 2002 Equity Incentive Plan (the “Plan”) pursuant to which the Company’s board of directors may grant stock options and restricted shares to officers, directors, key employees and professional service providers. The Plan, as amended, allows for the issuance of up to a total of 7,600,000 shares under the Plan. All stock options have a term not greater than 10 years. Stock options vest and become exercisable in whole or in part, in accordance with vesting conditions set by the Company’s board of directors. Options granted to date generally vest over four years from the date of grant. As of November 2, 2013, 4,669,477 stock options or restricted shares were available for grant.

On August 25, 2010, the Company’s board of directors agreed to allow option holders, as of that date, to exercise, during a twenty day offer period, all options issued and outstanding under the Plan, regardless if those options were vested and exercisable (“Vested Options”) or were not currently vested and exercisable (“Unvested Options”). On October 13, 2010, the holders of the stock options exercised all of their outstanding Vested Options and Unvested Options to purchase shares of the Company’s common stock. The Unvested Options were exercised for restricted shares of common stock that have the same vesting schedule as the Unvested Options that were exercised for those shares. The restricted shares are subject to repurchase by the Company should the option holder’s employment be terminated prior to the vesting at a purchase price equal to the lesser of: (i) the exercise price paid for the restricted shares, and (ii) the fair market value of the restricted shares at the time of repurchase. For accounting purposes, as the shares remain subject to their original vesting provisions, the early exercises are being recorded as if the original options remain outstanding until the respective shares vest. Exercise proceeds received prior to the shares vesting are recorded as a deposit liability in other accrued expenses on the balance sheets. As of November 2, 2013, $0.1 million was recorded as a deposit liability.

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

	Number of shares	Deposit liability
Unvested, February 2, 2013	31,542	$308
Vested	(21,958)	(184)
Repurchases upon employee termination	(388)	(4)
Unvested, November 2, 2013	9,196	$120

Stock option activity under the Plan was as follows:

	Options outstanding	Weighted average exercise price	Weighted average remaining contractual term
Balance at February 2, 2013	1,187,817	$10.43	9.3
Granted	547,500	38.29	
Forfeited	(197,729)	19.92	
Cancelled	(35,300)	30.19	
Exercised	(170,023)	7.83	
Balance at November 2, 2013	1,332,265	$20.28	9.3
Exercisable at November 2, 2013	156,348	$4.91	7.8

The fair value of each option award granted to employees, including outside directors, is estimated on the date of grant and the fair value of each option award granted to non-employees is estimated on the date of grant and is required to be periodically revalued over the contractual period until the option award is exercised or forfeited using the

Black-Scholes option-pricing model with the following weighted average assumptions:

	Thirty-Nine Weeks Ended			
	November 2, 2013		October 27, 2012	
Expected volatility	50.0	%	50.0	%
Risk-free interest rate	1.4	%	1.4	%
Expected life of options - for employee grants	6.3 years		6.3 years	
Expected dividend yield	—	%	—	%

The Company uses the simplified method to estimate the expected term of the option. The expected volatility incorporates historical and implied volatility of similar entities whose share price are publicly available. The risk-free rate for the expected term of the option was based on the U.S. Treasury yield curve in effect at the time of valuation.

The per-share weighted average grant-date fair value of stock options granted to employees, including outside directors, for the thirty-nine weeks ended November 2, 2013 and October 27, 2012 was $18.79 and $7.54, respectively.

As of November 2, 2013, there was $14.0 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan, which is expected to be recognized over a weighted average vesting period of 2.7 years.

(7)Income Taxes

The following table summarizes the Company’s income tax expense and effective tax rates for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012 (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Income before income taxes	$2,700	$1,284	$11,907	$1,446
Income tax expense	$1,023	$555	$4,591	$627
Effective tax rate	37.9 %	43.2 %	38.6 %	43.4 %

The effective tax rates for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012 were based on the Company’s forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented. The effective tax rate for the thirteen and thirty-nine weeks ended November 2, 2013 is being impacted by changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring.

For the thirteen weeks ended November 2, 2013, total income taxes paid were $6.8 million. There were no income taxes paid for the thirteen weeks ended October 27, 2012. For the thirty-nine weeks ended November 2, 2013 and October 27, 2012, total income taxes paid were $16.2 million and $10.7 million, respectively.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company’s consolidated balance sheets at November 2, 2013, February 2, 2013 and October 27, 2012, and has not recognized any material uncertain tax positions or material interest and/or penalties related to income taxes in the consolidated statements of operations for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012.

The Company files a federal income tax return as well as state tax returns. The Company’s U.S. federal income tax returns for the fiscal years ended January 30, 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.

(8) Related-Party Transactions

During the thirteen weeks ended November 2, 2013 and October 27, 2012, the Company incurred fees of $0.3 million and $0.6 million, respectively, related to services provided by certain shareholders and professional service firms for which certain shareholders are partners. Fees related to the thirteen weeks ended October 27, 2012 were primarily IPO-related fees.

During the thirty-nine weeks ended November 2, 2013 and October 27, 2012, the Company incurred fees of $1.3 million and $3.3 million, respectively, related to services provided by certain shareholders and professional service firms for which certain shareholders are partners. Fees related to the thirty-nine weeks ended October 27, 2012 were primarily IPO-related fees.

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

You should read the following discussion together with "Selected Financial Data" and the financial statements and related notes included in our Annual Report on Form 10-K for our fiscal year ended February 2, 2013 and referred to herein as the "Annual Report," and the consolidated financial statements and related notes as of and for the thirteen and thirty-nine weeks ended November 2, 2013 included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The statements in this discussion regarding expectations of our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described below in "Special Note Regarding Forward-Looking Statements" and in Part II, "Item 1A. Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2013" or "fiscal 2013" refer to the period from February 3, 2013 to February 1, 2014 and consists of a 52-week fiscal year. References to "fiscal year 2012" or "fiscal 2012" refer to the period from January 29, 2012 to February 2, 2013 and consisted of a 53-week fiscal year. The fiscal quarters and year-to-date periods ended November 2, 2013 and October 27, 2012 refer to the 13-week and 39-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 t of these terms or other comparable terminology.

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

- failure to successfully implement our growth strategy;
- disruptions in our ability to select, obtain, distribute and market merchandise profitably;
- ability to successfully expand our distribution network capacity;
- disruptions to our distribution network or the timely receipt of inventory;
- inability to attract and retain qualified employees;

- ability to increase sales and improve the efficiencies, costs and effectiveness of our operations;
- dependence on our executive officers and other key personnel or our inability to hire additional qualified personnel;
- ability to successfully manage our inventory balances and inventory shrinkage;
- lease obligations;
- changes in our competitive environment, including increased competition from other retailers;
- increasing costs due to inflation, increased operating costs or energy prices;
- the seasonality of our business;
- disruptions to our information technology systems in the ordinary course or as a result of system upgrades;
- failure to maintain adequate internal controls;
- ability to obtain additional financing;

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

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

Overview

Five Below, Inc. is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at $5 and below, including select brands and licensed merchandise across our category worlds. As of November 2, 2013, we operated 304 stores in 19 states.

How We Assess the Performance of Our Business

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

Net Sales

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

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

Comparable Store Sales

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

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

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

- The period beginning when the closing store receives its last merchandise delivery from one of our distribution centers through:

the last day of the fiscal year in which the store was relocated or expanded (for stores that increased significantly in size); or
the last day of the fiscal month in which the store re-opens (for all other stores); and

- The period beginning on the first anniversary of the date the store received its last merchandise delivery from one of our distribution centers through the first anniversary of the date the store re-opened.

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

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

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

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

Selling, General and Administrative Expenses

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

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

Operating Income

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

Stock Split

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

Results of Operations

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
	(in millions, except total stores)			
Statements of Operations Data: (1)				
Net sales	$110.7	$86.6	$323.4	$245.2
Cost of goods sold	76.5	59.7	219.6	166.5
Gross profit	34.2	26.9	103.8	78.7
Selling, general and administrative expenses	31.2	25.1	90.5	74.1
Operating income	3.0	1.8	13.4	4.6
Interest expense, net	0.3	0.6	1.2	1.8
Loss on debt extinguishment	—	—	0.3	1.6
Other income	—	—	—	(0.3)
Income before income taxes	2.7	1.3	11.9	1.4
Income tax expense	1.0	0.6	4.6	0.6
Net income	$1.7	$0.7	$7.3	$0.8
Percentage of Net Sales:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	69.1 %	68.9 %	67.9 %	67.9 %
Gross profit	30.9 %	31.1 %	32.1 %	32.1 %
Selling, general and administrative expenses	28.2 %	29.0 %	28.0 %	30.2 %
Operating income	2.7 %	2.1 %	4.1 %	1.9 %
Interest expense, net	0.3 %	0.6 %	0.4 %	0.7 %
Loss on debt extinguishment	— %	— %	0.1 %	0.6 %
Other income	— %	— %	— %	(0.1)%
Income before income taxes	2.4 %	1.5 %	3.7 %	0.6 %
Income tax expense	0.9 %	0.6 %	1.4 %	0.3 %
Net income	1.5 %	0.8 %	2.3 %	0.3 %
Operational Data:				
Total stores at end of period	304	243	304	243
Comparable store sales growth	9.0 %	8.8 %	6.6 %	9.2 %
Average net sales per store (2)	$0.4	$0.4	$1.2	$1.1

(1) Components may not add to total due to rounding.
(2) Only includes stores open during the full period.

Thirteen Weeks Ended November 2, 2013 Compared to the Thirteen Weeks Ended October 27, 2012

Net Sales

Net sales increased to $110.7 million in the thirteen weeks ended November 2, 2013 from $86.6 million in the thirteen weeks ended October 27, 2012, an increase of approximately $24.1 million, or 27.9%. The increase was the result of a non-comparable store sales increase of approximately $17.9 million and a comparable store sales increase of approximately $6.2 million. The increase in non-comparable store sales was primarily driven by new stores. We have opened 60 net new stores during fiscal 2013.

Comparable store sales increased 9.0% for the thirteen weeks ended November 2, 2013 compared to the thirteen weeks ended October 27, 2012. This increase resulted primarily from an increase of approximately 10.6% in the number of transactions in our stores offset by a decrease in the average dollar value of transactions of approximately 1.6%.

Cost of Goods Sold and Gross Profit
Cost of goods sold increased to $76.5 million in the thirteen weeks ended November 2, 2013 from $59.7 million in the thirteen weeks ended October 27, 2012, an increase of approximately $16.8 million, or 28.3%. The increase in cost of goods sold was primarily the result of an $11.2 million increase in the merchandise costs of goods resulting from an increase in sales, a $2.9 million increase in store occupancy costs as a result of new store openings, and a $1.8 million increase in distribution costs primarily due to an increase in sales as well as the opening of a second distribution center.

Gross profit increased to $34.2 million in the thirteen weeks ended November 2, 2013 from $26.9 million in the thirteen weeks ended October 27, 2012, an increase of $7.3 million, or 27.1%. Gross margin decreased to 30.9% in the thirteen weeks ended November 2, 2013 from 31.1% for the thirteen weeks ended October 27, 2012, a decrease of approximately 20 basis points. The decrease in gross margin was primarily the result of the increase in distribution costs due to the opening of a second distribution center, which decreased margin by approximately 90 basis points. This decrease was partially offset by the increase in the merchandise margin, which increased the margin by approximately 70 basis points.

Selling, General and Administrative Expenses
Selling, general and administrative expenses increased to $31.2 million in the thirteen weeks ended November 2, 2013 from $25.1 million in the thirteen weeks ended October 27, 2012, an increase of $6.1 million, or 24.4%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 80 basis points to 28.2% in the thirteen weeks ended November 2, 2013 compared to 29.0% in the thirteen weeks ended October 27, 2012. The increase in selling, general and administrative expense was primarily the result of increases of $4.6 million in store-related expenses primarily to support new store growth and $1.3 million of corporate related expenses.

Interest Expense, Net
Interest expense, net decreased to $0.3 million in the thirteen weeks ended November 2, 2013 from $0.6 million of interest expense, net in the thirteen weeks ended October 27, 2012, a decrease of approximately $0.3 million. The decrease in interest expense resulted from the decrease in the outstanding balance of our Term Loan Facility (see –"Liquidity and Capital Resources-Term Loan Facility" section below).

Income Tax Expense
Income tax expense for the thirteen weeks ended November 2, 2013 was $1.0 million compared to $0.6 million in income tax expense for the thirteen weeks ended October 27, 2012, an increase of approximately $0.4 million. This increase in income tax expense was primarily the result of a $1.4 million increase in pre-tax income. Our effective tax rate was 37.9% for the thirteen weeks ended November 2, 2013 compared to 43.2% for the thirteen weeks ended October 27, 2012. Our effective tax rate for the thirteen weeks ended November 2, 2013 was lower than the comparable period as a result of changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring. For the remainder of fiscal 2013, we believe our effective tax rate will be approximately 38.7%.

Net Income
As a result of the foregoing, net income increased to $1.7 million in the thirteen weeks ended November 2, 2013 from net income of $0.7 million in the thirteen weeks ended October 27, 2012, an increase of approximately $1.0 million, or 130.0%.

Thirty-Nine Weeks Ended November 2, 2013 Compared to the Thirty-Nine Weeks Ended October 27, 2012

Net Sales

Net sales increased to $323.4 million in the thirty-nine weeks ended November 2, 2013 from $245.2 million in the thirty-nine weeks ended October 27, 2012, an increase of $78.2 million, or 31.9%. The increase was the result of a non-comparable store sales increase of $64.0 million and a comparable store sales increase of $14.2 million. The increase in non-comparable store sales was driven by new stores and stores that opened in fiscal 2012 but have not been open for 15 full months. We have opened 60 net new stores during fiscal 2013.

Comparable store sales increased 6.6% for the thirty-nine weeks ended November 2, 2013 compared to the thirty-nine weeks ended October 27, 2012. This increase resulted from an increase of approximately 6.4% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.2%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to $219.6 million in the thirty-nine weeks ended November 2, 2013 from $166.5 million in the thirty-nine weeks ended October 27, 2012, an increase of $53.1 million, or 31.9%. The increase in cost of goods sold was primarily the result of a $37.7 million increase in the merchandise costs of goods resulting from an increase in sales, a $8.6 million increase in store occupancy costs as a result of new store openings, and a $5.0 million increase in distribution costs primarily due to an increase in sales as well as the opening of a second distribution center.

Gross profit increased to $103.8 million in the thirty-nine weeks ended November 2, 2013 from $78.7 million in the thirty-nine weeks ended October 27, 2012, an increase of $25.1 million, or 32.0%. Gross margin was 32.1% for thirty-nine weeks ended November 2, 2013 and was consistent with the thirty-nine weeks ended October 27, 2012. The driver of gross margin was primarily the result of the increase in store occupancy and buying expense increasing at a lower rate than the increase in net sales, which increased margin by approximately 70 basis points. This increase was offset by the increase in distribution costs due to the opening of a second distribution center, which decreased margin by approximately 70 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $90.5 million in the thirty-nine weeks ended November 2, 2013 from $74.1 million in the thirty-nine weeks ended October 27, 2012, an increase of $16.4 million, or 22.1%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 220 basis points to 28.0% in the thirty-nine weeks ended November 2, 2013 compared to 30.2% in the thirty-nine weeks ended October 27, 2012. The increase in selling, general and administrative expense was primarily the result of increases of $14.1 million in store-related expenses to support new store growth, $4.8 million of corporate related expenses, and $1.0 million of fees incurred for our July 1, 2013 secondary public offering, partially offset by a decrease of $3.5 million in stock-based compensation expense primarily related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012.

Interest Expense, Net

Interest expense, net decreased to $1.2 million in the thirty-nine weeks ended November 2, 2013 from $1.8 million of interest expense, net in the thirty-nine weeks ended October 27, 2012, a decrease of $0.6 million. The decrease in interest expense resulted mainly from the decrease in the outstanding balance of our Term Loan Facility (see –"Liquidity and Capital Resources-Term Loan Facility" section below).

Loss on Debt Extinguishment

Loss on Debt Extinguishment decreased to $0.3 million in the thirty-nine weeks ended November 2, 2013 from $1.6 million in the thirty-nine weeks ended October 27, 2012, a decrease of $1.3 million. The decrease in the loss on debt extinguishment is due to the $15.0 million repayment on the $100.0 million Term Loan Facility during the thirty-nine weeks ended November 2, 2013 compared to the $65.5 million of repayments that were made during the thirty-nine weeks ended October 27, 2012.

Income Tax Expense

Income tax expense for the thirty-nine weeks ended November 2, 2013 was $4.6 million compared to a $0.6 million income tax expense for the thirty-nine weeks ended October 27, 2012, an increase of $4.0 million. This increase in income tax expense was primarily the result of a $10.5 million increase in pre-tax income. Our effective tax rate was 38.6% for the thirty-nine weeks ended November 2, 2013 compared to 43.4% for the thirty-nine weeks ended October 27, 2012. Our effective tax rate for the thirty-nine weeks ended November 2, 2013 was lower than the comparable period as a result of changes in the mix of projected pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring. For the remainder of fiscal 2013, we believe our effective tax rate will be approximately 38.7%.

Net Income

As a result of the foregoing, net income increased to $7.3 million in the thirty-nine weeks ended November 2, 2013 from net income of $0.8 million in the thirty-nine weeks ended October 27, 2012, an increase of $6.5 million.

Liquidity and Capital Resources

Overview

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

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately $28 million in fiscal 2013, which we expect to fund from cash generated from operations. We devoted approximately $16 million of our capital expenditure budget in fiscal 2013 to construct and open new stores with the remainder projected to be spent on store relocations, remodels, and expansion projects, the distribution centers, and corporate infrastructure.

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

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our Revolving Credit Facility. We did not have any direct borrowings under our Revolving Credit Facility during the thirty-nine weeks ended November 2, 2013. When we have used our Revolving Credit Facility, the amount of indebtedness outstanding under it has tended to be the highest in the beginning of the fourth quarter of each fiscal year. Over the past three fiscal years, to the extent that we have drawn on the facility, we have paid down the borrowings before the end of the fiscal year with cash generated during our peak selling season in the fourth quarter.

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

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

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

Cash Flows

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

	Thirty-Nine Weeks Ended	
	November 2, 2013	October 27, 2012
	(in millions) [1]	
Net cash used in operating activities	$(17.3)	$(23.8)
Net cash used in investing activities	(21.8)	(17.4)
Net cash (used in) provided by financing activities	(11.5)	7.2
Net decrease during period in cash and cash equivalents	$(50.5)	$(34.0)

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

Cash Used in Operating Activities
Net cash used in operating activities for the thirty-nine weeks ended November 2, 2013 was $17.3 million, a decrease of approximately $6.5 million compared to the thirty-nine weeks ended October 27, 2012. The decrease in net cash used in operating activities was primarily the result of a reduction in cash utilized for operations resulting from existing store performance and the addition of new stores and a decrease in bonus payments of approximately $4.4 million primarily driven by a decrease in payments to certain executive officers offset by an increase in income taxes paid of $5.5 million.

Cash Used in Investing Activities
Net cash used in investing activities for the thirty-nine weeks ended November 2, 2013 was $21.8 million, an increase of $4.3 million compared to the thirty-nine weeks ended October 27, 2012 related solely to capital expenditures. The increase in capital expenditures was primarily for the build-out of our second distribution center, our new store construction, and corporate infrastructure.

Cash (Used in) Provided by Financing Activities
Net cash used in financing activities for the thirty-nine weeks ended November 2, 2013 was $11.5 million, an increase of approximately $18.7 million compared to the net cash provided by financing activities of $7.2 million for the thirty-nine weeks ended October 27, 2012. The increase in net cash used in financing activities was primarily the result of the $15.0 million principal repayment on the Term Loan Facility (see below) during the thirty-nine weeks ended November 2, 2013 compared to $100.0 million of proceeds from our Term Loan Facility and $73.3 million of net proceeds from our initial public offering, partially offset by $99.5 million of dividend payments, and the $65.5 million of principal repayments on the Term Loan Facility during the thirty-nine weeks ended October 27, 2012.

Term Loan Facility
On May 16, 2012, we entered into a $100.0 million Term Loan Facility with Goldman Sachs Bank USA as administrative agent for a syndicate of lenders (the “Term Loan Facility”). We used the net proceeds from the Term Loan Facility and cash on hand to pay a dividend on our common and preferred stock, totaling $99.5 million.

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

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

The Term Loan Facility is subject to repayment upon the receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The Term Loan Facility was also subject to repayment of $50.0 million upon the receipt of proceeds from our initial public offering (the "IPO"). We closed the IPO on July 24, 2012. In July 2012, we repaid $65.3 million of principal against the Term Loan Facility and $0.7 million of interest. In October 2012 and May 2013, we repaid $0.3 million and $15.0 million, respectively, of principal on the Term Loan Facility. As of November 2, 2013, the balance outstanding under the Term Loan Facility was $19.5 million bearing interest at a rate of 5.25%. Pursuant to the terms of the Term Loan Facility, due to the repayment of $65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. The remaining unpaid balance will be due upon maturity.

In connection with the Term Loan Facility, we incurred deferred financing costs of $2.7 million which are being amortized over the term of the Term Loan Facility. The amortization is included in interest expense, net, in the consolidated statements of operations. In connection with the $65.5 million of principal repayments on the Term Loan Facility in fiscal 2012 and the $15.0 million principal repayment on the Term Loan Facility in May 2013, approximately $1.6 million and $0.3 million, respectively, of the deferred financing costs were written off and included in loss on debt extinguishment in the consolidated statements of operations for the thirty-nine weeks ended October 27, 2012 and November 2, 2013. The remaining deferred financing costs, net of amortization, are included in other assets on the balance sheet at November 2, 2013.

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

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

All obligations under the Term Loan Facility are secured by substantially all of our assets and are guaranteed by the Subsidiary. As of November 2, 2013, we were in compliance with the financial covenant and other covenants applicable to us under the Term Loan Facility.

Line of Credit

On August 18, 2006, we entered into a loan and security agreement (the "Loan and Security Agreement") with a bank that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement has been amended and/or restated several times, the latest on June 12, 2013 (as amended and restated, the "Revolving Credit Facility"), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates, permit the formation and capitalization of subsidiaries, make the Subsidiary a party to the agreement as a guarantor of our obligations and modify certain definitions. The Revolving Credit Facility allows maximum borrowings of $20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the Term Loan Facility if the Term Loan Facility remains outstanding or (iii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to $30.0 million upon certain conditions. The Revolving Credit Facility includes a $5.0 million sub limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves.

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

As of November 2, 2013, we had no borrowings outstanding under the Revolving Credit Facility.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets and are guaranteed by the Subsidiary. As of November 2, 2013, we were in compliance with the covenants applicable to us under the Revolving Credit Facility.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in the Annual Report. We believe that there have been no significant changes to our critical accounting policies during the thirty-nine weeks ended November 2, 2013.

Contractual Obligations

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

From February 2, 2013 to November 2, 2013 we have entered into 39 new fully executed retail leases with an average term of 10 years and other lease modifications that have future minimum lease payments of approximately $61.9 million. In addition, as of November 2, 2013, the balance outstanding under the Term Loan Facility was $19.5 million. Pursuant to the terms of the Term Loan Facility, due to the repayment of $65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. The remaining unpaid balance will be due upon maturity. The balance bears an interest rate of 5.25%.

Off Balance Sheet Arrangements

As of and for the thirty-nine weeks ended November 2, 2013, except for operating leases entered into in the normal course of business, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

As of November 2, 2013, we had no borrowings outstanding under the Revolving Credit Facility. The Revolving Credit Facility provides for interest on borrowings, at our option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%.

As of November 2, 2013, the principal amount of the Term Loan Facility was $19.5 million. The Term Loan Facility provides for interest on borrowings, at our option, at an alternate base rate which is the greater of (i) the administrative agent's prime rate in effect on such day and (ii) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor plus a margin of 3.25% or a LIBOR-based rate with a 1.00% floor plus a margin of 4.25%. Based on a sensitivity analysis as of November 2, 2013, a 100 basis point increase in market interest rates would increase our annual interest expense on the Term Loan Facility by approximately $0.2 million. We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

Impact of Inflation

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

ITEM 4.CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There was no change to our internal control over financial reporting during the thirteen weeks ended November 2, 2013 that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

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

ITEM 1A.RISK FACTORS

Risk factors that affect our business and financial results are discussed in Part I, "Item 1A. Risk Factors," in our Annual Report. Except as set forth below, there have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report and below, which could materially affect our business, financial condition or future results. The risks described in our Annual Report and below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

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

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

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

Period	(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
August 4, 2013 through August 31, 2013	—	—	—	$—
September 1, 2013 through October 5, 2013	129	$11.45	—	—
October 6, 2013 through November 2, 2013	—	—	—	—
Total	129	$11.45	—	$—

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5.OTHER INFORMATION

None.

ITEM 6.EXHIBITS

(a)Exhibits

No.	Description
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 November 2, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of November 2, 2013, February 2, 2013 and October 27, 2012; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended and Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirty-Nine Weeks Ended November 2, 2013; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.

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

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: December 6, 2013	/s/ Thomas G. Vellios Thomas G. Vellios President and Chief Executive Officer (duly authorized officer and Principal Executive Officer)
Date: December 6, 2013	/s/ Kenneth R. Bull Kenneth R. Bull Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

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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 November 2, 2013, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of November 2, 2013, February 2, 2013 and October 27, 2012; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended and Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirty-Nine Weeks Ended November 2, 2013; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended November 2, 2013 and October 27, 2012 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.

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