

FIVE BELOW, INC  
Form 10-K  
March 24, 2016

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 30, 2016

OR

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

For the transition period from to

Commission file number: 001-35600  
Five Below, Inc.  
(Exact name of Registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

75-3000378  
(I.R.S. Employer  
Identification Number)

1818 Market Street  
Suite 2000  
Philadelphia, PA 19103  
(Address of Principal Executive  
Office)

19103  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Name of each exchange on which  
registered

Common Stock, \$0.01 par value per  
share

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of each class

Name of each exchange on which  
registered

Not applicable

Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the securities act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes  No

Edgar Filing: FIVE BELOW, INC - Form 10-K

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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

As of July 31, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common stock (based upon the last reported sales price on The NASDAQ Global Select Market) held by non-affiliates of the registrant was approximately \$1,720,250,448.

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of March 22, 2016 was 54,591,081.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders to be held on June 21, 2016 (hereinafter referred to as the "Proxy Statement") are incorporated by reference into Part III of this report.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, 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,” “po” negative of these terms or other comparable terminology.

The forward-looking statements contained in this Annual Report reflect our views as of the date of this report about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described below, in Part I, Item 1A “Risk Factors,” and in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These factors include without limitation:

- failure to successfully implement our growth strategy;
- disruptions in our ability to select, obtain, distribute and market merchandise profitably;
- increased competition from online retailers due to our lack of online sales;
- inability to successfully expand our distribution network capacity;
- disruptions to our distribution network or the timely receipt of inventory;
- failure to secure customers’ confidential or credit card information, or other private data relating to our employees or our company;
- inability to attract and retain qualified employees;
- increasing costs due to inflation, increased operating costs, wage rate increases or energy prices;
- increased operating costs or exposure to fraud or theft due to customer payment-related risks;
- inability to increase sales and improve the efficiencies, costs and effectiveness of our operations;
- dependence on our executive officers and other key personnel or inability to hire additional qualified personnel;
- dependence on the success of shopping centers in which our stores are located;
- extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations;
- inability to successfully manage our inventory balances and inventory shrinkage;
- our lease obligations;
- changes in our competitive environment, including increased competition from other retailers and the presence of online retailers;
- the seasonality of our business;
- disruptions to our information technology systems in the ordinary course or as a result of system upgrades;
- failure to maintain adequate internal controls;
- complications with the design or implementation of the new enterprise resource system;
- natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism;
- current economic conditions and other economic factors;
- the impact of governmental laws and regulations;
- the costs and consequences of legal proceedings;
- inability to protect our brand name, trademarks and other intellectual property rights;
- the impact of product and food safety claims and effects of legislation;
- inability to obtain additional financing, if needed; and

- restrictions imposed by our indebtedness on our current and future operations.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this Annual 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.

---

INDEX

	Page
<u>PART I</u>	
<u>ITEM 1. BUSINESS</u>	<u>4</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>13</u>
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	<u>24</u>
<u>ITEM 2. PROPERTIES</u>	<u>25</u>
<u>ITEM 3. LEGAL PROCEEDINGS</u>	<u>25</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>25</u>
 <u>PART II</u>	
<u>ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>26</u>
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	<u>28</u>
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>30</u>
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>41</u>
<u>ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>42</u>
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>60</u>
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	<u>61</u>
<u>ITEM 9B. OTHER INFORMATION</u>	<u>62</u>
 <u>PART III</u>	
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>63</u>
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>63</u>
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>63</u>
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>63</u>
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>63</u>
 <u>PART IV</u>	
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES</u>	<u>63</u>
<u>SIGNATURES</u>	<u>68</u>

## PART I

### ITEM 1. BUSINESS

#### General

Five Below, Inc. was incorporated in Pennsylvania in January 2002. Our principal executive office is located at 1818 Market Street, Suite 2000, Philadelphia, PA 19103 and our telephone number is (215) 546-7909. Our corporate website address is [www.fivebelow.com](http://www.fivebelow.com). The information contained on, or accessible through, our corporate website does not constitute part of this Annual Report. As used herein, “Five Below,” the “Company,” “we,” “us,” “our” or “our business” refers to Five Below, Inc. (collectively with its wholly owned subsidiary), except as expressly indicated or unless the context otherwise requires.

We purchase products in reaction to existing marketplace trends and, hence, refer to our products as “trend-right.” We use the term “dynamic” merchandise to refer to the broad range and frequently changing nature of the products we display in our stores. We use the term “power” shopping center to refer to an unenclosed shopping center with 250,000 to 750,000 square feet of gross leasable area that contains three or more “big box” retailers (large retailers with floor space over 50,000 square feet) and various smaller retailers with a common parking area shared by the retailers. We use the term “lifestyle” shopping center to refer to a shopping center or commercial development that is often located in suburban areas and combines the traditional retail functions of a shopping mall with leisure amenities oriented towards upscale consumers. We use the term “community” shopping center to refer to a shopping area designed to serve a trade area of 40,000 to 150,000 people where the lead tenant is a variety discount, junior department store and/or supermarket. We use the term “trade area” to refer to the geographic area from which the majority of a given retailer's customers come from. Trade areas vary by market based on geographic size, population density, demographics and proximity to alternative shopping opportunities.

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 2016” or “fiscal 2016” refer to the period from January 31, 2016 to January 28, 2017, which consists of a 52-week fiscal year. References to “fiscal year 2015” or “fiscal 2015” refer to the period from February 1, 2015 to January 30, 2016, which consists of a 52-week fiscal year. References to “fiscal year 2014” or “fiscal 2014” refer to the period from February 2, 2014 to January 31, 2015, which consists of a 52-week fiscal year. References to “fiscal year 2013” or “fiscal 2013” refer to the period from February 3, 2013 to February 1, 2014, which 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, which consists of a 53-week fiscal year. References to 2016, 2015, 2014, 2013, and 2012 are to our fiscal years unless otherwise specified.

#### Our Company

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across a number of our category worlds: Style, Room, Sports, Tech, Crafts, Party, Candy and Now. We believe we are transforming the shopping experience of our target demographic with a unique merchandising strategy and high-energy retail concept that our customers consider fun and exciting. Based on management’s experience and industry knowledge, we believe our compelling value proposition and the dynamic nature of our merchandise offering have fostered universal appeal to teens and pre-teens, as well as customers across a variety of age groups beyond our target demographic.

We opened the first Five Below store in the greater Philadelphia area in 2002 and, since then, have been expanding across the Northeast, South and Midwest regions of the United States of America. As of January 30, 2016, we operated a total of 437 locations across 27 states. Our new store model assumes a store size of approximately 7,500 square feet and is typically located within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We opened 71 net new stores in fiscal 2015 and plan to open approximately 85 new stores in fiscal 2016. We believe that we have the opportunity to grow our store base to more than 2,000 locations over time.

We believe that our business model has resulted in strong financial performance irrespective of the economic environment:

• We have achieved positive comparable store sales during each of the last 39 fiscal quarters.

• Our comparable store sales increased by 3.4% in fiscal 2015, 3.4% in fiscal 2014, and 4.0% in fiscal 2013.

• We expanded our store base from 304 stores at the end of fiscal year 2013 to 437 stores at the end of fiscal year 2015, representing a compounded annual growth rate of 19.9%.

- Between fiscal 2013 and 2015, our net sales increased from \$535.4 million to \$832.0 million, representing a compounded annual growth rate of 24.7%. Over the same period, our operating income increased from \$53.7 million to \$92.9 million, representing a compounded annual growth rate of 31.5%.

### Our Competitive Strengths

We believe the following strengths differentiate Five Below from competitors and are the key drivers of our success:

**Unique Focus on the Teen and Pre-Teen Customer.** We target an attractive customer segment of teens and pre-teens with trend-right merchandise at differentiated price points of \$5 and below. We have built our concept to appeal to this customer base, which we believe to be economically influential and resilient based on our industry knowledge and experience, as well as their parents and others who shop for them. Our brand concept, merchandising strategy and store ambience work in concert to create an upbeat and vibrant retail experience that is designed to appeal to our target audience, drive traffic to our stores and keep our customers engaged throughout their visits. We monitor trends in the ever-changing teen and pre-teen markets and are able to quickly identify and respond to trends that become mainstream. Our price points enable teens and pre-teens to shop independently, often using their own money to make frequent purchases of items geared primarily to them and to exercise self-expression through their independent retail purchases.

**Broad Assortment of Trend-Right, High-Quality Merchandise with Universal Appeal.** We deliver an edited assortment of trend-right as well as everyday products within each of our category worlds that changes frequently to create a sense of anticipation and freshness, which we believe provides excitement for our customers. We have a broad range of vendors, most of which are domestically-based, which enables us to shorten response lead times, maximizes our speed to market and equips us to make more informed buying decisions. Our unique approach encourages frequent customer visits and limits the cyclical fluctuations experienced by many other specialty retailers. The breadth, depth and quality of our product mix and the diversity of our category worlds attract shoppers across a broad range of age and socio-economic demographics.

**Exceptional Value Proposition for Customers.** We believe we offer a clear value proposition to our customers. Our price points of \$5 and below resonate with our target demographic and with other value-oriented customers. We are able to deliver on this value proposition through sourcing products in a manner that is designed to achieve low cost, fast response and high item velocity and sell-through. We maintain a dynamic and collaborative relationship with our vendor partners that provide us with favorable access to quality merchandise at attractive prices. We also employ an opportunistic buying strategy, capitalizing on select excess inventory opportunities with our vendors. This unique and flexible sourcing strategy allows us to offer high-quality products at exceptional value across all of our category worlds.

**Differentiated Shopping Experience.** We believe we have created a unique and engaging in-store atmosphere that customers find fun and exciting. While we refresh our products frequently, we maintain a consistent floor layout, designed with an easy-to-navigate racetrack flow and featuring sight-lines across the entire store enabling customers to easily identify our category worlds. All of our stores feature a sound system playing trend-right music throughout the shopping day. We employ novel and dynamic techniques to display our products, including distinctive merchandise fixtures and colorful and stimulating signage. This approach makes our stores a destination, encouraging hands-on interaction with our products and conveying our value pricing. We have developed a unique culture that emanates from our employees, many of whom frequently shop at Five Below, to our customers, thereby driving a higher level of connectivity and engagement. Additionally, we believe our price points of \$5 and below, coupled with our dynamic merchandising approach, create an element of discovery, driving repeat visits and customer engagement.

**Powerful and Consistent Store Economics.** We have a proven store model that generates strong cash flow, consistent store-level financial results and a high level return on investment. Our stores have been successful in varying geographic regions, population densities and real estate settings and our new stores have achieved average payback periods of less than one year. We believe our robust store model, reinforced by our rigorous site selection process and in-store execution, drives the strength and consistency of our comparable store sales financial results across all geographic regions and store-year classes.





**Highly Experienced and Passionate Senior Management Team with Proven Track Record.** Our senior management team, led by Thomas Vellios, our Executive Chairman, and Joel Anderson, our President and Chief Executive Officer, has extensive retail experience across a broad range of disciplines, including merchandising, real estate, finance, store operations, supply chain management and information technology. Our management team drives our operating philosophy, which is based on a relentless focus on providing high-quality merchandise at exceptional value and a superior shopping experience utilizing a disciplined, low-cost operating and sourcing structure. We believe our management team is integral to our success and has positioned us well for long-term growth.

#### Growth Strategy

We believe we can grow our net sales and earnings by executing on the following strategies:

**Grow Our Store Base.** We believe there is significant opportunity to expand our store base in the United States from 437 locations as of January 30, 2016 to more than 2,000 locations within the United States over time. Based upon our strategy of store densification in existing markets and expanding into adjacent states and markets, we expect most of our near-term growth will occur within our existing markets, as well as contiguous new markets. This strategy allows us to benefit from enhanced brand awareness and achieve operational efficiencies. We opened 62 new stores in fiscal 2014, 71 net new stores in fiscal 2015, and plan to open approximately 85 new stores in fiscal 2016. Our new store model assumes approximately 7,500 square feet and is primarily in-line locations within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We have a talented and disciplined real estate management team and a rigorous real estate site selection process. We analyze the demographics of the surrounding trade areas and the performance of adjacent retailers, as well as traffic and specific site characteristics and other variables. As of January 30, 2016, we have executed lease agreements for the opening of 53 new stores in fiscal 2016.

**Drive Comparable Store Sales.** We expect to continue generating positive comparable store sales growth by continuing to hone and refine our dynamic merchandising offering and differentiated in-store shopping experience. We intend to increase our brand awareness through cost-effective marketing efforts and enthusiastic customer engagement. We believe that executing on these strategies will increase the size and frequency of purchases by our existing customers and attract new customers to our stores.

**Increase Brand Awareness.** We have a cost-effective marketing strategy designed to drive store traffic and promote brand awareness. Our strategy includes the use of newspaper circulars, television, digital, and grassroots marketing to support existing and new market entries. We leverage our growing e-mail database, mobile website and social media presence to drive brand excitement and increased store visits within existing and new markets. We believe that our digital experience is an extension of our brand and retail stores, serving as a marketing and customer engagement tool for us. Our digital experience allows us to continue to build brand awareness and expand our customer base.

**Enhance Operating Margins.** We believe we have further opportunities to drive margin improvement over time. A primary driver of our expected margin expansion will come from leveraging our cost structure as we continue to increase our store base and drive our average net sales per store. We intend to capitalize on opportunities across our supply chain as we grow our business and achieve further economies of scale.

#### Our History

The Company was incorporated in Pennsylvania in January 2002 under the name of Cheap Holdings, Inc. by David Schlessinger and Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at our target customer. We changed our name to Five Below, Inc. in August 2002. In July 2014, Joel Anderson joined the Five Below senior management team. In December 2014, Joel Anderson was appointed as Chief Executive Officer and Thomas Vellios was appointed as Executive Chairman, both effective February 1, 2015.

On July 24, 2012, we completed our initial public offering (the "IPO"), of 11,057,692 shares of common stock at a price of \$17.00 per share. Subsequent to our IPO, in February, July and September 2013, certain of our shareholders

sold 13,012,250, 6,900,000 and 7,100,000 shares of common stock, respectively, in separate secondary public offerings.

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.

#### Our Market Opportunity

As a result of our unique merchandise offering and value proposition, we believe we have effectively tapped the teen and pre-teen markets. According to the U.S. Census Bureau, there were over 63 million people in the United States between the ages of 5 and 19, which represented over 20% of the U.S. population as of April 1, 2010. Based on management’s experience and industry knowledge, we believe that this segment of the population has a significant amount of disposable income as the vast majority of this age group’s basic needs are already met.

#### Our Merchandise Strategy

We offer a dynamic, edited assortment of trend-right, high-quality products, all priced at \$5 or below, including select brands and licensed merchandise, targeted at the teen and pre-teen customer. We believe we are transforming the shopping experience of our target demographic with a unique merchandising strategy and high-energy retail concept that our customers consider fun and exciting. Based on management’s experience and industry knowledge, we believe our compelling value proposition and the dynamic nature of our merchandise offering has fostered universal appeal to customers across a variety of age groups beyond our target demographic.

Our typical store features in excess of 4,000 stock-keeping units, or SKUs, across a number of our category worlds including Style, Room, Sports, Tech, Crafts, Party, Candy and Now. We focus our merchandising strategy on maintaining core categories within our stores, but aim to generate high item velocity and sell-through to keep our assortment fresh and drive repeat visits. We monitor trends in our target demographic market, historical sales trends of current and prior products and the success of new product launches to ensure that our merchandise is relevant for our customers. We have a highly planned merchandise strategy focused on trend-right and everyday products supplemented by selected opportunistic purchases from our vendors to drive traffic and therefore offer our customers a consistently exciting shopping experience.

We believe we offer a compelling value proposition to our customers across all of our core product categories. The common element of our dynamic merchandise selection is the consistent delivery of exceptional value to the consumer, with all products offered at or below the \$5 price point. Pricing all items at \$5 or below enables us to provide an extensive range of exciting products, while maintaining the attraction of a value retailer. Many of the products we sell can also be found in mall specialty stores, department stores, mass merchandisers and drug stores; however, we offer all of these products in an exciting and easy to shop retail environment at price points of \$5 and below.

#### Product Mix

We organize the merchandise in our stores into the following category worlds:

**Style:** Consists primarily of accessories such as novelty socks, sunglasses, jewelry, scarves, gloves, hair accessories, athletic tops and bottoms and “attitude” t-shirts. Our beauty offering includes products such as nail polish, lip gloss, fragrance and branded cosmetics.

**Room:** Consists of items used to complete and personalize our customer’s living space, including glitter lamps, posters, frames, fleece blankets, pillows, candles, incense and related items. We also offer storage options for the customer’s room and locker.

**Sports:** Consists of an assortment of sport balls, team sports merchandise and fitness accessories, including hand weights, jump ropes and gym balls. We also offer a variety of games, including name brand board games, puzzles, toys and plush items. In the summer season, our sports offering also includes pool, beach and outdoor toys, games and

accessories.

Tech: Consists of a selection of accessories for PCs, cell phones, and tablet computers. The offering includes cases, chargers, headphones and other related items. We also carry a range of media products including books, video games and DVDs.

7

---

**Crafts:** We offer an assortment of craft activity kits, as well as arts and crafts supplies such as crayons, markers and stickers. We also offer trend-right items for school such as backpacks, fashion notebooks and journals, novelty pens and pencils, as well as everyday name brand items.

**Party:** Consists of party goods, decorations and greeting cards, as well as every day and special occasion merchandise.

- **Candy:** Consists of branded items that appeal to teens and pre-teens. This category includes an assortment of classic and novelty candy bars and movie-size box candy as well as gum and snack food. We also sell chilled drinks via coolers.

**Now:** Consists of seasonally-specific items used to celebrate and decorate for events such as Christmas, Easter, Halloween and St. Patrick’s Day. These products are most often placed at the front of the store.

Set forth below is data for the following groups of products – leisure, fashion and home, and party and snack. The percentage of net sales represented by each product group for each of the last three fiscal years was as follows:

	Percentage of Net Sales			
	2015	2014	2013	
Leisure	50.8	% 51.0	% 51.7	%
Fashion and home	29.7	% 29.3	% 29.3	%
Party and snack	19.5	% 19.7	% 19.0	%
Total	100.0	% 100.0	% 100.0	%

Leisure includes items such as sporting goods, games, toys, tech, books, electronic accessories, and arts and crafts.

Fashion and home includes items such as personal accessories, “attitude” t-shirts, beauty offerings, home goods and storage options. Party and snack includes items such as party and seasonal goods, greeting cards, candy and other snacks, and beverages.

### Our Stores

As of January 30, 2016, we operated 437 stores throughout the Northeast, South and Midwest regions of the United States. Our new store model assumes a store size of approximately 7,500 square feet. Our stores are primarily located in power, community and lifestyle shopping centers; approximately 3% of our stores are located in malls. The following map shows the number of stores in each of the states in which we operated and the locations of our distributions centers as of January 30, 2016.

### Store Design and Layout

We present our products in a unique and engaging in-store atmosphere. We maintain a consistent floor layout designed with an easy-to-navigate racetrack flow and featuring sight-lines across the entire store enabling customers to easily identify our category worlds. All of our stores feature a sound system playing popular music throughout the shopping day. We employ novel and dynamic techniques to display our products, including distinctive merchandise fixtures and colorful and stimulating signage, which attract customers, encourage hands-on interaction with our products and convey our value pricing. In addition to traditional perimeter and gondola shelving, racks and tables, we utilize innovative approaches such as wheelbarrows, barrels and bins strategically placed throughout our stores. These techniques foster customer interaction with products, supporting the strong relationship we strive to develop with our customers and enhance our upbeat and vibrant shopping environment.

Each of our category worlds is strategically located within our stores in an effort to enhance the customer's shopping experience. For example, our Now offerings are located in the front of the store with the goal of catching customers' attention and being "top of mind," and specially featured value items and other key items are positioned along the center aisle. Impulse items and "dollar value" tables surround the checkout areas to capture add-on purchases.

### Expansion Opportunities and Site Selection

Our unique focus on the teen and pre-teen customer is supported by our real estate strategy to locate stores in high-visibility locations. We seek to operate stores in high-visibility, high-traffic retail venues, which reinforce our brand message, heighten brand awareness and drive customer traffic.

Our strategy is to saturate markets with clusters of stores because of the considerable benefit that stores derive from market concentration. Our store model is profitable across a variety of urban, suburban and semi-rural markets and in multiple real estate venues including power, community and lifestyle shopping centers. Our retail concept works well with a large and varied group of national co-tenants that drive customer traffic.

We select store sites for new store openings based upon certain criteria including minimum population density requirements, availability of attractive lease terms, sufficient space and strong positioning within a center. Members of our real estate team spend considerable time evaluating prospective sites before bringing a proposal to our real estate committee. Our real estate committee, which is composed of senior management including our executive officers, approves all of our locations before a lease is signed.

We believe there is a significant opportunity to expand our store base in the United States. We opened 71 net new stores in fiscal 2015 and we intend to open approximately 85 new stores in fiscal 2016 through expansion in existing markets and by entering new markets. We maintain a pipeline of real estate sites that have been approved by our real estate committee and have executed 53 leases through January 30, 2016 for new stores in fiscal 2016. Our recent store growth is summarized in the following table:

Period	Stores at Start of Period	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Period
Fiscal 2013	244	62	2	60	304
Fiscal 2014	304	62	—	62	366
Fiscal 2015	366	74	3	71	437

Opening stores within existing markets enables Five Below to benefit from enhanced brand awareness and to achieve advertising, operating and distribution efficiencies. Our targeted new store openings include additional locations in existing markets as well as expansion into adjacent states and markets. In existing markets, we use a store densification strategy that promotes brand awareness and leverages marketing, operating and distribution costs. When entering new markets, we employ a store clustering strategy, opening multiple stores in a single market on the same day, enabling us to leverage marketing and pre-opening expenses and generate initial new market brand awareness. Our store growth is supported by our new store economics, which we believe to be compelling. Our new store model assumes a store size of approximately 7,500 square feet that achieves sales of approximately \$1.6 million in the first full year of operation and an average new store cash investment of approximately \$0.3 million, including our store build-out (net of tenant allowances), inventory (net of payables) and cash pre-opening expenses. Our new store model targets an average payback period of less than one year on our initial investment.

### Store Management, Culture and Training

Each of our stores is managed by a general manager and one or two assistant managers who oversee full-time and part-time team members within each store. Each general manager is responsible for the day-to-day operations of his or her store, including the unit's operating results, maintaining a clean and appealing store environment and the hiring, training and development of personnel. We also employ regional managers who are responsible for overseeing the operations of our district managers. Our district managers are responsible for overseeing the operations of 10 to 15 stores, on average.

We are guided by a philosophy that recognizes strong sales performance and customer service, allowing us to identify and reward team members who meet our high performance standards. Store managers and assistant managers participate in a rewarding bonus incentive program. We also recognize individual performance through internal promotions and provide extensive opportunities for advancement.

Our employees are critical to achieving our goals, and we strive to hire talented employees with high energy levels and motivation. We have well-established store operating policies and procedures and an in-store training program for new store managers, assistant managers and staff. In addition, we have a dedicated group of training and new store



opening managers who are focused on ensuring a consistent new store opening process and who leverage their extensive experience and

10

---

knowledge of the Five Below culture to train new store managers. Our customer service and store procedure training programs are designed to enable associates to assist customers in a friendly manner and to help to create a positive sales-driven environment and culture as well as teach successful operating practices and procedures.

#### Merchandising, Sourcing and Distribution

We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandising strategy.

##### Merchandising

Our merchandising team consists of an Executive Vice President, Merchandising, who reports directly to our Chief Executive Officer, and is supported by an extensive team of merchandising personnel. Our merchandising team works directly with our product development team and our central planning and allocation group to ensure a consistent delivery of products across our store base. Our Executive Vice President, Merchandising has over 30 years of experience within the retail sector.

Our product development team is led by a Senior Vice President of Business and Product Development. Our product development team works directly with our merchandising group to identify new and improved products through international sourcing. Our Senior Vice President of Business and Product Development has over 30 years of experience within the retail sector.

##### Sourcing

We believe we have strong sourcing capabilities developed through a dynamic and collaborative relationship with our vendor partners that provide us with favorable access to quality merchandise at attractive prices. We regularly purchase core merchandise in accordance with our key categories. We also employ an opportunistic buying strategy, capitalizing on selected excess inventory opportunities, to purchase complementary merchandise based on consumer trends, product availability and favorable economic terms.

We work with approximately 800 active vendors, with no single vendor representing more than 7% of our purchases in fiscal 2015. We sourced approximately 67% of our purchases from domestic vendors in fiscal 2015. We typically have no long-term supply agreements or exclusive arrangements with our vendors.

##### Distribution

We distribute over 85% of our merchandise from our 700,000 square foot distribution center in Pedricktown, New Jersey and our 605,000 square foot distribution center in Olive Branch, Mississippi, with the remaining merchandise shipped directly from the vendor to our stores. We realize cost savings by working with our vendors to streamline and reduce packaging to diminish shipping costs.

We generally ship merchandise from our distribution centers to our stores between two and four times a week, depending on the season and the volume of a specific store. We use contract carriers to ship merchandise to our stores. From time to time, we augment our distribution facilities with third-party warehousing.

We continuously assess ways to maximize the productivity and efficiency of our existing distribution facilities and evaluate opportunities for additional distribution centers. In July 2014, we signed a lease for a new distribution center in Pedricktown, New Jersey to support our anticipated growth. We took possession of the new distribution center in June 2015. We currently occupy approximately 700,000 square feet and will expand to approximately one million square feet by 2019. The lease agreement, which began in fiscal 2015, will expire in 2025 with options to renew for three successive five-year periods.

##### Marketing and Advertising

Our cost-effective marketing strategy is designed to drive store traffic and increase brand awareness with our target demographic, as well as other value-oriented customers. Our strategy includes the use of newspaper, television, digital, mobile/social and digital circulars during peak selling seasons that highlight our brand and exceptional value proposition as well as grassroots marketing to support existing and new market entries. Additionally, we rely on the strong visibility and the presence of our store locations, email messaging and community fundraising to promote and further our brand image and drive traffic. Our digital experience, anchored by our mobile and social media presence is growing rapidly as we utilize Facebook, Instagram, YouTube and Twitter to engage our customers with compelling digital content on a daily basis.



Our marketing team works with our merchandising team to develop novel and dynamic techniques to display our products, including distinctive merchandise fixtures and colorful and stimulating signage, which attract customers, encourage hands-on interaction with our products and convey our value pricing.

For new store openings, we seek to create community awareness and consumer excitement through a mix of print advertising, digital, mobile/social, public relations and community outreach promoting the grand opening and by creating an engaging grand opening event that includes contests, giveaways and signature “Five Cent” hot dogs. We also aim to execute multiple store openings in a given new market on the same day in order to leverage marketing efforts to produce maximum impact.

In addition to our marketing and public relations efforts described above, we also maintain a website ([www.fivebelow.com](http://www.fivebelow.com)) and, over the last year, our online following has grown substantially. We use both our website and social networking sites to highlight our featured products, value proposition, store locations, employment opportunities, and grand openings.

#### Competition

We compete with a broad range of retailers including discount, mass merchandise, grocery, drug, convenience, variety and other specialty stores with both physical locations and online stores. Many of these retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. We also compete with

online retailers who do not have traditional brick and mortar locations.

The principal basis upon which we compete is by offering a dynamic, edited assortment of exciting products, all priced at \$5 or below and including select brands and licensed merchandise, targeted at the teen and pre-teen customer. We believe we are transforming the shopping experience of our target demographic with a unique merchandising strategy and high-energy retail concept that our customers consider fun and exciting. Our success also depends in substantial part on our ability to respond quickly to trends so that we can meet the changing demands of our customers. We believe that we compare favorably relative to many of our competitors based on our merchandising strategy, edited product assortment targeted at teens and pre-teens, store environment, flexible real estate strategy and company culture. Nonetheless, certain of our competitors have greater financial, distribution, marketing and other resources than we do.

#### Trademarks and Other Intellectual Property

We own several trademarks that have been registered with the U.S. Patent and Trademark Office, including Five Below® and Five Below Hot Stuff. Cool Prices®. We also own domain names, including [www.fivebelow.com](http://www.fivebelow.com), and unregistered copyrights in our website content. We attempt to obtain registration of our trademarks whenever practicable and pursue any infringement of those marks. Solely for convenience, trademarks and trade names referred to in this document may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We also refer to product names, trademarks, trade names and service marks that are the property of other companies.

#### Management Information Systems

Our management information systems provide a full range of business process assistance and timely information to support our merchandising strategy, warehouse management, stores and operating and financial teams. We believe our current systems provide us with operational efficiencies, scalability, management control and timely reporting that allow us to identify and respond to merchandising and operating trends in our business. We use a combination of internal and external resources to support store point-of-sale, merchandise planning and buying, inventory management, financial reporting, real estate and administrative functions. We continuously assess ways to maximize productivity and efficiency, as well as, evaluate opportunities to further enhance our existing systems.

#### Government Regulation

We are subject to labor and employment laws, laws governing advertising, privacy laws, safety regulations and other laws, including consumer protection regulations that regulate retailers and/or govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

### Insurance

We maintain third-party insurance for a number of risk management activities including but not limited to workers' compensation, cyber, directors & officers, general liability, property and employee-related health care benefits. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

### Employees

As of January 30, 2016, we employed approximately 1,500 full-time and 6,100 part-time personnel. Of our total employees, approximately 200 were based at our corporate headquarters in Philadelphia, Pennsylvania, approximately 200 were based at our distribution centers in Pedricktown, New Jersey and Olive Branch, Mississippi and approximately 7,200 were store employees. The number of part-time associates fluctuates depending on seasonal needs. None of our employees belong to a union or are party to any collective bargaining or similar agreement.

### Seasonality

Our business is seasonal in nature with the highest level of net sales and net income generated in the fourth fiscal quarter due to the year-end holiday season and therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, we must order and keep in stock more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales, net income and working capital requirements during the year.

### Available Information

For more information about us, visit our website at [www.fivebelow.com](http://www.fivebelow.com). The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the Securities and Exchange Commission (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available, free of charge, through our website as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission.

## ITEM 1A. RISK FACTORS

You should consider carefully the following risks and uncertainties when reading this Annual Report. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our performance or financial condition.

### Risks Relating to Our Business and Industry

We may not be able to successfully implement our growth strategy on a timely basis or at all, which could harm our growth and results of operations.

Our growth is dependent on our ability to open profitable new stores. We believe we have an opportunity to continue to grow our store base from 437 stores in 27 states as of January 30, 2016 to more than 2,000 locations over time.

Our ability to open profitable new stores depends on many factors, including our ability to:

- identify suitable markets and sites for new stores;
- negotiate leases with acceptable terms;
- achieve brand awareness in the new markets;
- efficiently source and distribute additional merchandise;
- maintain adequate distribution capacity, information systems and other operational system capabilities;
- hire, train and retain store management and other qualified personnel; and
- achieve sufficient levels of cash flow and financing to support our expansion.



Unavailability of attractive store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital constraints, difficulties in staffing and operating new store locations or lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores.

Additionally, some of our new stores may be located in areas where we have little experience or a lack of brand recognition. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause these new stores to be less successful than stores in our existing markets. Other new stores may be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Accordingly, we cannot assure you that we will achieve our planned growth or, even if we are able to grow our store base as planned, that any new stores will perform as planned. If we fail to successfully implement our growth strategy, we will not be able to sustain the rapid growth in sales and profits that we expect, which would likely have an adverse impact on the price of our common stock.

Any disruption in our ability to select, obtain, distribute and market merchandise attractive to customers at prices that allow us to profitably sell such merchandise could impact our business negatively.

We generally have been able to select and obtain sufficient quantities of attractive merchandise at prices that allow us to be profitable. If we are unable to continue to select products that are attractive to our customers, to obtain such products at costs that allow us to sell such products at a profit, or to market such products effectively to consumers, our sales or profitability could be affected adversely. In addition, the success of our business depends in part on our ability to anticipate, identify and respond promptly to evolving trends in demographics and consumer preferences, expectations and needs. If we are unable to quickly respond to developing trends or if the spending patterns or demographics of these markets change, and we do not timely and appropriately respond to such changes, then the demand for our products, which are discretionary, and our market share could be adversely affected. Failure to maintain attractive stores and to timely identify or effectively respond to changing consumer needs, preferences and spending patterns could adversely affect our relationship with customers, the demand for our products and our market share.

Any disruption in the supply or increase in pricing of our merchandise could negatively impact our ability to achieve anticipated operating results. The products we sell are sourced from a wide variety of domestic and international vendors. We have not experienced any difficulty in obtaining sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply become unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs and reduce the quality of our merchandise, and an inability to obtain alternative sources could affect our sales.

A significant majority of our merchandise is manufactured outside the United States, and changes in the prices and flow of these goods for any reason could have an adverse impact on our operations. The United States and other countries have occasionally proposed and enacted protectionist trade legislation, which may result in changes in tariff structures and trade policies and restrictions that could increase the cost or reduce the availability of certain merchandise. Any of these or other measures or events relating to vendors and the countries in which they are located or where our merchandise is manufactured, some or all of which are beyond our control, can negatively impact our operations, increase costs and lower our margins. Such events or circumstances include, but are not limited to:

- political and economic instability;
- the financial instability and labor problems of vendors;
- the availability and cost of raw materials;
- merchandise quality or safety issues;
- changes in currency exchange rates;
- inflation; and
- transportation availability, costs and disruptions.



These and other factors affecting our vendors and our access to products could affect our financial performance adversely.

We do not sell our products through the Internet. As the retail industry experiences an increase in online sales, our sales could be adversely affected.

The retail landscape is changing with consumers' shopping habits shifting away from the traditional brick and mortar stores to online sales. Internet sales have been obtaining an increasing percentage of retail sales over the past few years and this trend is expected to continue. Because we do not sell our products through the Internet, we are facing increased competition from online retailers, which provide consumers with the ease and convenience of shopping from their home or office. The continued growth of online sales could have a negative impact on our sales as our customers may decide to make purchases through online retailers instead of traveling to our stores.

Our new store growth is dependent upon our ability to successfully expand our distribution network capacity, and failure to achieve or sustain these plans could affect our performance adversely.

We maintain distribution centers in Pedricktown, New Jersey and Olive Branch, Mississippi. We continuously assess ways to maximize the productivity and efficiency of our existing distribution facilities and evaluate opportunities for additional distribution centers. During fiscal 2015, we opened a new distribution center in Pedricktown, New Jersey to support our growth objectives. We currently occupy approximately 700,000 square feet and will expand to approximately one million square feet by 2019. Delays in expanding this new distribution center (or opening new distribution centers in the future) could adversely affect our future operations by slowing store growth, which could in turn reduce sales growth. In addition, any distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects, including the expansion of this distribution center (or opening new distribution centers in the future) could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

Because most of our products are distributed from our distribution centers, the unexpected loss of any one of our distribution centers, due to natural disaster or otherwise, would materially affect our operations. We also rely upon independent third-party transportation to provide goods to our stores in a timely and cost-effective manner, through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores. Our use of outside delivery services for shipments is subject to risks outside of our control and any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays or increases in transportation costs (including through increased fuel costs or a decrease in transportation capacity for overseas shipments or resulting from labor shortages or work stoppages) could significantly decrease our ability to generate sales and earn profits. If we change shipping companies, we could face logistical difficulties that could adversely impact deliveries and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from the independent third-party transportation providers we currently use, which would increase our costs.

If we are unable to secure our customers' confidential or credit card information, or other private data relating to our employees or our Company, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and adversely affect our financial results.

The protection of our customer, employee and company data is critical to us. We have procedures and technology in place to safeguard our customers' debit and credit card, and other personal information, our employees' private data and company records and intellectual property. While we have taken significant steps to protect customer and confidential information, the intentional or negligent actions of employees, business associates or third parties may undermine our security measures. As a result, unauthorized parties may obtain access to our data systems and misappropriate confidential data. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. Furthermore, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable

to anticipate these techniques or to implement adequate preventative measures. If any such compromise of our security or the security of information residing with our business associates or third parties were to occur, we could be exposed to negative publicity, government enforcement actions, private litigation or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing the use of debit or credit cards in our stores, or not shopping in our stores altogether. This could cause us to lose market share to our competitors and could have an adverse effect on our financial results.

An inability to attract and retain qualified employees, particularly senior management and district, store and distribution center managers, and to control labor costs, as well as other labor issues, could adversely affect our business.

Our growth could be adversely impacted by an inability to attract, retain and motivate qualified employees at the store operations level, in distribution facilities, and at the corporate level, at costs which allow us to profitably conduct our operations. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, and changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulation. For example, some jurisdictions in which we operate have historically enacted minimum wages that exceed the federal standards. To the extent our competitors increase wage rates for their employees, we will likely have to increase wage rates to stay competitive and attract and retain our employees, which would increase our labor costs. If we do not maintain competitive wages, our customer service could suffer due to declining quality of our workforce or, alternatively, our earnings could decrease if we increase our wage rates. In addition, if a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. Further, we believe the current pricing of our healthcare costs includes the potential future impact of recently enacted comprehensive healthcare reform legislation, but such legislation may further cause our healthcare costs to increase. Significant costs of the healthcare reform legislation may occur due to provisions of the legislation being phased in over time and changes to our healthcare costs structure could have a significant negative effect on our business. In addition, our ability to pass along any increase in labor costs to our customers is constrained by our low price model.

Our profitability is vulnerable to inflation, cost increases, wage rate increases and energy prices.

Future increases in costs such as the cost of merchandise, wage rates, shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability, particularly given our \$5 and below pricing model. These cost increases may be the result of inflationary pressures that could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices, transportation costs, wage rates and lease and utility costs, may increase our cost of goods sold or operating expenses. In addition, because our expenses relating to wages are significant, any unfavorable changes in labor costs could negatively affect our operational results, financial position, and cash flows. Our low price model and competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products and therefore reduce our profitability.

We are subject to customer payment-related risks that could increase operating costs or exposure to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including cash, credit and debit cards and gift cards. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. As of October 1, 2015, the payment card industry shifted liability for certain debit and credit card transactions to retailers who are not able to accept EMV chip technology transactions. As a result, we bear the chargeback risk for fraudulent transactions generated through EMV chip enabled cards from October 1, 2015 until such time as we implement and have certified our use of EMV chip technology. While we expect to complete the implementation and receive certification to accept EMV chip technology transactions during the first quarter of fiscal 2016, implementation of the EMV chip technology and receipt of final certification is subject to the time availability of third-party service providers. Any prolonged inability to accept EMV chip technology transactions may subject us to increased risk of liability for fraudulent transactions and may adversely affect our business and operating results. Further, we may experience a decrease in transaction volume if we cannot process transactions for cardholders whose issuer has migrated entirely from magnetic strip to EMV chip enabled cards. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the

payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Our growth from existing stores is dependent upon our ability to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely. Increases in sales in existing stores are dependent on factors such as competition, including from online retailers, merchandise selection, store operations and customer satisfaction. If we fail to realize our goals of successfully managing our store operations and increasing our customer retention and recruitment levels, our sales may not increase and our growth may be impacted adversely.

Our success depends on our executive officers and other key personnel. If we lose our executive officers or any other key personnel, or are unable to hire additional qualified personnel, our business could be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel, including Thomas Vellios, our Executive Chairman, and Joel Anderson, our President and Chief Executive Officer. The loss of the services of any of our executive officers or other key personnel could have an adverse effect on our operations. Our future success will also depend on our ability to attract, retain and motivate qualified personnel, as a failure to attract these key personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

We are dependent on the success of shopping centers in which our stores are located.

Most of our stores are located in power, community and lifestyle shopping centers that benefit from the ability of “anchor” retail tenants, generally big box stores, and other attractions, to generate sufficient levels of consumer traffic in the vicinity of our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of the economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores, consumer preferences

to shop on the Internet or at large warehouse stores or otherwise, could result in reduced sales at our stores and excess inventory and have a material adverse effect on our financial results or business.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations. Our stores are currently concentrated in the Northeastern and Midwestern regions of the United States, which are prone to inclement weather conditions, as well as severe storms. Such inclement weather could have a significant impact on consumer behavior, travel and store traffic patterns, as well as our ability to operate our stores. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Any reduction in sales from extreme weather could be further impacted by the fact that we do not sell our products on the Internet as consumers cannot purchase our products without traveling to our stores during inclement weather. In addition, we typically generate higher revenues and gross margins during our last fiscal quarter, which includes the year-end holiday season. If weather conditions are not favorable during these periods, our operating results and cash flow from operations could be adversely affected.

Our profitability and cash flows from operations may be negatively affected if we are not successful in managing our inventory balances and inventory shrinkage.

Our inventory balance represented approximately 38% of our total assets as of January 30, 2016. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers’ demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of excess inventory, which also can adversely impact our financial results. We also experience inventory shrinkage, and we cannot assure you that incidences of inventory loss and theft will stay at acceptable levels or decrease in the future, or that the measures we are taking will effectively address the problem of inventory shrinkage. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our profitability and cash flows from operations may be negatively affected.

Our business requires that we lease substantial amounts of space and there can be no assurance that we will be able to continue to lease space on terms as favorable as the leases negotiated in the past.

We do not own any real estate. Instead, we lease all of our store locations, as well as our corporate headquarters and distribution facilities in Pedricktown, New Jersey and Olive Branch, Mississippi. Our stores are leased from third parties, with typical initial lease terms of ten years. Many of our lease agreements also have additional five-year renewal options.

Historically, we have been able to negotiate terms that fit within our economic model and that we believe are favorable; however, there is no guarantee that we will be able to continue to negotiate such terms. Consolidation in the commercial retail real estate market could affect our ability to successfully negotiate favorable rental terms for our stores in the future. Should significant consolidation occur, a large proportion of our store base could be concentrated with one or a few landlords that would then be in a position to dictate unfavorable terms to us due to their significant negotiating leverage. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. Increases in our occupancy costs and difficulty in identifying economically suitable new store locations could have significant negative consequences, which include:

- requiring that a greater portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes and reducing our profitability;
- increasing our vulnerability to general adverse economic and industry conditions; and
- limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these expenses and needs and sufficient funds are not otherwise available to us, we may not be able to service our lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could harm our business. Additional sites that we lease may be subject to long-term non-cancelable leases if we are unable to negotiate our current standard lease terms. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. In addition, if we are not able to enter into new leases or renew existing leases on terms acceptable to us, this could have an adverse effect on our results of operations.

We operate in a competitive environment and, as a result, we may not be able to compete effectively or maintain or increase our sales, market shares or margins.

We operate in a highly competitive retail environment with numerous competitors, some of which have greater resources or better brand recognition than we do. We compete with respect to customers, price, store location, merchandise quality, assortment and presentation, in-stock consistency, customer service and employees. This competitive environment subjects us to various risks, including the ability to provide quality, trend-right merchandise to our customers at competitive prices that allow us to maintain our profitability. Because of our low price model, we may have limited ability to increase prices in response to increased costs without losing competitive position which may adversely affect our margins and financial performance. In addition, price reductions by our competitors may result in the reduction of our prices and a corresponding reduction in our profitability. Many of our competitors also make sales through the Internet, and although we do maintain an Internet site, we do not sell merchandise online. Accordingly, we may face periods of intense competition in the future, which could have a material adverse effect on our profitability and results of operations.

Consolidation among retailers, changes in pricing of merchandise or offerings of other services by competitors could have a negative impact on the relative attractiveness of our stores to consumers. We do not possess exclusive rights to many of the elements that comprise our in-store experience and product offerings. Our competitors may seek to copy our business strategy and in-store experience, which could result in a reduction of any competitive advantage or special appeal that we might possess. In addition, most of our products are sold to us on a non-exclusive basis. As a result, our current and future competitors may be able to duplicate or improve on some or all of our in-store experience or product offerings that we believe are important in differentiating our stores and our customers' shopping experience. If our competitors were to duplicate or improve on some or all of our in-store experience or product offerings, our competitive position and our business could suffer. Our ability to provide quality, trend-right products while offering attractive, competitively-priced products could be impacted by various actions of our competitors that are beyond our control.

Our business is seasonal, and adverse events during the holiday season could impact our operating results negatively. Our business is seasonal, with the highest percentage of sales (approximately 40% of total annual sales over the last two fiscal years) occurring during the last fiscal quarter (November, December and January), which includes the



year-end holiday season. This increased percentage of net sales has historically resulted in the highest percentages of net income during the last fiscal quarter. We purchase substantial amounts of inventory in the end of the third fiscal quarter (October) and beginning of the fourth fiscal quarter (November and December) and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during these time periods. Adverse events, such as deteriorating economic conditions, higher unemployment, increased wage rates, higher gas prices, public transportation disruptions or unusual weather

could result in lower-than-planned sales during the holiday season which may lead to unanticipated markdowns. Since we rely on third parties for transportation and use third party warehouses when we build up inventory, a number of these factors are outside of our control. An unsuccessful fourth quarter, or holiday season, will have a substantial negative impact on our financial condition and results of operations for the entire fiscal year.

Material damage to, or interruptions to, our technology systems as a result of external factors, staffing shortages and difficulties in updating our existing technology or developing or implementing new technology could have a material adverse effect on our business or results of operations.

We depend on a variety of information technology systems for the efficient functioning of our business. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to these systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruptions may have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on certain vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we are unable to convert to alternate systems in an efficient and timely manner. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology, or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting, which could harm our business and cause a decline in our stock price.

Reporting obligations as a public company and our anticipated growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting. As a result, we have incurred, and may continue to incur, substantial expenses to test our systems, to make any necessary improvements, and to hire additional personnel. At January 30, 2016, our internal control over financial reporting was effective using “Internal Control - Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); however, there can be no assurance that our internal control over financial reporting will be effective in future years. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our continued listing on The NASDAQ Global Select Market or any other stock exchange on which our common stock may be listed. Delisting of our common stock on any exchange could reduce the liquidity of the market for our common stock, which could reduce the price of our stock and increase the volatility of our stock price.

We are in the process of implementing a new enterprise resource planning system. Complications with the design or implementation of this system could adversely impact our business and operations and the implementation of this system could cause a financial statement error not to be detected.

We are in the process of a multi-year implementation of a new enterprise resource planning system (“ERP”). The ERP is designed to enhance functionality and provide timely information to the company's management team related to the operation of the business. The ERP implementation process has required, and likely will continue to require the

investment of significant human and financial resources. We may not be able to successfully implement the ERP without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial position, results of operations and cash flows could be negatively impacted. The possibility exists that the migration to a new ERP system could adversely affect the effectiveness of our internal controls over financial reporting.

We are exposed to the risk of natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism that could disrupt business and result in lower sales, increased operating costs and capital expenditures.

Our headquarters, store locations and distribution centers, as well as certain of our vendors and customers, are located in areas which have been and could be subject to natural disasters such as floods, hurricanes, tornadoes, fires or earthquakes. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures, may disrupt our business and may adversely affect our ability to sell and distribute products. For example, as a result of Superstorm Sandy in October 2012, we experienced closures in the majority of our stores open at that time. In addition, we operate in markets that may be susceptible to pandemic outbreaks, war, terrorist acts or disruptive global political events, such as civil unrest in countries from which our vendors are located or products are manufactured. Our business may be harmed if our ability to sell and distribute products is impacted by any such events, any of which could influence customer trends and purchases and may negatively impact our net sales, properties or operations. Such events could result in physical damage to one or more of our properties, the temporary closure of some or all of our stores or distribution centers, the temporary lack of an adequate work force in a market, temporary or long-term disruption in the transport of goods, delay in the delivery of goods to our distribution centers or stores, disruption of our technology support or information systems, or fuel shortages or dramatic increases in fuel prices, which increase the cost of doing business. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage. Any of these factors, or combination thereof, could adversely affect our operations.

Current economic conditions and other economic factors could adversely impact our financial performance and other aspects of our business in various respects.

Weakness in the U.S. economy or other economic factors affecting disposable consumer income, such as employment levels, inflation, business conditions, fuel and energy costs, consumer debt levels, lack of available credit, interest rates, tax rates and erosion in consumer confidence may affect our business adversely. Such factors could reduce overall consumer spending or cause customers to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover or a reduction in profitability due to lower margins. We have limited or no ability to control many of these factors. Global economic uncertainty, the impact of recessions and the potential for failures or realignments of financial institutions and the related impact on available credit may impact us, our vendors and other business partners, our landlords, our customers, our service providers and our operations in an adverse manner. Changes in state or federal legislation or regulations, including the effects of legislation and regulations on product safety and quality, food safety and quality, wage levels, employee rights, health care, social welfare and entitlement programs could increase our cost of doing business.

Our business is subject to numerous federal, state and local laws and regulations. The current political environment, financial reform legislation, regulatory reform and stockholder activism may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic initiatives. In addition, changes in safety and quality requirements related to products and food (including changes in labeling or disclosure requirements), federal or state wage requirements, employee rights (including changes in the process for our employees to join a union), health care, social welfare or entitlement programs such as health insurance, paid leave programs, or other changes in workplace regulation or tax laws could adversely impact our ability to achieve our financial targets. Changes in other regulatory areas, such as consumer credit, privacy and information security, or environmental regulation may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our costs of doing business. Untimely compliance or noncompliance with applicable laws and regulations may subject us to legal risk, including government enforcement action, significant fines and penalties and class action litigation, as well as reputational damage, which could adversely affect our results of operations.

Litigation may adversely affect our business, financial condition, results of operations or liquidity.

Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative

proceedings, regulatory actions or other litigation. For example, we and certain of our current and former officers had been parties to a securities class action lawsuit against us, which was dismissed. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our consolidated financial statements as a whole or may negatively affect our operating

results if changes to our business operation are required. The cost to defend litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

If we fail to protect our brand name, competitors may adopt trade names that dilute the value of our brand name.

We may be unable or unwilling to strictly enforce our trademarks in each jurisdiction in which we do business. Also, we may not always be able to successfully enforce our trademarks against competitors or against challenges by others.

Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition and could cause customer confusion, which could, in turn, adversely affect our sales and profitability.

Product and food safety claims and the effects of legislation and regulations on product safety and quality and food safety and quality could affect our sales and results of operations adversely.

We may be subject to product liability claims from customers or actions required or penalties assessed by government agencies relating to products, including food products that are recalled, defective or otherwise alleged to be harmful. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products are contractually required to comply with applicable product and food safety laws. We generally seek contractual indemnification and insurance coverage from our vendors. However, if we do not have adequate contractual indemnification and/or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Our ability to obtain indemnification from foreign vendors may be hindered by the manufacturers' lack of understanding of U.S., state-specific or local product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

We purchase a portion of our products on a closeout basis. Some of these products are obtained through brokers or intermediaries rather than through manufacturers. The closeout nature of a portion of our products sometimes makes it more difficult for us to investigate all aspects of these products. We attempt to assure compliance and to test products when appropriate, and we seek to obtain indemnification through our vendors or to be listed as an additional insured, but there is no assurance that these efforts will be successful.

Our ability to obtain additional financing on favorable terms, if needed, could be adversely affected by volatility in the capital markets.

We obtain and manage liquidity from the positive cash flow we generate from our operating activities, our access to capital markets and our revolving credit facility. There is no assurance that our ability to obtain additional financing from financial institutions or through the capital markets, if needed, will not be adversely impacted by economic conditions. Tightening in the credit markets, low liquidity and volatility in the capital markets could result in diminished availability of credit, higher cost of borrowing and lack of confidence in the equity market, making it more difficult to obtain additional financing on terms that are favorable to us.

The terms of our revolving credit facility may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.

Our revolving credit facility contains, and any additional debt financing we may incur would likely contain, covenants requiring us to maintain or adhere to certain financial ratios or limits and covenants that restrict our operations, which may include limitations on our ability to, among other things:

- incur additional indebtedness;
- pay dividends and make certain distributions, investments and other restricted payments;
- create certain liens or encumbrances;
- enter into transactions with our affiliates;
- redeem our common stock; and
- engage in certain merger, consolidation or asset sale transactions.



Complying with these covenants could adversely affect our ability to respond to changes in our business and manage our operations. In addition, these covenants could affect our ability to invest capital in our new stores and fund capital expenditures for existing stores, including the costs associated with the conversion of certain stores existing before fiscal 2009 to our current prototype new store size of approximately 7,500 square feet. Our ability to comply with these covenants and other provisions in the revolving credit facility and any future debt instruments may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, or other events beyond our control. A failure by us to comply with the financial ratios and restrictive covenants contained in our revolving credit facility and any future debt instruments could result in an event of default. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in our revolving credit facility and any future debt instruments. In addition, if we are in default, we may be unable to borrow additional amounts under any such facilities to the extent that they would otherwise be available and our ability to obtain future financing may also be impacted negatively. If the indebtedness under our revolving credit facility and any future debt instruments were to be accelerated, our future financial condition could be materially adversely affected.

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. While we do not manufacture products, we may in the future contract to manufacture products. Accordingly, 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.



### Risks Related to Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance.

Shares of our common stock were sold in our IPO in July 2012 at a price of \$17.00 per share, and our common stock has subsequently traded as high as \$55.28 and as low as \$25.00 during the period from our IPO to January 30, 2016. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. In addition, broad market and industry factors, most of which we cannot control, may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

- actual or anticipated fluctuations in quarterly operating results or other operating metrics, such as comparable store sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- conditions or trends affecting our industry or the economy generally;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the retail industry;
- announcements by us or our competitors of new product offerings, significant acquisitions, strategic partnerships or divestitures;
- our entry into new markets;
- timing of new store openings;
- percentage of sales from new stores versus established stores;
- additions or departures of key personnel;
- actual or anticipated sales of our common stock, including sales by our directors, officers or significant shareholders;
- significant developments relating to our relationships with business partners, vendors and distributors;
- customer purchases of new products from us and our competitors;
- investor perceptions of the retail industry in general and our Company in particular;
- major catastrophic events;
- volatility in our stock price, which may lead to higher share-based compensation expense under applicable accounting standards; and
- changes in accounting standards, policies, guidance, interpretation or principles.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. For example, we and certain of our current and former senior officers had been parties to a securities class action lawsuit filed against us, which was dismissed. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management's attention and resources.

Your percentage ownership in us may be diluted by future equity issuances, which could reduce your influence over matters on which shareholders vote.

Our board of directors has the authority, without action or vote of our shareholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares issuable upon the vesting of restricted stock units or performance-based restricted stock units, shares that may be issued to satisfy our obligations under our equity incentive plan or shares of our authorized but unissued preferred stock. We initially reserved 7,600,000 shares of common stock under our equity incentive plan for future issuances and, as of January 30, 2016, 1,777,819 shares of our common stock are issuable upon the exercise of options outstanding, the vesting of restricted stock units and the vesting of performance-based restricted stock units. We also initially reserved 500,000 shares of common stock under our employee stock purchase plan for future issuances, and as of January 30, 2016, 12,928 shares of our common stock have been issued. Exercises of these options or issuances of common stock or preferred stock could reduce your influence over matters on which our shareholders vote and, in the case of issuances of preferred stock, likely could result in your interest in us being subject to the prior rights of holders of that preferred stock.

We do not expect to pay any cash dividends for the foreseeable future.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, including under agreements for indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

If securities or industry analysts do not publish research or continue to publish or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, or one or more of the analysts who cover our Company downgrade our stock, our stock price could decline.

Anti-takeover provisions could delay and discourage takeover attempts that shareholders may consider to be favorable.

Certain provisions of our amended and restated articles of incorporation and amended bylaws and applicable provisions of Pennsylvania law may make it more difficult or impossible for a third party to acquire control of us or effect a change in our board of directors and management.

In particular, these provisions, among other things:

- provide that only the chairman of the board of directors, the chief executive officer or a majority of the board of directors may call special meetings of the shareholders;
- classify our board of directors into three separate classes with staggered terms;
- provide for supermajority approval requirements for amending or repealing provisions in our amended and restated articles of incorporation and amended bylaws;
- establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders' meetings; and
- permit the board of directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

In addition, anti-takeover provisions in Pennsylvania law could make it more difficult for a third party to acquire control of us. These provisions could adversely affect the market price of our common stock and could reduce the amount that shareholders might receive if we are sold. For example, Pennsylvania law may restrict a third party's ability to obtain control of us and may prevent shareholders from receiving a premium for their shares of our common stock. Pennsylvania law also provides that our shareholders are not entitled by statute to propose amendments to our articles of incorporation.

These and other provisions of Pennsylvania law and our amended and restated articles of incorporation and amended bylaws could delay, defer or prevent us from experiencing a change of control or changes in our board of directors and management and may adversely affect our shareholders' voting and other rights. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our shareholders could receive a substantial premium over the then current market price for their shares of our common stock.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.



## ITEM 2. PROPERTIES

We do not own any real property. Our corporate headquarters are located in Philadelphia, Pennsylvania and are leased under a lease agreement expiring in 2022, with options to renew for two successive five-year periods. Our approximately 605,000 square foot distribution center in Olive Branch, Mississippi is leased under a lease agreement expiring in 2022 with options to renew for three successive five-year periods. In July 2014, we signed a lease for a new distribution center in Pedricktown, New Jersey, which became fully operational during fiscal 2015. We currently occupy approximately 700,000 square feet and will expand to approximately one million square feet by 2019. The lease agreement expires in 2025 with options to renew for three successive five-year periods.

At the end of fiscal 2015, there were 437 Five Below store locations in 27 states. All of our stores are leased from third parties, and the leases typically have ten-year terms with additional five-year renewal options, and many provide us with the option to terminate early under specified conditions. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

## ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the NASDAQ Global Select Market under the symbol "FIVE" since our IPO in July 2012, which had a price of \$17.00 per share. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by the NASDAQ Global Select Market:

Fiscal 2015	High	Low
First Quarter (February 1, 2015 - May 2, 2015)	\$ 37.43	\$ 28.51
Second Quarter (May 3, 2015 - August 1, 2015)	\$ 41.47	\$ 32.83
Third Quarter (August 2, 2015 - October 31, 2015)	\$ 39.12	\$ 31.26
Fourth Quarter (November 1, 2015 - January 30, 2016)	\$ 35.51	\$ 26.95
Fiscal 2014	High	Low
First Quarter (February 2, 2014 - May 3, 2014)	\$ 44.35	\$ 33.94
Second Quarter (May 4, 2014 - August 2, 2014)	\$ 40.81	\$ 34.23
Third Quarter (August 3, 2014 - November 1, 2014)	\$ 43.73	\$ 35.14
Fourth Quarter (November 2, 2014 - January 31, 2015)	\$ 47.89	\$ 32.01

On January 29, 2016 (the last trading day of fiscal 2015), the last reported sale price on the NASDAQ Global Select Market of our common stock was \$35.23 per share. As of March 16, 2016, we had approximately 24,114 holders of record of our common stock.

## Performance Graph

This performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any future filing under the Securities Act, or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total shareholder return on our common stock from July 19, 2012 (the date our common stock commenced trading on the NASDAQ Global Select Market) through January 30, 2016, with the return on (i) the NASDAQ Global Market Composite Index and (ii) the NASDAQ US Benchmark Retail Index over the same period. This graph assumes an initial investment of \$100 and assumes the reinvestment of dividends, if any. Such returns are based on historical results and are not intended to suggest future performance.

	7/19/2012	2/1/2013	1/31/2014	1/30/2015	1/29/2016
FIVE BELOW, INC.	\$100.00	\$140.00	\$138.30	\$125.70	\$132.90
NASDAQ GLOBAL MARKET COMPOSITE INDEX	\$100.00	\$107.20	\$138.40	\$156.30	\$155.60
NASDAQ US BENCHMARK RETAIL INDEX	\$100.00	\$111.00	\$132.70	\$161.50	\$168.00

#### Securities Authorized for Issuance under Equity Compensation Plans

See Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding securities authorized for issuance under our equity compensation plans.

#### Dividends

During the past two fiscal years, we have not declared, and currently do not plan to declare in the foreseeable future, dividends on shares of our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our revolving credit facility contain restrictions on our ability to pay dividends.

#### Recent Sales of Unregistered Securities

There were no reportable repurchases of our common stock during the fourth fiscal quarter of 2015.

## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial and other data as of and for the periods indicated. The selected financial data for fiscal 2015, 2014 and 2013 and selected consolidated balance sheet data as of January 30, 2016 and January 31, 2015 have been derived from our consolidated financial statements audited by KPMG LLP, our independent registered public accounting firm, included elsewhere in this Annual Report. The selected financial data for the fiscal years ended February 2, 2013, which we refer to as fiscal 2012, and January 28, 2012, which we refer to as fiscal 2011, and the selected balance sheet data as of February 1, 2014, February 2, 2013, and January 28, 2012, have been derived from our audited consolidated financial statements that have not been included in this Annual Report. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected financial data in conjunction with the consolidated financial statements and accompanying notes and the information under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report.

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31<sup>st</sup> of the following year. The reporting periods contained in the following table consist of 52 weeks of operations in each of fiscal 2015, 2014, 2013, and 2011 and 53 weeks of operations in fiscal 2012.

	Fiscal Year				
	2015	2014	2013	2012	2011
	(in millions, except share and per share data)				
Consolidated Statements of Operations Data <sup>(1)</sup> :					
Net sales	\$832.0	\$680.2	\$535.4	\$418.8	\$297.1
Cost of goods sold	540.0	442.4	347.4	269.0	192.3
Gross profit	291.9	237.8	188.0	149.8	104.9
Selling, general and administrative expenses <sup>(2)</sup>	199.0	160.8	134.3	112.2	78.6
Operating income	92.9	77.0	53.7	37.7	26.2
Interest expense, net	—	0.1	1.5	2.4	—
Loss on debt extinguishment	—	0.2	0.3	1.6	—
Other expense (income)	0.3	—	—	(0.4)	—
Income before income taxes	92.7	76.7	52.0	34.1	26.2
Income tax expense	35.0	28.6	19.8	14.1	10.2
Net income	57.7	48.0	32.1	20.0	16.1
Dividend paid to preferred and unvested restricted shareholders	—	—	—	(65.4)	—
Series A 8% Convertible Preferred Stock cumulative dividends	—	—	—	—	(15.9)
Net income attributable to participating securities	—	—	(0.5)	—	(0.1)
Net income (loss) attributable to common shareholders	\$57.7	\$48.0	\$31.7	\$(45.4)	\$0.1
Per Share Data:					
Basic income (loss) per common share <sup>(3)</sup>	\$1.06	\$0.89	\$0.59	\$(1.28)	\$—
Diluted income (loss) per common share <sup>(3)</sup>	\$1.05	\$0.88	\$0.59	\$(1.28)	\$—
Dividends declared and paid per common share	\$—	\$—	\$—	\$2.02	\$—
Weighted average shares outstanding:					
Basic shares	54,513,622	54,219,801	53,294,805	35,444,200	15,903,599
Diluted shares	54,793,301	54,573,855	53,741,860	35,444,200	15,904,108

	Fiscal Year					
	2015	2014	2013	2012	2011	
(in millions, except total stores data)						
Consolidated Statements of Cash Flows Data <sup>(1)</sup> :						
Net cash provided by (used in):						
Operating activities	\$87.9	\$61.4	\$31.2	\$30.4	\$46.7	
Investing activities	\$(99.4 )	\$(32.3 )	\$(25.9 )	\$(22.9 )	\$(18.6 )	
Financing activities	\$1.4	\$(16.1 )	\$(11.2 )	\$7.3	\$1.0	
Other Operating and Financial Data <sup>(1)</sup> :						
Total stores at end of period	437	366	304	244	192	
Comparable store sales growth	3.4	% 3.4	% 4.0	% 7.1	% 7.9	%
Average net sales per store <sup>(4)</sup>	\$2.0	\$1.9	\$1.9	\$1.8	\$1.7	
Capital expenditures	\$53.1	\$32.3	\$25.9	\$22.9	\$18.6	
Consolidated Balance Sheet Data <sup>(1)</sup> :						
Cash and cash equivalents	\$53.1	\$63.2	\$50.2	\$56.1	\$41.3	
Short-term investment securities	46.3	—	—	—	—	
Total current assets <sup>(5)</sup>	264.7	199.0	156.3	128.4	87.4	
Total assets <sup>(5)</sup>	393.3	294.1	232.1	188.4	133.2	
Total current liabilities	102.2	79.4	79.7	68.8	49.9	
Total long-term debt, excluding current portion <sup>(6)</sup>	—	—	—	19.5	0.3	
Total liabilities <sup>(5)</sup>	148.8	119.9	115.2	117.6	71.1	
Series A 8% Convertible Preferred Stock	—	—	—	—	191.9	
Total shareholders' equity (deficit)	\$244.5	\$174.3	\$116.9	\$70.7	\$(129.8 )	

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

Fiscal 2014, 2013 and 2012 includes \$0.9 million, \$6.1 million and \$10.5 million of share-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares and

(2) on-going expense recognition of the awards over the remaining vesting period. In addition, fiscal 2013 and 2012 each include \$1.0 million of expenses related to legal, accounting, and other fees in connection with secondary public offerings. Fiscal 2011 includes \$6.1 million of non-contractual executive bonus expense.

(3) Please see Note 2 in our consolidated financial statements included elsewhere in this Annual Report for an explanation of per share calculations.

(4) Only includes stores open during the full fiscal year.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by requiring deferred tax assets and

(5) liabilities be classified as noncurrent on the balance sheet. We elected to early adopt this guidance effective the fourth quarter of Fiscal 2015, and we retrospectively applied the change for all periods presented.

We repaid \$19.5 million of principal on the term loan facility in February 2014, subsequent to the end of fiscal

(6) 2013, which is classified as a current liability and not included in the long-term balance as of the end of fiscal 2013.



## ITEM 7. 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 consolidated financial statements and related notes included elsewhere in this Annual Report. 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 in Part I, Item 1A "Risk Factors" and "Special Note Regarding Forward-Looking Statements." 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 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017, which consists of a 52-week fiscal year. References to "fiscal year 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016, which consists of a 52-week fiscal year. References to "fiscal year 2014" or "fiscal 2014" refer to the period from February 2, 2014 to January 31, 2015, which consists of a 52-week fiscal year. References to "fiscal year 2013" or "fiscal 2013" refer to the period from February 3, 2013 to February 1, 2014, which 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, which consists of a 53-week fiscal year. 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.

### Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across our category worlds. As of January 30, 2016, we operated 437 stores in 27 states.

Five Below was founded in 2002 by David Schlessinger and Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at teens and pre-teens aspiring to be young adults. In July 2014, Joel Anderson joined the Five Below senior management team. In December 2014, Joel Anderson was appointed as Chief Executive Officer and Thomas Vellios was appointed as Executive Chairman, both effective February 1, 2015.

We believe that our business model has resulted in strong financial performance irrespective of the economic environment. Our comparable store sales increased by 3.4% in fiscal 2015, 3.4% in fiscal 2014 and 4.0% in fiscal 2013. Between fiscal 2013 and fiscal 2015, our net sales increased from \$535.4 million to \$832.0 million, representing a compounded annual growth rate of 24.7%. Over the same period, our operating income increased from \$53.7 million to \$92.9 million, representing a compounded annual growth rate of 31.5%. In addition, we expanded our store base from 304 stores at the end of fiscal 2013 to 437 stores at the end of fiscal 2015. We plan to open approximately 85 new stores in fiscal 2016.

We expect to continue our strong growth in the future. By offering trend-right merchandise at a differentiated price point of \$5 and below, our stores have been successful in varying geographic regions, population densities and real estate settings. We operate stores in 27 states in the Northeast, South and Midwest regions of the United States. We are primarily located in power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets with trade areas including at least 100,000 people in the specified market. We believe we have the opportunity to expand our store base in the United States from 437 locations as of January 30, 2016 to more than 2,000 locations over time. Our ability to open profitable new stores depends on many factors, including our ability to identify suitable markets and sites; negotiate leases with acceptable terms; achieve brand awareness in the new markets; efficiently source and distribute additional merchandise; and achieve sufficient levels of cash flow and financing to support our expansion.

We have a proven and highly profitable store model that has produced consistent financial results and returns and our new stores have achieved average payback periods of less than one year. Our new store model assumes a store size of approximately 7,500 square feet that achieves annual sales of approximately \$1.6 million in the first full year of operation. Our new store model also assumes an average new store investment of approximately \$0.3 million. Our

new store investment includes our store build-out (net of tenant allowances), inventory (net of payables) and cash pre-opening expenses.

30

---

Our planned store expansion will place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to maintain adequate distribution capacity, enhance our store management systems, financial and management controls, information systems and other operational system capabilities. In addition, we will be required to hire, train and retain store management and other qualified personnel. For further information see Part I, Item 1A “Risk Factors-Risk Relating to our Business and Industry.”

Over the past five years we have invested a significant amount of capital in infrastructure and systems necessary to support our future growth and we expect to incur additional capital expenditures related to expansion of our infrastructure and systems in future periods. In fiscal 2011, we relocated our corporate headquarters and upgraded our warehouse management and information systems. In fiscal 2013, we opened our second distribution center in Olive Branch, Mississippi and expanded our corporate headquarters to support our growth. In fiscal 2014, we signed a lease for a new distribution center in Pedricktown, New Jersey to support our anticipated growth and took possession of the new distribution center in June 2015 which replaced our New Castle facility. We occupy approximately 700,000 square feet and will expand to approximately one million square feet by 2019. In fiscal 2015, we invested in a new ERP and began the multi-year implementation of the ERP, which is designed to enhance functionality and provide timely information to the Company's management team related to the operation of the business. In addition, the timing and amount of investments in our infrastructure and systems could affect the comparability of our results of operations in future periods.

We continuously assess ways to maximize the productivity and efficiency of our existing facilities, infrastructure and systems. The timing and amount of investments in our facilities, infrastructure and systems could affect the comparability of our results of operations in future periods. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons.

We believe our business strategy will continue to offer significant opportunity, but it also presents risks and challenges. These risks and challenges include, but are not limited to, that we may not be able to effectively identify and respond to changing trends and customer preferences, that we may not be able to find desirable locations for new stores and that we may not be able to effectively manage our future growth. In addition, our financial results can be expected to be directly impacted by substantial increases in product costs due to commodity cost increases or general inflation which could lead to a reduction in our sales as well as greater margin pressure as costs may not be able to be passed on to consumers. To date, changes in commodity prices and general inflation have not materially impacted our business. In response to increasing commodity prices or general inflation, we seek to minimize the impact of such events by sourcing our merchandise from different vendors and changing our product mix. See Part I, Item 1A “Risk Factors” for a description of these and other important factors that could adversely impact us and our results of operations.

#### 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.

Comparable store sales exclude the 53rd week of sales for 53-week fiscal years. In the 52-week fiscal year subsequent to a 53-week fiscal year, we exclude the sales in the non-comparable week from the same-store sales calculation.

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 Annual 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, including our merchandising and product development team and our planning and allocation group.

These costs are significant and can be expected to continue to increase as our company grows. The components of our cost of goods sold may not be comparable to the components of cost of goods sold or similar measures of our competitors and other retailers. As a result, data in this Annual 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. In addition, any increase in future share-based grants or modifications will increase our share-based compensation expense included in SG&A.

#### Operating Income

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

## Results of Consolidated Operations

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

	Fiscal Year			
	2015	2014	2013	
(in millions, except total stores)				
Consolidated Statements of Operations Data <sup>(1)</sup> :				
Net sales	\$832.0	\$680.2	\$535.4	
Cost of goods sold	540.0	442.4	347.4	
Gross profit	291.9	237.8	188.0	
Selling, general and administrative expenses <sup>(2)</sup>	199.0	160.8	134.3	
Operating income	92.9	77.0	53.7	
Interest expense, net	—	0.1	1.5	
Loss on debt extinguishment	—	0.2	0.3	
Other expense	0.3	—	—	
Income before income taxes	92.7	76.7	52.0	
Income tax expense	35.0	28.6	19.8	
Net income	\$57.7	\$48.0	\$32.1	
Percentage of Net Sales <sup>(1)</sup> :				
Net sales	100.0	% 100.0	% 100.0	%
Cost of goods sold	64.9	% 65.0	% 64.9	%
Gross profit	35.1	% 35.0	% 35.1	%
Selling, general and administrative expenses <sup>(2)</sup>	23.9	% 23.6	% 25.1	%
Operating income	11.2	% 11.3	% 10.0	%
Interest (income) expense, net	—	% —	% 0.3	%
Loss on debt extinguishment	—	% —	% 0.1	%
Other expense (income)	—	% —	% —	%
Income before income taxes	11.1	% 11.3	% 9.7	%
Income tax expense	4.2	% 4.2	% 3.7	%
Net income	6.9	% 7.1	% 6.0	%
Operational Data:				
Total stores at end of period	437	366	304	
Comparable stores sales growth	3.4	% 3.4	% 4.0	%
Average net sales per store <sup>(3)</sup>	\$2.0	\$1.9	\$1.9	

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

Fiscal 2014 and 2013 includes \$0.9 million and \$6.1 million of share-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares and on-going expense

(2) recognition of the awards over the remaining vesting period. In addition, fiscal 2013 includes \$1.0 million of expenses related to legal, accounting, and other fees in connection with secondary public offerings.

(3) Only includes stores open during the full fiscal year.



## Fiscal Year 2015 Compared to Fiscal Year 2014

### Net Sales

Net sales increased to \$832.0 million in fiscal year 2015 from \$680.2 million in fiscal year 2014, an increase of \$151.8 million, or 22.3%. The increase was the result of a non-comparable store sales increase of \$130.7 million and a comparable store sales increase of \$21.1 million. In fiscal year 2015, we opened 71 net new stores compared to 62 new stores in fiscal year 2014. The increase in non-comparable store sales was primarily driven by new stores and the number of stores that opened in fiscal 2014 but have not been open for 15 full months.

Comparable store sales increased 3.4% for fiscal year 2015 compared to fiscal year 2014. This increase resulted from an increase of approximately 1.8% in the number of transactions in our stores and an increase of approximately 1.6% in the average dollar value of transactions.

### Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$540.0 million in fiscal year 2015 from \$442.4 million in fiscal year 2014, an increase of \$97.6 million, or 22.1%. The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from an increase in sales. Also contributing to the increase in cost of goods sold was an increase in store occupancy costs resulting from new store openings and an increase in distribution costs, primarily due to the increase in net sales.

Gross profit increased to \$291.9 million in fiscal year 2015 from \$237.8 million in fiscal year 2014, an increase of \$54.1 million, or 22.8%. Gross margin increased to 35.1% for fiscal year 2015 from 35.0% in fiscal year 2014, an increase of approximately 10 basis points. The increase in gross margin was primarily the result of a decrease in the merchandise costs of goods sold.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$199.0 million in fiscal year 2015 from \$160.8 million in fiscal year 2014, an increase of \$38.2 million, or 23.8%. As a percentage of net sales, SG&A expenses increased approximately 30 basis points to 23.9% in fiscal year 2015 compared to 23.6% in fiscal year 2014. The increase in SG&A expense was primarily the result of increases of \$25.8 million in store-related expenses to support new store growth and our marketing initiatives, \$7.8 million of corporate-related expenses, and \$4.6 million in share-based compensation expense primarily driven by the leadership investments we made in fiscal 2014.

### Income Tax Expense

Income tax expense increased to \$35.0 million in fiscal year 2015 from \$28.6 million in fiscal year 2014, an increase of \$6.4 million, or approximately 22.1%. This increase in income tax expense was primarily the result of a \$16.0 million increase in pre-tax net income. Our effective tax rate for fiscal year 2015 was 37.7% compared to 37.4% in fiscal year 2014.

### Net Income

As a result of the foregoing, net income increased to \$57.7 million in fiscal year 2015 from \$48.0 million in fiscal year 2014, an increase of approximately \$9.7 million, or 20.1%.

## Fiscal Year 2014 Compared to Fiscal Year 2013

### Net Sales

Net sales increased to \$680.2 million in fiscal year 2014 from \$535.4 million in fiscal year 2013, an increase of \$144.8 million, or 27.0%. The increase was the result of a non-comparable store sales increase of \$128.3 million and a comparable store sales increase of \$16.5 million. In fiscal year 2014, we opened 62 new stores compared to 60 net new stores in fiscal year 2013. The increase in non-comparable store sales was primarily driven by new stores and the number of stores that opened in fiscal 2013 but have not been open for 15 full months.

Comparable store sales increased 3.4% for fiscal year 2014 compared to fiscal year 2013. This increase resulted from an increase of approximately 2.0% in the average dollar value of transactions and an increase of approximately 1.4% in the number of transactions in our stores.

#### Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$442.4 million in fiscal year 2014 from \$347.4 million in fiscal year 2013, an increase of \$95.0 million, or 27.4%. The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from an increase in sales. Also contributing to the increase in cost of goods sold was an increase in store occupancy costs resulting from new store openings and an increase in distribution costs, primarily due to the increase in net sales.

Gross profit increased to \$237.8 million in fiscal year 2014 from \$188.0 million in fiscal year 2013, an increase of \$49.8 million, or 26.5%. Gross margin decreased to 35.0% for fiscal year 2014 from 35.1% in fiscal year 2013, a decrease of approximately 10 basis points. The decrease in gross margin was primarily driven by an increase in store occupancy costs.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$160.8 million in fiscal year 2014 from \$134.3 million in fiscal year 2013, an increase of \$26.5 million, or 19.7%. As a percentage of net sales, SG&A expenses decreased 150 basis points to 23.6% in fiscal year 2014 compared to 25.1% in fiscal year 2013. The increase in SG&A expense was primarily the result of increases of \$24.6 million in store-related expenses to support new store growth and \$6.4 million of corporate-related expenses, partially offset by a decrease of \$3.5 million in share-based compensation expense and \$1.0 million of fees related to our secondary public offering that was incurred during fiscal year 2013. The decrease in share-based compensation expense was primarily driven by a decrease of \$5.2 million related to the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012. The remaining expense and vesting related to the cancellation of certain stock options in exchange for the grant of restricted shares from March 2012 was recognized during the first quarter of fiscal 2014. This decrease in share-based compensation expense was partially offset by new equity grants in fiscal 2014.

#### Interest Expense, Net

Interest expense, net decreased to \$0.1 million in fiscal year 2014 from \$1.5 million of interest expense, net in fiscal year 2013, a decrease of \$1.4 million. The decrease in interest expense resulted mainly from the decrease in the outstanding balance of our Term Loan Facility. In February 2014, we repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million.

#### Loss on Debt Extinguishment

Loss on debt extinguishment was \$0.2 million in fiscal year 2014 and was due to the \$19.5 million repayment of the remaining principal balance outstanding on the \$100.0 million Term Loan Facility in February 2014. Loss on debt extinguishment was \$0.3 million in fiscal year 2013 and was due to a \$15.0 million payment of principal on the \$100.0 million Term Loan Facility in May 2013.

#### Income Tax Expense

Income tax expense increased to \$28.6 million in fiscal year 2014 from \$19.8 million in fiscal year 2013, an increase of \$8.8 million, or approximately 44.5%. This increase in income tax expense was primarily the result of a \$24.7 million increase in pre-tax net income. Our effective tax rate for fiscal year 2014 was 37.4% compared to 38.1% in fiscal year 2013. Our effective tax rate for fiscal year 2014 was lower than the comparable period as a result of changes in the mix of pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring.

#### Net Income

As a result of the foregoing, net income increased to \$48.0 million in fiscal year 2014 from \$32.1 million in fiscal year 2013, an increase of approximately \$15.9 million, or 49.4%.

#### Seasonality

Our business is seasonal in nature with the highest level of net sales and net income generated in the fourth fiscal quarter due to the year-end holiday season and therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, we must order and keep in stock more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales, net income and working

capital requirements during the year.

36

---

## Liquidity and Capital Resources

### Overview

Our primary sources of liquidity are cash flows from operations and borrowings under our Revolving Credit Facility (defined in “-Line of Credit”). Our primary cash needs are for capital expenditures and working capital.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately \$44 million in fiscal 2016, which we expect to fund from cash generated from operations. We expect to devote approximately \$27 million of our capital expenditure budget in fiscal 2016 to construct and open 85 new stores, with the remainder projected to be spent on store relocations and remodels, our distribution centers, and our 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, net cash provided by operating activities and borrowings under our Revolving Credit Facility. We did not have any direct borrowings under our Revolving Credit Facility during fiscal year 2015. 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. To the extent that we have drawn on the facility, we have paid down the borrowings before the end of the fiscal year with cash generated during our peak selling season in the fourth quarter.

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

### Cash Flows

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

	Fiscal Year		
	2015	2014	2013
Net cash provided by operating activities	\$87.9	\$61.4	\$31.2
Net cash used in investing activities	(99.4 )	(32.3 )	(25.9 )
Net cash provided by (used in) financing activities	1.4	(16.1 )	(11.2 )
Net (decrease) increase during period in cash and cash equivalents <sup>(1)</sup>	\$(10.1 )	\$13.0	\$(5.9 )

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

### Cash Provided by Operating Activities

Net cash provided by operating activities for fiscal 2015 was \$87.9 million, an increase of \$26.5 million compared to fiscal 2014. The increase was primarily due to an increase in operating cash flows from store performance offset by an increase in income taxes paid. During fiscal 2015, we added 71 net new stores and expect to add approximately 85 new stores in fiscal 2016.

Net cash provided by operating activities for fiscal 2014 was \$61.4 million, an increase of \$30.2 million compared to fiscal 2013. The increase was primarily due to an increase in operating cash flows from store performance. During fiscal 2014, we added 62 new stores.



#### Cash Used in Investing Activities

Net cash used in investing activities for fiscal 2015 was \$99.4 million, an increase of \$67.1 million compared to fiscal 2014 related to capital expenditures and the purchases of investment securities. The increase in capital expenditures was primarily for our new store construction, our distribution facilities and our corporate infrastructure.

Net cash used in investing activities for fiscal 2014 was \$32.3 million, an increase of \$6.4 million compared to fiscal 2013 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction, our corporate infrastructure and our distribution facilities.

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

Net cash provided by financing activities for fiscal year 2015 was \$1.4 million, an increase of \$17.5 million compared to net cash used in financing activities of \$16.1 million in fiscal year 2014. The increase in net cash provided by financing activities was primarily the result of the \$19.5 million repayment of the remaining principal balance outstanding on the \$100.0 million Term Loan Facility in fiscal year 2014.

Net cash used in financing activities for fiscal year 2014 was \$16.1 million, an increase of \$4.9 million compared to net cash used in financing activities of \$11.2 million in fiscal year 2013. The increase in net cash used in financing activities was primarily the result of the \$19.5 million principal repayment on the Term Loan Facility in fiscal year 2014 compared to \$15.0 million principal repayments on the Term Loan Facility during fiscal year 2013.

#### 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. In February 2014, we repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million.

#### Line of Credit

On August 18, 2006, we entered into a loan and security agreement (the "Loan and Security Agreement") that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement has been amended and/or restated several times, the latest on June 12, 2013 (as amended and restated, the "Revolving Credit Facility"), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates, permit the formation and capitalization of subsidiaries, make the Subsidiary a party to the agreement as a guarantor of our obligations and modify certain definitions.

The Revolving Credit Facility allows maximum borrowings of \$20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017 or (ii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to \$30.0 million upon certain conditions. The Revolving Credit Facility includes a \$5.0 million sub limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves.

The Revolving Credit Facility provides for interest on borrowings, at our option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of approximately \$12.0 thousand per year.

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

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

or consolidations; or (vii) change our business.

Additionally, the Revolving Credit Facility is subject to payment upon the receipt of certain proceeds, including those from the sale of certain assets and is subject to an increase in the interest rate on borrowings and the letter of credit fee of 2.0%

38

---

upon an event of default. Amounts under the Revolving Credit Facility may become due upon certain events of default including, among others, failure to comply with the Revolving Credit Facility's covenants, bankruptcy, default on certain other indebtedness or a change in control.

During fiscal 2015, we had no borrowings or interest expense under the Revolving Credit Facility. During fiscal 2014, we borrowed approximately \$7.0 million under our Revolving Credit Facility during the fourth quarter, which we repaid before the end of the quarter and incurred minimal interest. As of January 30, 2016 and January 31, 2015, we had approximately \$20.0 million available on the line of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets and are guaranteed by the Subsidiary. As of January 30, 2016, we were in compliance with the covenants applicable to us under the Revolving Credit Facility.

#### Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and understanding of our consolidated results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect our reported and expected financial results. Our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. For a detailed discussion on the application of these and other accounting policies, see Note 1 in our annual consolidated financial statements included elsewhere in this Annual Report.

#### Inventories

Inventories consist of finished goods purchased for resale, including freight, and are stated at the lower of cost or market value, at the individual product level. Cost is determined on a weighted average cost method which approximates a FIFO (first-in, first-out) basis. The market value used in the lower of cost or market analysis is subject to the effects of consumer demands, customer preferences and the broader economy. The effects of the previously listed criteria are not controllable by management. Our management reviews inventory levels in order to identify obsolete and slow-moving merchandise as these factors can indicate a decline in the market value of inventory on hand. Inventory cost is reduced when the selling price less costs of disposal is below cost. We accrue an estimate for inventory shrink for the period between the last physical count and the balance sheet date. The shrink estimate can be affected by changes in merchandise mix and changes in actual shrink trends. These estimates are derived using available data and our historical experience. Our estimates may be impacted by changes in certain underlying assumptions and may not be indicative of future activity.

#### Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level of which there are identifiable cash flows, which is generally at a store level. Assets are reviewed for impairment using factors including, but not limited to, our future operating plans and projected cash flows. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is based on discounted future cash flows of the asset using a discount rate commensurate with the risk. In the event of a store closure, we will record an impairment charge, if appropriate, or accelerate depreciation over the revised useful life of the asset. Based on the analysis performed, our management believes that there was no impairment of long-lived assets for each of the 2015, 2014 and 2013 fiscal years. The impairment loss analysis requires management to apply judgment and make estimates.

#### Income Taxes

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of



existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, our management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Our management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

#### Share-Based Compensation

Our share-based compensation expense is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the employee's requisite service period (generally the vesting period of the equity grant). We recognize compensation expense based on the estimated grant date fair value of restricted stock awards and use the Black-Scholes option-pricing model for grants of stock options. The determination of the grant date fair value of options using an option-pricing model is affected by a number of assumptions, such as our common stock fair value, our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates and expected dividends. As a result, if any of the inputs or assumptions used in the Black-Scholes model change significantly, share-based compensation for future awards may differ materially compared with the awards granted previously.

We account for share-based compensation for non-employee stock options by using the Black-Scholes option-pricing model and record expense as the options vest. Non-employee options subject to vesting are required to be periodically revalued over their service period, which is generally the same as the vesting period.

There are significant judgments and estimates inherent in the determination of fair value of share-based awards. These judgments and estimates include determinations of an appropriate valuation method and the selection of appropriate inputs to be used in the valuation model. The use of alternative assumptions, including expected term, volatility, risk-free interest rate and dividend yield, could cause share-based compensation to differ significantly from what has been recorded in the past. Future share-based compensation cost will increase when we grant additional equity awards. Modifications, cancellations or repurchases of awards may require us to accelerate any remaining unearned share-based compensation cost or incur additional cost.

The fair value of restricted stock awards are based on the closing price of our common stock on the grant date and the fair value of stock options are based on the Black-Scholes option-pricing model utilizing the closing price of our common stock on the grant date as the fair value of common stock in the model. We utilize the simplified method to estimate the expected term of the option. The expected volatility incorporates historical and implied volatility of similar entities whose share prices are publicly available. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that clarifies the principles for recognizing revenue from contracts with customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016. The updated allows for a "full retrospective" adoption, meaning the update is applied to all periods presented, or a "modified retrospective" adoption, meaning the update is applied only the most current period presented in the financial statements. Early adoption is not permitted. We are currently evaluating the impact of the updated guidance on our consolidated financial statements and disclosures.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We elected to early adopt this guidance effective the fourth quarter of Fiscal 2015, and we retrospectively applied the change within our Consolidated Balance Sheets.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the

impact of the updated guidance on our consolidated financial statements and disclosures.

40

---

### Contractual Obligations

The following table summarizes, as of January 30, 2016, our minimum rental commitments under operating lease agreements including assumed extensions, minimum payments for long-term debt and other obligations in future periods:

(In millions)	Payments Due By Period				
	Total <sup>(1)</sup>	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations <sup>(2)</sup>	\$616.8	\$74.4	\$153.6	\$150.2	\$238.6
Purchase obligations <sup>(3)</sup>	3.7	3.7	—	—	—
Total	\$620.5	\$78.1	\$153.6	\$150.2	\$238.6

(1) The amounts in this table exclude obligations under employment agreements. For a discussion of the compensation of our executive officers, see Part III, Item 11 “Executive Compensation”.

(2) Our store leases generally have initial lease terms of 10 years and include renewal options on substantially the same terms and conditions as the original lease. Also included in operating leases are our leases for the corporate office and distribution centers.

(3) Purchase obligations are primarily for materials that will be used in the construction of new stores and purchase commitments for infrastructure and systems that will be used by the corporate office and distribution centers.

From January 31, 2016 to March 23, 2016, we committed to 14 new store leases with terms of 10 years that have future minimum lease payments of approximately \$25.0 million.

### Off Balance Sheet Arrangements

For the fiscal year ended January 30, 2016, 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 7A. 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 short-term investment securities that are interest-bearing securities and if there are changes in interest rates, those changes would affect the interest income we earn on these investments and, therefore, impact our cash flows and results of operations. However, due to the short term nature of our investment portfolio, we do not believe an immediate 100 basis point increase or decrease in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We also have a Revolving Credit Facility which includes a revolving line of credit with advances tied to a borrowing base, which bears interest at a variable rate. Because our Revolving Credit Facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates. As of January 30, 2016, we had no borrowings outstanding under the Revolving Credit Facility. The Revolving Credit Facility provides for interest on borrowings, at the Company's option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption

of specific hedging strategies in the future.

**Impact of Inflation**

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FIVE BELOW, INC.

Index to Consolidated Financial Statements

	Page
<u>Report of KPMG LLP, Independent Registered Public Accounting Firm</u>	<u>43</u>
<u>Consolidated Balance Sheets as of January 30, 2016 and January 31, 2015</u>	<u>44</u>
<u>Consolidated Statements of Operations for Fiscal Years 2015, 2014 and 2013</u>	<u>45</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for Fiscal Years 2015, 2014 and 2013</u>	<u>46</u>
<u>Consolidated Statements of Cash Flows for Fiscal Years 2015, 2014 and 2013</u>	<u>47</u>
<u>Notes to Consolidated Financial Statements</u>	<u>48</u>

42

---

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Five Below, Inc.:

We have audited the accompanying consolidated balance sheets of Five Below, Inc. and subsidiary as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Five Below, Inc. and subsidiary as of January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Five Below, Inc.'s internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 23, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 23, 2016

## FIVE BELOW, INC.

## Consolidated Balance Sheets

(in thousands, except share and per share data)

	January 30, 2016	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$53,081	\$63,186
Short-term investment securities	46,335	—
Inventories	148,370	115,652
Prepaid income taxes	1,341	1,939
Prepaid expenses and other current assets	15,618	18,180
Total current assets	264,745	198,957
Property and equipment, net	119,784	86,998
Deferred income taxes	8,507	7,881
Other assets	258	284
	\$393,294	\$294,120
Liabilities and Shareholders' Equity		
Current liabilities:		
Line of credit	\$—	\$—
Accounts payable	58,225	39,222
Income taxes payable	11,942	14,442
Accrued salaries and wages	7,661	5,275
Other accrued expenses	24,368	20,462
Total current liabilities	102,196	79,401
Deferred rent and other	46,617	40,450
Total liabilities	148,813	119,851
Commitments and contingencies (note 4)		
Shareholders' equity:		
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,590,641 and 54,420,228 shares, respectively.	546	544
Additional paid-in capital	306,522	293,992
Accumulated deficit	(62,587	) (120,267
Total shareholders' equity	244,481	174,269
	\$393,294	\$294,120

See accompanying notes to consolidated financial statements.



## FIVE BELOW, INC.

## Consolidated Statements of Operations

(in thousands, except share and per share data)

	Fiscal Year			
	2015	2014	2013	
Net sales	\$831,954	\$680,218	\$535,402	
Cost of goods sold	540,020	442,427	347,386	
Gross profit	291,934	237,791	188,016	
Selling, general and administrative expenses	198,993	160,775	134,279	
Operating income	92,941	77,016	53,737	
Interest (income) expense, net	(40	) 125	1,513	
Loss on debt extinguishment	—	244	266	
Other expense (income)	325	(12	) —	
Income before income taxes	92,656	76,659	51,958	
Income tax expense	34,976	28,635	19,816	
Net income	57,680	48,024	32,142	
Net income attributable to participating securities	—	(20	) (465	)
Net income attributable to common shareholders	\$57,680	\$48,004	\$31,677	
Basic income per common share	\$1.06	\$0.89	\$0.59	
Diluted income per common share	\$1.05	\$0.88	\$0.59	
Weighted average shares outstanding:				
Basic shares	54,513,622	54,219,801	53,294,805	
Diluted shares	54,793,301	54,573,855	53,741,860	

See accompanying notes to consolidated financial statements.

## FIVE BELOW, INC.

## Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except share and per share data)

	Common stock		Additional paid-in capital	Accumulated deficit	Total shareholders' equity
	Shares	Amount			
Balance, February 2, 2013	53,980,797	\$ 540	\$ 270,637	\$ (200,433 )	\$ 70,744
Share-based compensation expense	10,069	—	9,854	—	9,854
Exercise of options and warrants to purchase common stock	196,941	2	1,482	—	1,484
Vesting of restricted shares related to stock option exercises	—	—	239	—	239
Repurchase of unvested restricted shares related to stock option exercises	(648 )	—	—	—	—
Excess tax benefit related to restricted shares and exercises of stock options and warrants	—	—	2,262	—	2,262
Issuance of common stock to employees under employee stock purchase plan	3,565	—	148	—	148
Net income	—	—	—	32,142	32,142
Balance, February 1, 2014	54,190,724	542	284,622	(168,291 )	116,873
Share-based compensation expense	—	—	5,757	—	5,757
Issuance of unrestricted stock awards	4,324	—	160	—	160
Exercise of options to purchase common stock	207,809	2	1,479	—	1,481
Vesting of restricted shares related to stock option exercises	—	—	61	—	61
Vesting of restricted stock units	22,286	—	—	—	—
Purchase and retirement of treasury shares	(9,173 )	—	(314 )	—	(314 )
Repurchase of unvested restricted shares related to stock option exercises	(87 )	—	(1 )	—	(1 )
Excess tax benefit related to exercises of stock options	—	—	2,049	—	2,049
Issuance of common stock to employees under employee stock purchase plan	4,345	—	179	—	179
Net income	—	—	—	48,024	48,024
Balance, January 31, 2015	54,420,228	544	293,992	(120,267 )	174,269
Share-based compensation expense	—	—	10,876	—	10,876
Issuance of unrestricted stock awards	7,947	—	280	—	280
Exercise of options to purchase common stock	115,364	2	910	—	912
Vesting of restricted stock units	51,546	—	—	—	—
Common shares withheld for taxes	(9,462 )	—	(322 )	—	(322 )
Excess tax benefit related to exercises of stock options	—	—	608	—	608
Issuance of common stock to employees under employee stock purchase plan	5,018	—	178	—	178
Net income	—	—	—	57,680	57,680
Balance, January 30, 2016	54,590,641	\$ 546	\$ 306,522	\$ (62,587 )	\$ 244,481

See accompanying notes to consolidated financial statements.

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

	Fiscal Year		
	2015	2014	2013
Operating activities:			
Net income	\$57,680	\$48,024	\$32,142
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,227	17,202	13,469
Share-based compensation expense	11,172	5,931	10,092
Deferred income tax benefit	(626)	(3,063)	(5,074)
Other non-cash expenses	59	444	1,032
Changes in operating assets and liabilities:			
Prepaid income taxes	598	(442)	(1,461)
Inventories	(32,718)	(26,275)	(28,546)
Prepaid expenses and other assets	2,561	(2,936)	(3,597)
Accounts payable	17,578	3,060	4,083
Income taxes payable	(2,500)	8,435	(1,076)
Accrued salaries and wages	2,386	2,603	(1,532)
Deferred rent	6,398	5,669	8,384
Other accrued expenses	3,098	2,778	3,271
Net cash provided by operating activities	87,913	61,430	31,187
Investing activities:			
Purchases of investment securities	(46,335)	—	—
Capital expenditures	(53,059)	(32,322)	(25,931)
Net cash used in investing activities	(99,394)	(32,322)	(25,931)
Financing activities:			
Repayment of note payable under Term Loan Facility	—	(19,500)	(15,000)
Borrowing on note payable under Revolving Credit Facility	—	7,000	—
Repayment of note payable under Revolving Credit Facility	—	(7,000)	—
Net proceeds from issuance of common stock	178	179	148
Proceeds from exercise of options to purchase common stock	912	1,481	1,484
Common shares withheld for taxes	(322)	(314)	—
Excess tax benefit related to restricted shares and exercise of stock options and warrants	608	2,049	2,262
Other	—	(1)	(47)
Net cash provided by (used in) financing activities	1,376	(16,106)	(11,153)
Net (decrease) increase in cash and cash equivalents	(10,105)	13,002	(5,897)
Cash and cash equivalents at beginning of year	63,186	50,184	56,081
Cash and cash equivalents at end of year	\$53,081	\$63,186	\$50,184
Supplemental disclosures of cash flow information:			
Interest paid	\$25	\$129	\$1,259
Income taxes paid	\$36,897	\$21,587	\$25,039
Non-cash investing activities			
Increase (decrease) in accounts payable and accrued purchases of property and equipment	\$1,986	\$(1,673)	\$606

See accompanying notes to consolidated financial statements.



Five Below, Inc.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

The Company is incorporated in the Commonwealth of Pennsylvania and, as of January 30, 2016, operated in 27 states that include Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Massachusetts, New Hampshire, West Virginia, North Carolina, New York, Connecticut, Rhode Island, Ohio, Illinois, Indiana, Michigan, Missouri, Georgia, Texas, Tennessee, Maine, Alabama, Kentucky, Kansas, Florida, South Carolina, and Mississippi. As of January 30, 2016 and January 31, 2015, the Company operated 437 stores and 366 stores, respectively, each operating under the name "Five Below."

On June 12, 2013, the Company completed an internal business restructuring pursuant to which the Company formed Five Below Merchandising, Inc., a wholly-owned subsidiary (the "Subsidiary"), and transferred to the Subsidiary assets, operations and employees related to the Company's merchandising operations (the "Restructuring"). Following the Restructuring, the Subsidiary purchases and sells to the Company certain goods for sale at the Company's retail locations, and the Company provides to the Subsidiary back office support, office space and other services, in each case, pursuant to agreements between the Company and the Subsidiary. The Company's consolidated financial statements include the accounts of Five Below, Inc. and the Subsidiary. All intercompany transactions and accounts are eliminated in the consolidation of the Company's and Subsidiary's financial statements.

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to "fiscal year 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016 and consists of a 52-week fiscal year. References to "fiscal year 2014" or "fiscal 2014" refer to the period from February 2, 2014 to January 31, 2015 and consists of a 52-week fiscal year. References to "fiscal year 2013" or "fiscal 2013" refer to the period from February 3, 2013 to February 1, 2014 and consists of a 52-week fiscal year.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity date of three months or less when purchased to be cash equivalents. Our cash equivalents consist of credit and debit card receivables, money market funds, certificates of deposit, corporate bonds and municipal bonds, which are classified as cash and cash equivalents in the accompanying consolidated balance sheets. The majority of payments due from banks for third-party credit card and debit card transactions resulting from customer purchases at the Company's retail stores process within 24 to 48 hours, except for transactions occurring on a Friday, which are generally processed the following Monday. Amounts due from banks for these transactions classified as cash equivalents totaled \$3.9 million and \$3.1 million as of January 30, 2016 and January 31, 2015, respectively. Book overdrafts, which are outstanding checks in excess of funds on deposit, are recorded within accounts payable in the accompanying consolidated balance sheets and within operating activities in the accompanying consolidated statements of cash flows. As of January 30, 2016 and January 31, 2015, the Company had cash equivalents of \$22.6 million and \$43.1 million, respectively.

**(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, short-term investment securities, accounts payable, and borrowings under a line of credit (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 approximates their fair value because the line of credit's interest rates vary with market interest rates. Under the fair value hierarchy, the fair market values of the short-term investments in corporate bonds are level 1 while the short-term investments in certificates of deposits and municipal bonds are level 2. The fair market values of level 2 investments are determined by management with the assistance of a third party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the third party pricing service using observable market information such as quotes from less active markets and quoted prices of similar securities.

As of January 30, 2016, the Company's short-term investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Corporate bonds	\$37,127	\$—	\$29	\$37,098
Certificates of deposit	6,916	6	—	6,923
Municipal bonds	2,291	—	—	2,291
Total	\$46,335	\$6	\$29	\$46,312

Investment securities as of January 30, 2016 all mature in one year or less.

**(e) Inventories**

Inventories consist of finished goods purchased for resale, including freight, and are stated at the lower of cost or market value, at the individual product level. Cost is determined on a weighted average cost method which approximates a FIFO (first-in, first-out) basis due to the nature of the Company's inventory. Management of the Company reviews inventory levels in order to identify slow-moving merchandise and uses markdowns to clear merchandise. Inventory cost is reduced when the selling price less costs of disposal is below cost. The Company accrues an estimate for inventory shrink for the period between the last physical count and the balance sheet date. The shrink estimate can be affected by changes in merchandise mix and changes in actual shrink trends.

**(f) Property and Equipment**

Property and equipment are stated at cost. Additions and improvements are capitalized, while repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is recorded using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the respective leases, if applicable. The estimated useful lives are three to ten years for furniture and fixtures and computers and equipment. Store leasehold improvements are amortized over the shorter of the useful life or the lease term plus assumed extensions, which is generally 10 years. Depreciation and amortization expense for property and equipment, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations, was \$22.2 million, \$17.2 million and \$13.5 million in fiscal

2015, fiscal 2014 and fiscal 2013, respectively.

49

---

Property and equipment, net, consists of the following (in thousands):

	January 30, 2016	January 31, 2015
Furniture and fixtures	\$81,418	\$54,933
Leasehold improvements	80,814	64,109
Computers and equipment	28,358	20,017
Construction in process	3,589	7,324
Property and equipment, gross	194,179	146,383
Less: Accumulated depreciation and amortization	(74,395	) (59,385
Property and equipment, net	\$119,784	\$86,998

(g) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, then an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Based on its Company's most recent analysis, management believes that no impairment of long-lived assets exists as of January 30, 2016.

(h) Deferred Financing Costs

Deferred financing costs (note 3) are amortized to interest expense over the term of the related credit agreement. Amortization expense in fiscal 2015, fiscal 2014 and fiscal 2013 was \$27.0 thousand, \$24.7 thousand, and \$0.3 million, respectively. In connection with the repayments of the \$100.0 million term loan facility in the amounts of \$19.5 million and \$15.0 million in fiscal 2014 and fiscal 2013, respectively, we wrote-off approximately \$0.2 million and \$0.3 million of deferred financing costs in fiscal 2014 and fiscal 2013, respectively, which is included in loss on debt extinguishment in the accompanying consolidated statements of operations.

(i) Leases

The Company leases store locations, distribution centers, and equipment used in its operations and evaluates and classifies its leases as operating or capital leases for financial reporting purposes. Any assets held under a capital lease are included in property and equipment, net. As of January 30, 2016 and January 31, 2015, the Company had no material capital leases.

Operating lease expense is recorded on a straight-line basis over the lease term. At the inception of a lease, the Company determines the lease term, which includes periods under the exercise of renewal options that are reasonably assured. Renewal options are exercised at the Company's sole discretion. The corporate headquarters is leased under a lease agreement expiring in 2022, with options to renew for two successive five-year periods. The distribution center in Olive Branch, Mississippi is leased under a lease agreement expiring in 2022 with options to renew for three successive five-year periods. The new distribution center in Pedricktown, New Jersey is leased under a lease agreement expiring in 2025 with options to renew for three successive five-year periods. Generally, the Company's store leases have expected lease terms of ten years, which are comprised of an initial term of ten years or an initial term of five years and one assumed five-year extension, resulting in a ten-year life. The expected lease term is used to determine whether a lease is capital or operating and to calculate straight-line rent expense.

Substantially all of the Company's leases include options that allow the Company to renew or extend the lease term beyond the initial lease period, subject to terms and conditions agreed upon at the inception of the lease. Such terms and conditions include rental rates agreed upon at the inception of the lease that could represent below or above market rental rates later in the life of the lease, depending upon market conditions at the time of such renewal or extension. In addition, the Company's leases may include early termination options.

(j) Deferred Rent and Other

Certain of the Company's operating leases contain either rent holidays and/or predetermined fixed escalations of minimum rentals during the original and/or extended lease terms. For these leases, the Company recognizes the related rent expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as deferred rent. The life of the lease is the initial term plus assumed



extensions. The Company also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as deferred rent at the beginning of the lease term and recognized as a reduction of rent expense over the lease term. In addition, certain of the

50

---

Company's leases contain future contingent increases in rents. Such increases in rent expense are recorded in the period in which such contingent increases to the rents take place.

The following table summarizes the Company's deferred rent and other long-term liabilities balances (in thousands):

	January 30, 2016	January 31, 2015
Current:		
Deferred rent <sup>(1)</sup>	\$3,847	\$3,711
Total current liabilities	\$3,847	\$3,711
Long-term:		
Deferred rent	\$46,384	\$40,122
Other	233	328
Total long-term liabilities	\$46,617	\$40,450

(1) The current portion of deferred rent is included in the other accrued expenses line item in the accompanying consolidated balance sheets.

(k) Share-based Compensation

The Company measures the cost of employee services received in exchange for share-based compensation based on the grant date fair value of the employee stock award. Incremental compensation costs arising from subsequent modifications of awards after the grant date must also be recognized. The Company recognizes compensation expense based on the estimated grant date fair value of restricted stock awards, and using the Black-Scholes option-pricing model for grants of stock options which are both recorded on a straight-line basis over the vesting period for the entire award. Share-based compensation cost recognized and included in expenses for fiscal 2015, fiscal 2014 and fiscal 2013, was \$11.2 million, \$5.9 million and \$10.1 million, respectively.

(l) Revenue Recognition

Revenue is recognized at the point of sale. Returns are accepted under certain conditions within 14 days of purchase. Returns subsequent to the period end are immaterial; accordingly, no reserve has been recorded. Gift card sales to customers are initially recorded as liabilities and recognized as sales upon redemption for merchandise. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, excluded from sales in the accompanying consolidated statements of operations.

(m) Cost of Goods Sold

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 the Company's distribution centers and between store locations. Buying costs include compensation expense for the Company's internal buying organization.

(n) Selling, General and Administrative Expenses

Selling, general and administrative expenses include payroll and other compensation, marketing and advertising expense, depreciation and amortization expense, and other selling and administrative expenses.

(o) Vendor Allowances

The Company receives various incentives in the form of allowances, free product and promotional funds from its vendors based on product purchases and advertising activities. The amounts received are subject to changes in market conditions, vendor marketing strategies and changes in the profitability or sell-through of the related merchandise for the Company. Merchandise allowances are recorded in cost of goods and recognized in the period the related merchandise is sold. Marketing allowances are recorded in selling, general and administrative expenses and are recognized in the period the related advertising occurs to the extent the allowance is a reimbursement that is specific and incremental, and identifiable costs have been incurred by the Company to sell the vendor's products. To the extent these conditions are not met, these allowances are recorded as merchandise allowances.

(p) Store Pre-Opening Costs

Costs incurred between completion of a new store location's construction and its opening (pre-opening costs) are charged to expense as incurred. Pre-opening costs were \$4.9 million, \$4.6 million and \$4.3 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively, and are recorded in the accompanying consolidated statements of operations based on the nature of the expense.

(q) Advertising Costs

Advertising costs are charged to expense the first time the advertising takes place. Advertising expenses were \$22.2 million, \$19.3 million and \$15.6 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(r) Income Taxes

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

(s) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(t) Use of Estimates

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

(u) Reclassifications

Certain prior year balances presented in the consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation.

(v) Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that clarifies the principles for recognizing revenue from contracts with customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016. The updated allows for a "full retrospective" adoption, meaning the update is applied to all periods presented, or a "modified retrospective" adoption, meaning the update is applied only the most current period presented in the financial statements. Early adoption is not permitted. The Company is currently evaluating the impact of updated guidance on the Company's consolidated financial statements and disclosures.



In November 2015, the FASB issued ASU 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company elected to early adopt this guidance effective the fourth quarter of Fiscal 2015, and the Company retrospectively applied the change within the accompanying balance sheets. As a result of the retrospective adoption, the Company reclassified the January 31, 2015 consolidated balance sheet resulting in a reduction of \$8.6 million in current deferred income tax assets, a reduction of long term deferred income tax liabilities of \$0.7 million and an increase in long term deferred income tax assets of \$7.8 million.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the Company's consolidated financial statements and disclosures.

## (2) Income Per Common Share

Basic income per common share amounts are calculated using the weighted-average number of common shares outstanding for the period. Diluted income per common share amounts are calculated using the weighted-average number of common shares outstanding for the period and include the dilutive impact of exercise of stock options as well as assumed lapse of restrictions on restricted stock awards and shares currently available for purchase under the Company's Employee Stock Purchase Plan, using the treasury stock method. Performance-based restricted stock units are considered contingently issuable shares for diluted income per common share purposes and the dilutive impact, if any, is not included in the weighted-average shares until the performance conditions are met.

The two-class method is used to calculate basic and diluted income per common share for the applicable periods since certain of the Company's restricted stock were participating securities. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Under the two-class method, basic income per common share is computed by dividing net income attributable to common shares after allocation of income to participating securities by the weighted-average number of common shares outstanding during the year.

Diluted income per common share is computed using the more dilutive of the two-class method or the if-converted method. In periods of net loss, no effect is given to participating securities since they do not contractually participate in the losses of the Company. The two-class method is the more dilutive method for fiscal 2014 and fiscal 2013. As of January 31, 2015, the Company no longer has any outstanding participating securities.

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

	Fiscal Year		
	2015	2014	2013
Numerator:			
Net income	\$57,680	\$48,024	\$32,142
Net income attributable to participating securities	—	(20	) (465
Net income attributable to common shareholders	\$57,680	\$48,004	\$31,677
Denominator:			
Weighted average common shares outstanding - basic	54,513,622	54,219,801	53,294,805
Dilutive impact of options, restricted stock units, and employee stock purchase plan	279,679	354,054	447,055
Weighted average common shares outstanding - diluted	54,793,301	54,573,855	53,741,860
Per common share:			
Basic income per common share	\$1.06	\$0.89	\$0.59
Diluted income per common share	\$1.05	\$0.88	\$0.59

For fiscal 2014 and fiscal 2013, \$20.0 thousand and \$0.5 million respectively, of net income was attributable to participating securities, as the two-class method was more dilutive, and the remainder was attributable to common shareholders.

The effects of the assumed exercise of stock options outstanding as of January 30, 2016 for 710,153 shares of common stock were excluded from the fiscal 2015 calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of non-vested restricted stock units outstanding as of January 30, 2016 for approximately 6,500 shares of common stock were excluded from the fiscal 2015 calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of stock options outstanding as of January 31, 2015 for 593,773 shares of common stock were excluded from the fiscal 2014 calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of non-vested restricted stock units outstanding as of January 31, 2015 for 3,930 shares of common stock were excluded from the fiscal 2014 calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of stock options outstanding as of February 1, 2014 for 388,197 shares of common stock were excluded from the fiscal 2013 calculation of diluted net income per share as their impact would have been anti-dilutive.

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

### (3) Financing Transactions and Line of Credit

#### Financing Transactions

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 stock and Preferred Stock 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 Company refers to the Term Loan Facility, the amendment and restatement of the Revolving Credit Facility and related transactions as the "Financing Transactions." On June 12, 2013 in connection with the Restructuring, the Subsidiary acceded to the credit agreement and certain ancillary documents to the Company's Term Loan Facility as a guarantor of the Company's obligations thereunder.

In 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. In February 2014, the Company repaid the remaining principal balance outstanding under the Term Loan Facility of \$19.5 million.

In connection with the \$15.0 million and \$19.5 million of principal repayments on the Term Loan Facility in fiscal 2013 and fiscal 2014, respectively, approximately \$0.3 million and \$0.2 million of the deferred financing costs were written off and included in loss on debt extinguishment in the consolidated statements of operations, respectively.

During fiscal 2015, fiscal 2014 and fiscal 2013, the Company recorded amortization of deferred financing fees of \$27.0 thousand, \$24.7 thousand and \$0.3 million, respectively, which is included in interest expense.

The Company had approximately \$34.8 thousand and \$0.1 million of remaining deferred financing fees as of January 30, 2016 and January 31, 2015, respectively.

#### Line of Credit

In 2006, the Company entered into a Loan and Security Agreement (the "Loan and Security Agreement") with Wells Fargo Bank, National Association that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement was 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 the Subsidiary, and make the Subsidiary a party to the Loan and Security 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 or (ii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to \$30.0 million upon certain conditions. The Revolving Credit Facility includes a \$5.0 million sub-limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card

receivables plus 90% of the net recovery percentage of eligible inventory less established reserves. The Company incurred deferred financing costs of \$50.0 thousand in May 2012 in connection with the Revolving Credit Facility and such costs 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 \$12.0 thousand per year.

The Revolving Credit Facility includes a covenant which requires the Company to maintain minimum excess collateral availability of no less than the greater of (i) 10% of the then effective maximum credit and (ii) \$3.0 million. The Revolving Credit Facility also includes customary negative and affirmative covenants including, among others, limitations on the Company's ability to (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change the Company's business.

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

During fiscal 2015 and fiscal 2013, the Company had no borrowings or interest expense under the Revolving Credit Facility. During fiscal 2014, the Company borrowed approximately \$7.0 million under our Revolving Credit Facility during the fourth quarter, which was repaid before the end of the quarter and incurred minimal interest.

As of January 30, 2016, January 31, 2015, and February 1, 2014, the Company had approximately \$20.0 million available on the line of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of the Company's assets and are guaranteed by the Subsidiary. As of January 30, 2016 and January 31, 2015, the Company was in compliance with the covenants applicable to it under the Revolving Credit Facility.

#### (4) Commitments and Contingencies

##### Commitments

##### Leases

The Company leases property and equipment under non-cancelable operating leases. Certain retail store lease agreements provide for contingent rental payments if the store's net sales exceed stated levels (percentage rents) and/or contain escalation clauses, which provide for increases in base rental for increases in future operating costs. Many of the Company's leases provide for one or more renewal options for periods of five years. The Company's operating lease agreements, including assumed extensions, which are generally those that take the lease to a ten-year term, expire through fiscal 2025.

The Company's minimum rental commitments under operating lease agreements, including assumed extensions, as of January 30, 2016, are as follows (in thousands):

Fiscal Year	Retail stores	Corporate office and distribution centers	Total
2016	\$67,706	\$6,744	\$74,450
2017	70,618	6,603	77,221
2018	69,243	7,128	76,371
2019	68,055	7,748	75,803
2020	65,993	8,379	74,372
Thereafter	209,793	28,815	238,608
	\$551,408	\$65,417	\$616,825

Rent expense, including base and contingent rent under operating leases, was \$66.0 million, \$53.6 million and \$41.8 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Contingent rents were \$0.6 million, \$0.5 million and \$0.5 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

From January 31, 2016 to March 23, 2016, the Company committed to 14 new store leases with terms of 10 years that have future minimum lease payments of approximately \$25.0 million.

#### Other contractual commitments

The Company has employment agreements with certain key employees that provide for, among other things, salary, bonus, severance, and change-in-control provisions. The severance and change of control provisions under these agreements provide for additional payments upon employee separation of up to approximately \$4.1 million.

As of January 30, 2016, the Company has other purchase commitments of approximately \$3.7 million consisting of purchase agreements for materials that will be used in the construction of new stores.

#### Contingencies

#### Legal Matters

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

#### (5) Shareholders' Equity

As of January 30, 2016, the Company is authorized to issue 120,000,000 shares of \$0.01 par value common stock and 5,000,000 shares of \$0.01 par value preferred stock. The holders of the 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 and the qualifications, limitations and restrictions thereof shall be designated by the board of directors.

#### Common Stock

The Company and its shareholders have entered into an Amended and Restated Investor Rights Agreement and a Second

Amended and Restated Shareholders Agreement, which provided for, among others, certain registration, information, first refusal, co-sale, observer, bring along and board of director voting rights. The Second Amended and Restated Shareholders Agreement also provided for certain restrictions and obligations with respect to the stock of the Company held by the Company's shareholders, including limits on the transfer of stock held by shareholders. The material provisions of the Second Amended and Restated Shareholders Agreement were terminated in connection with the Company's IPO. In addition, in connection with the IPO, the parties amended the agreement to terminate all rights except for certain registration rights, which requires the Company to register shares of our common stock held by certain shareholders in the event the Company registers for sale, either for the Company's own account or for the account of others, shares of the Company's common stock in certain offerings.

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

In connection with the cancellation and grant, the Company recorded a total compensation expense of \$17.4 million including \$5.3 million which was recorded on the date of the modification and the remainder was recorded on a straight-line basis over the two-year vesting period.

The Five Below, Inc. 2012 Employee Stock Purchase Plan (the "ESPP") is intended to be qualified as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986. The 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, subject to limitations, 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. In fiscal 2015, the Company issued 5,018 shares of common stock under the ESPP resulting in proceeds of approximately \$0.2 million and recorded share-based compensation expense of \$16.5 thousand in connection with the ESPP related to the amount of the discount. In fiscal 2014, the Company issued 4,345 shares of common stock under the ESPP resulting in proceeds of approximately \$0.2 million and recorded share-based compensation expense of \$16.4 thousand in connection with the ESPP related to the amount of the discount. In fiscal 2013, the Company issued 3,565 shares of

common stock under the ESPP resulting in proceeds of approximately \$0.1 million and recorded share-based compensation expense of \$13.5 thousand in connection with the ESPP related to the amount of the discount.

## (6) Share-Based Compensation

## Equity Incentive Plan

Pursuant to the Company's 2002 Equity Incentive Plan (the "Plan"), the Company's board of directors may grant stock options, restricted shares and restricted stock units to officers, directors, key employees and professional service providers. The Plan, as amended, allows for the issuance of up to a total of 7,600,000 shares under the Plan. As of January 30, 2016, 3,805,804 stock options, restricted shares, or restricted stock units were available for grant.

## Common Stock Options

All stock options have a term not greater than ten years. Stock options vest and become exercisable in whole or in part, in accordance with vesting conditions set by the Company's board of directors. Options granted to date generally vest over four years from the date of grant.

Stock option activity under the Plan was as follows:

	Options outstanding	Weighted average exercise price	Weighted average remaining contractual term
Balance as of February 2, 2013	1,187,817	\$ 10.43	9.3
Granted	554,500	38.92	
Forfeited	(205,456)	) 20.23	
Cancelled	(35,300)	) 30.19	
Exercised	(196,941)	) 7.55	
Balance as of February 1, 2014	1,304,620	20.90	8.5
Granted	253,973	36.18	
Forfeited	(169,850)	) 31.75	
Cancelled	(20,000)	) 39.41	
Exercised	(207,809)	) 7.11	
Balance as of January 31, 2015	1,160,934	24.80	8.0
Granted	116,894	28.58	
Forfeited	(73,790)	) 34.93	
Exercised	(115,364)	) 7.90	
Balance as of January 30, 2016	1,088,674	26.31	7.5
Exercisable as of January 30, 2016	603,972	\$ 19.57	6.4

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

	Fiscal Year			
	2015	2014	2013	
Expected volatility	47.0	% 47.9	% 50.0	%
Risk-free interest rate	1.8	% 1.9	% 1.4	%
Expected life of options	6.4 years	6.4 years	6.3 years	
Expected dividend yield	—	% —	% —	%

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

The per-share weighted average grant-date fair value of stock options granted to employees in fiscal 2015, fiscal 2014 and fiscal 2013 was \$13.67, \$17.59 and \$18.90 respectively. The total intrinsic value of stock options exercised during fiscal 2015, fiscal 2014 and fiscal 2013 was \$3.2 million, \$7.0 million and \$7.2 million, respectively. The aggregate intrinsic value of stock options exercisable and stock options outstanding as of January 30, 2016 was \$10.1 million and \$11.0 million, respectively. In fiscal 2015, fiscal 2014 and fiscal 2013, the Company received cash from the

exercise of options of \$0.9

57

---

million, \$1.5 million, \$1.5 million, respectively, and excess tax benefits from option exercises and restricted stock of \$0.6 million, \$2.0 million and \$2.3 million, respectively. Upon option exercise, the Company issued new shares of common stock.

#### Restricted Stock Units and Performance-Based Restricted Stock Units

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

RSU and PSU activity under the Plan was as follows:

	Restricted Stock Units		Performance-Based Restricted Stock Units	
	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Non-vested balance as of February 1, 2014	—	\$ —	—	\$ —
Granted	175,772	35.84	396,055	38.20
Vested	(22,286 )	34.40	—	—
Forfeited	(5,716 )	38.52	(3,874 )	38.71
Non-vested balance as of January 31, 2015	147,770	35.95	392,181	38.20
Granted	115,248	30.62	85,282	28.58
Vested	(44,574 )	34.40	—	—
Forfeited	(6,762 )	33.01	—	—
Non-vested balance as of January 30, 2016	211,682	\$ 33.47	477,463	\$ 36.48

In connection with the vesting of RSU's during fiscal 2015, the Company withheld 9,462 shares with an aggregate value of \$0.3 million in satisfaction of minimum tax withholding obligations due upon vesting. In connection with the vesting of RSU's during fiscal 2014, the Company withheld 9,173 shares with an aggregate value of 0.3 million in satisfaction of minimum tax withholding obligations due upon vesting.

On March 8, 2016, 77,260 performance-based restricted stock units vested. In connection with the vesting, the Company withheld 33,699 shares with an aggregate value of \$1.3 million in satisfaction of minimum tax withholding obligations due upon vesting.

As of January 30, 2016, there was \$22.5 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements (including stock options, restricted stock units and performance-based restricted stock units) granted under the Plan. That cost is expected to be recognized over a weighted average vesting period of 2.6 years.

#### (7) Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible.

As of January 30, 2016, no valuation allowance has been provided for net deferred tax assets as management believes that it is more likely than not that the Company will realize all deferred tax assets as of January 30, 2016.

The components of the income tax expense are as follows (in thousands):

	Fiscal Year		
	2015	2014	2013
Current:			
Federal	\$30,976	\$28,480	\$21,718
State	4,626	3,218	3,172
	35,602	31,698	24,890
Deferred:			
Federal	349	(2,544)	(3,977)
State	(975)	(519)	(1,097)
	(626)	(3,063)	(5,074)
Income tax expense	\$34,976	\$28,635	\$19,816

The reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

	Fiscal Year			
	2015	2014	2013	
Statutory federal tax rate	35.0	% 35.0	% 35.0	%
State taxes, net of federal benefit	2.6	2.2	2.6	
Other	0.1	0.2	0.5	
	37.7	% 37.4	% 38.1	%

The effective tax rate for fiscal 2015 compared to fiscal 2014 was primarily impacted by discrete items and changes in pre-tax income across state jurisdictions. The effective tax rate for fiscal 2014 compared to fiscal 2013 was primarily impacted by changes in the mix of pretax income across state jurisdictions and the Company's operating entities as a result of the Restructuring in fiscal 2013.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are (in thousands):

	January 30, 2016	January 31, 2015
Deferred tax assets:		
Inventories	\$9,082	\$6,858
Deferred revenue	297	189
Accrued bonus	1,820	915
Deferred rent	19,733	17,250
Other	5,522	2,512
Deferred tax assets	36,454	27,724
Deferred tax liabilities:		
Property and equipment	(26,780)	(18,912)
Other	(1,167)	(931)
Deferred tax liabilities	(27,947)	(19,843)
	\$8,507	\$7,881

Total income taxes paid during fiscal 2015, fiscal 2014, and fiscal 2013 were \$36.9 million, \$21.6 million and \$25.0 million, respectively.

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's balance sheets as of January 30, 2016 and January 31, 2015, and has not recognized any material uncertain tax positions or interest and/or penalties related to income taxes in the consolidated statements of operations for fiscal 2015, fiscal 2014, or fiscal 2013.



The Company files a federal income tax return as well as state tax returns. The Company's U.S. federal income tax returns for the fiscal years ended February 1, 2014 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) Employee Benefit Plan

The Company has a 401(k) Retirement Savings Plan for all employees who have at least 1 year of service, worked at least 1,000 hours, and are 21 years of age. Employees can contribute up to the maximum amount allowed under law. The Company may make discretionary matching and profit sharing contributions, which vest over a period of 5 years from each employee's commencement of employment with the Company. During fiscal 2015, fiscal 2014 and fiscal 2013, the Company made discretionary contributions of \$0.4 million, \$0.3 million and \$0.2 million, respectively.

#### (9) Segment Reporting

The Company evaluates performance internally and manages the business on the basis of one operating segment; therefore, it has only one reportable segment. All of the Company's identifiable assets are located in the United States. Set forth below is data for the following groups of products: leisure, fashion and home, and party and snack. The percentage of net sales represented by each product group for each of the last three fiscal years was as follows:

	Percentage of Net Sales			
	Fiscal Year			
	2015	2014	2013	
Leisure	50.8	% 51.0	% 51.7	%
Fashion and home	29.7	% 29.3	% 29.3	%
Party and snack	19.5	% 19.7	% 19.0	%
Total	100.0	% 100.0	% 100.0	%

Leisure includes items such as sporting goods, games, toys, tech, books, electronic accessories, and arts and crafts. Fashion and home includes items such as personal accessories, "attitude" t-shirts, beauty offerings, home goods and storage options. Party and snack includes items such as party and seasonal goods, greeting cards, candy and other snacks, and beverages.

#### (10) Quarterly Results of Operations and Seasonality (Unaudited)

Quarterly financial results for fiscal 2015 and fiscal 2014 were as follows: (in thousands except for per share data).

	Fiscal Year 2015 <sup>(1)</sup>				Fiscal Year 2014 <sup>(1)</sup>			
	Fourth	Third	Second	First	Fourth	Third	Second	First
	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
Net sales	\$326,351	\$169,685	\$182,191	\$153,727	\$263,756	\$137,979	\$152,479	\$126,004
Gross profit	\$132,182	\$52,765	\$59,826	\$47,161	\$106,328	\$41,623	\$50,905	\$38,935
Net income	\$42,004	\$4,337	\$7,061	\$4,278	\$33,313	\$3,311	\$8,320	\$3,080
Basic income per common share	\$0.77	\$0.08	\$0.13	\$0.08	\$0.61	\$0.06	\$0.15	\$0.06
Diluted income per common share	\$0.77	\$0.08	\$0.13	\$0.08	\$0.61	\$0.06	\$0.15	\$0.06

(1) The sum of the quarterly per share amounts may not equal per share amounts reported for the fiscal year due to rounding.

The Company's business is seasonal in nature and demand is generally the highest in the fourth fiscal quarter due to the fourth quarter holiday season and therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, the Company must order and keep in stock more merchandise than it carries during other parts of the year. The Company expects inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, the Company experiences fluctuations in net sales and working capital requirements during the fiscal year.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE



Not applicable.

## ITEM 9A. 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 Annual Report on Form 10-K pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K are effective at a reasonable assurance level in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

### Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the thirteen weeks ended January 30, 2016 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

### Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of January 30, 2016. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of January 30, 2016, the company maintained effective internal control over financial reporting at a reasonable assurance level.

The effectiveness of the company's internal control over financial reporting as of January 30, 2016 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report dated March 23, 2016 that appears below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Five Below, Inc.:

We have audited Five Below, Inc.'s internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Five Below, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting presented above. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Five Below, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Five Below, Inc. and subsidiary as of January 30, 2016 and January 31, 2015, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 30, 2016, and our report dated March 23, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 23, 2016

ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is included in the “Board of Directors–Nominees for Election to the Board of Directors for a Three-Year Term Expiring at the 2019 Annual Meeting,” “Board of Directors–Members of the Board of Directors Continuing in Office for a Term Expiring at the 2017 Annual Meeting,” “Board of Directors–Members of the Board of Directors Continuing in Office for a Term Expiring at the 2018 Annual Meeting,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Board of Directors–Code of Business Conduct and Ethics,” “Board of Directors–Committees of the Board of Directors,” and “Board of Directors–Director Nomination Process” sections of our proxy statement for the 2016 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission no later than May 30, 2016, and is incorporated by reference herein.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is included in the “Compensation Discussion and Analysis,” “Executive Compensation,” “Board of Directors–Director Compensation,” “Board of Directors–Board Leadership Structure and Board’s Role in Risk Oversight,” “Board of Directors–Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” sections of our proxy statement for the 2016 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission no later than May 30, 2016, and is incorporated by reference herein.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this Item 12 is included in the “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” sections of our proxy statement for the 2016 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission no later than May 30, 2016, and is incorporated by reference herein.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is included in the “Certain Relationships and Related Party Transactions” and “Board of Directors–Director Independence” sections of our proxy statement for the 2016 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission no later than May 30, 2016, and is incorporated by reference herein.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is included in the “Proposal 3, Ratification of Independent Registered Public Accounting Firm” section of our proxy statement for the 2016 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission no later than May 30, 2016, and is incorporated by reference herein.

## PART IV

### ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES

#### (a) 1. Consolidated Financial Statements

The consolidated financial statements of the Company filed as part of this Annual Report on Form 10-K are included in Part II, Item 8 beginning on page 44:

#### 2. Consolidated Financial Statements Schedules

All schedules are omitted because they are not applicable or because the required information is either not material or is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

Exhibit

Number Description

3.1 Amended and Restated Articles of Incorporation of Five Below, Inc., as currently in effect (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q filed with the Commission on September 3, 2015)

3.2 Amended and Restated Bylaws of Five Below, Inc., as currently in effect (incorporated by reference to Exhibit 3.2 of the Quarterly Report on Form 10-Q filed with the Commission on September 3, 2015)

4.1 Form of Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on July 9, 2012)

10.1 Amended and Restated Investor Rights Agreement, dated September 1, 2010, by and among Five Below, Inc., the Significant Common Shareholders signatory thereto, the Series A Preferred Shareholders signatory thereto and the Other Holders party thereto and any other Persons signatory thereto from time to time (incorporated by reference to Exhibit 10.3 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.2 First Amendment to Amended and Restated Investor Rights Agreement, dated October 14, 2010, by Five Below, Inc. (incorporated by reference to Exhibit 10.4 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.3 Second Amendment to Amended and Restated Investor Rights Agreement, dated May 23, 2012, by and among Five Below, Inc., the Significant Common Shareholders signatory thereto and the Series A Preferred Shareholders signatory thereto (incorporated by reference to Exhibit 10.5 of Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on May 24, 2012)

10.4 Second Amended and Restated Shareholders Agreement, dated September 1, 2010, by and among Five Below, Inc. and the Shareholders party thereto and any other Persons signatory thereto from time to time (incorporated by reference to Exhibit 10.5 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.5 First Amendment to Second Amended and Restated Shareholders Agreement, dated October 14, 2010, by Five Below, Inc. (incorporated by reference to Exhibit 10.6 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.6 Second Amendment to Second Amended and Restated Shareholders Agreement, dated November 22, 2011, by and among Five Below, Inc. and the Consenting Shareholders signatory thereto (incorporated by reference to Exhibit 10.7 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.7 Third Amendment to Second Amended and Restated Shareholders Agreement, dated May 23, 2012, by and among Five Below, Inc. and the Shareholders party thereto and any other Persons signatory thereto from time to time (incorporated by reference to Exhibit 10.9 of Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on May 24, 2012)

10.8a†

Edgar Filing: FIVE BELOW, INC - Form 10-K

Form of Non-Qualified Stock Option Agreement (Employees) (used for options granted prior to May 21, 2013)  
(incorporated by reference to Exhibit 10.10 of the Registration Statement on Form S-1 (File No. 333-180780)  
filed with the Commission on April 18, 2012)

Form of Non-Qualified Stock Option Agreement (Employees) (used for options granted after to May 21, 2013)  
10.8b (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed with the Commission on  
September 10, 2013)

Edgar Filing: FIVE BELOW, INC - Form 10-K

10.8c Form of Non-Qualified Stock Option Agreement for Employees (used for options granted after June 30, 2014) (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Commission on June 30, 2014)

10.9a Form of Non-Qualified Stock Option Agreement (Executives) (used for options granted prior to May 21, 2013) (incorporated by reference to Exhibit 10.11 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.9b Form of Non-Qualified Stock Option Agreement (Executives) (used for options granted after to May 21, 2013) (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed with the Commission on September 10, 2013)

10.9c Form of Non-Qualified Stock Option Agreement for Executives (used for options granted after June 30, 2014) (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on June 30, 2014)

10.10 Form of Award Agreement for Restricted Shares under the Five Below, Inc. Equity Incentive Plan (Employees) (incorporated by reference to Exhibit 10.14 of Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on June 12, 2012)

10.11 Form of Award Agreement for Restricted Shares under the Five Below, Inc. Equity Incentive Plan (Directors) (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Commission on March 11, 2013)

10.12 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Commission on June 30, 2014)

10.13 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Commission on December 5, 2014)

10.14 Form of Award Agreement for Restricted Stock Units (filed herewith)

10.15 Five Below, Inc. Amended and Restated Equity Incentive Plan (incorporated by reference to Exhibit 10.15 of Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on June 12, 2012)

10.16 Five Below, Inc. Performance Bonus Plan (incorporated by reference to Exhibit 10.16 of Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on June 12, 2012)

10.17 Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.17 of Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on May 24, 2012)

10.18 Letter Employment Agreement, dated October 14, 2010, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.19 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)

10.19 Amendment to Employment Agreement, dated September 28, 2011, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.20 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Commission on April 18, 2012)



Amendment, dated February 18, 2015, to Employment Letter, dated October 14, 2015, as amended, by and  
10.20 between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report  
on Form 8-K filed with the Commission on February 23, 2015)

Letter Employment Agreement, dated April 16, 2012, by and between Kenneth R. Bull and Five Below, Inc.  
10.21 (incorporated by reference to Exhibit 10.21 of the Registration Statement on Form S-1 (File No. 333-180780)  
filed with the Commission on April 18, 2012)

Letter Employment Agreement, dated December 10, 2014, by and between Michael Romanko and Five Below, Inc. (incorporated by reference to Exhibit 10.23 of the Annual Report on Form 10-K filed with the Commission on March 26, 2015)

Employment Letter and Non-Disclosure Agreement, each dated June 8, 2014, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on June 12, 2014)

Amendment to Employment Letter, dated December 4, 2014, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on December 4, 2014)

Amendment to Employment Letter, dated July 20, 2015, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Commission on September 3, 2015)

Employment Letter and Non-Disclosure Agreement, each dated May 21, 2014, by and between Eric M. Specter and Five Below, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Commission on June 12, 2014)

Amendment to Employment Letter, dated March 11, 2016, by and between Eric M. Specter and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Commission on March 17, 2016)

Third Amended and Restated Loan and Security Agreement, dated June 12, 2013, among Five Below, Inc., Five Below Merchandising, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q filed with the Commission on June 13, 2013)

Five Below, Inc. Compensation Policy for Non-Employee Directors (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed with the Commission on June 4, 2015)

Five Below, Inc. 2012 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Commission on November 29, 2012)

23.1 Consent of KPMG LLP (filed herewith)

31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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 (filed herewith)

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 (filed herewith)

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 (filed herewith)

101\* The following financial information from this Annual Report on Form 10-K, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets as of January 30, 2016 and January 31, 2015; (ii) the Consolidated Statements of Operations for Fiscal Years 2015, 2014, and 2013; (iii) the Consolidated Statements of Changes in Shareholders' Equity For Fiscal Years 2015, 2014, and 2013; (iv) the Consolidated Statements of Cash Flows for Fiscal Years 2015, 2014, and 2013 and (v) the Notes to Consolidated Financial Statements, in each case, tagged in detail.

† Management contract or compensatory plan or arrangement.

\* 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 Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Philadelphia, Pennsylvania, on the 23rd day of March 2016.

FIVE BELOW, INC.

By: /s/ Joel D. Anderson

Name: Joel D. Anderson

Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Thomas G. Vellios Thomas G. Vellios	Executive Chairman	March 23, 2016
/s/ Joel D. Anderson Joel D. Anderson	President, Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2016
/s/ Kenneth R. Bull Kenneth R. Bull	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 23, 2016
/s/ Michael F. Devine Michael F. Devine	Director	March 23, 2016
/s/ David M. Mussafer David M. Mussafer	Director	March 23, 2016
/s/ Thomas M. Ryan Thomas M. Ryan	Director	March 23, 2016
/s/ Ronald L. Sargent Ronald L. Sargent	Director	March 23, 2016
/s/ Kathleen S. Barclay Kathleen S. Barclay	Director	March 23, 2016
/s/ Catherine E. Buggeln Catherine E. Buggeln	Director	March 23, 2016
/s/ Daniel J. Kaufman Daniel J. Kaufman	Director	March 23, 2016

Exhibit Index

No. Description

10.14 Form of Award Agreement for Restricted Stock Units

23.1 Consent of KPMG LLP

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 Annual Report on Form 10-K, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets as of January 30, 2016 and January 31, 2015; (ii) the Consolidated Statements of Operations for Fiscal Years 2015, 2014, and 2013; (iii) the Consolidated Statements of Changes in Shareholders' Equity For Fiscal Years 2015, 2014, and 2013; (iv) the Consolidated Statements of Cash Flows for Fiscal Years 2015, 2014, and 2013 and (v) the Notes to Consolidated Financial Statements, in each case, tagged in detail.

† Management contract or compensatory plan or arrangement.

\* 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 Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.