

FIVE BELOW, INC

FORM 10-Q (Quarterly Report)

Filed 09/01/16 for the Period Ending 07/30/16

| | |
|-------------|--|
| Address | 1818 MARKET STREET SUITE 1900 PHILADELPHIA, PA 19103 |
| Telephone | 215 546 7909 |
| CIK | 0001177609 |
| Symbol | FIVE |
| SIC Code | 5331 - Variety Stores |
| Industry | Retail (Department & Discount) |
| Sector | Services |
| Fiscal Year | 12/31 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(mark one)

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

For the quarterly period ended July 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 No.)

1818 Market Street, Suite 2000

Philadelphia, PA

(Address of Principal Executive Offices)

19103

(Zip Code)

(215) 546-7909

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of August 31, 2016 was 54,869,591 .

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

FIVE BELOW, INC.
 Consolidated Balance Sheets
 (Unaudited)
 (in thousands, except share and per share data)

| | July 30, 2016 | January 30, 2016 | August 1, 2015 |
|---|-------------------|-------------------|-------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 67,109 | \$ 53,081 | \$ 60,916 |
| Short-term investment securities | 28,933 | 46,335 | — |
| Inventories | 154,809 | 148,370 | 123,847 |
| Prepaid income taxes | 3,177 | 1,341 | 6,694 |
| Prepaid expenses and other current assets | 24,907 | 15,618 | 24,349 |
| Total current assets | 278,935 | 264,745 | 215,806 |
| Property and equipment, net of accumulated depreciation and amortization of \$87,080, \$74,395 and \$69,065, respectively. | 132,500 | 119,784 | 113,196 |
| Deferred income taxes | 8,838 | 8,507 | 9,983 |
| Other assets | 795 | 258 | 316 |
| | <u>\$ 421,068</u> | <u>\$ 393,294</u> | <u>\$ 339,301</u> |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Line of credit | \$ — | \$ — | \$ — |
| Accounts payable | 59,565 | 58,225 | 66,562 |
| Income taxes payable | 670 | 11,942 | 478 |
| Accrued salaries and wages | 5,313 | 7,661 | 4,023 |
| Other accrued expenses | 34,557 | 24,368 | 28,379 |
| Total current liabilities | 100,105 | 102,196 | 99,442 |
| Deferred rent and other | 51,266 | 46,617 | 47,422 |
| Total liabilities | 151,371 | 148,813 | 146,864 |
| Commitments and contingencies (note 4) | | | |
| Shareholders' equity: | | | |
| Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 54,864,418, 54,590,641 and 54,526,194 shares, respectively. | 548 | 546 | 545 |
| Additional paid-in capital | 315,131 | 306,522 | 300,820 |
| Accumulated deficit | (45,982) | (62,587) | (108,928) |
| Total shareholders' equity | 269,697 | 244,481 | 192,437 |
| | <u>\$ 421,068</u> | <u>\$ 393,294</u> | <u>\$ 339,301</u> |

See accompanying notes to consolidated financial statements

FIVE BELOW, INC.
Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|----------------------|----------------|------------------------|----------------|
| | July 30, 2016 | August 1, 2015 | July 30, 2016 | August 1, 2015 |
| Net sales | \$ 220,130 | \$ 182,191 | \$ 412,845 | \$ 335,918 |
| Cost of goods sold | 146,780 | 122,365 | 279,228 | 228,931 |
| Gross profit | 73,350 | 59,826 | 133,617 | 106,987 |
| Selling, general and administrative expenses | 57,636 | 48,269 | 107,151 | 88,409 |
| Operating income | 15,714 | 11,557 | 26,466 | 18,578 |
| Interest income (expense), net | 73 | (2) | 147 | (11) |
| Other expense | — | 325 | — | 325 |
| Income before income taxes | 15,787 | 11,230 | 26,613 | 18,242 |
| Income tax expense | 5,940 | 4,169 | 10,008 | 6,903 |
| Net income | \$ 9,847 | \$ 7,061 | \$ 16,605 | \$ 11,339 |
| Basic income per common share | \$ 0.18 | \$ 0.13 | \$ 0.30 | \$ 0.21 |
| Diluted income per common share | \$ 0.18 | \$ 0.13 | \$ 0.30 | \$ 0.21 |
| Weighted average shares outstanding: | | | | |
| Basic shares | 54,795,750 | 54,501,257 | 54,756,580 | 54,474,946 |
| Diluted shares | 55,077,754 | 54,786,092 | 55,039,204 | 54,751,620 |

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.
Consolidated Statement of Shareholders' Equity
(Unaudited)
(in thousands, except share data)

| | Common stock | | Additional paid-in capital | Accumulated deficit | Total shareholders' equity |
|--|--------------|--------|-------------------------------|------------------------|----------------------------------|
| | Shares | Amount | | | |
| Balance, January 30, 2016 | 54,590,641 | \$ 546 | \$ 306,522 | \$ (62,587) | \$ 244,481 |
| Share-based compensation expense | — | — | 5,864 | — | 5,864 |
| Issuance of unrestricted stock awards | 3,047 | — | 140 | — | 140 |
| Exercise of options to purchase common stock | 196,281 | 2 | 2,610 | — | 2,612 |
| Vesting of restricted stock units | 116,812 | — | — | — | — |
| Common shares withheld for taxes | (44,337) | — | (1,808) | — | (1,808) |
| Excess tax benefit related to exercises of stock options and vesting of restricted stock units | — | — | 1,710 | — | 1,710 |
| Issuance of common stock to employees under employee stock purchase plan | 1,974 | — | 93 | — | 93 |
| Net income | — | — | — | 16,605 | 16,605 |
| Balance, July 30, 2016 | 54,864,418 | \$ 548 | \$ 315,131 | \$ (45,982) | \$ 269,697 |

See accompanying notes to consolidated financial statements.

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

| | Twenty-Six Weeks Ended | |
|--|-------------------------------|-----------------------|
| | July 30, 2016 | August 1, 2015 |
| Operating activities: | | |
| Net income | \$ 16,605 | \$ 11,339 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,680 | 10,232 |
| Share-based compensation expense | 6,013 | 5,460 |
| Deferred income tax benefit | (331) | (2,102) |
| Other non-cash expenses | 29 | 28 |
| Changes in operating assets and liabilities: | | |
| Prepaid income taxes | (1,836) | (4,755) |
| Inventories | (6,439) | (8,195) |
| Prepaid expenses and other assets | (9,839) | (6,215) |
| Accounts payable | 1,994 | 17,396 |
| Income taxes payable | (11,272) | (13,964) |
| Accrued salaries and wages | (2,348) | (1,251) |
| Deferred rent | 6,143 | 7,475 |
| Other accrued expenses | 4,992 | 10,806 |
| Net cash provided by operating activities | <u>16,391</u> | <u>26,254</u> |
| Investing activities: | | |
| Purchases of investment securities | (35,631) | — |
| Sales, maturities, and redemptions of investment securities | 53,033 | — |
| Capital expenditures | (22,372) | (29,901) |
| Net cash used in investing activities | <u>(4,970)</u> | <u>(29,901)</u> |
| Financing activities: | | |
| Net proceeds from issuance of common stock | 93 | 81 |
| Proceeds from exercise of options to purchase common stock | 2,612 | 765 |
| Common shares withheld for taxes | (1,808) | — |
| Excess tax benefit related to exercises of stock options and vesting of restricted stock units | 1,710 | 531 |
| Net cash provided by financing activities | <u>2,607</u> | <u>1,377</u> |
| Net increase (decrease) in cash and cash equivalents | <u>14,028</u> | <u>(2,270)</u> |
| Cash and cash equivalents at beginning of period | 53,081 | 63,186 |
| Cash and cash equivalents at end of period | <u>\$ 67,109</u> | <u>\$ 60,916</u> |
| Supplemental disclosures of cash flow information: | | |
| Non-cash investing activities | | |
| Increase (decrease) in accrued purchases of property and equipment | \$ 3,041 | \$ (6,544) |

See accompanying notes to consolidated financial statements.

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

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Five Below, Inc. (collectively with its wholly owned subsidiary as the "Company") is a specialty value retailer offering merchandise targeted at the teen and pre-teen demographic. The Company offers an edited assortment of products, priced at \$5 and below. The Company's edited assortment of products includes select brands and licensed merchandise. The Company believes its merchandise is readily available, and that there are a number of potential vendors that could be utilized, if necessary, under approximately the same terms the Company is currently receiving; thus, it is not dependent on a single vendor or a group of vendors. In August 2016, the Company commenced selling merchandise on the internet, through the Company's fivebelow.com e-commerce website.

The Company is incorporated in the Commonwealth of Pennsylvania and, as of July 30, 2016, operated in 30 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, Mississippi, Louisiana, Wisconsin, and Oklahoma. As of July 30, 2016 and August 1, 2015, the Company operated 491 stores and 417 stores, respectively, each operating under the name "Five Below."

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to "fiscal year 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017 and 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 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. The fiscal quarters ended July 30, 2016 and August 1, 2015 refer to the thirteen weeks ended as of those dates. The year-to-date periods ended July 30, 2016 and August 1, 2015 refer to the twenty-six weeks ended as of those dates.

(c) Basis of Presentation

The consolidated balance sheets as of July 30, 2016 and August 1, 2015, the consolidated statements of operations for the thirteen and twenty-six weeks ended July 30, 2016 and August 1, 2015, the consolidated statement of shareholders' equity for the twenty-six weeks ended July 30, 2016 and the consolidated statements of cash flows for the twenty-six weeks ended July 30, 2016 and August 1, 2015 have been prepared by the Company in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim reporting and are unaudited. In the opinion of management, the aforementioned financial statements include all known adjustments (which consist primarily of normal, recurring accruals, estimates and assumptions that impact the financial statements) necessary to present fairly the financial position at the balance sheet dates and the results of operations and cash flows for the periods ended July 30, 2016 and August 1, 2015. The balance sheet as of January 30, 2016, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for fiscal 2015 as filed with the Securities and Exchange Commission on March 24, 2016 and referred to herein as the "Annual Report," but does not include all annual disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended January 30, 2016 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen and twenty-six weeks ended July 30, 2016 and August 1, 2015 are not necessarily indicative of the consolidated operating results for the year ending January 28, 2017 or any other period. The Company's business is seasonal and as a result, the Company's net sales fluctuate from quarter to quarter. Net sales are usually highest in the fourth fiscal quarter due to the year-end holiday season.

(d) Recently Issued Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-17, "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 in the fourth quarter of fiscal 2015, and the Company retrospectively applied the change within the consolidated balance sheets. As a result of the retrospective adoption, the Company reclassified the August 1, 2015 consolidated balance sheet resulting in a reduction of \$9.0 million in current deferred income tax assets and an increase in long term deferred income tax assets of \$9.0 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.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. This accounting standards update makes several modifications to the accounting for employee share-based payment transactions, including the requirement that the excess income tax benefits or deficiencies that arise when the tax consequences of share-based compensation differ from amounts previously recognized in the statement of income be recognized as income tax benefit or expense in the statement of income rather than as additional paid-in capital in the balance sheet. The guidance also clarifies the classification of components of share-based awards on the statement of cash flows such that excess income tax benefits should not be presented separately from other income taxes in the statement of cash flows and, thus, should be classified as an operating activity rather than a financing activity as they are under the current guidance. ASU No. 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier adoption is permitted. The Company is currently evaluating the impact of the updated guidance on the Company's consolidated financial statements and disclosures.

(e) Use of Estimates

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

(f) 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, if any, under a line of credit. The Company believes that: (1) the carrying value of cash equivalents and accounts payable are representative of their respective fair value due to the short-term nature of these instruments; and (2) the carrying value of the borrowings, if any, under the line of credit approximates fair value because the line of credit’s interest rates vary with market interest rates. 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 municipals bonds are level 2. The fair market values of level 2 instruments 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 July 30, 2016, January 30, 2016, and August 1, 2015, the Company had cash equivalents of \$42.4 million, \$22.6 million and \$40.4 million, respectively. The Company's cash equivalents consist of credit and debit card receivables, money market funds, certificates of deposit, and short-term municipal bonds. Fair value for cash equivalents was determined based on Level 1 inputs.

As of July 30, 2016 and 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):

| As of July 30, 2016 | | | | |
|---------------------|----------------|------------------------|-------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
| Short-term: | | | | |
| Corporate bonds | \$ 6,390 | \$ — | \$ 7 | \$ 6,383 |
| Municipal bonds | 22,543 | 4 | — | 22,547 |
| Total | \$ 28,933 | \$ 4 | \$ 7 | \$ 28,930 |

| As of January 30, 2016 | | | | |
|-------------------------|----------------|------------------------|-------------------------|-------------------|
| | 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 July 30, 2016 and January 30, 2016 all mature in one year or less.

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|----------------|------------------------|----------------|
| | July 30, 2016 | August 1, 2015 | July 30, 2016 | August 1, 2015 |
| Numerator: | | | | |
| Net income | \$ 9,847 | \$ 7,061 | \$ 16,605 | \$ 11,339 |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 54,795,750 | 54,501,257 | 54,756,580 | 54,474,946 |
| Dilutive impact of options, restricted stock units and employee stock purchase plan | 282,004 | 284,835 | 282,624 | 276,674 |
| Weighted average common shares outstanding - diluted | 55,077,754 | 54,786,092 | 55,039,204 | 54,751,620 |
| Per common share: | | | | |
| Basic income per common share | \$ 0.18 | \$ 0.13 | \$ 0.30 | \$ 0.21 |
| Diluted income per common share | \$ 0.18 | \$ 0.13 | \$ 0.30 | \$ 0.21 |

The effects of the assumed exercise of stock options for 67,179 and 263,283 shares of common stock for the thirteen and twenty-six weeks ended July 30, 2016, respectively, were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of restricted stock units for 4,127 and 2,064 shares of common stock for the thirteen and twenty-six weeks ended July 30, 2016, respectively, were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of stock options for 718,633 and 703,829 shares of common stock for the thirteen and twenty-six weeks ended August 1, 2015, respectively, were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

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

(3) Line of Credit

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

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

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

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

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

As of July 30, 2016, the Company had no borrowings under the Revolving Credit Facility and had approximately \$20.0 million available on the line of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of the Company's assets and are guaranteed by the Company's subsidiary. As of July 30, 2016 and August 1, 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 2031.

During the thirteen weeks ended July 30, 2016, the Company committed to 25 new store leases with terms of 10 years that have future minimum lease payments of approximately \$44.9 million.

Other contractual commitments

As of July 30, 2016, the Company has other purchase commitments of approximately \$1.8 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) 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 July 30, 2016, 3,587,570 stock options, restricted shares, or restricted stock units were available for grant.

Common Stock Options

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

Stock option activity under the Plan was as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) |
|---------------------------------|------------------------|--|---|
| Balance as of January 30, 2016 | 1,088,674 | \$ 26.31 | 7.5 |
| Granted | 51,611 | 39.30 | |
| Forfeited | (14,313) | 38.99 | |
| Exercised | (196,281) | 13.30 | |
| Balance as of July 30, 2016 | <u>929,691</u> | 29.58 | 7.2 |
| Exercisable as of July 30, 2016 | <u>535,017</u> | \$ 25.84 | 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:

| | Thirteen Weeks Ended | |
|--------------------------|----------------------|----------------|
| | July 30, 2016 | August 1, 2015 |
| Expected volatility | 47.6% | 47.0% |
| Risk-free interest rate | 1.6% | 1.8% |
| Expected life of options | 6.4 years | 6.4 years |
| Expected dividend yield | —% | —% |

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

The per-share weighted average grant-date fair value of stock options granted for the twenty-six weeks ended July 30, 2016 and August 1, 2015 was \$18.89 and \$13.67, respectively.

Restricted Stock Units and Performance-Based Restricted Stock Units

All restricted stock units ("RSU") and performance-based restricted stock units ("PSU") vest in accordance with vesting conditions set by the compensation committee of the Company's board of directors. RSU's granted to date have vesting periods ranging from less than one year to five years from the date of grant. PSU's granted to date have 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 during the twenty-six weeks ended July 30, 2016 was as follows:

| | Restricted Stock Units | | Performance-Based Restricted Stock Units | |
|---|------------------------|--|--|--|
| | Number | Weighted-Average Grant Date Fair Value | Number | Weighted-Average Grant Date Fair Value |
| Non-vested balance as of January 30, 2016 | 211,682 | \$ 33.47 | 477,463 | \$ 36.48 |
| Granted | 107,878 | 40.70 | 127,160 | 39.22 |
| Vested | (39,552) | 38.52 | (77,260) | 38.83 |
| Forfeited | (12,812) | 34.48 | — | — |
| Non-vested balance as of July 30, 2016 | 267,196 | \$ 35.59 | 527,363 | \$ 36.80 |

In connection with the vesting of RSU's and PSU's during the twenty-six weeks ended July 30, 2016, the Company withheld 44,337 shares with an aggregate value of \$1.8 million in satisfaction of minimum tax withholding obligations due upon vesting.

As of July 30, 2016, there was \$24.7 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 2.5 years.

(6) Income Taxes

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen and twenty-six weeks ended July 30, 2016 and August 1, 2015 (dollars in thousands):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|----------------------------|----------------------|----------------|------------------------|----------------|
| | July 30, 2016 | August 1, 2015 | July 30, 2016 | August 1, 2015 |
| Income before income taxes | \$ 15,787 | \$ 11,230 | \$ 26,613 | \$ 18,242 |
| Income tax expense | \$ 5,940 | \$ 4,169 | \$ 10,008 | \$ 6,903 |
| Effective tax rate | 37.6% | 37.1% | 37.6% | 37.8% |

The effective tax rates for the thirteen and twenty-six weeks ended July 30, 2016 and August 1, 2015 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented. The effective tax rate for the thirteen weeks ended July 30, 2016 was higher than the thirteen weeks ended August 1, 2015 as a result of a change in the Company's average state tax rate. The twenty-six weeks ended July 30, 2016 was lower than the twenty-six weeks ended August 1, 2015 as a result of a change in the Company's average state tax rate.

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 July 30, 2016, January 30, 2016, or August 1, 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 the thirteen and twenty-six weeks ended July 30, 2016 or August 1, 2015.

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.

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

You should read the following discussion together with "Selected Financial Data," and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for our fiscal year ended January 30, 2016 and referred to herein as the "Annual Report," and the consolidated financial statements and related notes as of and for the thirteen and twenty-six weeks ended July 30, 2016 included in Part I, Item 1 of this Quarterly Report on Form 10-Q. The statements in this discussion regarding expectations of our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described below in "Special Note Regarding Forward-Looking Statements" and in Part II, Item 1A "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017 and 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 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. The fiscal quarters ended July 30, 2016 and August 1, 2015 refer to the thirteen weeks ended as of those dates. The year-to-date periods ended July 30, 2016 and August 1, 2015 refer to the twenty-six weeks ended as of those dates. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new merchandise, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology.

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

- *failure to successfully implement our growth strategy;*
- *disruptions in our ability to select, obtain, distribute and market merchandise profitably;*
- *extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations;*
- *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;*
- *increased operating costs or exposure to fraud or theft due to customer payment-related risk;*

- *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;*
- *inability to successfully manage our inventory balances and inventory shrinkage;*
- *our lease obligations;*
- *changes in our competitive environment, including increased competition from other retailers and the presence of online retailers;*
- *increasing costs due to inflation, increased operating costs, wage rate increases or energy prices;*
- *the seasonality of our business;*
- *disruptions to our information technology systems in the ordinary course or as a result of system upgrades;*
- *failure to maintain adequate internal controls;*
- *complications with the design or implementation of the new enterprise resource system;*
- *natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism;*
- *current economic conditions and other economic factors;*
- *the impact of governmental laws and regulations;*
- *the costs and consequences of legal proceedings;*
- *inability to protect our brand name, trademarks and other intellectual property rights;*
- *the impact of product and food safety claims and effects of legislation;*
- *inability to obtain additional financing, if needed;*
- *restrictions imposed by our indebtedness on our current and future operations; and*
- *inability to successfully implement our expansion into online retail.*

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

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, all priced at \$5 and below, including select brands and licensed merchandise across our category worlds. As of July 30, 2016, we operated 491 stores in 30 states.

In August 2016, we commenced selling merchandise on the internet, through our fivebelow.com e-commerce website. We launched our e-commerce operation as an additional channel to service our customers and increase sales. All e-commerce sales, which includes shipping and handling revenue, will be included in net sales and will be included in comparable store sales beginning with the third fiscal quarter of 2016. Our e-commerce expenses will have components classified as both cost of goods sold and selling, general and administrative expenses.

How We Assess the Performance of Our Business

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

Net Sales

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

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

Comparable Store Sales

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

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

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

- The period beginning when the closing store receives its last merchandise delivery from one of our distribution centers through:
 - the last day of the fiscal year in which the store was relocated or expanded (for stores that increased significantly in size); or
 - the last day of the fiscal month in which the store re-opens (for all other stores); and
- The period beginning on the first anniversary of the date the store received its last merchandise delivery from one of our distribution centers through the first anniversary of the date the store re-opened.

There may be variations in the way in which some of our competitors and other retailers calculate comparable or “same store” sales. As a result, data in this Quarterly Report on Form 10-Q regarding our comparable store sales may not be comparable to similar data made available by other retailers. Non-comparable store sales are comprised of new store sales, sales for stores not open for a full 15 months, and sales from existing store relocation and expansion projects that were temporarily closed (or not receiving deliveries) and not included in comparable store sales.

Measuring the change in fiscal year-over-year comparable store sales allows us to evaluate how our store base is performing. Various factors affect comparable store sales, including:

- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to customer preferences and trends;
- our ability to provide an assortment of high-quality, trend-right and everyday product offerings that generate new and repeat visits to our stores;
- the customer experience we provide in our stores;
- the level of traffic near our locations in the power, community and lifestyle centers in which we operate;
- competition;
- changes in our merchandise mix;
- pricing;
- our ability to source and distribute products efficiently;
- the timing of promotional events and holidays;
- the timing of introduction of new merchandise and customer acceptance of new merchandise;
- our opening of new stores in the vicinity of existing stores;
- the number of items purchased per store visit; and
- weather conditions.

Opening new stores is an important part of our growth strategy. As we continue to pursue our growth strategy, we expect that a significant percentage of our net sales will continue to come from new stores not included in comparable store sales. Accordingly, comparable store sales is only one measure we use to assess the success of our growth strategy.

Cost of Goods Sold and Gross Profit

Gross profit is equal to our net sales less our cost of goods sold. Gross margin is gross profit as a percentage of our net sales. Cost of goods sold reflects the direct costs of purchased merchandise and inbound freight, as well as store occupancy, distribution and buying expenses. Store occupancy costs include rent, common area maintenance, utilities and property taxes for all store locations. Distribution costs include costs for receiving, processing, warehousing and shipping of merchandise to or from our distribution centers and between store locations. Buying costs include compensation expense and other costs for our internal buying organization, including our merchandising and product development team and our planning and allocation group. These costs are significant and can be expected to continue to increase as our company grows.

The components of our cost of goods sold may not be comparable to the components of cost of goods sold or similar measures of our competitors and other retailers. As a result, data in this Quarterly Report on Form 10-Q regarding our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

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

Selling, General and Administrative Expenses

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

The components of our SG&A expenses may not be comparable to those of other retailers. We expect that our SG&A expenses will increase in future periods due to our continuing store growth. 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, and income tax expense or benefit. We use operating income as an indicator of the productivity of our business and our ability to manage SG&A expenses. Operating income percentage measures operating income as a percentage of our net sales.

Results of Consolidated Operations

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

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|----------------------|----------------|------------------------|----------------|
| | July 30, 2016 | August 1, 2015 | July 30, 2016 | August 1, 2015 |
| (in millions, except percentages and total stores) | | | | |
| Consolidated Statements of Operations Data ⁽¹⁾: | | | | |
| Net sales | \$ 220.1 | \$ 182.2 | \$ 412.8 | \$ 335.9 |
| Cost of goods sold | 146.8 | 122.4 | 279.2 | 228.9 |
| Gross profit | 73.4 | 59.8 | 133.6 | 107.0 |
| Selling, general and administrative expenses | 57.6 | 48.3 | 107.2 | 88.4 |
| Operating income | 15.7 | 11.6 | 26.5 | 18.6 |
| Interest income (expense), net | 0.1 | — | 0.1 | — |
| Income before income taxes | 15.8 | 11.2 | 26.6 | 18.2 |
| Income tax expense | 5.9 | 4.2 | 10.0 | 6.9 |
| Net income | \$ 9.8 | \$ 7.1 | \$ 16.6 | \$ 11.3 |
| Percentage of Net Sales ⁽¹⁾: | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 66.7% | 67.2% | 67.6% | 68.2% |
| Gross profit | 33.3% | 32.8% | 32.4% | 31.8% |
| Selling, general and administrative expenses | 26.2% | 26.5% | 26.0% | 26.3% |
| Operating income | 7.1% | 6.3% | 6.4% | 5.5% |
| Interest income (expense), net | —% | —% | —% | —% |
| Income before income taxes | 7.2% | 6.2% | 6.4% | 5.4% |
| Income tax expense | 2.7% | 2.3% | 2.4% | 2.1% |
| Net income | 4.5% | 3.9% | 4.0% | 3.4% |
| Operational Data: | | | | |
| Total stores at end of period | 491 | 417 | 491 | 417 |
| Comparable stores sales growth | 3.1% | 3.0% | 3.9% | 2.4% |
| Average net sales per store ⁽²⁾ | \$ 0.4 | \$ 0.4 | \$ 0.8 | \$ 0.8 |

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

⁽²⁾ Only includes stores open during the full thirteen and twenty-six weeks ended periods.

Thirteen Weeks Ended July 30, 2016 Compared to the Thirteen Weeks Ended August 1, 2015

Net Sales

Net sales increased to \$220.1 million in the thirteen weeks ended July 30, 2016 from \$182.2 million in the thirteen weeks ended August 1, 2015, an increase of \$37.9 million, or 20.8%. The increase was the result of a non-comparable store sales increase of \$32.9 million and a comparable store sales increase of \$5.0 million. The increase in non-comparable store sales was primarily driven by new stores that opened in fiscal 2016 and the number of stores that opened in fiscal 2015 but have not been open for 15 full months. We plan to open approximately 85 new stores in fiscal 2016.

Comparable store sales increased 3.1% for the thirteen weeks ended July 30, 2016 compared to the thirteen weeks ended August 1, 2015. This increase resulted from an increase of approximately 3.9% in the average dollar value of transactions partially offset by a decrease of approximately 0.8% in the number of transactions in our stores.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$146.8 million in the thirteen weeks ended July 30, 2016 from \$122.4 million in the thirteen weeks ended August 1, 2015 , an increase of \$24.4 million , or 20.0% . The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from the increase in net sales. Also contributing to the increase in cost of goods sold were an increase in store occupancy costs resulting from new store openings and an increase in distribution costs, primarily due to the increase in net sales.

Gross profit increased to \$73.4 million in the thirteen weeks ended July 30, 2016 from \$59.8 million in the thirteen weeks ended August 1, 2015 , an increase of \$13.5 million , or 22.6% . Gross margin increased to 33.3% for the thirteen weeks ended July 30, 2016 from 32.8% in the thirteen weeks ended August 1, 2015 , an increase of approximately 50 basis points. The increase in gross margin was primarily the result of a decrease as a percentage of sales in distribution costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$57.6 million in the thirteen weeks ended July 30, 2016 from \$48.3 million in the thirteen weeks ended August 1, 2015 , an increase of \$9.4 million , or 19.4% . As a percentage of net sales, selling, general and administrative expenses decreased approximately 30 basis points to 26.2% in the thirteen weeks ended July 30, 2016 compared to 26.5% in the thirteen weeks ended August 1, 2015 . The increase in selling, general and administrative expense was primarily the result of increases of \$6.7 million in store-related expenses to support new store growth and \$2.7 million of corporate-related expenses, which includes share-based compensation expense.

Income Tax Expense

Income tax expense increased to \$5.9 million in the thirteen weeks ended July 30, 2016 from \$4.2 million in the thirteen weeks ended August 1, 2015 , an increase of \$1.8 million , or 42.5% . The increase in income tax expense was primarily the result of a \$4.6 million increase in pre-tax income. Our effective tax rate for the thirteen weeks ended July 30, 2016 was 37.6% compared to 37.1% in the thirteen weeks ended August 1, 2015 . Our effective tax rate for the thirteen weeks ended July 30, 2016 was higher than the comparable period as a result of a change in our average state tax rate.

Net Income

As a result of the foregoing, net income increased to \$9.8 million in the thirteen weeks ended July 30, 2016 from \$7.1 million in the thirteen weeks ended August 1, 2015 , an increase of \$2.8 million or 40.0% .

Twenty-Six Weeks Ended July 30, 2016 Compared to the Twenty-Six Weeks Ended August 1, 2015

Net Sales

Net sales increased to \$412.8 million in the twenty-six weeks ended July 30, 2016 from \$335.9 million in the twenty-six weeks ended August 1, 2015 , an increase of \$76.9 million , or 22.9% . The increase was the result of a non-comparable store sales increase of \$64.6 million and a comparable store sales increase of \$12.3 million . The increase in non-comparable store sales was primarily driven by the number of stores that opened in fiscal 2015 but have not been open for 15 full months and new stores that opened in fiscal 2016 . We plan to open approximately 85 new stores in fiscal 2016 .

Comparable store sales increased 3.9% for the twenty-six weeks ended July 30, 2016 compared to the twenty-six weeks ended August 1, 2015 . This increase resulted from an increase of approximately 3.6% in the average dollar value of transactions and an increase of approximately 0.3% in the number of transactions in our stores.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$279.2 million in the twenty-six weeks ended July 30, 2016 from \$228.9 million in the thirteen weeks ended August 1, 2015 , an increase of \$50.3 million , or 22.0% . The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from the increase in net sales. Also contributing to the increase in cost of goods sold were an increase in store occupancy costs resulting from new store openings and an increase in distribution costs, primarily due to the increase in net sales.

Gross profit increased to \$133.6 million in the twenty-six weeks ended July 30, 2016 from \$107.0 million in the twenty-six weeks ended August 1, 2015 , an increase of \$26.6 million , or 24.9% . Gross margin increased to 32.4% for the twenty-six weeks ended July 30, 2016 from 31.8% in the twenty-six weeks ended August 1, 2015 , an increase of approximately 50 basis points. The increase in gross margin was primarily the result of decreases as a percentage of sales in merchandise costs of goods sold and buying expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$107.2 million in the twenty-six weeks ended July 30, 2016 from \$88.4 million in the twenty-six weeks ended August 1, 2015, an increase of \$18.7 million, or 21.2%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 40 basis points to 26.0% in the twenty-six weeks ended July 30, 2016 compared to 26.3% in the twenty-six weeks ended August 1, 2015. The increase in selling, general and administrative expense was primarily the result of increases of \$13.3 million in store-related expenses to support new store growth and \$5.4 million of corporate-related expenses, which includes share-based compensation expense.

Income Tax Expense

Income tax expense increased to \$10.0 million in the twenty-six weeks ended July 30, 2016 from \$6.9 million in the twenty-six weeks ended August 1, 2015, an increase of \$3.1 million, or 45.0%. The increase in income tax expense was primarily the result of an \$8.4 million increase in pre-tax income. Our effective tax rate for the twenty-six weeks ended July 30, 2016 was 37.6% compared to 37.8% in the twenty-six weeks ended August 1, 2015. Our effective tax rate for the twenty-six weeks ended July 30, 2016 was lower than the comparable period as a result of a change in our average state tax rate.

Net Income

As a result of the foregoing, net income increased to \$16.6 million in the twenty-six weeks ended July 30, 2016 from \$11.3 million in the twenty-six weeks ended August 1, 2015, an increase of 5.3 million or 46.4%.

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 \$40 million in fiscal 2016, which we expect to fund from cash generated from operations. We expect to devote approximately \$25 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. When we have used our Revolving Credit Facility, the amount of indebtedness outstanding under it has tended to be the highest in the beginning of the fourth quarter of each fiscal year. Over the past three fiscal years, to the extent that we have drawn on the facility, we have paid down the borrowings before the end of the fiscal year with cash generated during our peak selling season in the fourth quarter. We did not have any direct borrowings under our Revolving Credit Facility during the twenty-six weeks ended July 30, 2016.

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):

| | Twenty-six weeks ended | |
|---|------------------------|----------------|
| | July 30, 2016 | August 1, 2015 |
| Net cash provided by operating activities | \$ 16.4 | \$ 26.3 |
| Net cash used in investing activities | (5.0) | (29.9) |
| Net cash provided by financing activities | 2.6 | 1.4 |
| Net increase (decrease) during period in cash and cash equivalents ⁽¹⁾ | \$ 14.0 | \$ (2.3) |

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

Cash Provided by Operating Activities

Net cash provided by operating activities for the twenty-six weeks ended July 30, 2016 was \$16.4 million, a decrease of \$9.9 million compared to the twenty-six weeks ended August 1, 2015. The decrease was primarily due to changes in overall working capital partially offset by an increase in operating cash flows from store performance and decrease in income taxes paid.

Cash Used in Investing Activities

Net cash used in investing activities for the twenty-six weeks ended July 30, 2016 was \$5.0 million, a decrease of \$24.9 million compared to the twenty-six weeks ended August 1, 2015. The decrease was primarily due to a decrease in net investment securities and a decrease in capital expenditures. The decrease in capital expenditures was primarily due to cash outflows related to our new distribution center in Pedricktown, New Jersey during the twenty-six weeks ended August 1, 2015.

Cash Provided by Financing Activities

Net cash provided by financing activities for the twenty-six weeks ended July 30, 2016 was \$2.6 million, an increase of \$1.2 million compared to the twenty-six weeks ended August 1, 2015. The increase was primarily the result of increases in the proceeds from the exercise of options and excess tax benefits related to exercises of stock options and the vesting of restricted stock units offset by an increase in common shares withheld for taxes.

Line of Credit

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

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

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

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

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

As of July 30, 2016 , we had no borrowings under the Revolving Credit Facility and had approximately \$20.0 million available on the line of credit.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets and are guaranteed by the Company's subsidiary. As of July 30, 2016 and August 1, 2015 , we were in compliance with the covenants applicable to us under the Revolving Credit Facility.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in the Annual Report. We believe that there have been no significant changes to our critical accounting policies during the twenty-six weeks ended July 30, 2016 .

Contractual Obligations

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

From January 30, 2016 to July 30, 2016 , we have entered into 51 new fully executed retail leases with an average term of 10 years and other lease modifications that have future minimum lease payments of approximately \$99.3 million .

Off-Balance Sheet Arrangements

For the quarterly period ended July 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.

Recently Issued Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-17, "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 in 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.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. This accounting standards update makes several modifications to the accounting for employee share-based payment transactions, including the requirement that the excess income tax benefits or deficiencies that arise when the tax consequences of share-based compensation differ from amounts previously recognized in the statement of income be recognized as income tax benefit or expense in the statement of income rather than as additional paid-in capital in the balance sheet. The guidance also clarifies the classification of components of share-based awards on the statement of cash flows such that excess income tax benefits should not be presented separately from other income taxes in the statement of cash flows and, thus, should be classified as an operating activity rather than a financing activity as they are under the current guidance. ASU No. 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. We are currently evaluating the impact of the updated guidance on our consolidated financial statements and disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. We have 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 July 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The following risk factor represents updates and addition to the risk factors previously disclosed in Part I, Item 1A "Risk Factors," in our Annual Report. You should carefully consider the risks described below and in our Annual Report, which could materially affect our business, financial condition or future results. The risks described below and in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

We may not be successful in implementing our expansion into online retail and if we are successful, we will face new risks and challenges, which could adversely affect our results of operations.

In August 2016, we commenced selling merchandise on the internet, through our fivebelow.com e-commerce website. Our ability to successfully execute our e-commerce strategy may suffer if we are unable to establish an effective online presence and sell our products in a cost-efficient manner while maintaining our \$5 and below price point. Because we are in the process of developing our online sales platform, we may not be able to compete as effectively with seasoned online retailers who have a known online presence, well established e-commerce distribution networks and online sales platforms, and more resources than we do. In addition, if we are successful, we will encounter risks and difficulties frequently experienced by internet-based businesses, including risks related to our ability to attract and retain customers on a cost-effective basis and our ability to operate, support, expand and develop our internet operations, website and software and other related operational systems. Although we believe that our participation in both e-commerce and physical store sales will be a distinct advantage for us due to synergies, the potential for new customers and increased brand-recognition nationwide in markets where we do not yet have stores, supporting product offerings through both of these channels could create issues that have the potential to adversely affect our results of operations. For example, if our e-commerce business successfully grows, it may do so in part by attracting existing customers, rather than new customers, who choose to purchase products from us online rather than from our physical stores, thereby reducing the financial performance of our stores. In addition, selling products through the internet exposes us to the potential for fraud associated with "card-not-present" credit card transactions that does not exist for physical store sales. Criminals are using increasingly sophisticated methods to engage in illegal activities such as unauthorized use of credit or debit cards and bank account information. Requirements relating to consumer authentication and fraud detection are more complex for online sales than for physical store sales. We may be denied the revenues associated with orders resulting from the unauthorized use of a cardholder's card number in an illegal activity even if the associated financial institution approved payment of the orders. As we develop our e-commerce business, the impact of attracting existing rather than new customers, of the increased costs associated with the technology infrastructure and distribution networks, and of opening up our channels to increased internet competition could have a material adverse impact on our business, financial condition, profitability and cash flows, including future growth.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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

| No. | Description |
|------------|--|
| 10.1 | Five Below, Inc. Amended and Restated Equity Incentive Plan. |
| 10.2 | Five Below, Inc. 2016 Performance Bonus Plan. |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101† | The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2016, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of July 30, 2016, January 30, 2016 and August 1, 2015; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended and Twenty-Six Weeks Ended July 30, 2016 and August 1, 2015; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Twenty-Six Weeks Ended July 30, 2016; (iv) the Unaudited Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended July 30, 2016 and August 1, 2015 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail. |

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIVE BELOW, INC.

Date: September 1, 2016

/s/ Joel D. Anderson

Joel D. Anderson

President and Chief Executive Officer (Principal Executive Officer)

Date: September 1, 2016

/s/ Kenneth R. Bull

Kenneth R. Bull

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

EXHIBIT INDEX

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FIVE BELOW, INC.
AMENDED AND RESTATED EQUITY INCENTIVE PLAN

SECTION 1. Purpose; Definitions. The purposes of the Five Below, Inc. Amended and Restated Equity Incentive Plan (the “Plan”) are to: (a) enable Five Below, Inc. (the “Company”) and its affiliated companies to recruit and retain highly qualified employees, directors and consultants; (b) provide those employees, directors and consultants with an incentive for productivity; and (c) provide those employees, directors and consultants with an opportunity to share in the growth and value of the Company.

For purposes of the Plan, the following terms will have the meanings defined below, unless the context clearly requires a different meaning:

- (a) “Affiliate” means, with respect to a Person, a Person that directly or indirectly controls, is controlled by, or is under common control with such Person.
- (b) “Applicable Law” means the legal requirements relating to the administration of and issuance of securities under stock incentive plans, including, without limitation, the requirements of state corporations law, federal, state and foreign securities law, federal, state and foreign tax law, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted.
- (c) “Award” means an award of Options, Restricted Stock, Restricted Stock Units or Performance Awards made under this Plan.
- (d) “Award Agreement” means, with respect to any particular Award, the written document that sets forth the terms of that particular Award.
- (e) “Board” means the Board of Directors of the Company, as constituted from time to time.
- (f) “Cause” means with respect to any Participant, unless otherwise defined in the Participant’s employment agreement, service agreement or signed offer letter: (i) the Participant’s habitual intoxication or drug addiction; (ii) the Participant’s violation of the Company’s written policies, procedures or codes including, without limitation, those with respect to harassment (sexual or otherwise) and ethics; (iii) the Participant’s refusal or willful failure by the Participant to perform such duties as may reasonably be delegated or assigned to him, consistent with his position; (iv) the Participant’s willful refusal or willful failure to comply with any requirement of the Securities and Exchange Commission or any securities exchange or self-regulatory organization then applicable to the Company; (v) the Participant’s willful or wanton misconduct in connection with the performance of his or her duties including, without limitation, breach of fiduciary duties; (vi) the Participant’s breach (whether due to inattention, neglect, or knowing conduct) of any of the material provisions of his or her employment or service agreement, if any; (vii) the Participant’s conviction of, guilty, no contest or *nolo contendere* plea to, or admission or confession to any felony (other than driving while intoxicated or driving under the influence of alcohol) or any act of fraud, misappropriation, embezzlement or any misdemeanor involving moral turpitude; (viii) the Participant’s dishonesty detrimental to the best interest of the Company; (ix) the Participant’s involvement in any matter which, in the opinion of the Company’s Chief Executive Officer (or, in the case of the Chief Executive Officer, the Committee), is reasonably likely to cause material prejudice or embarrassment to the Company’s business; or (x) solely in the case of a Non-Employee Director, any other action by the Participant which the Committee determines constitutes “cause.” Notwithstanding the foregoing, if a Participant and the Company (or any of its Affiliates) have entered into an employment agreement, consulting agreement or other similar agreement that specifically defines “cause,” then with respect to such Participant, “Cause” shall have the meaning defined in such other agreement.
- (g) “Change in Control” shall mean the occurrence of any of the following events: (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total power to vote for the election of directors of the Company; (ii) during any twelve month period, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Section 1(g)(i), Section 1(g)(iii), Section 1(g)(iv) or Section 1(g)(v) hereof) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period of whose election or nomination for election was previously approved, cease for any reason to constitute a majority thereof; (iii) the merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such
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stockholders to 50% or more of all votes to which all stockholders of the surviving corporation would be entitled in the election of directors (without consideration of the rights of any class of stock to elect directors by a separate class vote); (iv) the sale or other disposition of all or substantially all of the assets of the Company; (v) a liquidation or dissolution of the Company or (vi) acceptance by shareholders of the Company of shares in a share exchange if the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from or surviving such share exchange in substantially the same proportion as their ownership of the voting securities outstanding immediately before such share exchange.

Notwithstanding anything in the Plan or an Award Agreement to the contrary, if an Award is subject to Section 409A of the Code, no event that, but for the application of this paragraph, would be a Change in Control as defined in the Plan or the Award Agreement, as applicable, shall be a Change in Control unless such event is also a “change in control event” as defined in Section 409A of the Code.

(h) “Code” means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(i) “Committee” means the committee designated by the Board to administer the Plan under Section 2. To the extent required under Applicable Law, the Committee shall have at least two members and each member of the Committee shall be a Non-Employee Director and an Outside Director.

(j) “Director” means a member of the Board.

(k) “Disability” means a condition rendering a Participant Disabled.

(l) “Disabled” will have the same meaning as set forth in Section 22(e)(3) of the Code.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(n) “Fair Market Value” means, as of any date, the value of a Share determined as follows: (i) if the Shares are listed on any established stock exchange or a national market system, including, without limitation, the Nasdaq Global Select Market, the Fair Market Value of a Share will be the closing sales price for such stock as quoted on that system or exchange (or the system or exchange with the greatest volume of trading in Shares) at the close of regular hours trading on the day of determination; (ii) if the Shares are regularly quoted by recognized securities dealers but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for Shares at the close of regular hours trading on the day of determination; or (iii) if Shares are not traded as set forth above, the Fair Market Value will be determined in good faith by the Committee taking into consideration such factors as the Committee considers appropriate, such determination by the Committee to be final, conclusive and binding. Notwithstanding the foregoing, in connection with a Change in Control, Fair Market Value shall be determined in good faith by the Committee, such determination by the Committee to be final conclusive and binding.

(o) “Incentive Stock Option” means any Option intended to be an “Incentive Stock Option” within the meaning of Section 422 of the Code.

(p) “Non-Employee Director” will have the meaning set forth in Rule 16b-3(b)(3)(i) promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission.

(q) “Non-Qualified Stock Option” means any Option that is not an Incentive Stock Option.

(r) “Outside Director” means a member of the Board who meets the definition of an “outside director” under Section 162(m) of the Code.

(s) “Option” means any option to purchase Shares (including an option to purchase Restricted Stock, if the Committee so determines) granted pursuant to Section 5 hereof.

(t) “Parent” means, in respect of the Company, a “parent corporation” as defined in Sections 424(e) of the Code.

(u) “Participant” means an employee, consultant, Director, or other service provider of or to the Company or any of its respective Affiliates to whom an Award is granted

(v) “Performance Award” means any Award that, pursuant to Section 9, is granted, vested and/or settled upon the achievement of specified performance conditions.

(w) “ Performance Goals ” means a goal that must be met by the end of a period specified by the Committee (but that is substantially uncertain of being met before the grant of the Award) based upon: (i) specified levels of or increases in revenue, operating income, pre-tax earnings or income, return on capital, equity measures/ratios (on a gross, adjusted, net, pre-tax or post tax basis), including basic earnings per share, diluted earnings per share, total earnings, earnings growth, earnings before interest and taxes, or EBIT, and earnings before interest, taxes, depreciation and amortization, EBITDA or operational cash flow; (ii) completion of acquisitions or business expansion; (iii) operating efficiency; (iv) implementation or completion of critical projects or related milestones, (v) comparable store sales or non-comparable store sales; (vi) comparable store sales or sales growth; (vii) new store sales; (viii) store fundraising initiatives; (ix) new store openings; (x) gross margin; (xi) inventory shrink; (xii) vendor allowances; (xiii) inventory turns; (xiv) inventory levels; (xv) distribution center productivity levels; (xvi) customer service levels; (xvii) customer or employee satisfaction; (xviii) employee recruiting and development; (xix) number and timing of store construction; (xx) visual merchandising initiatives; (xxi) advertising effectiveness; (xxii) number and timing of lease negotiations; (xxiii) development of new markets; (xxiv) financial ratios; (xxv) strategic initiatives; (xxvi) improvement in or attainment of operating expense levels; (xxvii) improvement in or attainment of capital expense levels; (xxviii) the achievement of a certain level of, reduction of, or other specified objectives with regard to limiting the level of increase in, the Company’s bank debt or other public or private debt or financial obligations; (xxix) the attainment of a certain level of, reduction of, or other specified objectives with regard to limiting the level in or increase in all or a portion of controllable expenses or costs or other expenses or costs; (xxx) individual objectives; and any combination of the foregoing; and/or (xxxi) budget and expense management. The Committee shall have discretion to determine the specific targets with respect to each of these categories of Performance Goals.

(x) “ Person ” means an individual, partnership, corporation, limited liability company, trust, joint venture, unincorporated association, or other entity or association.

(y) “ Plan ” means the Five Below, Inc. Amended and Restated Equity Incentive Plan herein set forth, as amended from time to time.

(z) “ Restricted Stock ” means Shares that are subject to restrictions pursuant to Section 7 hereof.

(aa) “ Restricted Stock Unit ” means a right granted under and subject to restrictions pursuant to Section 8 hereof.

(bb) “ Shares ” means shares of the Company’s common stock, par value \$0.01, subject to substitution or adjustment as provided in Section 3(c) hereof.

(cc) “ Subsidiary ” means, in respect of the Company, a subsidiary company as defined in Sections 424(f) and (g) of the Code.

SECTION 2. Administration. The Plan shall be administered by the Committee. Any action of the Committee in administering the Plan shall be final, conclusive and binding on all persons, including the Company, its Subsidiaries, Affiliates, their respect employees, the Participants, persons claiming rights from or through Participants and stockholders of the Company.

The Committee will have full authority to grant Awards under this Plan and determine the terms of such Awards. Such authority will include the right to:

- (a) select the individuals to whom Awards are granted (consistent with the eligibility conditions set forth in Section 4);
 - (b) determine the type of Award to be granted;
 - (c) determine the number of Shares, if any, to be covered by each Award;
 - (d) establish the terms and conditions of each Award;
 - (e) subject to Section 9, establish the performance conditions relevant to any Award and certify whether such performance conditions have been satisfied;
 - (f) approving forms of agreements (including Award Agreements) for use under the Plan;
 - (g) determine whether and under what circumstances an Option may be exercised without a payment of cash under Section 5(d);
 - (h) accelerate the vesting or exercisability of an Award and to modify or amend each Award, subject to Section 10; and
 - (i) extend the period of time for which an Option is to remain exercisable following a Participant’s termination of service to the Company from the limited period otherwise in effect for that Option to such greater period of time as the Committee deems
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appropriate, but in no event beyond the expiration of the term of the Option.

The Committee will have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it, from time to time, deems advisable; to establish the terms and form of each Award Agreement; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement); and to otherwise supervise the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award Agreement in the manner and to the extent it deems necessary to carry out the intent of the Plan.

The Committee may delegate to one or more officers of the Company the authority to grant Awards to Participants who are not subject to the requirements of Section 16 of the Exchange Act or Section 162(m) of the Code and the rules and regulations thereunder, provided that the Committee shall have fixed the total number of Shares subject to such delegation. Any such delegation shall be subject to the applicable corporate laws of the Commonwealth of Pennsylvania. The Committee may revoke any such allocation or delegation at any time for any reason with or without prior notice.

No Director will be liable for any good faith determination, act or omission in connection with the Plan or any Award.

SECTION 3. Shares Subject to the Plan.

(a) Shares Subject to the Plan. Subject to adjustment as provided in Section 3(c) of the Plan, the maximum number of Shares that may be issued in respect of Awards under the Plan is 7,600,000 Shares (inclusive of Awards issued under any prior version of the Plan that remain outstanding as of the effective date of the Plan) (the “Plan Limit”), fifty percent (50%) of which Shares may be issued in respect of Incentive Stock Options. Any shares issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. Any shares issued by the Company through the assumption or substitution of outstanding grants in connection with the acquisition of another entity shall not reduce the maximum number of shares available for delivery under the Plan. In accordance with the requirements under Section 162(m) of the Code, the maximum number of Shares underlying Awards (including Options, Restricted Stock, Restricted Stock Units and Performance Awards) that may be granted during a calendar year to any individual Participant shall be fifty percent (50%) of the Plan Limit.

(b) Effect of the Expiration or Termination of Awards. If and to the extent that an Option expires, terminates or is canceled or forfeited for any reason without having been exercised in full, the Shares associated with that Option will again become available for grant under the Plan. Similarly, if and to the extent an Award of Restricted Stock or Restricted Stock Units is canceled or forfeited for any reason, the Shares subject to that Award will again become available for grant under the Plan. Shares withheld in settlement of a tax withholding obligation associated with an Award, or in satisfaction of the exercise price payable upon exercise of an Option, will not become available for grant under the Plan.

(c) Other Adjustment. In the event of any corporate event or transaction such as a merger, consolidation, reorganization, recapitalization, stock split, reverse stock split, spin-off, combination of shares, exchange of shares, stock dividend, dividend in kind, or other like change in capital structure (other than ordinary cash dividends) to shareholders of the Company, or other similar corporate event or transaction affecting the Shares, the Committee, to prevent dilution or enlargement of Participants’ rights under the Plan, shall, in such manner as it may deem equitable, substitute or adjust, in its sole discretion, the number and kind of shares that may be issued under the Plan or under any outstanding Awards, the number and kind of shares subject to outstanding Awards, the exercise price, grant price or purchase price applicable to outstanding Awards, and/or any other affected terms and conditions of this Plan or outstanding Awards. The Committee shall not make any adjustment that would adversely affect the status of any Award that is “performance-based compensation” under Section 162(m) of the Code.

(d) Change in Control. Notwithstanding anything to the contrary set forth in the Plan, upon any Change in Control, the Committee may, in its sole and absolute discretion and without the need for the consent of any Participant, take one or more of the following actions contingent upon the occurrence of that Change in Control:

- (i) cause any or all outstanding Awards to become vested and immediately exercisable (as applicable), in whole or in part;
 - (ii) cause any outstanding Option to become fully vested and immediately exercisable for a reasonable period in advance of the Change in Control and, to the extent not exercised prior to that Change in Control, cancel that Option upon closing of the Change in Control;
 - (iii) cancel any unvested Award or unvested portion thereof, with or without consideration;
 - (iv) cancel any Award in exchange for a substitute award;
 - (v) redeem any Restricted Stock or Restricted Stock Unit for cash and/or other substitute consideration with value equal to Fair Market Value of an unrestricted Share on the date of the Change in Control;
 - (vi) cancel any Option in exchange for cash and/or other substitute consideration with a value equal to: (A) the number of
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Shares subject to that Option, multiplied by (B) the difference, if any, between the Fair Market Value per Share on the date of the Change in Control and the exercise price of that Option; *provided*, that if the Fair Market Value per Share on the date of the Change in Control does not exceed the exercise price of any such Option, the Committee may cancel that Option without any payment of consideration therefor;

(vii) take such other action as the Committee shall determine to be reasonable under the circumstances; and/or

(viii) notwithstanding any provision of this Section 3(d), in the case of any Award subject to Section 409A of the Code, such Award shall vest and be distributed only in accordance with the terms of the applicable Award Agreement and the Committee shall only be permitted to use discretion to the extent that such discretion would be permitted under Section 409A of the Code.

In the discretion of the Committee, any cash or substitute consideration payable upon cancellation of an Award may be subjected to (i) vesting terms substantially identical to those that applied to the cancelled Award immediately prior to the Change in Control, or (ii) earn-out, escrow, holdback or similar arrangements, to the extent such arrangements are applicable to any consideration paid to stockholders in connection with the Change in Control.

SECTION 4. Eligibility. Employees, Directors, consultants, and other individuals who provide services to the Company or its Affiliates are eligible to be granted Awards under the Plan; *provided, however*, that only employees of the Company, any Parent or a Subsidiary are eligible to be granted Incentive Stock Options.

SECTION 5. Options. Options granted under the Plan may be of two types: (i) Incentive Stock Options or (ii) Non-Qualified Stock Options. The Award Agreement shall state whether such grant is an Incentive Stock Option or a Non-Qualified Stock Option. Any Option granted under the Plan will be in such form as the Committee may at the time of such grant approve.

The Award Agreement evidencing any Option will incorporate the following terms and conditions and will contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee deems appropriate in its sole and absolute discretion:

(a) **Option Price.** The exercise price per Share under an Option will be determined by the Committee and will not be less than 100% of the Fair Market Value of a Share on the date of the grant. However, any Incentive Stock Option granted to any Participant who, at the time the Option is granted, owns, either directly and/or within the meaning of the attribution rules contained in Section 424(d) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, will have an exercise price per Share of not less than 110% of Fair Market Value per Share on the date of the grant.

(b) **Option Term.** The term of each Option will be fixed by the Committee, but no Option will be exercisable more than 10 years after the date the Option is granted. However, any Incentive Stock Option granted to any Participant who, at the time such Option is granted, owns, either directly and/or within the meaning of the attribution rules contained in Section 424(d) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, may not have a term of more than 5 years. No Option may be exercised by any Person after expiration of the term of the Option.

(c) **Exercisability.** Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by the Committee.

(d) **Method of Exercise.** Subject to the terms of the applicable Award Agreement, the exercisability provisions of Section 5(c) and the termination provisions of Section 6, Options may be exercised in whole or in part from time to time during their term by the delivery of written notice to the Company specifying the number of Shares to be purchased. Such notice will be accompanied by payment in full of the purchase price, either by certified or bank check, or such other means as the Committee may accept. The Committee may, in its sole discretion, permit payment of the exercise price of an Option in the form of previously acquired Shares based on the Fair Market Value of the Shares on the date the Option is exercised or through means of a "net settlement," whereby the Option exercise price will not be due in cash and where the number of Shares issued upon such exercise will be equal to: (A) the product of (i) the number of Shares as to which the Option is then being exercised, and (ii) the excess, if any, of (a) the then current Fair Market Value per Share over (b) the Option exercise price, divided by (B) the then current Fair Market Value per Share.

No Shares will be issued upon exercise of an Option until full payment therefor has been made. A Participant will not have the right to distributions or dividends or any other rights of a stockholder with respect to Shares subject to the Option until the Participant has given written notice of exercise, has paid in full for such Shares, if requested, has given the representation described in Section 15(a) hereof and fulfills such other conditions as may be set forth in the applicable Award Agreement.

(e) **Incentive Stock Option Limitations.** In the case of an Incentive Stock Option, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year under the Plan and/or any other plan of the Company, its Parent or any Subsidiary will not

exceed \$100,000. For purposes of applying the foregoing limitation, Incentive Stock Options will be taken into account in the order granted. To the extent any Option does not meet such limitation, that Option will be treated for all purposes as a Non-Qualified Stock Option.

(f) Termination of Service. Unless otherwise specified in the applicable Award Agreement or as otherwise provided by the Committee at or after the time of grant, Options will be subject to the terms of Section 6 with respect to exercise upon or following termination of employment or other service.

SECTION 6. Termination of Service. Unless otherwise specified with respect to a particular Option in the applicable Award Agreement or otherwise determined by the Committee, any portion of an Option that is not exercisable upon termination of service will expire immediately and automatically upon such termination and any portion of an Option that is exercisable upon termination of service will expire on the date it ceases to be exercisable in accordance with this Section 6.

(a) Termination by Reason of Death. If a Participant's service with the Company or any Affiliate terminates by reason of death, any Option held by such Participant may thereafter be exercised, to the extent it was exercisable at the time of his or her death or on such accelerated basis as the Committee may determine at or after grant, by the legal representative of the estate or by the legatee of the Participant, for a period expiring (i) at such time as may be specified by the Committee at or after grant, or (ii) if not specified by the Committee, then 12 months from the date of death, or (iii) if sooner than the applicable period specified under (i) or (ii) above, upon the expiration of the stated term of such Option.

(b) Termination by Reason of Disability. If a Participant's service with the Company or any Affiliate terminates by reason of Disability, any Option held by such Participant may thereafter be exercised by the Participant or his personal representative, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Committee may determine at or after grant, for a period expiring (i) at such time as may be specified by the Committee at or after grant, or (ii) if not specified by the Committee, then 12 months from the date of termination of service, or (iii) if sooner than the applicable period specified under (i) or (ii) above, upon the expiration of the stated term of such Option.

(c) Cause. If a Participant's service with the Company or any Affiliate is terminated for Cause: (i) any Option, or portion thereof, not already exercised will be immediately and automatically forfeited as of the date of such termination, and (ii) any Shares for which the Company has not yet delivered share certificates will be immediately and automatically forfeited and the Company will refund to the Participant the Option exercise price paid for such Shares, if any.

(d) Other Termination. If a Participant's service with the Company or any Affiliate terminates for any reason other than death, Disability or Cause, any Option held by such Participant may thereafter be exercised by the Participant, to the extent it was exercisable at the time of such termination, or on such accelerated basis as the Committee may determine at or after grant, for a period expiring (i) at such time as may be specified by the Committee at or after grant, or (ii) if not specified by the Committee, then 90 days from the date of termination of service, or (iii) if sooner than the applicable period specified under (i) or (ii) above, upon the expiration of the stated term of such Option.

SECTION 7. Restricted Stock

(a) Issuance. Restricted Stock may be issued either alone or in conjunction with other Awards. The Committee will determine the time or times within which Restricted Stock may be subject to forfeiture, and all other conditions of such Awards. The purchase price for Restricted Stock may, but need not, be zero. The prospective recipient of an Award of Restricted Stock will not have any rights with respect to such Award, unless and until such recipient has delivered to the Company an executed Award Agreement and has otherwise complied with the applicable terms and conditions of such Award.

(b) Certificates. Upon the Award of Restricted Stock, the Committee may direct that a certificate or certificates representing the number of shares of Common Stock subject to such Award be issued to the Participant or placed in a restricted stock account (including an electronic account) with the transfer agent and in either case designating the Participant as the registered owner. The certificate(s) representing such shares shall be physically or electronically legended, as applicable, as to sale, transfer, assignment, pledge or other encumbrances during the Restriction Period and if issued to the Participant, returned to the Company, to be held in escrow during the Restriction Period. As a condition to any Award of Restricted Stock, the Participant may be required to deliver to the Company a share power, endorsed in blank, relating to the Shares covered by such Award.

(c) Restrictions and Conditions. The Award Agreement evidencing the grant of any Restricted Stock will incorporate the following terms and conditions and such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee deems appropriate in its sole and absolute discretion:

(i) During a period commencing with the date of an Award of Restricted Stock and ending at such time or times as specified by the Committee (the "Restriction Period"), the Participant will not be permitted to sell, transfer, pledge, assign or otherwise

encumber Restricted Stock awarded under the Plan. The Committee may condition the lapse of restrictions on Restricted Stock upon the continued employment or service of the recipient, the attainment of specified individual or corporate performance goals, or such other factors as the Committee may determine, in its sole and absolute discretion.

(ii) While any Share of Restricted Stock remain subject to restriction, the Participant will have, with respect to the Restricted Stock, the right to vote the Shares, but will not have the right to receive any cash distributions or dividends prior to the lapse of the Restriction Period underlying such Shares unless otherwise provided under the applicable Award Agreement or as determined by the Committee. If any cash distributions or dividends are payable with respect to the Restricted Stock, the Committee, in its sole discretion, may require the cash distributions or dividends to be subjected to the same Restriction Period as is applicable to the Restricted Stock with respect to which such amounts are paid, or, if the Committee so determines, reinvested in additional Restricted Stock to the extent Shares are available under Section 3(a) of the Plan. A Participant shall not be entitled to interest with respect to any dividends or distributions subjected to the Restriction Period. Any distributions or dividends paid in the form of securities with respect to Restricted Stock will be subject to the same terms and conditions as the Restricted Stock with respect to which they were paid, including, without limitation, the same Restriction Period.

(iii) Subject to the provisions of the applicable Award Agreement or as otherwise determined by the Committee, if a Participant's service with the Company and its Affiliates terminates prior to the expiration of the applicable Restriction Period, the Participant's Restricted Stock that then remains subject to forfeiture will then be forfeited automatically.

SECTION 8. Restricted Stock Units. Subject to the other terms of the Plan, the Committee may grant Restricted Stock Units to eligible individuals and may, in its sole and absolute discretion, impose conditions on such units as it may deem appropriate, including, without limitation, continued employment or service of the recipient or the attainment of specified individual or corporate performance goals. Each Restricted Stock Unit shall be evidenced by an Award Agreement in the form that is approved by the Committee and that is not inconsistent with the terms and conditions of the Plan. Each Restricted Stock Unit will represent a right to receive from the Company, upon fulfillment of any applicable conditions, an amount equal to the Fair Market Value (at the time of the distribution) of one Share. Distributions may be made in Shares. All other terms governing Restricted Stock Units, such as vesting, time and form of payment and termination of units shall be set forth in the applicable Award Agreement. The Participant shall not have any shareholder rights with respect to the Shares subject to a Restricted Stock Unit Award until that Award vests and the Shares are actually issued thereunder. Subject to the provisions of the applicable Award Agreement or as otherwise determined by the Committee, if a Participant's service with the Company terminates prior to the Restricted Stock Unit Award vesting, the Participant's Restricted Stock Units that then remain subject to forfeiture will then be forfeited automatically.

SECTION 9. Performance Based Awards.

(a) Performance Awards Generally. The Committee may grant Performance Awards in accordance with this Section 9. Performance Awards may be denominated as a number of Shares or specified number of other Awards, which may be earned upon achievement or satisfaction of such Performance Goals as may be specified by the Committee. In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the vesting or settlement of the Award upon the achievement or satisfaction of such Performance Goals as may be specified by the Committee.

(b) Adjustments to Performance Goals. The Committee may provide, at the time Performance Goals are established, that adjustments will be made to those performance goals to take into account, in any objective manner specified by that committee, the impact of one or more of the following: (A) gain or loss from all or certain claims and/or litigation and insurance recoveries, (B) the impairment of tangible or intangible assets, (C) stock-based compensation expense, (D) restructuring activities reported in the Company's public filings, (E) investments, dispositions or acquisitions, (F) loss from the disposal of certain assets, (G) gain or loss from the early extinguishment, redemption, or repurchase of debt, (H) changes in accounting principles, or (I) any other item, event or circumstance that would not cause an Award to fail to constitute "qualified performance-based compensation" under Section 162(m) of the Code (to the extent such Award is intended to be "qualified performance-based compensation"). An adjustment described in this Section may relate to the Company or to any subsidiary, division or other operational unit of the Company or its Affiliates, as determined by the committee at the time the performance goals are established. Any adjustment shall be determined in accordance with generally accepted accounting principles and standards, unless such other objective method of measurement is designated by the committee at the time performance objectives are established. In addition, adjustments will be made as necessary to any performance criteria related to the Company's stock to reflect changes in corporate capitalization, including a recapitalization, stock split or combination, stock dividend, spin-off, merger, reorganization or other similar event or transaction affecting the Company's equity.

(c) Other Terms of Performance Awards. The Committee may specify other terms pertinent to a Performance Award in the applicable Award Agreement, including terms relating to the treatment of that Award in the event of a Change in Control prior to the end of the applicable performance period. The Participant shall not have any shareholder rights with respect to the Shares subject to a Performance Award until the Shares are actually issued thereunder. Subject to the provisions of the applicable

Award Agreement or as otherwise determined by the Committee, if a Participant's service with the Company terminates prior to the Performance Award vesting, the Participant's Performance Award or portion thereof that then remains subject to forfeiture will then be forfeited automatically.

SECTION 10. Amendments and Termination . The Board may amend, alter or discontinue the Plan at any time. However, except as otherwise provided in Section 3, no amendment, alteration or discontinuation will be made which would impair the rights of a Participant with respect to an Award without that Participant's consent or which, without the approval of such amendment within 365 days of its adoption by the Board by the Company's stockholders in a manner consistent with Treas. Reg. § 1.422-3 (or any successor provision), would: (i) increase the total number of Shares reserved for issuance hereunder, or (ii) change the persons or class of persons eligible to receive Awards.

SECTION 11. Prohibition on Repricing Programs . Neither the Committee nor the Board shall (i) implement any cancellation/re-grant program pursuant to which outstanding Options under the Plan are cancelled and new Options are granted in replacement with a lower exercise or base price per share, (ii) cancel outstanding Options under the Plan with exercise prices or base prices per share in excess of the then current Fair Market Value per Share for consideration payable in equity securities of the Company or (iii) otherwise directly reduce the exercise price or base price in effect for outstanding Options under the Plan, without in each such instance obtaining shareholder approval.

SECTION 12. Conditions Upon Grant of Awards and Issuance of Shares .

(a) The implementation of the Plan, the grant of any Award and the issuance of Shares in connection with the issuance, exercise or vesting of any Award made under the Plan shall be subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the Awards made under the Plan and the Shares issuable pursuant to those Awards.

(b) No Shares or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Applicable Law, including the filing and effectiveness of the Form S-8 registration statement for the Shares issuable under the Plan, and all applicable listing requirements of any stock exchange on which Shares are then listed for trading.

SECTION 13. Limits on Transferability; Beneficiaries . No Award or other right or interest of a Participant under the Plan shall be pledged, encumbered, or hypothecated to, or in favor of, or subject to any lien, obligation, or liability of such Participant to, any party, other than the Company, any Subsidiary or Affiliate, or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution, and such Awards and rights shall be exercisable during the lifetime of the Participant only by the Participant or his or her guardian or legal representative. Notwithstanding the foregoing, the Committee may, in its discretion, provide that Awards or other rights or interests of a Participant granted pursuant to the Plan (other than an Incentive Stock Option) be transferable, without consideration, to immediate family members (i.e., children, grandchildren or spouse), to trusts for the benefit of such immediate family members and to partnerships in which such family members are the only partners. The Committee may attach to such transferability feature such terms and conditions as it deems advisable. In addition, a Participant may, in the manner established by the Committee, designate a beneficiary (which may be a person or a trust) to exercise the rights of the Participant, and to receive any distribution, with respect to any Award upon the death of the Participant. A beneficiary, guardian, legal representative or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional restrictions deemed necessary or appropriate by the Committee.

SECTION 14. Withholding . No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal income tax purposes with respect to any Award under the Plan, the Participant will pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to such amount. The minimum required withholding obligations may be settled with Shares, including Shares that are part of the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan will be conditioned on such payment or arrangements and the Company will have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

SECTION 15. Liability of Company .

(a) Inability to Obtain Authority . If the Company cannot, by the exercise of commercially reasonable efforts, obtain authority from any regulatory body having jurisdiction for the sale of any Shares under this Plan, and such authority is deemed by the Company's counsel to be necessary to the lawful issuance of those Shares, the Company will be relieved of any liability for failing to issue or sell those Shares.

(b) **Grants Exceeding Allotted Shares**. If Shares subject to an Award exceed, as of the date of grant, the number of Shares which may be issued under the Plan without additional shareholder approval, that Award will be contingent with respect to such excess Shares, on the effectiveness under Applicable Law of a sufficient increase in the number of Shares subject to this Plan.

(c) **Rights of Participants and Beneficiaries**. The Company will pay all amounts payable under this Plan only to the applicable Participant, or beneficiaries entitled thereto pursuant to this Plan. The Company will not be liable for the debts, contracts, or engagements of any Participant or his or her beneficiaries, and rights to cash payments under this Plan may not be taken in execution by attachment or garnishment, or by any other legal or equitable proceeding while in the hands of the Company.

SECTION 16. Adjustment; Repayment of Incentive Bonuses. All awards made under the Plan (whether vested or unvested) are subject to rescission, cancellation or recoupment, in whole or in part, under any current or future “clawback” or similar policy of the Company that is applicable to the Participant.

SECTION 17. General Provisions.

(a) The Board may require each Participant to represent to and agree with the Company in writing that the Participant is acquiring securities of the Company for investment purposes and without a view to distribution thereof and as to such other matters as the Board believes are appropriate.

(b) All certificates for Shares or other securities delivered under the Plan will be subject to such share-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities Act of 1933, as amended, the Exchange Act, any stock exchange upon which the Shares are then listed, and any other Applicable Law, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(c) Nothing contained in the Plan will prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required.

(d) Neither the adoption of the Plan nor the execution of any document in connection with the Plan will: (i) confer upon any employee or other service provider of the Company or an Affiliate any right to continued employment or engagement with the Company or such Affiliate, or (ii) interfere in any way with the right of the Company or such Affiliate to terminate the employment or engagement of any of its employees or other service providers at any time.

SECTION 18. Effective Date of Plan. The Plan will become effective immediately prior to the closing of the Company’s initial public offering for which the Company filed a registration statement with the SEC on April 18, 2012. The closing of the Company’s initial public offering occurred during the business day on July 24, 2012, and the effective date of the Plan is the commencement of the business day on July 24, 2012.

SECTION 19. Term of Plan. Unless the Plan shall theretofore have been terminated in accordance with Section 10, the Plan shall terminate on the 10-year anniversary of the effective date, and no Awards under the Plan shall thereafter be granted.

SECTION 20. Invalid Provisions. In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any Applicable Law, such invalidity or unenforceability will not be construed as rendering any other provisions contained herein as invalid or unenforceable, and all such other provisions will be given full force and effect to the same extent as though the invalid or unenforceable provision was not contained herein.

SECTION 21. Governing Law. The Plan and all Awards granted hereunder will be governed by and construed in accordance with the laws and judicial decisions of the Commonwealth of Pennsylvania, without regard to the application of the principles of conflicts of laws.

SECTION 22. Notices. Any notice to be given to the Company pursuant to the provisions of this Plan must be given in writing and addressed, if to the Company, to its principal executive office to the attention of its Chief Financial Officer (or such other Person as the Company may designate in writing from time to time), and, if to a Participant, to the address contained in the Company’s personnel files, or at such other address as that Participant may hereafter designate in writing to the Company. Any such notice will be deemed duly given: if delivered personally or via recognized overnight delivery service, on the date and at the time so delivered; if sent via telecopier or email, on the date and at the time telecopied or emailed with confirmation of delivery; or, if mailed, five (5) days after the date of mailing by registered or certified mail.

FIVE BELOW, INC.
2016 PERFORMANCE BONUS PLAN

Section 1. Purpose. The purpose of the Five Below, Inc. Performance Bonus Plan (the “**Plan**”) is to benefit and advance the interests of Five Below, Inc., a Pennsylvania corporation (the “**Company**”), by rewarding selected employees of the Company and its subsidiaries and divisions (each such subsidiary or division is referred to herein as a “**Business Unit**”) for their contributions to the Company’s financial success and thereby motivate them to continue to make such contributions in the future by granting performance-based awards (“**Awards**”).

Section 2. Certain Definitions. For the purposes of the Plan the following terms shall be defined as set forth below:

- (a) “**Applicable Employee Remuneration**” has the meaning given to such term in Section 162(m)(4) of the Code.
- (b) “**Base Salary Percentage**” means a percentage of the Participant’s annual base salary in effect as of the later of (i) the first day of the Performance Period or (ii) the common salary adjustment date within the Performance Period.
- (c) “**Board**” means the Board of Directors of the Company.
- (d) “**Code**” means the Internal Revenue Code of 1986, as amended.
- (e) “**Committee**” means the Compensation Committee of the Board.
- (f) “**Covered Employee**” has the same meaning given to such term in Section 162(m)(3) of the Code; provided, however, that a person will be considered a Covered Employee for purposes of this Plan only if such employee’s Applicable Employee Remuneration for the relevant Fiscal Year is expected to exceed \$1,000,000.
- (g) “**Eligible Persons**” has the meaning given to that term in Section 4 hereof.
- (h) “**Financial Criteria**” has the meaning given to that term in Section 6(a) hereof.
- (i) “**Fiscal Year**” means the fiscal year ending on the Saturday closest to January 31 of each year or such other period that the Company may hereafter adopt as its fiscal year.
- (j) “**Performance Period**” means the period of time over which the Performance Threshold must be satisfied, which period may be of such length as the Committee, in its discretion, shall select. The Performance Period need not be identical for all Awards. Within one Fiscal Year, the Committee may establish multiple Performance Periods.
- (k) “**Performance Threshold**” has the meaning given to such term in Section 6(b) hereof (in the case of a Covered Employee), or Section 7(b) hereof (in the case of a Participant who is not a Covered Employee).
- (l) “**Target**” has the meaning given to such term in Section 6(a) hereof (in the case of a Covered Employee), or Section 7(a) hereof (in the case of a Participant who is not a Covered Employee).

Section 3. Administration of the Plan.

- (a) Generally. The Plan shall be administered by the Committee. The Committee is authorized to administer, interpret and apply the Plan and from time to time may adopt such rules, regulations and guidelines consistent with the provisions of the Plan as it may deem advisable to carry out the Plan, except that the Committee may authorize any one or more of its members, or any officer of the Company, to execute and deliver documents on behalf of the Committee. The Committee’s interpretations of the Plan, and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including the Company, its stockholders and Participants (as defined below). The Committee shall have authority to determine the terms and conditions of the Awards granted to Participants.
 - (b) Delegation. The Committee may delegate its responsibilities for administering the Plan to any executive officer of the Company, as the Committee deems necessary; provided however, that the Committee shall not delegate its responsibilities under the Plan relating to Covered Employees.
 - (c) Reliance and Indemnification. The Committee may employ attorneys, consultants, accountants or other persons, and the Committee, the Company and its officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Committee nor any executive officer of the Company shall be personally liable for any action, determination or interpretation taken or made in good faith by the Committee or such executive officer of the Company with
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respect to the Plan or Awards granted hereunder, and all members of the Committee and each executive officer of the Company shall be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

Section 4. Eligible Persons. All employees of the Company shall be eligible to participate in the Plan (“**Eligible Persons**”). An individual shall be deemed an employee for purposes of the Plan only if such individual receives compensation from either the Company or one of its Business Units for services performed as an employee of the Company or any one of its Business Units for any period during a Performance Period. An Eligible Person who is a Covered Employee shall be entitled to participate in the Plan with respect to a Performance Period which has commenced only if he or she commenced employment on or before the beginning of each Performance Period or any later date described in Treasury Regulation 1.162-27(e)(2) (or any successor thereto).

Section 5. Awards; Participants. Awards may be granted only to Eligible Persons with respect to each Performance Period, subject to the terms and conditions set forth in the Plan. An Eligible Person who has been chosen to receive an Award under the Plan shall be referred to as a “**Participant**.”

Section 6. Determination of Targets, Performance Thresholds and Base Salary Percentage for Covered Employees. Prior to the beginning of each Performance Period or any later date described in Treasury Regulation 1.162-27(e)(2) (or any successor thereto), the Committee shall adopt each of the following with respect to each Participant who is a Covered Employee:

(a) one or more Targets, which shall be equal to a desired level or levels (as may be measured on an absolute or relative basis, where relative performance may also be measured by reference to: past performance of the Company or a Business Unit, a group of peer companies or by a financial market index) for any Performance Period of: specified levels of or increases in revenue, operating income, pre-tax earnings or income, return on capital, equity measures/ratios (on a gross, adjusted, net, pre-tax or post tax basis), including basic earnings per share, diluted earnings per share, total earnings, earnings growth, earnings before interest and taxes, or EBIT, and earnings before interest, taxes, depreciation and amortization, or EBITDA or operational cash flow; (ii) completion of acquisitions or business expansion; (iii) operating efficiency; (iv) implementation or completion of critical projects or related milestones, (v) comparable store sales or non-comparable store sales; (vi) comparable store sales or sales growth; (vii) new store sales; (viii) store fundraising initiatives; (ix) new store openings; (x) gross margin; (xi) inventory shrink; (xii) vendor allowances; (xiii) inventory turns; (xiv) inventory levels; (xv) distribution center productivity levels; (xvi) customer service levels; (xvii) customer or employee satisfaction; (xviii) employee recruiting and development; (xix) number and timing of store construction; (xx) visual merchandising initiatives; (xxi) advertising effectiveness; (xxii) number and timing of lease negotiations; (xxiii) development of new markets; (xxiv) financial ratios; (xxv) strategic initiatives; (xxvi) improvement in or attainment of operating expense levels; (xxvii) improvement in or attainment of capital expense levels; (xxviii) the achievement of a certain level of, reduction of, or other specified objectives with regard to limiting the level of increase in, the Company’s bank debt or other public or private debt or financial obligations; (xxix) the attainment of a certain level of, reduction of, or other specified objectives with regard to limiting the level in or increase in all or a portion of controllable expenses or costs or other expenses or costs; (xxx) individual objectives; and any combination of the foregoing; and/or (xxxi) budget and expense management (collectively, the “**Financial Criteria**”). With respect to any Covered Employee who is employed by a Business Unit, the Financial Criteria shall be based on the results of such Business Unit, results of the Company, or any combination of the two;

(b) a Performance Threshold with respect to each Target, applicable to one or more Financial Criteria, which represents a minimum amount that must be attained for a Participant to receive an Award;

(c) either (i) a Base Salary Percentage, or (ii) fixed monetary amounts, which, in each case, shall be payable as an Award in the event that 100% of such Participant’s Targets are achieved; and

(d) a mathematical formula or matrix that shall contain weighting for each Target and indicate the extent to which Awards will be paid if such Participant’s Performance Thresholds with respect to his or her Targets are achieved or exceeded.

The Committee shall make such adjustments, to the extent it deems appropriate, to the Targets and Performance Thresholds to compensate for, or to reflect, any material changes which may have occurred in accounting practices, tax laws, other laws or regulations, the financial structure of the Company, acquisitions or dispositions of Business Units or any unusual circumstances outside of management’s control which, in the sole judgment of the Committee, alters or affects the computation of such Targets and Performance Thresholds or the performance of the Company or any relevant Business Unit (each an “**Extraordinary Event**”). Provided however, that no such adjustment may be made unless such adjustment would be permissible under Section 162(m) of the Code.

Section 7. Determination of Targets, Performance Thresholds and Base Salary Percentage For Participants Who Are Not Covered Employees. Prior to the end of the Performance Period, the Committee shall adopt each of the following with respect to each Participant who is not a Covered Employee:

(a) one or more Targets, which shall be equal to a desired level or levels for any Performance Period of any, or a combination of any, quantitative criteria (the “**Quantitative Criteria**,” which Quantitative Criteria may include, without limitation, any Financial Criteria) or qualitative criteria (the “**Individual Criteria**”). With respect to such Participants who are employed by a Business Unit, the Quantitative Criteria may be based on the results of such Business Unit, consolidated results of the Company, or any combination of the two;

(b) a Performance Threshold with respect to each Target, applicable to one or more Quantitative Criteria or Individual Criteria, which represents a minimum that must be attained for a Participant to receive an Award;

(c) either (i) a Base Salary Percentage, or (ii) fixed monetary amounts, which, in each case, shall be payable as an Award in the event that 100% of such Participant’s Targets are achieved; and

(d) a mathematical formula or matrix that shall contain weighting for each Target and indicate the extent to which Awards will be paid if such Participant’s Performance Thresholds with respect to his or her Targets are achieved or exceeded.

The Committee may make such adjustments, to the extent it deems appropriate, to the Targets and Performance Thresholds to compensate for, or to reflect, any material changes which may have occurred due to an Extraordinary Event.

Section 8. Calculation of Awards; Certification; Payment; Deferral. As soon as practicable after the end of the Performance Period, and subject to any necessary verification, the Committee shall determine with respect to each Participant whether and the extent to which the Performance Thresholds applicable to such Participant’s Targets were achieved or exceeded. Such Participant’s Award, if any, shall be calculated in accordance with the mathematical formula or matrix determined pursuant to Section 6 or 7, as applicable, and subject to the limitations set forth in Section 9 hereof. The Committee shall certify in writing the amount of such Award and whether each material term of the Plan relating to such Award has been satisfied. Subject to Section 9 hereof, such Award shall become payable in cash as promptly as practicable thereafter, provided, however, that any Award shall be paid within 2 1/2 months of the end of the Fiscal Year in which the Award is no longer subject to a risk of forfeiture.

Section 9. Limitations; Modifications to Awards. Each Award determined pursuant to Section 6 or 7 hereof shall be subject to modification or forfeiture in accordance with the following provisions:

(a) **Limitations.** The aggregate amount of any Award to any Participant for any Performance Period as finally determined by the Committee, shall constitute the Participant’s Award for the Fiscal Year; provided, however that no Award for any Participant for any Fiscal Year shall exceed \$5,000,000.

(b) **Modifications.** At any time prior to the payment of an Award, the Committee may, in its sole discretion, (i) increase, decrease or eliminate the Award payable to any Participant who is not a Covered Employee and who would not become a Covered Employee as a result of any such increase and/or (ii) decrease or eliminate the Award payable to any Covered Employee, in each case to reflect the individual performance and contribution of, and other factors relating to, such Covered Employee. The Committee may make such adjustments, to the extent it deems appropriate to any Award to compensate for, or to reflect, any Extraordinary Event. The determination of the Committee as to matters set forth in this Section 9(b) shall be final and conclusive.

Section 10. Adjustment; Repayment of Incentive Bonuses. All Incentive Bonuses paid or to be paid under the Plan are subject to rescission, cancellation or recoupment, in whole or in part, under any current or future “clawback” or similar policy of the Company that is applicable to the Participant.

Section 11. Employment Requirement. No Participant shall have any right to receive payment of any Award unless such Participant remains in the employ of the Company or a Business Unit through the date of payment of such Award; provided, however, that the Committee may, in its sole discretion, pay all or any part of an Award to any Participant who, prior to such date of payment, terminates employment, so long as the Performance Thresholds applicable to the Participant’s Targets were achieved or exceeded, the Committee may, in its sole discretion, provide for payment of all or part of an award upon any event, to the extent that such provision does not violate Code Section 162(m) with respect to a Covered Employee. The maximum amount of such payment, if any, will be calculated, and to the extent determined by the Committee, paid as provided in Section 6 or 7. The determination of the Committee shall be final and conclusive.

Section 12. Miscellaneous.

(a) **No Contract; No Rights to Awards or Continued Employment.** The Plan is not a contract between the Company and any Participant or other employee. No Participant or other employee shall have any claim or right to receive Awards under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained by the Company or any of its Business Units.

(b) No Right to Future Participation. Participation in the Plan during one Performance Period shall not guarantee participation during any other Performance Period.

(c) Restriction on Transfer. The rights of a Participant with respect to Awards under the Plan shall not be transferable by the Participant to whom such Award is granted (other than by will or the laws of descent and distribution), and any attempted assignment or transfer shall be null and void and shall permit the Committee, in its sole discretion, to extinguish the Company's obligation under the Plan to pay any Award with respect to such Participant.

(d) Tax Withholding. The Company or a subsidiary thereof, as appropriate, shall have the right to deduct from all payments made under the Plan to a Participant or to a Participant's beneficiary or beneficiaries any Federal, foreign, state or local taxes required by law to be withheld with respect to such payments.

(e) No Restriction on Right of Company to Effect Changes. The Plan shall not affect in any way the right or power of the Company or its stockholders to make or authorize any recapitalization, reorganization, merger, acquisition, divestiture, consolidation, spin off, combination, liquidation, dissolution, sale of assets, or other similar corporate transaction or event involving the Company or a subsidiary thereof or any other event or series of events, whether of a similar character or otherwise.

(f) Source of Payments. The Plan shall be unfunded. The Plan shall not create or be construed to create a trust or separate fund or segregation of assets of any kind or a fiduciary relationship between the Company and a Participant or any other individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or government or political subdivision thereof. To the extent that any Participant is granted an Award hereunder, such Participant's right to receive payment of such Award shall be no greater than the right of any unsecured general creditor of the Company.

(g) No Interest. If the Company for any reason fails to make payment of an Award at the time such Award becomes payable, the Company shall not be liable for any interest or other charges thereon.

(h) Amendment and Termination. The Committee may at any time and from time to time alter, amend, suspend or terminate the Plan in whole or in part. No such amendment shall be effective which alters the Award, Target or other criteria relating to an Award applicable to a Covered Employee for the Performance Period in which such amendment is made or any prior Performance Period, except any such amendment that may be made without causing such Award to cease to qualify as performance-based compensation under Section 162(m)(4)(C) of the Code.

(i) Headings. The headings of sections and subsections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

(j) Governing Law. The validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the choice-of-law principles thereof, and applicable federal law.

(k) Severability. If any term or provision ("**Provision**") of the Plan or the application thereof (i) as to any Participant or circumstance (other than as described in clause (ii)) is, to any extent, found to be illegal or invalid, or (ii) would cause any Award to any Covered Employee not to constitute performance-based compensation under Section 162(m)(4)(C) of the Code, then the Committee shall sever such Provision from the Plan and, thereupon, such Provision shall not be a part of the Plan.

(l) Effective Date. The Plan shall be effective as of May 10, 2016; subject to the approval of the stockholders of the Company (the "**Stockholders**"). Such approval shall meet the requirements of Section 162(m) of the Code and the regulations thereunder. If such approval is not obtained, then the Plan shall not be effective.

(m) Approval and Reapproval by Stockholders. To the extent required under Section 162(m) of the Code and the regulations thereunder, (i) any change to the material terms of the Financial Criteria shall be disclosed to and approved by the Stockholders at the next annual meeting of Stockholders to be held following such change, and (ii) the material terms of the Financial Criteria shall be disclosed to and reapproved by the Stockholders no later than the annual meeting of Stockholders that occurs in the fifth year following the year in which Stockholders approve the Financial Criteria.

CERTIFICATION

Exhibit 31.1

I, Joel D. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Joel D. Anderson

Name: Joel D. Anderson

Title: President and Chief Executive Officer

Dated: **September 1, 2016**

CERTIFICATION

Exhibit 31.2

I, Kenneth R. Bull, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Kenneth R. Bull

Name: Kenneth R. Bull

Title: Chief Financial Officer and Treasurer

Dated: **September 1, 2016**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended July 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel D. Anderson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Joel D. Anderson

Joel D. Anderson

President and Chief Executive Officer

Date: **September 1, 2016**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended July 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bull, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer and Treasurer

Date: **September 1, 2016**