FIVE BELOW, INC
Form 424B4
July 19, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-180780

9,615,384 Shares

Five Below, Inc.

Common Stock

This is an initial public offering of shares of common stock of Five Below, Inc.

Five Below is offering 4,807,692 of the shares to be sold in the offering. The selling shareholders identified in this prospectus are offering an additional 4,807,692 shares. Five Below will not receive any of the proceeds from the sale of the shares being sold by the selling shareholders.

Prior to this offering, there has been no public market for the common stock. Five Below has been approved to list the common stock on The NASDAQ Global Select Market under the symbol FIVE.

Five Below is an emerging growth company as that term is used in the Jumpstart Our Business Startups (JOBS) Act of 2012; however, the Company does not intend to take advantage of any of the reduced public company reporting requirements afforded by the JOBS Act.

See Risk Factors beginning on page 11 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$ 17.00	$ 163,461,528
Underwriting discount	$ 1.19	$ 11,442,307
Proceeds, before expenses, to Five Below	$ 15.81	$ 76,009,611

Proceeds, before expenses, to the selling shareholders	$ 15.81	$ 76,009,611

To the extent that the underwriters sell more than 9,615,384 shares of common stock, the underwriters have the option to purchase up to an additional 1,442,308 shares from the selling shareholders at the initial price to the public less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on July 24, 2012.

Goldman, Sachs & Co. **Barclays** **Jefferies**

Credit Suisse **Deutsche Bank Securities** **UBS Investment Bank** **Wells Fargo Securities**

Prospectus dated July 18, 2012.

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	11
Special Note Regarding Forward-Looking Statements	25
Use of Proceeds	27
Dividends	28
Capitalization	29
Dilution	31
Selected Financial and Other Data	33
Management s Discussion and Analysis of Financial Condition and Results of Operations	38
Business	60
Management	70
Executive Compensation	77
Certain Relationships and Related Party Transactions	99
Principal and Selling Shareholders	102
Description of Capital Stock	107
Shares Eligible for Future Sale	113
Material United States Tax Considerations for Non-United States Holders of Common Stock	116
Underwriting	121
Conflicts of Interest	123
Validity of Common Stock	126
Experts	126
Where You Can Find Additional Information	126
Index to Financial Statements	F-1

We have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Persons who come into possession of this prospectus and any such free writing prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus and any such free writing prospectus applicable to that jurisdiction.

Table of Contents

Market and Industry Data

We obtained the industry, market and competitive position data throughout this prospectus from our own internal estimates and research, as well as from industry and general publications and research, surveys and studies conducted by third parties.

Basis of Presentation

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 2011 or fiscal 2011 refer to the fiscal year ended January 28, 2012, references to fiscal year 2010 or fiscal 2010 refer to the fiscal year ended January 29, 2011 and references to fiscal year 2009 or fiscal 2009 refer to the fiscal year ended January 30, 2010. Each of fiscal years 2011, 2010 and 2009 consisted of a 52-week period. The quarterly reporting periods contained in the unaudited financial statements included in this prospectus consist of 13-week periods ended on April 28, 2012 and April 30, 2011.

On July 17, 2012, we amended our articles of incorporation to effect a 0.3460-for-1 reverse stock split of our common stock. Concurrent with the reverse stock split, we adjusted (x) the conversion price of our Series A 8% convertible preferred stock, (y) the number of shares subject to and the exercise price of our outstanding stock option awards under our equity incentive plan and (z) the number of shares subject to and the exercise price of our outstanding warrants, such that the holders of the preferred stock, options and warrants are in the same economic position both before and after the reverse stock split. In addition, immediately prior to the closing of this offering the outstanding shares of our Series A 8% convertible preferred stock will convert into shares of our common stock. Unless otherwise indicated, all share data gives effect to the conversion of our preferred stock into common stock.

Trademarks

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our business, including Five Below® and Five Below Hot Stuff. Cool Prices.® Solely for convenience, trademarks and trade names referred to in this prospectus may appear without the ® or symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. In this prospectus, we also refer to product names, trademarks, trade names and service marks that are the property of other companies. Each of the trademarks, trade names or service marks of other companies appearing in this prospectus belongs to its owners. Our use or display of other companies product names, trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship by us of, the product, trademark, trade name or service mark owner, unless we otherwise indicate.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that may be important to you and your investment decision. You should carefully read this entire prospectus, including the matters set forth under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus. In this prospectus, unless the context otherwise requires, references to Five Below, the Company, we, us and our refer to Five Below, Inc. Numbers may not sum due to rounding.

We purchase products in reaction to existing marketplace trends and, hence, refer to our products as trend-right. We define the teen customer, who aspires to be a young adult and shop as one, as well as the pre-teen customer, who aspires to be a teenager and shop as one, as aspirational teen and pre-teen customers. We use the term dynamic merchandise to refer to the broad range and frequently changing nature of the products we display in our stores. We use the term power shopping center to refer to an unenclosed shopping center with 250,000 to 750,000 square feet of gross leasable area that contains three or more big box retailers (large retailers with floor space over 50,000 square feet) and various smaller retailers with a common parking area shared by the retailers. We use the term lifestyle shopping center to refer to a shopping center or commercial development that is often located in suburban areas and combines the traditional retail functions of a shopping mall with leisure amenities oriented towards upscale consumers. We use the term community shopping center to refer to a shopping area designed to serve a trade area of 40,000 to 150,000 people with a minimum of 430,500 square feet (10 acres) in area, where the lead tenant is a variety discount or junior department store. We use the term trade area to refer to the geographic area from which the majority of a given retailer s customers come from. Trade areas vary by market based on geographic size, population density, demographics and proximity to alternative shopping opportunities.

Overview

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

Five Below was founded in 2002 by our Executive Chairman, David Schlessinger, and our President and Chief Executive Officer, Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at our target customer. We opened the first Five Below store in 2002 and have since been expanding across the eastern half of the U.S. As of April 28, 2012, we operated a total of 199 locations across 17 states. Our stores average approximately 7,500 square feet and are typically located within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We plan to open approximately 50 stores in 2012, and we believe we have the opportunity to grow our store base to more than 2,000 locations over approximately 20 years.

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

- We have achieved positive comparable store sales during each of the last 24 fiscal quarters.

- For the thirteen weeks ended April 28, 2012, our comparable store sales increased by 10.4%. For the same period in the prior year, our comparable store sales increased by 7.6%. Our net sales for the

Table of Contents

thirteen weeks ended April 28, 2012 were $71.8 million, an increase of 51.5%, from $47.4 million for the thirteen weeks ended April 30, 2011. Our operating income (loss) was $(2.0) million for the thirteen weeks ended April 28, 2012 compared to $1.7 million for the thirteen weeks ended April 30, 2011.

Our comparable store sales increased by 12.1% in fiscal 2009, 15.6% in fiscal 2010 and 7.9% in fiscal 2011 with positive comparable store sales performance across all geographic regions and store-year classes.

Over the past two fiscal years, we expanded our store base from 102 stores to 192 stores, representing a compound annual growth rate of 37.2%.

Between fiscal 2009 and 2011, our net sales increased from $125.1 million to $297.1 million, representing a 54.1% compound annual growth rate.

Over the same period, our operating income increased from $6.9 million to $26.2 million, representing a compound annual growth rate of 95.3%.

Our Competitive Strengths

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

Unique Focus on the Teen and Pre-Teen Customer. We target an attractive customer segment of teens and pre-teens with trend-right merchandise at a differentiated price point of $5 and below. Our brand concept, merchandising strategy and store ambience work in concert to create an upbeat and vibrant retail experience that is designed to appeal to our target audience. We monitor trends in the ever-changing teen and pre-teen markets and are able to quickly identify and respond to those that become mainstream. We believe our price points enable teens and pre-teens to shop independently and exercise self-expression, using their own money to make frequent purchases of items geared primarily to them.

Broad Assortment of Trend-Right, High-Quality Merchandise with Universal Appeal. We deliver an edited assortment of trend-right, everyday products that changes frequently to create a sense of anticipation and freshness. Our unique approach encourages frequent customer visits and limits the cyclical fluctuations experienced by many other specialty retailers. The breadth, depth and quality of our product mix and the diversity of our category worlds attract shoppers across a broad range of age and socio-economic demographics.

Exceptional Value Proposition for Customers. We believe we offer a clear value proposition to our customers with our price points of $5 and below. We are able to deliver on this value proposition through sourcing products in a manner that is designed to minimize cost, accelerate response times and maximize sell-through. We have collaborative relationships with our vendor partners and also employ an opportunistic buying strategy, which allows us to capitalize on select excess inventory opportunities. This unique and flexible sourcing strategy allows us to offer high-quality products at exceptional value across all of our category worlds.

Differentiated Shopping Experience. We have created an in-store atmosphere that we believe our customers find easy-to-shop, fun and exciting. While we refresh our products frequently, we maintain a consistent floor layout with an easy-to-navigate racetrack flow and sight-lines across the entire store enabling customers to easily identify our category worlds. All of our stores feature a sound system playing popular music throughout the shopping day. We employ colorful and stimulating in-store fixtures and signage and also utilize dynamic product displays, which encourage hands-on interaction. We have developed a unique culture that emanates from our employees, driving a higher level of connectivity with customers. Additionally, we believe the combination of our price points and

merchandising create an element of discovery, driving customer engagement and repeat visits while insulating us against e-commerce cannibalization trends.

Powerful and Consistent Store Economics. We have a proven store model that generates strong cash flow, consistent store-level financial results and high level returns on investment. Our stores have been successful in varying geographic regions, population densities and real estate settings. Each of our stores was profitable on a four-wall basis in fiscal 2011 and our new stores have achieved average payback periods of less than one year. We believe our robust store model, reinforced by our rigorous site selection process and in-store execution, drives the strength and consistency of our comparable store sales financial performance across all geographic regions and store-year classes.

Highly Experienced and Passionate Senior Management Team with Proven Track Record. Our senior management team has extensive experience across a broad range of disciplines, including merchandising, real estate, finance, store operations, supply chain management and information technology. Our co-founders, David Schlessinger and Thomas Vellios, have approximately 65 combined years of retail experience and have set the vision and strategic direction for Five Below. Our management team drives our operating philosophy, which is based on a relentless focus on providing high-quality merchandise at exceptional value and a superior shopping experience utilizing a disciplined, low-cost operating and sourcing structure.

Growth Strategy

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

Grow Our Store Base. We believe we have the potential to grow our store base in the U.S. from 199 locations, as of April 28, 2012, to more than 2,000 locations over approximately 20 years, based on our experience and historical store base growth of over 20% annually and supported by research conducted for us by The Buxton Company, a customer analytics research firm, although there is no guarantee that we will achieve this target. Based upon our strategy of store densification in existing markets and expanding into adjacent states and markets, we expect most of our near-term growth will occur within our existing markets. We opened 50 net new stores in fiscal 2011 and plan to open approximately 50 in fiscal 2012 and approximately 60 in fiscal 2013.

Drive Comparable Store Sales. We expect to continue driving comparable store sales growth by maintaining our dynamic merchandising offering, supported by our flexible sourcing strategy and differentiated in-store shopping experience. We intend to increase our brand awareness through cost-effective marketing efforts and enthusiastic customer engagement.

Increase Brand Awareness. We intend to leverage our cost-effective marketing strategy to increase awareness of our brand. Our strategy includes the use of newspaper circulars, local media and grassroots marketing to support existing and new market entries. We believe we have an opportunity to leverage our growing social media and online presence to drive brand excitement and increased store visits within existing and new markets. These platforms allow us to continue to build brand awareness and expand our new customer base.

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

Table of Contents

Our Market Opportunity

As a result of our unique merchandise offering and value proposition, we believe we have effectively targeted the teen and pre-teen markets. According to the U.S. Census Bureau, there were over 63 million people in the U.S. between the ages of 5 and 19, which represented over 20% of the U.S. population as of April 1, 2010. Based on management s experience and industry knowledge, we believe that this segment of the population has a significant amount of disposable income as the vast majority of this age group s basic needs are already met. According to EPM Communications, Inc., a publishing, research and consulting firm, teens and pre-teens between the ages of 8 and 19 were projected to spend over $250 billion in the U.S. in 2011.

Risks Associated with our Business

There are a number of risks and uncertainties that may affect our financial and operating performance and our growth prospects. You should carefully consider all of the risks discussed in Risk Factors, which begins on page 11, before investing in our common stock. These risks include the following:

- we may not be able to successfully implement our growth strategy if we are unable to identify suitable sites for store locations, obtain favorable lease terms, attract customers to our stores, hire and retain personnel and maintain sufficient levels of cash flow and financing to support our expansion;
- we may not be able to effectively anticipate changes in trends or in spending patterns or shopping preferences of our customers, which could adversely impact our business;
- we may face disruptions in our ability to select, obtain, distribute and market merchandise attractive to customers at prices that allow us to profitably sell such merchandise;
- our business is seasonal and we may face adverse events during the holiday season, which could negatively impact our business;
- we may not be able to effectively expand and improve our operations, including our distribution center capacity, or manage our existing resources to support our future growth;
- we may not be able to maintain or improve levels of our comparable store sales;
- we may lose key management personnel, which could adversely impact our business;
- we may face increased competition, which could adversely impact our business;
- our cash flows from operations may be negatively affected if we are not successful in managing our inventory balances; and
- our profitability is vulnerable to inflation, cost increases and energy prices.

Financing Transactions

On May 16, 2012, we entered into a $100.0 million senior secured term loan facility, or term loan facility, with a syndicate of lenders. We used the net proceeds from the term loan facility of approximately $98.0 million and cash on hand to pay a special dividend totaling approximately $99.5 million on all outstanding shares of our common stock and Series A 8% convertible preferred stock, which we refer to as the 2012 Dividend. On the same day, we amended and restated our existing senior secured revolving credit facility with Wells Fargo Bank, National Association. We refer to the term loan facility, the new amended and restated senior secured revolving credit facility, or revolving credit facility, and related transactions as the Financing Transactions.

Principal Shareholders

Following the closing of this offering, funds managed by Advent International Corporation, or Advent, are expected to own approximately 51.7% of our outstanding common stock, or 49.7%, if the underwriters option to purchase additional shares is fully exercised. As a result, Advent will be able to exert significant voting influence

over fundamental and significant corporate matters and transactions. See Risk Factors Risks Related to This Offering and Ownership of Our Common Stock and Principal and Selling Shareholders.

Certain of our principal shareholders, including Advent, may acquire or hold interests in businesses that compete directly with us, or may pursue acquisition opportunities which are complementary to our business, making such an acquisition unavailable to us. Our second amended and restated shareholders agreement, as amended, contains provisions renouncing any interest or expectancy held by our directors affiliated with Advent in certain corporate opportunities. For further information, see Risk Factors Risks Relating to Our Business and Industry Certain of our existing investors have interests and positions that could present potential conflicts with our and our shareholders interests.

Since 1984, Advent has raised $26 billion in private equity capital and completed over 270 transactions in 35 countries. Advent s current portfolio is comprised of investments in 54 companies across five sectors Retail, Consumer & Leisure; Financial and Business Services; Industrial; Technology, Media & Telecoms; and Healthcare. The Advent team includes more than 160 investment professionals across Western and Central Europe, North America, Latin America and Asia.

Advent and certain of our other principal shareholders, directors, executive officers and their affiliates received the following approximate distributions in connection with the 2012 Dividend and we expect them to receive the following approximate offering proceeds and equity grants in connection with this offering:

Name	Relationship	2012 Dividend Distribution	Offering Proceeds	Value of Equity Awards Granted
			($ in thousands)	
Advent	Shareholder	$ 62,150	$ 48,392	
LLR Partners	Shareholder	$ 9,546	$ 7,433	
David Schlessinger	Executive Chairman, Director	$ 5,646	$ 4,396	
Thomas Vellios	President and Chief Executive Officer, Director	$ 5,599	$ 4,359	
Kenneth R. Bull	Chief Financial Officer, Secretary and Treasurer	$ 193		
Steven J. Collins	Director			
Andrew W. Crawford	Director			
David M. Mussafer	Director			
Howard D. Ross	Director			
Thomas Ryan	Director	$ 322		$ 60
Ron Sargent	Director	$ 529		$ 60

Corporate and Other Information

Five Below was incorporated in Pennsylvania in January 2002. David Schlessinger, our Executive Chairman, and Thomas Vellios, our President and Chief Executive Officer, are the founders of Five Below. In October 2010, Advent acquired a majority interest in Five Below, which we refer to as the 2010 Transaction, with the goal of supporting the management team in accelerating our growth. Please see Certain Relationships and Related Party Transactions Investment by Advent for a description of the 2010 Transaction.

Our principal executive office is located at 1818 Market Street, Suite 1900, Philadelphia, PA 19103 and our telephone number is (215) 546-7909. Our corporate website address is www.fivebelow.com. The information contained on, or accessible through, our corporate website does not constitute part of this prospectus.

Table of Contents

The Offering

Common stock offered by us	4,807,692 shares
Common stock offered by selling shareholders	4,807,692 shares (6,250,000 shares if the underwriters exercise their option to purchase additional shares in full)
Common stock outstanding immediately after the offering	53,964,948 shares
Option to purchase additional shares	The underwriters have an option to purchase a maximum of 1,442,308 additional shares of common stock from the selling shareholders. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.
Use of proceeds	We estimate that we will receive net proceeds from this offering of approximately $72.0 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.
	We will not receive any proceeds from the sale of shares by the selling shareholders.
	We intend to use the net proceeds from this offering to repay at least $50.0 million of outstanding indebtedness under our new term loan facility incurred in connection with the Financing Transactions. We intend to use the remaining proceeds for general corporate purposes, including working capital. See Use of Proceeds and Prospectus Summary Financing Transactions.
Principal shareholder	Upon the closing of this offering, Advent will continue to own a majority interest in us. We do not intend to avail ourselves of any of the controlled company exemptions under the corporate governance rules of The NASDAQ Stock Market LLC.
Dividend policy	We currently intend to retain any future earnings for use in the operation and expansion of our business. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our term loan facility and revolving credit facility contain restrictions on our ability to pay dividends. See Dividends.

Table of Contents

Symbol for trading on The NASDAQ Global Select Market	FIVE
Conflicts of interest	As described under Use of Proceeds, we will use a substantial portion of the net proceeds we receive from this offering to repay at least $50.0 million of the outstanding indebtedness under our new term loan facility with a syndicate of lenders. Affiliates of Goldman, Sachs & Co., Barclays Capital Inc., Jefferies & Company, Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., UBS Securities LLC and Wells Fargo Securities, LLC are lenders under our new term loan facility and will each receive their pro rata share of such repayment. Because Goldman, Sachs & Co., Barclays Capital Inc. and Jefferies & Company, Inc. or their affiliates will receive more than 5% of the proceeds of this offering in connection with the repayment of our new term loan facility, each of Goldman, Sachs & Co., Barclays Capital Inc. and Jefferies & Company, Inc. is deemed to have a conflict of interest under Rule 5121 (Rule 5121) of the Financial Industry Regulatory Authority. Accordingly, this offering will be conducted in accordance with Rule 5121. Rule 5121 requires that a qualified independent underwriter, meeting certain standards, participate in the preparation of the registration statement and prospectus and exercise the usual standards of due diligence with respect thereto. Credit Suisse Securities (USA) LLC has served as qualified independent underwriter within the meaning of Rule 5121 in connection with this offering. For more information, see Underwriting.

After giving effect to the conversion of our Series A 8% convertible preferred stock into common stock in connection with the closing of this offering, the number of shares of common stock to be outstanding after this offering is based on 49,157,256 shares outstanding as of July 17, 2012 and excludes:

- 1,178,043 shares of common stock issuable upon the exercise of options to purchase common stock outstanding as of July 17, 2012 at a weighted average exercise price of $8.20 per share; and
- 5,018,207 shares of common stock reserved for issuance under our equity incentive plan, which will be in effect upon the closing of this offering.

Except as otherwise indicated, all information in this prospectus assumes:

- that the underwriters will not exercise their option to purchase additional shares;
- the conversion of all outstanding shares of our Series A 8% convertible preferred stock into shares of our common stock immediately prior to the closing of this offering; and
- the adoption of our amended and restated articles of incorporation and amended bylaws to be effective upon the closing of this offering.

Table of Contents

Summary Financial and Other Data

The following table presents summary financial and other data for the periods and at the dates indicated. The statement of operations and cash flows data for fiscal 2009, 2010 and 2011 and the balance sheet data as of January 29, 2011 and January 28, 2012 have been derived from audited financial statements included elsewhere in this prospectus. The balance sheet data as of January 30, 2010 has been derived from audited financial statements not included in this prospectus. The statement of operations and cash flows data for each of the thirteen weeks ended April 30, 2011 and April 28, 2012 and the balance sheet data as of April 28, 2012 have been derived from unaudited financial statements included elsewhere in this prospectus. You should read this data along with the sections of this prospectus entitled Selected Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations, and our financial statements and related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of results for any future period.

	Fiscal Year			Thirteen Weeks Ended	
	2009	2010	2011	April 30, 2011	April 28, 2012
	(in thousands, except total stores, share and per share data)				
Statements of Operations Data:					
Net sales	$ 125,135	$ 197,189	$ 297,113	$ 47,427	$ 71,829
Cost of goods sold	85,040	131,046	192,252	32,840	48,809
Gross profit	40,095	66,143	104,861	14,587	23,020
Selling, general and administrative expenses(1)	33,217	54,339	78,640	12,926	24,985
Operating income (loss)	6,878	11,804	26,221	1,661	(1,965)
Interest expense (income), net	73	28	(16)	(3)	(37)
Income (loss) before income taxes	6,805	11,776	26,237	1,664	(1,928)
Income tax (benefit) expense	(4,853)	4,753	10,159	665	(771)
Net income (loss)	11,658	7,023	16,078	999	(1,157)
Series A 8% convertible preferred stock cumulative dividends		(4,507)	(15,913)	(3,869)	(4,168)
Accretion of redeemable convertible preferred stock	(4,250)	(3,329)			
Net income (loss) available to shareholders	7,408	(813)	165	(2,870)	(5,325)
Less: Net income attributable to participating securities	(3,365)		(109)		
Net income (loss) available to common shareholders	$ 4,043	$ (813)	$ 56	$ (2,870)	$ (5,325)
Per Share Data:					
Basic income (loss) per common share(2)	$ 0.54	$ (0.08)	$	$ (0.18)	$ (0.32)
Diluted income (loss) per common share(2)	$ 0.54	$ (0.08)	$	$ (0.18)	$ (0.32)
Weighted average shares outstanding:					
Basic shares	7,452,811	9,672,195	15,903,599	15,800,033	16,420,716
Diluted shares	7,452,811	9,672,195	15,904,108	15,800,033	16,420,716
Unaudited pro forma net income (loss)(3)			$ 14,159		$ (1,619)
Unaudited pro forma basic income (loss) per common share(3)			$ 0.28		$ (0.03)
Unaudited pro forma diluted income (loss) per common share(3)			$ 0.28		$ (0.03)
Unaudited pro forma weighted average shares outstanding:					
Basic shares			49,739,728		50,256,845
Diluted shares			49,740,237		50,256,845
Statements of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 9,227	$ 15,045	$ 46,695	$ 1,581	$ (23,698)
Investing activities	$ (7,285)	$ (14,883)	$ (18,558)	$ (4,576)	$ (4,801)

Financing activities	$ (145)	$ (445)	$ 1,003	$ (27)	$ 1,709
Other Operating and Financial Data:					
Total stores at end of period	102	142	192	145	199
Comparable store sales growth	12.1%	15.6%	7.9%	7.6%	10.4%
Average net sales per store(4)	$ 1,302	$ 1,542	$ 1,658	$ 326	$ 368
Adjusted EBITDA(5)	$ 11,088	$ 25,798	$ 42,377	$ 3,732	$ 6,625
Capital expenditures	$ 7,285	$ 14,883	$ 18,558	$ 4,576	$ 4,801
Adjusted EBITDA Reconciliation:					
Net income (loss)	$ 11,658	$ 7,023	$ 16,078	$ 999	$ (1,157)
Interest expense (income), net	73	28	(16)	(3)	(37)
Income tax (benefit) expense	(4,853)	4,753	10,159	665	(771)
Depreciation and amortization	3,660	4,805	7,071	1,434	2,107
EBITDA(6)	10,538	16,609	33,292	3,095	142
Non-contractual executive bonus expense(7)			6,087		
Deferred rents(8)	232	1,164	1,401	258	110
Non-cash stock-based compensation and warrant expense(9)	274	2,332	1,246	319	6,373
Loss on disposal of assets(10)	5	288	273		
Closed stores(11)	39	76	78	60	
Transaction expense(12)		5,329			
Adjusted EBITDA	$ 11,088	$ 25,798	$ 42,377	$ 3,732	$ 6,625

Table of Contents

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual executive bonus expense, as described in Note 7 below. The thirteen weeks ended April 28, 2012 includes $5.9 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares, as described in Note 5 in our unaudited financial statements.

(2) Please see Note 2 in both our annual and quarterly financial statements, included elsewhere in this prospectus, for an explanation of per share calculations.

(3) Pro forma information is unaudited and is prepared in accordance with Article 11 of Regulation S-X.
Pro Forma net income gives effect to: (i) income attributable to participating securities; (ii) cumulative dividends related to Series A 8% convertible preferred stock; and (iii) the Financing Transactions, including the repayment of $50.0 million of outstanding indebtedness under the new term loan facility with proceeds from this offering.

The following is a reconciliation of historical net income to unaudited pro forma net income:

	Fiscal Year 2011	Thirteen Weeks Ended April 28, 2012
Net income (loss) available to common shareholders	$ 56	$ (5,325)
Add:		
Net income attributable to participating securities	109	
Series A 8% Convertible Preferred Stock cumulative dividend	15,913	4,168
Less:		
Interest expense, net of tax	(1,616)	(386)
Amortization of deferred financing fees, net of tax	(303)	(76)
Pro forma net income (loss)	$ 14,159	$ (1,619)

Pro Forma per share data gives effect to (i) the Financing Transactions; (ii) the conversion of our outstanding shares of Series A 8% convertible preferred stock into shares of common stock in connection with the closing of this offering and (iii) the number of shares whose proceeds will be used to repay $50.0 million of the outstanding indebtedness under the term loan facility.

The following is a reconciliation of pro forma basic and diluted weighted average common shares outstanding:

	Fiscal Year 2011	Thirteen Weeks Ended April 28, 2012
Shares used in computing basic net (loss) income per common share	15,903,599	16,420,716
Adjustment for assumed conversion of preferred stock	30,894,953	30,894,953
Adjustment for shares used to repay outstanding indebtedness under the term loan facility	2,941,176	2,941,176
Basic pro forma weighted average common shares outstanding	49,739,728	50,256,845
Dilutive effect of securities	509	
Diluted pro forma weighted average common shares outstanding	49,740,237	50,256,845

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

(5) Adjusted EBITDA is defined as EBITDA (as defined below), further adjusted to exclude certain non-cash, non-recurring and other items not related to ongoing performance, such as non-contractual executive bonus expense, deferred rents, non-cash stock-based compensation and warrant expense, loss on disposal of assets, EBITDA for closed stores and expense related to the 2010 Transaction. We have presented Adjusted EBITDA because we believe that the exclusion of these items is appropriate to provide additional information to investors about our ongoing operating performance excluding certain non-cash and other items not related to ongoing performance and as a means to evaluate our period-to-period results. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. We have provided this information as a means to evaluate the results of our ongoing operations. Other companies in our industry may calculate Adjusted EBITDA differently than we do. Adjusted EBITDA is not a measure of performance under U.S. generally accepted accounting principles, or GAAP, and should not be considered as a substitute for net income prepared in accordance with GAAP. Adjusted EBITDA has similar limitations as an analytical tool to those set forth in Note 6 below related to the use of EBITDA, and you should not consider it in isolation or as substitute for analysis of our results as reported under GAAP. Some of these additional limitations to the use of Adjusted EBITDA are:

Adjusted EBITDA does not reflect the non-contractual executive bonus expense, deferred rents, non-cash stock-based compensation and warrant expense, loss on disposal of assets, EBITDA for closed stores and expense related to the 2010 Transaction; and

Adjusted EBITDA does not reflect certain other costs that may recur in future periods.

Table of Contents

We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as a supplemental measure.

(6) EBITDA represents net income before interest expense (income), income taxes (benefit), depreciation and amortization. We have presented EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Management uses EBITDA as a measurement tool for evaluating our actual operating performance compared to budget and prior periods. Other companies in our industry may calculate EBITDA differently than we do. EBITDA is not a measure of performance under GAAP, and should not be considered as a substitute for net income prepared in accordance with GAAP. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- EBITDA does not reflect our cash expenditures, our future requirements for capital expenditures or contractual commitments;

- EBITDA does not reflect interest expense or the cash requirements necessary to service interest or principal payments on debt;

- EBITDA does not reflect tax expense or the cash requirements necessary to pay tax obligations; and

- Although depreciation and amortization are non-cash charges, the asset being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

(7) Represents a non-contractual bonus to certain executive officers for performance in fiscal 2011 and associated tax expense.
(8) Represents the non-cash portion of rent expense.
(9) Represents non-cash stock-based compensation and warrant expense.
(10) Represents asset write-offs for remodeled or closed stores.
(11) Represents the EBITDA, excluding the non-cash portion of rent expense, for stores which management has made the decision to close, from the period in which the decision was made.
(12) Represents expenses incurred in conjunction with the 2010 Transaction, including expenses related to the modification of certain stock options, professional fees and other employee compensation-related expenses.

The following table represents a summary of our balance sheet data as of January 30, 2010, January 29, 2011, January 28, 2012 and April 28, 2012. The summary balance sheet data as of April 28, 2012 is presented:

- on an actual basis, derived from our balance sheet as of April 28, 2012;

- on a pro forma basis, giving effect to:

  - the Financing Transactions, including the payment of the 2012 Dividend and

  - the conversion of our outstanding shares of Series A 8% convertible preferred stock into shares of common stock in connection with the closing of this offering.

- on a pro forma as adjusted basis, further reflecting: (a) our receipt of the net proceeds from the sale of 4,807,692 shares of common stock by us at the initial public offering price of $17.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us and (b) the repayment of outstanding indebtedness as described in Use of Proceeds. See Capitalization and Use of Proceeds.

	As of			As of April 28, 2012		
	January 30, 2010	January 29, 2011	January 28, 2012	Actual	Pro Forma	Pro Forma As Adjusted
			(in thousands)			
Balance Sheet Data:						
Cash and cash equivalents	$ 12,436	$ 12,153	$ 41,293	$ 14,503	$ 12,027	$ 34,037
Total current assets	35,335	45,942	92,249	89,051	86,575	108,585
Total current liabilities	10,983	18,215	49,942	36,186	36,186	36,186
Total long-term debt		250	250	250	100,250	50,250
Total liabilities	20,036	33,524	72,431	64,402	164,402	114,402
Series A 8% convertible preferred stock		191,855	191,855	191,855		
Series A redeemable convertible preferred stock	18,778					
Series A-1 redeemable convertible preferred stock	18,510					
Total shareholders (deficit) equity	(1,049)	(148,797)	(129,759)	(122,316)	(29,912)	40,585

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment decision. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Relating to Our Business and Industry

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

Our growth is dependent on our ability to open profitable new stores. We believe we have an opportunity to continue to grow our store base from 199 stores in 17 states as of April 28, 2012, to more than 2,000 locations over approximately 20 years.

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

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

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

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

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

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

We generally have been able to select and obtain sufficient quantities of attractive merchandise at prices that allow us to be profitable. If we are unable to continue to select products that are attractive to our customers, to

Table of Contents

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

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

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

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

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

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

We maintain a distribution center in New Castle, Delaware and we plan to open a new distribution center in the southern United States during fiscal 2013 to support our growth objectives. Delays in opening this new distribution center (or new distribution centers in the future) could adversely affect our future operations by slowing store growth, which could in turn reduce sales growth. In addition, any distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects, including the distribution center

planned for fiscal 2013, could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

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

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

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

Our growth could be adversely impacted by our inability to attract, retain and motivate qualified employees at the store operations level, in distribution facilities, and at the corporate level, at costs which allow us to profitably conduct our operations. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, and changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulation. To the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. In addition, we believe the current pricing of our healthcare costs includes the potential future impact of recently enacted comprehensive healthcare reform legislation, but such legislation may further cause our healthcare costs to increase. While significant costs of the healthcare reform legislation may occur after 2013 due to provisions of the legislation being phased in over time, changes to our healthcare costs structure could have a significant negative effect on our business. In addition, our ability to pass along any increase in labor costs to our customers is constrained by our low price model.

Our growth from existing stores is dependent upon our ability to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely.

Increases in sales in existing stores are dependent on factors such as competition, merchandise selection, store operations and customer satisfaction. If we fail to realize our goals of successfully managing our store operations and increasing our customer retention and recruitment levels, our sales may not increase and our growth may be impacted adversely.

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

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel, including Messrs. Schlessinger and Vellios, our founders. The loss of the services of any of our executive officers or other key personnel could have an adverse effect on our operations. Absent the consent of the lenders under our revolving credit facility, the loss of the services of both

Messrs. Schlessinger and Vellios would render our revolving credit facility unavailable. Our future success will also depend on our ability to attract, retain and motivate qualified personnel, as a failure to attract these key personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

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

Our inventory balance represented approximately 38% of our total assets as of April 28, 2012. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, we may have to take unanticipated markdowns to dispose of excess inventory, which also can adversely impact our financial results. We also experience inventory shrinkage, and we cannot assure you that incidences of inventory loss and theft will stay at acceptable levels or decrease in the future, or that the measures we are taking will effectively address the problem of inventory shrinkage. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations may be negatively affected.

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

We do not own any real estate. Instead, we lease all of our store locations, as well as our corporate headquarters and distribution facility in New Castle, Delaware. Our stores are leased from third parties, with typical initial lease terms of five to ten years. Many of our lease agreements also have additional five-year renewal options. We believe that we have been able to negotiate favorable rental rates and tenant allowances over the last few years due in large part to the state of the economy and higher than usual vacancy rates in shopping centers and regional malls. These trends may not continue, and there is no guarantee that we will be able to continue to negotiate such favorable terms. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. Increases in our occupancy costs and difficulty in identifying economically suitable new store locations could have significant negative consequences, which include:

- requiring that a greater portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes and reducing our profitability;

- increasing our vulnerability to general adverse economic and industry conditions; and

- limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete.

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

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

We operate in a highly competitive retail environment with numerous competitors, some of which have greater resources or better brand recognition than we do. We compete with respect to customers, price, store location, merchandise quality, assortment and presentation, in-stock consistency, customer service and employees. This competitive environment subjects us to various risks, including the ability to provide quality, trend-right merchandise to our customers at competitive prices that allow us to maintain our profitability. Because of our low price model, we may have limited ability to increase prices in response to increased costs without losing competitive position which may adversely affect our margins and financial performance. In addition, price reductions by our competitors may result in the reduction of our prices and a corresponding reduction in our profitability.

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

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

Future increases in costs such as the cost of merchandise, shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability, particularly given our $5 and below pricing model. These cost increases may be the result of inflationary pressures that could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices, wage rates and lease and utility costs, may increase our cost of goods sold or operating expenses. Our low price model and competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products and therefore reduce our profitability.

Our business is seasonal, and adverse events during the holiday season could impact our operating results negatively.

Our business is seasonal, with the highest percentage of sales (approximately 42% of total annual sales over the last two fiscal years) occurring during the last fiscal quarter (November, December and January), which includes the holiday season. We purchase substantial amounts of inventory in the end of the third quarter (October) and beginning of the fourth quarter (November and December) and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during these time periods. Adverse events, such as deteriorating economic conditions, higher unemployment, higher gas prices, public transportation disruptions or unusual weather could result in lower-than-planned sales during the holiday season which may lead to unanticipated markdowns. Since we rely on third parties for transportation and use third party warehouses when we build up inventory, a number of these factors are outside of our control. An unsuccessful fourth quarter, or holiday season, will have a substantial negative impact on our financial condition and results of operations for the entire fiscal year.

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

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

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

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

Reporting obligations as a public company and our anticipated growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company, in the future we will be required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting. As a result, we may be required to incur substantial expenses to test our systems, to make any necessary improvements, and to hire additional personnel. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our continued listing on The NASDAQ Global Select Market or any other stock exchange on which our common stock may be listed. Delisting of our common stock on any exchange could reduce the liquidity of the market for our common stock, which could reduce the price of our stock and increase the volatility of our stock price.

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

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

Table of Contents

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

The protection of our customer, employee and company data is critical to us. We have procedures and technology in place to safeguard our customers debit and credit card, and other personal information, our employees private data and company records and intellectual property. However, if we experience a data security breach of any kind, we could be exposed to negative publicity, government enforcement actions, private litigation or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing the use of debit or credit cards in our stores, or not shopping in our stores altogether. This could cause us to lose market share to our competitors and could have an adverse effect on our financial results.

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

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

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

A delayed recovery in the U.S. economy or other economic factors affecting disposable consumer income, such as employment levels, inflation, business conditions, fuel and energy costs, consumer debt levels, lack of available credit, interest rates, tax rates and further erosion in consumer confidence may affect our business adversely. Such factors could reduce overall consumer spending or cause customers to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover or a reduction in profitability due to lower margins. We have limited or no ability to control many of these factors. The current global economic uncertainty, the impact of recessions and the potential for failures or realignments of financial institutions and the related impact on available credit may impact us, our vendors and other business partners, our landlords, our customers, our service providers and our operations in an adverse manner.

Changes in state or federal legislation or regulations, including the effects of legislation and regulations on product and food safety and quality, wage levels, employee rights, health care, social welfare and entitlement programs could increase our cost of doing business.

Our business is subject to numerous federal, state and local laws and regulations. We routinely incur costs in complying with these laws and regulations. We are exposed to the risk that federal, state or local legislation may negatively impact our operations. Changes in product and food safety and quality (including changes in labeling or disclosure requirements), federal or state wage requirements, employee rights (including changes in the process for our employees to join a union), health care, social welfare or entitlement programs such as health insurance, paid leave programs, or other changes in workplace regulation or tax laws could adversely impact our ability to achieve our financial targets. Changes in other regulatory areas, such as consumer credit, privacy and information security, or environmental regulation may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our costs of doing business. Untimely compliance or noncompliance with applicable laws and regulations may subject us to legal risk, including government enforcement action, significant fines and penalties and class action litigation, as well as reputational damage, which could adversely affect our results of operations.

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

Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend future litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

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

We may be unable or unwilling to strictly enforce our trademarks in each jurisdiction in which we do business. Also, we may not always be able to successfully enforce our trademarks against competitors, or against challenges by others. Our failure to successfully protect our trademarks could diminish the value and efficacy of our brand recognition and could cause customer confusion, which could, in turn, adversely affect our sales and profitability.

Our management has limited experience managing a public company and our current resources may not be sufficient to fulfill our public company obligations.

Following the closing of this offering, we will be subject to various regulatory requirements, including those of the Securities and Exchange Commission (SEC) and The NASDAQ Stock Market LLC. These requirements include record keeping, financial reporting and corporate governance rules and regulations. Our management team has limited experience in managing a public company and, historically, has not had the resources typically found in a public company. Our internal infrastructure may not be adequate to support our increased reporting obligations and we may be unable to hire, train or retain necessary staff and may be reliant on engaging outside consultants or professionals to overcome our lack of experience or employees. Our business could be adversely affected if our internal infrastructure is inadequate, we are unable to engage outside consultants or are otherwise unable to fulfill our public company obligations.

Table of Contents

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

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

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

We will incur significant expenses as a result of being a public company, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

We will incur significant legal, accounting, insurance, compliance and other expenses as a result of being a public company. After this offering, we will become obligated to file annual and quarterly information and other reports with the SEC. In addition, we will also become subject to other reporting and corporate governance requirements which will impose significant compliance obligations upon us. The Sarbanes-Oxley Act of 2002, together with related rules implemented by the SEC and by The NASDAQ Stock Market LLC, have required changes in corporate governance practices of public companies. We expect that compliance with these laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act as discussed in Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting, which could harm our business and cause a decline in our stock price above, will substantially increase our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly. We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting and insurance compliance and certain other expenses in the future, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

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

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

- incur additional indebtedness;

Table of Contents

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

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

Risks Related to This Offering and Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the initial public offering price.

After this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, broad market and industry factors, most of which we cannot control, may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

- actual or anticipated fluctuations in quarterly operating results or other operating metrics, such as comparable store sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- conditions or trends affecting our industry or the economy generally;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the retail industry;

announcements by us or our competitors of new product offerings, significant acquisitions, strategic partnerships or divestitures;

our entry into new markets;

timing of new store openings;

percentage of sales from new stores versus established stores;

additions or departures of key personnel;

Table of Contents

- actual or anticipated sales of our common stock, including sales by our directors, officers or significant shareholders;
- significant developments relating to our relationships with business partners, vendors and distributors;
- customer purchases of new products from us and our competitors;
- investor perceptions of the retail industry in general and our Company in particular;
- major catastrophic events;
- volatility in our stock price, which may lead to higher stock-based compensation expense under applicable accounting standards; and
- changes in accounting standards, policies, guidance, interpretation or principles.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management s attention and resources.

Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock in the market after this offering. The sales, or the perception that these sales might occur, could depress the market price of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Upon the closing of this offering, we will have 53,964,948 shares of common stock outstanding. The shares of common stock offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended, or the Securities Act, except for any shares of common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, pursuant to our amended and restated investor rights agreement, certain of our investors have rights to require us to file registration statements registering additional sales of shares of common stock or to include sales of such shares of common stock in registration statements that we may file for ourselves or other shareholders. In order to exercise these registration rights, these shareholders must satisfy certain conditions. Subject to compliance with applicable lock-up restrictions, shares of common stock sold under these registration statements can be freely sold in the public market. In the event such registration rights are exercised and a large number of shares of common stock are sold in the public market, such sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital. Additionally, we will bear all expenses in connection with any such registrations (other than stock transfer taxes and underwriting discounts or commissions). See Certain Relationships and Related Party Transactions Amended and Restated Investor Rights Agreement.

We and the holders of substantially all of our common stock outstanding on the date of this prospectus, including each of our executive officers, directors and selling shareholders, have agreed with the underwriters, that for a period of 180 days after the date of this prospectus, we or they will not offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale, or otherwise dispose of or hedge any shares of our common stock, or any options or warrants to purchase any shares of our common stock or any securities convertible into or exchangeable for shares of common stock, subject specified exceptions. The representatives of the underwriters may, in their discretion, at any time without prior notice, release all or any portion of the shares from the restrictions in any such agreement. See Underwriting for more information. Substantially all of

our shares of common stock outstanding as of the date of this prospectus may be sold in the public market by existing shareholders 90 days after the date of this prospectus, subject to the lock-up agreement and applicable volume and other limitations imposed under federal securities laws. See Shares Eligible for Future Sale for a more detailed description of the restrictions on selling shares of our common stock after this offering. Sales by our existing shareholders of a substantial number of shares in the public market, or the perception that these sales might occur, could cause the market price of our common stock to decrease significantly.

In the future, we may also issue our securities in connection with investments or acquisitions. The number of shares of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock. Any issuance of additional securities in connection with investments or acquisitions may result in additional dilution to you.

Insiders will continue to have substantial control over us after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control.

Upon the closing of this offering, funds managed by Advent will control an aggregate of 51.7% of the voting power of our outstanding common stock or 49.7% if the underwriters exercise in full their option to purchase additional shares in this offering. As a result, Advent would be able to influence or control matters requiring approval by our shareholders, including the election of directors and the approval of mergers, acquisitions and other extraordinary transactions. It may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of Five Below, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of Five Below and might ultimately affect the market price of our common stock.

Certain of our existing investors have interests and positions that could present potential conflicts with our and our shareholders interests.

Advent makes investments in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us. Advent may also pursue, for its own accounts, acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. Our second amended and restated shareholders agreement, as amended, contains provisions renouncing any interest or expectancy held by our directors affiliated with Advent in certain corporate opportunities. Accordingly, the interests of Advent may supersede ours, causing them or their affiliates to compete against us or to pursue opportunities instead of us, for which we have no recourse. Such actions on the part of Advent and inaction on our part could have a material adverse effect on our business, financial condition and results of operations.

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution.

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution in the amount of $16.25 per share, because the initial public offering price of $17.00 per share is substantially greater than the net tangible book value per share of our outstanding common stock. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock and have received or will receive substantial dividends on their shares of capital stock. In addition, you may also experience additional dilution upon future equity issuances on the exercise of stock options to purchase common stock granted to our directors, management personnel and consultants under our equity incentive plan. See Dilution.

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

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any determination to pay

Table of Contents

dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, including under agreements for indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

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

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of us, the trading price for our common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, or one or more of the analysts who cover our Company downgrade our stock, our stock price could decline.

No market currently exists for our common stock and we cannot assure you that an active market will develop for such stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price for our common stock has been determined through negotiations among us, the qualified independent underwriter and the representatives of the underwriters and may not be indicative of the market price of our common stock after this offering or to any other established criteria of the value of our business. If you purchase shares of our common stock, you may not be able to resell those shares at or above the initial public offering price. We cannot predict the extent to which investor interest in us will lead to the development of an active trading market on The NASDAQ Global Select Market or otherwise or how liquid that market might become. An active public market for our common stock may not develop or be sustained after the offering. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you or at all.

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

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

In particular, these provisions, among other things:

- provide that only the chairman of the board of directors, the chief executive officer or a majority of the board of directors may call special meetings of the shareholders;
- classify our board of directors into three separate classes with staggered terms;
- provide for supermajority approval requirements for amending or repealing provisions in our amended and restated articles of incorporation and amended bylaws;
- establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders meetings; and

permit the board of directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

Table of Contents

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

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

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus constitute forward-looking statements, including in the sections captioned Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. 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 prospectus reflect our views as of the date of this prospectus 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 Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. These factors include without limitation:

failure to successfully implement our growth strategy;

disruptions in our ability to select, obtain, distribute and market merchandise profitably;

our ability to successfully expand our distribution network capacity;

disruptions to our distribution network or the timely receipt of inventory;

inability to attract and retain qualified employees;

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

our dependence on our executive officers and other key personnel or our inability to hire additional qualified personnel;

our ability to successfully manage our inventory balances and inventory shrinkage;

our lease obligations;

changes in our competitive environment, including increased competition from other retailers;

increasing costs due to inflation, increased operating costs or energy prices;

the seasonality of our business;

disruptions to our information technology systems in the ordinary course or as a result of system upgrades;

our failure to maintain adequate internal controls;

our ability to obtain additional financing;

failure to secure customers confidential or credit card information, or other private data relating to our employees or our company;

natural disasters, unusual weather conditions, pandemic outbreaks, global political events, war and terrorism;

current economic conditions and other economic factors;

Table of Contents

- *the impact of governmental laws and regulations and the outcomes of legal proceedings;*
- *our inability to protect our brand name, trademarks and other intellectual property rights;*
- *increased costs as a result of being a public company; and*
- *restrictions imposed by our indebtedness on our current and future operations.*

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

Table of Contents

USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of our common stock in this offering of approximately $72.0 million based upon the initial public offering price of $17.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of our common stock by the selling shareholders, which includes certain of our officers, directors and affiliates, including any shares sold by the selling shareholders in connection with the exercise of the underwriters option to purchase additional shares.

We intend to use the net proceeds from this offering to repay at least $50.0 million of outstanding indebtedness under our new term loan facility which was incurred in connection with the Financing Transactions.

We intend to use the remaining proceeds for general corporate purposes, including working capital.

On May 16, 2012, we entered into our $100.0 million term loan facility with a syndicate of lenders which bears interest, at our option, at an alternate base rate which is the greater of (i) the administrative agent s prime rate in effect on such day and (ii) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor, plus a margin of 3.25%, or a LIBOR-based rate with a 1.00% floor plus a margin of 4.25%; provided, that if no initial public offering occurs prior to May 16, 2013 and our consolidated net leverage ratio is greater than 2.00 to 1.00, the applicable margin for the alternate base rate shall be 4.75% and for the LIBOR-based rate shall be 5.75%. At July 17, 2012 our interest rate was 5.25% and our outstanding balance was $100.0 million. The term loan facility matures on the earlier of (i) May 16, 2015 and (ii) the date on which such facility is accelerated following the occurrence of an event of default; provided, that if no initial public offering occurs prior to May 16, 2013, the term loan facility shall mature on the earlier of (i) May 16, 2014 and (ii) the date on which such facility is accelerated following the occurrence of an event of default.

We used the amounts of the net proceeds from our term loan facility of $98.0 million and cash on hand to pay a special dividend of approximately $37.0 million to holders of our common stock and approximately $62.5 million to holders of our Series A 8% convertible preferred stock. Advent and LLR Partners, our principal shareholders, received distributions in respect of this dividend in the amounts of approximately $62.2 million and $9.5 million, respectively. In addition, certain of our current executive officers and directors received distributions in respect of this dividend as follows: Messrs. Bull, Ryan, Sargent, Schlessinger and Vellios received approximately $193,000, $322,000, $529,000, $5.6 million and $5.6 million, respectively.

Table of Contents

DIVIDENDS

In connection with the 2010 Transaction, we declared a special dividend to the holders of our common stock on October 13, 2010, referred to herein as the 2010 Dividend. We paid the 2010 Dividend on October 14, 2010 to all of our shareholders of record as of October 13, 2010. The aggregate amount of the 2010 Dividend was approximately $196.7 million, or $13.24 per share. Of this amount, $4.3 million was recorded as additional compensation expense. Please see Certain Relationships and Related Party Transactions Investment by Advent for a description of the 2010 Transaction.

On May 15, 2012, we declared and subsequently paid on May 16, 2012 a special dividend of $2.02 per share on shares of our common stock and on an as-converted basis on shares of our Series A 8% convertible preferred stock totaling approximately $99.5 million, which we refer to as the 2012 Dividend.

Other than the 2010 Dividend and the 2012 Dividend, we have not declared, and currently do not plan to declare in the foreseeable future, dividends on shares of our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our term loan facility and revolving credit facility contain restrictions on our ability to pay dividends.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of April 28, 2012:

- on an actual basis;
- on a pro forma basis further reflecting: (1) the Financing Transactions, including the payment of the 2012 Dividend and; (2) the conversion of all outstanding shares of our Series A 8% convertible preferred stock into 30,894,953 shares of common stock; and
- on a pro forma as adjusted basis to further reflect:
  - our receipt of the net proceeds from the sale of 4,807,692 shares of our common stock in this offering based upon the initial public offering price of $17.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us; and
  - the application of the estimated net proceeds from this offering as described under Use of Proceeds.

You should read this table together with the sections entitled Use of Proceeds, Selected Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

	As of April 28, 2012		
	Actual	Pro Forma	Pro Forma as Adjusted
	(in thousands, except share and per share data)		
Cash and cash equivalents	$ 14,503	$ 12,027	$ 34,037
Long-term debt (including current maturities)			
Revolving line of credit(1)	$	$	$
Notes payable	250	100,250	50,250
Total long-term debt	250	100,250	50,250
Preferred stock, $0.01 par value. Authorized 100,000,000 shares; 10,000,000 shares undesignated; 90,000,000 shares designated as Series A 8% convertible preferred stock:	191,855		
Series A 8% convertible preferred stock, $0.01 par value. Issued and outstanding 89,291,773 shares with a liquidation preference of $218,588, actual; none authorized, none issued and outstanding, pro forma and pro forma, as adjusted(2)			
Shareholders (deficit) equity:			
Common stock, $0.01 par value. Authorized 120,000,000 shares; issued and outstanding 18,262,303 shares, actual; 49,157,256 issued and outstanding shares, pro forma; and 53,964,948 issued and outstanding shares on a pro forma, as adjusted basis	183	492	540
Additional paid-in capital	12,270	191,546	263,508
Accumulated deficit	(134,769)	(221,950)	(223,463)
Total shareholders (deficit) equity	(122,316)	(29,912)	40,585

Total capitalization	$ 69,789	$ 70,338	$ 90,835

(1) At April 28, 2012, there were no outstanding letters of credit and excess availability was approximately $20.0 million.

Table of Contents

(2) Our outstanding Series A 8% convertible preferred stock will convert into shares of our common stock in connection with the closing of this offering.

The number of shares of common stock outstanding set forth in the table above does not include:

- 1,002,275 shares of our common stock issuable upon the exercise of stock options outstanding as of April 28, 2012 with a weighted average exercise price of $8.67 per share (which does not give effect to the $2.02 equitable adjustment to the option exercise price on May 17, 2012); and
- 513,249 shares of our common stock reserved for future issuance under our equity incentive plan as of April 28, 2012.

Table of Contents

DILUTION

If you invest in our common stock in this offering, you will experience immediate and substantial dilution in the pro forma net tangible book value of your shares of our common stock. The pro forma net tangible book value of our common stock as of April 28, 2012 was $(29.9) million, or approximately $(0.61) per share. Pro forma net tangible book value per share represents the amount of our total tangible assets less our total liabilities divided by the pro forma number of shares of common stock that would have been outstanding on April 28, 2012 after giving pro forma effect to the conversion of all outstanding shares of our Series A 8% convertible preferred stock into a total of 30,894,953 shares of common stock.

Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after the closing of this offering. After giving effect to the sale of shares of our common stock in this offering based upon the initial public offering price of $17.00 and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, the conversion of all outstanding shares of our Series A 8% convertible preferred stock into a total of 30,894,953 shares of common stock and amounts used to repay outstanding indebtedness under the term loan facility, our pro forma net tangible book value as of April 28, 2012 would have been approximately $40.6 million, or approximately $0.75 per share. This represents an immediate increase in pro forma net tangible book value of $1.36 per share to existing shareholders and an immediate dilution of $16.25 per share to new investors purchasing shares of our common stock in this offering at the initial public offering price. The following table illustrates this per share dilution:

Initial public offering price per share		$ 17.00
Pro forma net tangible book value as of April 28, 2012	$ (0.61)	
Increase in pro forma net tangible book value per share attributable to new investors in this offering	1.36	
Pro forma as adjusted net tangible book value per share after this offering .		0.75
Dilution per share to new investors		$ 16.25

If the underwriters exercise their option to buy additional shares of common stock in full, the pro forma consolidated net tangible book value after giving effect to this offering would be $0.75 per share, and the dilution in pro forma consolidated net tangible book value per share to investors in this offering would be $16.25 per share.

The following table presents, on a pro forma basis, as of April 28, 2012, the differences between the number of shares of common stock purchased from us, the total consideration paid or exchanged and the average price per share paid by existing shareholders and by new investors purchasing shares of our common stock in this offering before deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average
	Number	Percent	Amount	Percent	Price Per Share
Existing shareholders(1)	49,157,256	91.1%	$ 236,956	74.4%	$ 4.82
New investors	4,807,692	8.9%	$ 81,731	25.6%	$ 17.00
Total	53,964,948	100.0%	$ 318,687	100.0%	

(1) The total consideration paid by existing shareholders does not reflect the dividends received by them in the 2010 Dividend and 2012 Dividend.

Table of Contents

Sales by the selling shareholders in this offering will reduce the number of shares held by existing shareholders to 44,349,564 shares, or approximately 82.2% (42,907,256 shares, or approximately 79.5%, if the underwriters exercise their option to buy additional shares in full), and will increase the number of shares to be purchased by new investors to 9,615,384 shares, or approximately 17.8% (11,057,692 shares, or approximately 20.5%, if the underwriters exercise their option to buy additional shares in full), of the total common stock outstanding after the offering.

The number of shares outstanding in the table above is based on the number of shares outstanding as of April 28, 2012, after giving effect to the conversion of all outstanding shares of our Series A 8% convertible preferred stock into 30,894,953 shares of our common stock in connection with the closing of this offering. The discussion and tables above do not include the following shares:

- 1,002,275 shares of our common stock issuable upon the exercise of stock options outstanding as of April 28, 2012 with a weighted average exercise price of $8.67 per share (which does not give effect to the $2.02 equitable adjustment to the option exercise price on May 17, 2012); and

- 513,249 shares of our common stock reserved for future issuance under our amended and restated equity incentive plan as of April 28, 2012.

To the extent any such shares of common stock are issued, new investors may experience further dilution.

Table of Contents

SELECTED FINANCIAL AND OTHER DATA

The following tables present selected financial and other data as of and for the periods indicated. The selected statement of operations data for fiscal 2009, 2010 and 2011 and selected balance sheet data as of January 29, 2011 and January 28, 2012 have been derived from our financial statements audited by KPMG LLP, our independent registered public accounting firm, included elsewhere in this prospectus. The selected statement of operations data for the fiscal years ended February 2, 2008, which we refer to as fiscal 2007, and January 31, 2009, which we refer to as fiscal 2008, and the selected balance sheet data as of February 2, 2008, January 31, 2009 and January 30, 2010 have been derived from our audited financial statements that have not been included in this prospectus. The selected statement of operations and cash flows data for each of the thirteen weeks ended April 30, 2011 and April 28, 2012 and the selected balance sheet data as of April 30, 2011 and April 28, 2012 have been derived from unaudited financial statements included elsewhere in this prospectus. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected financial data in conjunction with the financial statements and accompanying notes and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31st of the following year. The reporting periods contained in our audited financial statements included in this prospectus contain 52 weeks of operations in fiscal 2007, 2008, 2009, 2010 and 2011. The quarterly reporting periods contained in the unaudited financial statements included in this prospectus consist of 13-week periods ended on April 30, 2011 and April 28, 2012.

	Fiscal Year					Thirteen Weeks Ended	
	2007	2008	2009	2010	2011	April 30, 2011	April 28, 2012
	(in thousands, except total stores, share and per share data)						
Statements of Operations Data:							
Net sales	$ 66,411	$ 89,466	$ 125,135	$ 197,189	$ 297,113	$ 47,427	$ 71,829
Cost of goods sold	48,758	64,155	85,040	131,046	192,252	32,840	48,809
Gross profit	17,653	25,311	40,095	66,143	104,861	14,587	23,020
Selling, general and administrative expenses(1)	20,935	26,930	33,217	54,339	78,640	12,926	24,985
Operating (loss) income	(3,282)	(1,619)	6,878	11,804	26,221	1,661	(1,965)
Interest expense (income), net	208	131	73	28	(16)	(3)	(37)
(Loss) income before income taxes	(3,490)	(1,750)	6,805	11,776	26,237	1,664	(1,928)
Income tax expense (benefit)			(4,853)	4,753	10,159	665	(771)
Net (loss) income	(3,490)	(1,750)	11,658	7,023	16,078	999	(1,157)
Series A 8% convertible preferred stock cumulative dividends				(4,507)	(15,913)	(3,869)	(4,168)
Accretion of redeemable convertible preferred stock	(1,605)	(2,881)	(4,250)	(3,329)			
Net (loss) income available to shareholders	(5,095)	(4,631)	7,408	(813)	165	(2,870)	(5,325)
Less: Net income attributable to participating securities			(3,365)		(109)		
Net income (loss) available to common shareholders	$ (5,095)	$ (4,631)	$ 4,043	$ (813)	$ 56	$ (2,870)	$ (5,325)
Per Share Data:							
Basic (loss) income per common share(2)	$ (0.67)	$ (0.62)	$ 0.54	$ (0.08)	$	$ (0.18)	$ (0.32)

Table of Contents

	Fiscal Year					Thirteen Weeks Ended	
	2007	2008	2009	2010	2011	April 30, 2011	April 28, 2012
	(in thousands, except total stores, share and per share data)						
Diluted (loss) income per common share(2)	$ (0.67)	$ (0.62)	$ 0.54	$ (0.08)	$	$ (0.18)	$ (0.32)
Dividends declared per common share	$	$	$	$ 13.24	$		
Weighted average shares outstanding:							
Basic shares	7,553,045	7,417,727	7,452,811	9,672,195	15,903,599	15,800,033	16,420,716
Diluted shares	7,553,045	7,417,727	7,452,811	9,672,195	15,904,108	15,800,033	16,420,716
Unaudited pro forma net income (loss)(3)					$ 14,159		$ (1,619)
Unaudited pro forma basic income (loss) per common share(3)					$ 0.28		(0.03)
Unaudited pro forma diluted income (loss) per common share(3)					$ 0.28		(0.03)
Unaudited pro forma weighted average shares outstanding:							
Basic shares					49,739,728		50,256,845
Diluted shares					49,740,237		50,256,845

	Fiscal Year					Thirteen Weeks Ended	
	2007	2008	2009	2010	2011	April 30, 2011	April 28, 2012
	(in thousands, except total stores, share and per share data)						
Statements of Cash Flows Data:							
Net cash (used in) provided by:							
Operating activities	$ (1,219)	$ 3,671	$ 9,227	$ 15,045	$ 46,695	$ 1,581	$ (23,698)
Investing activities	$ (5,021)	$ (5,988)	$ (7,285)	$ (14,883)	$ (18,558)	$ (4,576)	$ (4,801)
Financing activities	$ 6,641	$ 10,900	$ (145)	$ (445)	$ 1,003	$ (27)	$ 1,709
Other Operating and Financial Data:							
Total stores at end of period	67	82	102	142	192	145	199
Comparable store sales growth	5.4%	5.8%	12.1%	15.6%	7.9%	7.6%	10.4%
Average net sales per store(4)	$ 1,037	$ 1,185	$ 1,302	$ 1,542	$ 1,658	$ 326	$ 368
Adjusted EBITDA(5)	$ (285)	$ 2,285	$ 11,088	$ 25,798	$ 42,377	$ 3,732	$ 6,625
Capital expenditures	$ 5,033	$ 5,991	$ 7,285	$ 14,883	$ 18,558	$ 4,576	$ 4,801
Adjusted EBITDA Reconciliation:							
Net (loss) income	$ (3,490)	$ (1,750)	$ 11,658	$ 7,023	$ 16,078	$ 999	$ (1,157)
Interest expense (income), net	208	131	73	28	(16)	(3)	(37)
Income tax (benefit) expense			(4,853)	4,753	10,159	665	(771)
Depreciation and amortization	2,115	2,799	3,660	4,805	7,071	1,434	2,107
EBITDA(6)	(1,167)	1,180	10,538	16,609	33,292	3,095	142
Non-contractual executive bonus expense(7)					6,087		
Deferred rents(8)	608	297	232	1,164	1,401	258	110
Non-cash stock-based compensation and warrant expense(9)	199	329	274	2,332	1,246	319	6,373
Loss on disposal of assets(10)	16	169	5	288	273		
Closed stores(11)	59	310	39	76	78	60	
Transaction expense(12)				5,329			
Adjusted EBITDA	$ (285)	$ 2,285	$ 11,088	$ 25,798	$ 42,377	$ 3,732	$ 6,625

Table of Contents

	February 2, 2008	January 31, 2009	January 30, 2010	As of January 29, 2011 (in thousands)	January 28, 2012	April 30, 2011	April 28, 2012
Balance Sheet Data:							
Cash and cash equivalents	$ 2,056	$ 10,639	$ 12,436	$ 12,153	$ 41,293	$ 9,131	$ 14,503
Total current assets	15,261	26,533	35,335	45,942	92,249	55,625	89,051
Total current liabilities	13,303	10,522	10,983	18,215	49,942	29,356	36,186
Total long-term debt(13)	223	122		250	250	250	250
Total liabilities	19,255	18,331	20,036	33,524	72,431	45,484	64,402
Series A 8% convertible preferred stock				191,855	191,855	191,855	191,855
Series A redeemable convertible preferred stock	16,312	17,030	18,778				
Series A-1 redeemable convertible preferred stock		16,008	18,510				
Total shareholders deficit	(7,343)	(8,879)	(1,049)	(148,797)	(129,759)	(147,284)	(122,316)

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual executive bonus expense, as described in Note 7 to the Adjusted EBITDA Reconciliation. The thirteen weeks ended April 28, 2012 includes $5.9 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares, as described in Note 5 in our unaudited financial statements.

(2) Please see Note 2 in both our annual and quarterly financial statements, included elsewhere in this prospectus, for an explanation of per share calculations.

(3) Pro forma information is unaudited and is prepared in accordance with Article 11 of Regulation S-X.

Pro forma net income gives effect to: (i) income attributable to participating securities; (ii) cumulative dividends related to Series A 8% convertible preferred stock; and (iii) the Financing Transactions, including the repayment of $50 million of outstanding indebtedness under the new term loan facility with proceeds from this offering.

The following is a reconciliation of historical net income to unaudited pro forma net income:

	Fiscal Year 2011	Thirteen Weeks Ended April 28, 2012
Net income (loss) available to common shareholders	$ 56	$ (5,325)
Add:		
Net income attributable to participating securities	109	
Series A 8% Convertible Preferred Stock cumulative dividend	15,913	4,168
Less:		
Interest expense, net of tax	(1,616)	(386)
Amortization of deferred financing fees, net of tax	(303)	(76)
Pro forma net income (loss)	$ 14,159	$ (1,619)

Pro forma per share data gives effect to (i) the Financing Transactions; (ii) the conversion of our outstanding shares of Series A 8% convertible preferred stock into shares of common stock in connection with the closing of this offering and (iii) the number of shares whose proceeds will be used to repay $50.0 million of the outstanding indebtedness under the term loan facility.

Table of Contents

The following is a reconciliation of pro forma basic and diluted weighted average common shares outstanding:

	Fiscal Year 2011	Thirteen Weeks Ended April 28, 2012
Shares used in computing basic net (loss) income per common share	15,903,599	16,420,716
Adjustment for assumed conversion of preferred stock	30,894,953	30,894,953
Adjustment for shares used to repay outstanding indebtedness under the term loan facility	2,941,176	2,941,176
Basic pro forma weighted average common shares outstanding	49,739,728	50,256,845
Dilutive effect of securities	509	
Diluted pro forma weighted average common shares outstanding	49,740,237	50,256,845

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

(5) Adjusted EBITDA is defined as EBITDA (as defined below), further adjusted to exclude non-cash, non-recurring and other items not related to ongoing performance, such as non-contractual executive bonus expense, deferred rents, non-cash stock-based compensation and warrant expense, loss on disposal of assets, EBITDA for closed stores and expense related to the 2010 Transaction. We have presented Adjusted EBITDA because we believe that the exclusion of these items is appropriate to provide additional information to investors about our ongoing operating performance excluding certain non-cash and other items not related to ongoing performance and as a means to evaluate our period-to-period results. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. We have provided this information as a means to evaluate the results of our ongoing operations. Other companies in our industry may calculate Adjusted EBITDA differently than we do. Adjusted EBITDA is not a measure of performance under GAAP and should not be considered as a substitute for net income prepared in accordance with GAAP. Adjusted EBITDA has similar limitations as an analytical tool to those set forth in Note 6 below related to the use of EBITDA, and you should not consider it in isolation or as substitute for analysis of our results as reported under GAAP. Some of these additional limitations to the use of Adjusted EBITDA are:

Adjusted EBITDA does not reflect the non-contractual executive bonus expense, deferred rents, non-cash stock-based compensation and warrant expense, loss on disposal of assets, EBITDA for closed stores and expense related to the 2010 Transaction; and

Adjusted EBITDA does not reflect certain other costs that may recur in future periods.

We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only as a supplemental measure.

(6) EBITDA represents net income before interest expense (income), income taxes (benefit), depreciation and amortization. We have presented EBITDA because we consider it an important supplemental measure of our performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Management uses EBITDA as a measurement tool for evaluating our actual operating performance compared to budget and prior periods. Other companies in our industry may calculate EBITDA differently than we do. EBITDA is not a measure of performance under GAAP, and should not be considered as a substitute for net income prepared in accordance with GAAP. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

EBITDA does not reflect our cash expenditures, our future requirements for capital expenditures or contractual commitments;

36

Table of Contents

EBITDA does not reflect interest expense or the cash requirements necessary to service interest or principal payments on debt;

EBITDA does not reflect tax expense or the cash requirements necessary to pay tax obligations; and

Although depreciation and amortization are non-cash charges, the asset being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

(7) Represents a non-contractual bonus to certain executive officers for performance in fiscal 2011 and associated tax expense.
(8) Represents the non-cash portion of rent expense.
(9) Represents non-cash stock-based compensation and warrant expense.
(10) Represents asset write-offs for remodeled or closed stores.
(11) Represents the EBITDA, excluding the non-cash portion of rent expense, for stores which management has made the decision to close, from the period in which the decision was made.
(12) Represents expenses incurred in conjunction with the 2010 Transaction, including expenses related to the modification of certain stock options, professional fees and other employee compensation-related expense.
(13) Includes capital lease obligations, less current portion.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with Selected Financial and Other Data, and the financial statements and related notes included elsewhere in this prospectus. The statements in this discussion regarding expectations of our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors and Special Note Regarding Forward-Looking Statements. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to fiscal year 2011 or fiscal 2011 refer to the fiscal year ended January 28, 2012, references to fiscal year 2010 or fiscal 2010 refer to the fiscal year ended January 29, 2011 and references to fiscal year 2009 or fiscal 2009 refer to the fiscal year ended January 30, 2010. Each of fiscal years 2011, 2010 and 2009 consisted of a 52-week period. The quarterly reporting periods contained in the unaudited consolidated financial statements included in this prospectus consist of thirteen weeks ended April 30, 2011 and April 28, 2012. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the aspirational 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.

Five Below was founded in 2002 by our Executive Chairman, David Schlessinger, and our President and Chief Executive Officer, Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at teens and pre-teens aspiring to be young adults.

We believe that our business model has resulted in strong financial performance irrespective of the economic environment. For the thirteen weeks ended April 28, 2012, our comparable store sales increased by 10.4%. For the same period in the prior year, our comparable store sales increased by 7.6%. Our net sales for the thirteen weeks ended April 28, 2012 were $71.8 million, an increase of 51.5%, from $47.4 million for the thirteen weeks ended April 30, 2011. Our operating income (loss) was $(2.0) million for the thirteen weeks ended April 28, 2012 compared to $1.7 million for the thirteen weeks ended April 30, 2011. We increased net sales from $125.1 million in fiscal 2009 to $297.1 million in fiscal 2011, representing a 54.1% compound annual growth rate. We increased operating income from $6.9 million to $26.2 million during this same time period, representing a compound annual growth rate of 95.3%. Our comparable store sales also increased by 12.1% in fiscal 2009, 15.6% in fiscal 2010 and 7.9% in fiscal 2011 with positive comparable store sales performance across all geographic regions and store-year classes. In addition, over the past two fiscal years we expanded our store base from 102 stores to 192 stores. As of April 28, 2012, our store base was 199 stores.

We expect to continue our strong growth in the future. By offering trend-right merchandise at a differentiated price point of $5 and below, our stores have been successful in varying geographic regions, population densities and real estate settings. We operate stores in 17 states in the Northeast, South and Midwest regions of the U.S. We are primarily present in power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets with trade areas including at least 100,000 people in the specified market. We believe we have the opportunity to expand our store base in the U.S. from 199 locations in the eastern half of the U.S. at April 28, 2012, to more than 2,000 locations over approximately 20 years. Our ability to open profitable new stores depends on many factors, including our ability to identify suitable markets

and sites; negotiate leases with acceptable terms; achieve brand awareness in the new markets; efficiently source and distribute additional merchandise; and achieve sufficient levels of cash flow and financing to support our expansion. Our planned store expansion may place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to maintain adequate distribution capacity, information systems and other operational system capabilities, and to hire, train and retain store management and other qualified personnel. For further information see Risk Factors Risks Relating to our Business and Industry.

We have a proven and highly profitable store model that has produced consistent financial results and returns. All of our current stores were profitable on a four-wall basis in fiscal 2011 and our new stores have achieved average payback periods of less than one year. Our new store model anticipates a target store size of 7,500 square feet that achieves annual sales of $1.5 million to $1.6 million in the first full year of operation. Our new store model also assumes an average new store investment of approximately $300,000. Our new store investment includes our store buildout (net of tenant allowances), inventory and cash pre-opening expenses.

Our planned store expansion will place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to enhance our store management systems, financial and management controls and information systems. In addition, we will be required to hire, train and retain store management and store personnel.

Over the past five years we have invested a significant amount of capital in infrastructure and systems necessary to support our future growth and we expect to incur additional capital expenditures related to expansion of our infrastructure and systems in future periods. In fiscal 2010, we expanded our New Castle, Delaware distribution center, and in fiscal 2011, we relocated our corporate headquarters and upgraded our warehouse management and information systems. We have also identified the need to open a second distribution center in order to support our growth, which we expect to open in fiscal 2013. In addition, the timing and amount of investments in our infrastructure and systems could affect the comparability of our results of operations in future periods. The completion date and ultimate cost of future projects, including the new distribution center planned for fiscal 2013, could differ significantly from initial expectations due to construction-related or other reasons.

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

How We Assess the Performance of Our Business

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

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.

Table of Contents

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 of construction and pre-opening during which the store is closed 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 closed for construction 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 prospectus 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 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;

Table of Contents

- our opening of new stores in the vicinity of existing stores; and

- the number of items purchased per store visit.

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 center and between store locations. Buying costs include compensation expense and other costs for our internal buying organization.

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

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

Selling, General and Administrative Expenses

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

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

Operating Income

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

Table of Contents

EBITDA and Adjusted EBITDA

We define EBITDA as net income (loss) before interest expense (income), income taxes (benefit), depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted to exclude certain non-cash, non-recurring items and other items not relating to ongoing performance. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other issuers, because not all issuers calculate EBITDA or Adjusted EBITDA in the same manner. We present EBITDA in this prospectus because we consider it an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We present Adjusted EBITDA in this prospectus as a further supplemental measure of our performance. For a discussion of our use of EBITDA and Adjusted EBITDA and a reconciliation to net income, please refer to Prospectus Summary Summary Financial and Other Data and Selected Financial and Other Data.

Results of Operations

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

	Fiscal Year			Thirteen weeks ended	
	2009	2010	2011	April 30, 2011	April 28, 2012
	(in thousands, except total stores)				
Statements of Operations Data:					
Net sales	$ 125,135	$ 197,189	$ 297,113	$ 47,427	$ 71,829
Cost of goods sold	85,040	131,046	192,252	32,840	48,809
Gross profit	40,095	66,143	104,861	14,587	23,020
Selling, general and administrative expenses(1)	33,217	54,339	78,640	12,926	24,985
Operating income (loss)	6,878	11,804	26,221	1,661	(1,965)
Interest expense (income), net	73	28	(16)	(3)	(37)
Income (loss) before income taxes	6,805	11,776	26,237	1,664	(1,928)
Income tax (benefit) expense	(4,853)	4,753	10,159	665	(771)
Net income (loss)	$ 11,658	$ 7,023	$ 16,078	$ 999	$ (1,157)
Percentage of Net Sales:					
Net sales	100%	100%	100%	100%	100%
Cost of goods sold	68.0%	66.5%	64.7%	69.2%	68.0%
Gross profit	32.0%	33.5%	35.3%	30.8%	32.0%
Selling, general and administrative expenses(1)	26.5%	27.6%	26.5%	27.3%	34.8%
Operating income (loss)	5.5%	6.0%	8.8%	3.5%	(2.7%)
Interest expense (income), net	0.1%	%	%	%	(0.1%)
Income (loss) before income taxes	5.4%	6.0%	8.8%	3.5%	(2.7%)
Income tax (benefit) expense	(3.9%)	2.4%	3.4%	1.4%	(1.1%)
Net income (loss)	9.3%	3.6%	5.4%	2.1%	(1.6%)
Operational Data:					
Total stores at end of period	102	142	192	145	199

Comparable stores sales growth	12.1%	15.6%	7.9%	7.6%	10.4%
Average net sales per store(2)	$ 1,302	$ 1,542	$ 1,658	$ 326	$ 368

Table of Contents

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual executive bonus expense, as described in Note 7 under Selected Financial and Other Data. The thirteen weeks ended April 28, 2012 includes $5.9 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares, as described in Note 5 in our unaudited quarterly financial statements.

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

Thirteen Weeks Ended April 28, 2012 Compared to the Thirteen Weeks Ended April 30, 2011

Net Sales

Net sales increased from $47.4 million in the thirteen weeks ended April 30, 2011 to $71.8 million in the thirteen weeks ended April 28, 2012, an increase of $24.4 million, or 51.5%. The increase was the result of a comparable store sales increase of $4.8 million and a non-comparable store sales increase of $19.6 million. During the thirteen weeks ended April 28, 2012, we opened 7 new stores. We plan to open approximately 43 additional stores during the remainder of the fiscal year. New store openings are the primary driver for our increase in non-comparable store sales.

Comparable store sales increased 10.4% for the thirteen weeks ended April 28, 2012 compared to the thirteen weeks ended April 30, 2011. This increase resulted from an increase of approximately 10.3% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.1%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased from $32.8 million in the thirteen weeks ended April 30, 2011 to $48.8 million in the thirteen weeks ended April 28, 2012, an increase of $16.0 million, or 48.6%. The increase in cost of goods sold was primarily the result of a $12.2 million increase in the direct costs of goods resulting from an increase in sales and a $2.7 million increase in store occupancy as a result of new store openings.

Gross profit increased from $14.6 million in the thirteen weeks ended April 30, 2011 to $23.0 million in the thirteen weeks ended April 28, 2012, an increase of $8.4 million, or 57.8%. Gross margin increased from 30.8% in the thirteen weeks ended April 30, 2011 to 32.0% for the thirteen weeks ended April 28, 2012, an increase of 129 basis points. The increase in gross margin was primarily the result of a 48 and 93 basis point increase from distribution and store occupancy expense, respectively, as these expenses increased at a lower rate than the increase in net sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from $12.9 million in the thirteen weeks ended April 30, 2011 to $25.0 million in the thirteen weeks ended April 28, 2012, an increase of $12.1 million, or 93.3%. As a percentage of net sales, selling, general and administrative expenses increased 753 basis points to 34.8% in the thirteen weeks ended April 28, 2012 compared to 27.3% in the thirteen weeks ended April 30, 2011. The increase in selling, general and administrative expense was primarily the result of increases of $5.9 million of stock-based compensation expense associated with the cancellation of certain stock options in exchange for the grant of restricted shares, $3.9 million of store-related expenses to support new store growth and $1.2 million in corporate-related expense.

Income Tax Expense (Benefit)

Income tax was an expense for the thirteen weeks ended April 30, 2011 of $0.7 million compared to a benefit of $0.8 million for the thirteen weeks ended April 28, 2012, a decrease of $1.4 million, or (215.9)%. This decrease in income tax was primarily the result of a $3.6 million decrease in pre-tax income. Our effective tax

Table of Contents

rate was 40.0% during both the thirteen weeks ended April 30, 2011 and April 28, 2012. For the remainder of fiscal 2012, we believe our effective tax rate will be approximately 40.0%.

Net Income

As a result of the foregoing, net income decreased from $1.0 million in the thirteen weeks ended April 30, 2011 to a net loss of $1.2 million in the thirteen weeks ended April 28, 2012, a decrease of $2.2 million, or (215.8)%.

Fiscal Year 2011 Compared to Fiscal Year 2010

Net Sales

Net sales increased from $197.2 million in fiscal year 2010 to $297.1 million in fiscal year 2011, an increase of $99.9 million, or 50.7%. The increase was the result of a comparable store sales increase of $13.1 million and a non-comparable store sales increase of $86.8 million. In fiscal year 2011, we opened a net of 50 new stores compared to a net of 40 new stores in fiscal year 2010. New store openings are the primary driver for our increase in non-comparable store sales.

Comparable store sales increased 7.9% for fiscal year 2011 compared to fiscal year 2010. This increase resulted from an increase of approximately 6.1% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 1.8%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased from $131.0 million in fiscal year 2010 to $192.3 million in fiscal year 2011, an increase of $61.2 million, or 46.7%. The increase in cost of goods sold was primarily the result of a $48.2 million increase in the direct costs of goods resulting from an increase in sales and a $9.7 million increase in store occupancy as a result of new store openings.

Gross profit increased from $66.1 million in fiscal year 2010 to $104.9 million in fiscal year 2011, an increase of $38.7 million, or 58.5%. Gross margin increased from 33.5% in fiscal year 2010 to 35.3% for fiscal year 2011, an increase of 180 basis points. The increase in gross margin was primarily the result of a 102 and 64 basis point increase from buying and store occupancy expense, respectively, as buying expense decreased from prior year and store occupancy expense increased at a lower rate than the increase in net sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from $54.3 million in fiscal year 2010 to $78.6 million in fiscal year 2011, an increase of $24.3 million, or 44.7%. As a percentage of net sales, selling, general and administrative expenses decreased 110 basis points to 26.5% in fiscal year 2011 compared to 27.6% in fiscal year 2010. The increase in selling, general and administrative expense was primarily the result of increases of $17.4 million of store-related expenses to support new store growth and $6.0 million of a non-contractual bonus to certain executive officers for performance in fiscal 2011, which was partially offset by a decrease of $5.3 million in expense related to the 2010 Transaction, including compensation cost associated with the modification of certain stock options.

Income Tax Expense

Income tax expense increased from $4.8 million in fiscal year 2010 to $10.2 million in fiscal year 2011, an increase of $5.4 million, or 113.7%. This increase in income tax expense was primarily the result of a $14.5 million increase in pre-tax net income. Our effective tax rate decreased from 40.4% in fiscal year 2010 to 38.7% in fiscal year 2011. For fiscal 2012, we believe our effective tax rate will be approximately 40%.

Net Income

As a result of the foregoing, net income increased from $7.0 million in fiscal year 2010 to $16.1 million in fiscal year 2011, an increase of $9.1 million, or 128.9%.

Fiscal Year 2010 Compared to Fiscal Year 2009

Net Sales

Net sales increased from $125.1 million in fiscal year 2009 to $197.2 million in fiscal year 2010, an increase of $72.1 million, or 57.6%. The increase was the result of a comparable store sales increase of $16.8 million and a non-comparable store sales increase of $55.3 million. In fiscal year 2010, we opened a net of 40 new stores compared to a net of 20 new stores in fiscal year 2009. New store openings are the primary driver for our increase in non-comparable store sales.

Comparable store sales increased 15.6% for fiscal year 2010 compared to fiscal year 2009. This increase resulted from an increase of approximately 14.9% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.7%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased from $85.0 million in fiscal year 2009 to $131.0 million in fiscal year 2010, an increase of $46.0 million, of 54.1%. The increase in cost of goods sold was primarily the result of a $34.4 million increase in the direct costs of goods resulting from an increase in sales and a $6.6 million increase in store occupancy as a result of new store openings.

Gross profit increased from $40.1 million in fiscal year 2009 to $66.1 million in fiscal year 2010, an increase of $26.0 million, or 65.0%. Gross margin increased from 32.0% for fiscal year 2009 to 33.5% for fiscal year 2010, an increase of 150 basis points. The increase in gross margin was primarily the result of a 137 basis point increase from store occupancy expense, as this expense increased at a lower rate than the increase in net sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from $33.2 million in fiscal year 2009 to $54.3 million in fiscal year 2010, an increase of $21.1 million, or 63.6%. As a percentage of net sales, selling, general and administrative expenses increased 110 basis points to 27.6% in fiscal year 2010 compared to 26.5% in fiscal year 2009. The increase in selling, general and administrative expenses was primarily the result of increases of $11.3 million of store-related expense to support new store growth and $5.3 million of expense related to the 2010 Transaction, including compensation cost associated with the modification of certain stock options.

Income Tax Expense (Benefit)

Income taxes increased from a tax benefit of $4.9 million in fiscal year 2009 to a tax expense of $4.8 million in fiscal year 2010. This increase in income tax expense was primarily the result of a reversal of a $7.4 million deferred tax valuation allowance in fiscal 2009. Our effective tax rate changed from (71.3%) in fiscal year 2009 to 40.4% in fiscal year 2010.

Net Income

As a result of the foregoing, net income decreased from $11.7 million in fiscal year 2009 to $7.0 million in fiscal year 2010, a decrease of $4.6 million, or 39.8%.

Table of Contents

Quarterly Results of Operations and Seasonality

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of our annual results and our net sales. In our opinion, this unaudited quarterly information has been prepared on the same basis as our annual audited financial statements appearing elsewhere in this prospectus, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary to present fairly the financial information for the fiscal quarters presented. You should read this information in conjunction with our audited financial statements and the related notes appearing elsewhere in this prospectus. Operating results for any fiscal quarter are not necessarily indicative of results for the full year.

	Fiscal Year 2010				Fiscal Year 2011				Fiscal Year 2012
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
	(unaudited) (in thousands, except percentages and other operating data)								
Net sales	$ 31,625	$ 42,375	$ 41,459	$ 81,730	$ 47,427	$ 61,966	$ 61,895	$ 125,825	$ 71,829
Gross profit	9,146	13,959	9,983	33,055	14,587	20,011	18,373	51,890	23,020
Operating income (loss) (1)	202	1,686	(6,173)	16,089	1,661	3,688	739	20,133	(1,965)
Net income (loss)	$ 129	$ 1,004	$ (3,678)	$ 9,568	$ 999	$ 2,212	$ 440	$ 12,427	$ (1,157)
Percentage of Annual Results:									
Net sales	16.0%	21.5%	21.0%	41.4%	16.0%	20.9%	20.8%	42.3%	
Gross profit	13.8%	21.1%	15.1%	50.0%	13.9%	19.1%	17.5%	49.5%	
Operating income (loss) (1)	1.7%	14.3%	(52.3%)	136.3%	6.3%	14.1%	2.8%	76.8%	
Net income (loss)	1.8%	14.3%	(52.4%)	136.2%	6.2%	13.8%	2.7%	77.3%	
Percentage of Net Sales:									
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	28.9%	32.9%	24.1%	40.4%	30.8%	32.3%	29.7%	41.2%	32.0%
Operating income (loss) (1)	0.6%	4.0%	(14.9%)	19.7%	3.5%	6.0%	1.2%	16.0%	(2.7%)
Net income (loss)	0.4%	2.4%	(8.9%)	11.7%	2.1%	3.6%	0.7%	9.9%	(1.6%)
Other Operating Data:									
Total stores at end of period	105	115	138	142	145	168	189	192	199
Comparable store sales growth	22.8%	26.5%	15.9%	6.3%	7.6%	0.7%	7.6%	12.1%	10.4%

(1) The third quarter of fiscal year 2010 includes $5.3 million of expense related to the 2010 Transaction. The fourth quarter of fiscal year 2011 includes $6.1 million of non-contractual executive bonus expense, as described in Note 7 under Selected Financial and Other Data. The first quarter of fiscal year 2012 includes $5.9 million of expense related to the cancellation of certain stock options in exchange for the grant of restricted shares.

Our business is seasonal in nature and demand is generally the highest in the fourth fiscal quarter due to the year-end holiday season. To prepare for the holiday season, we must order and keep in stock more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales and working capital requirements during the year.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash flows from operations, historical equity financings and borrowings under our revolving credit facility. 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 $20.0 million in fiscal 2012 and approximately $23.0 million in fiscal 2013, which we expect to fund from cash generated from operations. We expect to devote approximately $15.0 million of our capital expenditure budget in fiscal 2012 to construct and open 50 new stores and a new distribution center, which will continue into fiscal 2013, with the remainder projected to be spent on corporate infrastructure and store relocations and remodels. As of April 28, 2012, we did not have any material commitments for capital expenditures.

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

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our revolving credit facility. We did not have any direct borrowings under our revolving credit facility at any point during fiscal 2011. 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.

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 and working capital requirements during fiscal 2012 and 2013. If cash flows from operations and borrowings under our revolving credit facility are not sufficient or available to meet our capital 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:

	Fiscal Year			Thirteen Weeks Ended	
	2009	2010	2011	April 30, 2011	April 28, 2012
			(in millions)		
Net cash provided by (used in) operating activities	$ 9.2	$ 15.0	$ 46.7	$ 1.6	$ (23.7)
Net cash used in investing activities	(7.3)	(14.9)	(18.6)	(4.6)	(4.8)
Net cash provided by (used in) financing activities	(0.1)	(0.4)	1.0		1.7
Net increase (decrease) during period in cash and cash equivalents	$ 1.8	$ (0.3)	$ 29.1	$ (3.0)	$ (26.8)

Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the thirteen weeks ended April 28, 2012 was $23.7 million, a decrease of $25.3 million compared to the thirteen weeks ended April 30, 2011. The increase in net cash used in operating activities was primarily the result of the change in income taxes paid of $8.7 million, the settlement of $6.8 million of book overdrafts that were outstanding at January 28, 2012 and the payment of $6.0 million of non-contractual bonuses to certain executive officers for performance which were accrued at January 28, 2012.

Net cash provided by operating activities for fiscal 2011 was $46.7 million, an increase of $31.7 million compared to fiscal 2010. The increase in net cash provided by operating activities was primarily driven by an increase in operating income and the reclassification of $6.8 million in book overdrafts as accounts payable, due to the timing of bank settlement. The primary driver of the increase in our operating income is the addition of our new stores. During fiscal 2011, we added 50 stores and we expect to add approximately 50 stores in fiscal 2012, with the majority of new stores opening prior to the beginning of the fourth quarter. Further, we will pay $8.9 million of taxes payable and $6.0 million related to non-contractual bonuses to certain executive officers for performance which were accrued at January 28, 2012.

Net cash provided by operating activities for fiscal 2010 was $15.0 million, an increase of $5.8 million compared to fiscal 2009. The increase was primarily driven by an increase in operating income and a decrease in payments on accounts payable due to the timing of vendor payments at fiscal 2010 year-end. The increase in operating income was primarily driven by the addition of 40 stores in fiscal 2010, with the majority of new stores opening prior to the beginning of the fourth quarter. Partially offsetting these increases were an increase in inventory purchases to support our growth.

Cash Used in Investing Activities

Net cash used in investing activities for the thirteen weeks ended April 28, 2012 was $4.8 million, an increase of $0.2 million compared to the thirteen weeks ended April 30, 2011 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction and corporate infrastructure.

Net cash used in investing activities for fiscal 2011 was $18.6 million, an increase of $3.7 million compared to fiscal 2010 and related solely to capital expenditures. The increase in capital expenditures was primarily for corporate infrastructure and our distribution facility. We estimate capital expenditures in 2012 to be $20.0 million.

Net cash used in investing activities for fiscal 2010 was $14.9 million, an increase of $7.6 million compared to fiscal 2009 and related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction and distribution facility.

Cash (Used in) Provided by Financing Activities

Net cash provided by financing activities for the thirteen weeks ended April 28, 2012 was $1.7 million, an increase of $1.7 million compared to the thirteen weeks ended April 30, 2011. The increase in net cash provided by financing activities was primarily the result of $1.5 million of excess tax benefit related to restricted shares.

Net cash (used in) provided by financing activities for fiscal 2009, 2010 and 2011 was $(0.1) million, $(0.4) million and $1.0 million, respectively. Fiscal 2011 cash flows provided by financing activities were primarily the result of proceeds of $1.1 million from the issuance of common stock. Fiscal 2010 cash flows used in financing activities were primarily the result of dividends paid to our common shareholders of $192.4 million and the redemption of warrants of $10.2 million, partially offset by net proceeds from the issuance of shares of our preferred stock of $191.9 million, proceeds from the exercise and prepayment of warrants and options to purchase common stock of $6.9 million, and the related excess tax benefit of $3.2 million. The $192.4 million dividend, together with the $4.3 million classified as compensation expense, comprised the 2010 dividend. Fiscal 2009 cash flows used in financing activities were primarily the result of payments under capital lease agreements of $0.2 million, partially offset by proceeds from the exercise of warrants and options to purchase common stock of $0.1 million.

Please see Financing Transactions for a description of the term loan facility entered into on May 16, 2012.

Financing Transactions

On May 16, 2012, we entered into a $100.0 million term loan facility with Goldman Sachs Bank USA as administrative agent for a syndicate of lenders, which we refer to as the term loan facility. We used the net proceeds from the term loan facility and cash on hand to pay the 2012 Dividend totaling approximately $99.5 million on all outstanding shares of our common stock and Series A 8% convertible preferred stock. On the same day, we amended and restated our existing senior secured revolving credit facility with Wells Fargo Bank, National Association, which is described below under Line of Credit. We refer to the term loan facility, the revolving credit facility, as amended and restated, and related transactions as the Financing Transactions.

The term loan facility provides for a term loan of $100.0 million and matures on the earlier of (i) May 16, 2015 and (ii) the date on which such facility is accelerated following the occurrence of an event of default; provided, that if no initial public offering occurs prior to May 16, 2013, the term loan facility shall mature on the earlier of (x) May 16, 2014 and (y) the date on which such facility is accelerated following the occurrence of an event of default. The term loan facility provides for interest on borrowings, at our option, at an alternate base rate which is the greater of (a) the administrative agent s prime rate in effect on such day and (b) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor, plus a margin of 3.25%, or a LIBOR-based rate with a 1.00% floor plus a margin of 4.25%; provided, that if no initial public offering occurs prior to May 16, 2013 and our consolidated net leverage ratio is greater than 2.00 to 1.00, the applicable margin for the alternate base rate shall be 4.75% and for the LIBOR-based rate shall be 5.75%.

The credit agreement for the term loan facility includes a financial covenant of a maximum consolidated net leverage ratio.

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

The term loan facility is subject to repayment upon our receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The term loan facility is also subject to repayment of $50.0 million upon our receipt of proceeds from this offering.

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

All obligations under the term loan facility are secured by substantially all of our assets.

As of July 17, 2012, we were in compliance with the financial covenant and other covenants applicable to us under the credit agreement.

Line of Credit

On August 18, 2006, we entered into a Loan and Security Agreement with Wachovia Bank National Association (predecessor in interest to Wells Fargo Bank, National Association) that included a revolving line of credit with advances tied to a borrowing base. The revolving credit facility was amended and restated on January 28, 2010 and later amended on October 14, 2010 and November 12, 2010. During fiscal year 2011, we had no borrowings under the revolving credit facility and we had approximately $20.0 million available on the line of credit for borrowings at January 28, 2012 based on the borrowing base. During fiscal year 2010, the maximum borrowings and weighted average interest rate under the revolving credit facility were $8.2 million and 4.85%, respectively, and interest expense was $53,267. During fiscal year 2009, we had no borrowings under the revolving credit facility.

The revolving credit facility was amended and restated again on May 16, 2012. The revolving credit facility allows maximum borrowings of $20.0 million and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the term loan facility or (iii) upon the occurrence of an event of default. The revolving credit facility may be increased to $30.0 million upon certain conditions. The revolving credit facility includes a $5.0 million sublimit 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 (x) 1.75% if excess availability is greater than or equal to 75%, (y) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (z) 2.25% if excess availability is less than 33%. The revolving credit facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of $12,000 per year.

The Second Amended and Restated Loan and Security Agreement 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 Second Amended and Restated Loan and Security Agreement 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 our 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 Second Amended and Restated Loan and Security Agreement may become due upon certain events of default including, among others, failure to comply with the Second Amended and Restated Loan and Security Agreement s covenants, bankruptcy, default on certain other indebtedness or a change in control.

All obligations under the revolving credit facility are secured by substantially all of our assets.

As of July 17, 2012, we were in compliance with the covenants applicable to us under the Loan and Security Agreement.

2010 Transaction

On October 14, 2010, Advent and Sargent Family Investment, LLC, a limited liability company controlled by Ronald Sargent, one of our board members, invested $192.9 million and $1.1 million, respectively, in Five Below in consideration for 88,785,489 and 506,284 shares of our Series A 8% convertible preferred stock, respectively, and, as a result of such investment, Advent acquired a majority interest in us. In connection with this transaction, all of our outstanding shares of preferred stock on October 13, 2010 were converted into shares of our common stock and all of our then outstanding options and warrants were exercised or exchanged for restricted or unrestricted shares of our common stock. We used the proceeds of this investment as well as cash on hand to pay a special dividend to the holders of our common stock on October 14, 2010. The aggregate amount of such dividend was approximately $196.7 million, or $13.24 per share. Please see Certain Relationships and Related Party Transactions Investment by Advent for more discussion of this transaction.

Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. Our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe to be

reasonable under the circumstances. Actual results may differ from these estimates. For a detailed discussion on the application of these and other accounting policies, See Note 1 in our annual financial statements included elsewhere in this prospectus.

Inventories

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

Impairment of Long-Lived Assets

In accordance with Accounting Standards Codification (ASC) Topic 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level of which there are identifiable cash flows, which is generally at a store level. Assets are reviewed for impairment using factors including, but not limited to, our future operating plans and projected cash flows. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is based on discounted future cash flows of the asset using a discount rate commensurate with the risk. In the event of a store closure, we will record an impairment charge, if appropriate, or accelerate depreciation over the revised useful life of the asset. Based on the analysis performed, our management believes that there was no impairment of long-lived assets for each of the 2009, 2010 and 2011 fiscal years. The impairment loss analysis requires management to apply judgment and make estimates.

Income Taxes

Income taxes are accounted for under the asset-and-liability method in accordance with ASC Topic 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, our management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate

realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Our management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718, *Compensation-Stock Compensation*, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of this statement, our stock-based compensation expense is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight-line basis over the employee s requisite service period (generally the vesting period of the equity grant). We recognize compensation expense based on the estimated grant date fair value using the Black-Scholes option-pricing model. The determination of the grant date fair value of options using an option-pricing model is affected by a number of assumptions, such as our estimated common stock fair value, our expected stock price volatility over the expected term of the options, stock option exercise and cancellation behaviors, risk-free interest rates and expected dividends. As a result, if any of the inputs or assumptions used in the Black-Scholes model change significantly, stock-based compensation for future awards may differ materially compared with the awards granted previously.

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

Determination of the Fair Value of Common Stock on Grant Date. We have been a private company with no active public market for our common stock. In connection with each grant of stock options, the fair value of the common stock underlying the stock options was determined by our board of directors, which intended all stock options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those stock options on the date of grant. We have determined the estimated per share fair value of our common stock using a contemporaneous valuation consistent with the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the Practice Aid. In conducting this valuation, we have considered all objective and subjective factors that we believed to be relevant, including our best estimate of our business condition, prospects and operating performance at the valuation date. Management, with the assistance of a third-party valuation firm engaged by us, used a range of factors, assumptions and methodologies to perform the valuation. The significant factors included:

- the fact that we are a private retail company with illiquid securities;
- our historical operating results;
- our discounted future cash flows, based on our projected operating results;
- the likelihood of achieving a liquidity event for the shares of common stock underlying these stock options, such as an initial public offering or sale of our company, given prevailing market conditions;
- valuation of comparable public companies at the time of grant;
- the U.S. and global capital market conditions; and

outlook for our industry at the time of grant.

After review of the fair value analysis, our board of directors authorized the use of at least that fair value as the value for restricted shares granted and the exercise price for options granted on the date of that valuation report.

Table of Contents

Valuation Methodologies Used in Determining Fair Value. To determine the estimated fair value of our common stock in relation to stock grants, we conducted valuation analyses with the assistance of a third-party valuation firm that has experience in the retail industry. The Company considered three enterprise value allocation methods outlined in the Practice Aid. The Practice Aid discusses three top-down methods that establish the fair value of the enterprise and then allocate this value among the various classes of equity. These methods are referred to as: (i) the current-value method, (ii) the option-pricing method and (iii) the probability-weighted expected return method, or PWERM. For its valuations, the Company uses the PWERM for three discrete scenarios: continuation as a private company (i.e., no liquidity event), initial public offering, and strategic sale or merger. Management determined the likelihood of these various outcomes to further support the selection of this method.

Under the PWERM, the value of the Company s common stock is estimated based upon an analysis of future enterprise values under the aforementioned scenarios. The future enterprise values are allocated among the various equity classes expected to be outstanding at the various liquidity events based on the rights and preferences of each class. The future value of the common stock under each liquidation event is then discounted back to the valuation date at an appropriate risk-adjusted discount rate and probability weighted to arrive at an indication of value for the common stock. For the continue as a private company scenario, discounts for lack of marketability and lack of control, to account for the illiquidity of the common stock and a minority holding, are applied to the indicated common stock value to determine the fair value of the common stock. As of each valuation date described below, the probability of an exit via an initial public offering or strategic sale or merger was considered significantly more likely than remaining a private company. As such, a lower probability was assigned to the continue as a private company scenario at each valuation date based on management s best estimate. Moreover, the exit via an initial public offering scenario was considered to be significantly more likely than an exit via a strategic sale or merger. Each of the liquidity event dates determined by management was weighted based on the likelihood of the initial public offering timing at these dates.

After consideration of conventional valuation approaches, the Company concluded that the income and market approach were most appropriate to determine the fair value of its common stock under the continuation as a private company scenario. The income approach is a valuation technique that provides an estimation of the fair value of a business based upon the cash flows that it can be expected to generate over time. The market approach is a valuation technique that provides an estimation of fair value based on market prices of publicly traded companies. With regard to weighting the conclusions that were reached by applying the income and market approaches, the Company considered the quality and the reliability of the data underlying each indication of value at each valuation date. Based on management s analysis of the underlying data, the weighting of value between the income and market approaches is adjusted to provide the most reliable indication of value. It is the Company s opinion that while both approaches provide reliable value indications, the income approach is considered to provide a slightly more reliable indication of value because it is assumed that a hypothetical investor in the Company s securities would place more importance on the projected operations and forecasted future financial performance given the above average growth trajectory. Therefore, primary emphasis and weighting was placed on the income approach under the continue as a private company scenario.

Under the initial public offering scenario, the fair value of the Company s common shares is based upon transactions of publicly traded companies (guideline companies) engaged in a line (or lines) of business similar to the Company (the public company method). In conjunction with guidance from the Company s Board of Directors and independent valuation firm, a search for guideline companies was made which revealed numerous publicly-traded companies in the discount stores and teen brands retail industry. Beginning with our November 2011 valuation, guideline companies in the high growth retail industry were included in the Company s analysis to better compare the nature of the Company s business with other comparable companies. Though the selected guideline companies differ in some respects from the Company, they are generally influenced by similar business and economic conditions and are considered to offer alternative investment opportunities. The application of the public company method utilizes market multiples based on current market prices together with historical and forecasted financial data of the publicly traded guideline companies. Selected market multiples derived in the analysis are then applied to the Company s historical or projected financial results to arrive at indications of value.

Stock Option and Restricted Stock Grants. On October 14, 2010, the Company granted stock options to purchase a total of 2,020,620 shares of common stock at an exercise price of $6.31 per share to two employees, both of whom were also directors, pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $5.75 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered a concurrent third-party transaction on October 14, 2010 whereby Advent International Corporation and Sargent Family Investment, LLC purchased 89,291,773 shares of Series A 8% Convertible Preferred Stock at $2.17 per share ($6.28 on an as-converted basis). The preferred shareholders had certain rights and privileges over common shareholders which resulted in a premium on the preferred stock over common stock, including:

- an 8% dividend;
- senior liquidation preferences;
- right to appoint four members to a seven member Board of Directors; and
- anti-dilution protection.

In assessing the reasonableness of the fair value of the Company s common stock, the Company also considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $5.75 per common share as of December 1, 2010.
- that there were no material changes in factors impacting common stock per share value from October 14, 2010 to December 1, 2010, including:
  - macroeconomic conditions;
  - retail sector performance;
  - stock market conditions;
  - interest rates; and
  - the Company s operating performance and future projections.

On December 1, 2010, the Company granted stock options to purchase a total of 115,556 shares of common stock at an exercise price of $6.31 per share to 21 employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $5.75 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

an independent valuation utilizing the above valuation methods that indicated a valuation price of $5.75 per common share as of December 1, 2010.

On February 22, 2011, the Company granted stock options to purchase a total of 25,950 shares of common stock at an exercise price of $6.31 per share to nine employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $5.75 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

an independent valuation utilizing the above valuation methods that indicated a valuation price of $5.75 per common share as of December 1, 2010.

there were no material changes in factors impacting common stock per share value from December 1, 2010 to February 22, 2011, including:

macroeconomic conditions;

retail sector performance;

Table of Contents

- stock market conditions;
- interest rates; and
- the Company s operating performance and future projections.

On May 25, 2011, the Company granted stock options to purchase a total of 150,250 shares of common stock at an exercise price of $6.31 per share to 81 employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $6.04 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $6.04 per common share as of April 2, 2011.
- changes in valuation which were primarily due to the following:
  - based on the passage of time from the Company s previous determination of fair value, the Company was assumed to be closer to a liquidity event and therefore reduced the present value discounting, which increased the Company s estimated value per share.
- that there were no material changes in factors impacting common stock per share value from April 2, 2011 to May 25, 2011, including:
  - macroeconomic conditions;
  - retail sector performance;
  - stock market conditions;
  - interest rates; and
  - the Company s operating performance and future projections.

On September 1, 2011, the Company granted stock options to purchase a total of 35,543 shares of common stock at an exercise price of $6.97 per share to 28 employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $6.97 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $6.97 per common share as of September 1, 2011.

changes in valuation which were primarily due to the following:

- based on the passage of time from the Company s previous determination of fair value, the Company was assumed to be closer to a liquidity event and therefore reduced the present value discounting, which increased the Company s estimated value per share; and

- management determined that the likelihood of an initial public offering or other liquidity event had increased from the Company s previous estimate of fair value based on discussions with investors and advisors. Therefore management revised its probability assigned to either an initial public offering or other liquidity event from 70% to 80%, which increased the Company s estimated value per share.

On October 18, 2011, the Company granted stock options to purchase a total of 270,500 shares of common stock at an exercise price of $6.97 per share to 120 employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $6.97 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $6.97 per common share as of September 1, 2011.

Table of Contents

that there were no material changes in factors impacting common stock per share value from September 1, 2011 to October 18, 2011, including:

- macroeconomic conditions;
- retail sector performance;
- stock market conditions;
- interest rates; and
- the Company s operating performance and future projections.

On November 22, 2011, the Company granted stock options to purchase a total of 129,058 shares of common stock at an exercise price of $8.16 per share to seven employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $8.15 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $8.15 per common share as of November 22, 2011.
- changes in valuation which were primarily due to the following:
  - multiples of the Company s guideline public company peer group were generally higher than at the time of the Company s previous valuation, which increased the Company s estimated value per share;
  - based on the passage of time from the Company s previous determination of fair value, the Company was assumed to be closer to a liquidity event and therefore reduced the present value discounting, which increased the Company s estimated value per share; and
  - following the completion of the Company s third fiscal quarter, management revised the full year forecast upward, which resulted in an increased value per share.

On March 1, 2012, the Company granted stock options to purchase a total of 318,666 shares of common stock at an exercise price of $11.22 per share to 146 employees pursuant to the Company s equity incentive plan. The Company determined that the fair value of the common stock on the date of grant was $11.21 per share. To assess the reasonableness of the fair value of the Company s common stock on this date, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $11.21 per common share as of February 21, 2012.

changes in valuation which were primarily due to the following:

multiples of the Company s guideline public company peer group were generally higher than at the time of the Company s previous valuation, which increased the Company s value per share;

an upward revision in Management s estimate of terminal value, due to the revised projections of growth potential driven by new store openings in new markets, which increased the Company s value per share; and

following the completion of the Company s full fiscal year, which exceeded both budgeted revenues and earnings, management revised forecasted financial results upward, which resulted in an increased value per share.

there were no material changes in factors impacting common stock per share value from February 21, 2012 to March 1, 2012, including:

macroeconomic conditions;

- retail sector performance;
- stock market conditions;
- interest rates; and
- the Company s operating performance and future projections.

On March 30, 2012, the Company granted stock options to purchase a total of 79,926 shares of common stock at an exercise price of $11.22 per share to 12 employees pursuant to the Company s equity incentive plan. In addition, just previous to this grant, on March 22, 2012, the Company granted 2,020,620 shares of restricted stock in connection with the cancellation of previously granted options. The Company determined that the fair value of the common stock on the date of both grants was $11.01 per share. To assess the reasonableness of the fair value of the Company s common stock on these dates, the Company considered:

- an independent valuation utilizing the above valuation methods that indicated a valuation price of $11.01 per common share as of March 22, 2012.
- changes in valuation which were primarily due to the following:
  - multiples of the Company s guideline public company peer group were generally lower than at the time of the Company s previous valuation, which decreased the Company s value per share; this decrease was offset by the planned leveraged dividend of approximately $100 million that provided shareholders with earlier liquidity, which increased the Company s value per share.
- there were no material changes in factors impacting common stock per share value from March 22, 2012 to March 30, 2012, including:
  - macroeconomic conditions;
  - retail sector performance;
  - stock market conditions;
  - interest rates; and
  - the Company s operating performance and future projections.

As of July 17, 2012, the intrinsic value of our outstanding stock options using the initial public offering price of $17.00 was $10.4 million.

Table of Contents

Contractual Obligations

The following table summarizes, as of January 28, 2012, our minimum rental commitments under operating lease agreements including assumed extensions, minimum payments for long-term debt and other obligations in future periods:

		Payments Due By Period			
(In millions)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations(1)	$ 268.0	$ 30.7	$ 66.1	$ 62.0	$ 109.2
Purchase obligations(2)	1.7	1.7			
Notes payable	0.3		0.3		
Total	$ 270.0	$ 32.4	$ 66.4	$ 62.0	$ 109.2

(1) Our store leases generally have initial lease terms of 5-10 years and include renewal options on substantially the same terms and conditions as the original lease. Also included in operating leases is our corporate office and distribution center leases.

(2) Purchase obligations consist primarily of inventory purchase orders. Our inventory purchase orders are cancellable with limited or no recourse available to the vendor until the inventory is shipped to us.

Since January 28, 2012, we have entered into 29 new fully executed retail leases with an average term of 10 years that increased our operating lease obligations to the following:

Less than 1 year	$ 1.8
1-3 years	8.8
3-5 years	9.0
More than 5 years	26.5
Total	$ 46.1

Off Balance Sheet Arrangements

As of and for the thirteen weeks ended April 28, 2012 and for the three fiscal years ended January 28, 2012, 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 May 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-04, *Fair Value Measurement* (*Topic 820*): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*). The amendments in ASU No. 2011-04 result in common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles, or U.S. GAAP, and international financial reporting standards, or IFRS, and change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of the new requirements of ASU No. 2011-04 did not have an impact on our financial position or results of operations.

Table of Contents

JOBS Act

We qualify as an emerging growth company pursuant to the provisions of the JOBS Act, enacted on April 5, 2012. For as long as we are an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding advisory say-on-pay votes on executive compensation and shareholder advisory votes on golden parachute compensation. However, we do not intend to take advantage of any the exemptions available to emerging growth companies.

Under the JOBS Act, we will remain an emerging growth company until the earliest of:

- the last day of the fiscal year during which we have total annual gross revenues of $1 billion or more;
- the last day of the fiscal year following the fifth anniversary of the completion of this offering;
- the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt; and
- the date on which we are deemed to be a large accelerated filer under the Securities Exchange Act of 1934, or the Exchange Act. We will qualify as a large accelerated filer as of the first day of the first fiscal year after we have (i) more than $700 million in outstanding common equity held by our non-affiliates as of the last day of our most recently completed second fiscal quarter, (ii) been a public company for at least 12 months and (iii) filed at least one annual report with the SEC. The value of our outstanding common equity will be measured each year on the last day of our second fiscal quarter.

The JOBS Act also provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, we are choosing to opt out of that extended transition period, and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. We have a Loan and Security Agreement which includes a revolving line of credit with advances tied to a borrowing base and which bears interest at a variable rate. Because our revolving credit facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates. As of January 28, 2012, we had no outstanding borrowings under our revolving credit facility, nor did we have any borrowings during fiscal year 2011. 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.

Table of Contents

BUSINESS

Our Company

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

Five Below was founded in 2002 by our Executive Chairman, David Schlessinger, and our President and Chief Executive Officer, Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at our target customer. We opened the first Five Below store in the greater Philadelphia area in 2002 and, since then, have been expanding contiguously across the eastern half of the U.S. As of April 28, 2012, we operated a total of 199 locations across 17 states. Our stores average approximately 7,500 square feet and are typically located within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We plan to open approximately 50 stores in 2012, and we believe we have the opportunity to grow our store base to more than 2,000 locations over approximately 20 years.

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

- We have achieved positive comparable store sales during each of the last 24 fiscal quarters.

- For the thirteen weeks ended April 28, 2012, our comparable store sales increased by 10.4%. For the same period in the prior year, our comparable store sales increased by 7.6%. Our net sales for the thirteen weeks ended April 28, 2012 were $71.8 million, an increase of 51.5%, from $47.4 million for the thirteen weeks ended April 30, 2011. Our operating income (loss) was $(2.0) million for the thirteen weeks ended April 28, 2012 compared to $1.7 million for the thirteen weeks ended April 30, 2011.

- Our comparable store sales increased by 12.1% in fiscal 2009, 15.6% in fiscal 2010 and 7.9% in fiscal 2011 with positive comparable store sales performance across all geographic regions and store-year classes.

- Over the past two fiscal years, we expanded our store base from 102 stores to 192 stores, representing a compound annual growth rate of 37.2%.

- Between fiscal 2009 and 2011, our net sales increased from $125.1 million to $297.1 million, representing a 54.1% compound annual growth rate.

- Over the same period, our operating income increased from $6.9 million to $26.2 million, representing a compound annual growth rate of 95.3%.

Table of Contents

Our Competitive Strengths

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

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

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

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

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

Powerful and Consistent Store Economics. We have a proven store model that generates strong cash flow, consistent store-level financial results and high level return on investment. Our stores have been successful in varying geographic regions, population densities and real estate settings. Each of our stores was profitable on a four-wall basis in fiscal 2011 and our new stores have achieved average

payback periods of less than one year. We believe our robust store model, reinforced by our rigorous site selection process and in-store execution, drives the strength and consistency of our comparable store sales financial results across all geographic regions and store-year classes.

Highly Experienced and Passionate Senior Management Team with Proven Track Record. Since our inception, our co-founders, David Schlessinger and Thomas Vellios, who have approximately 65 combined years of retail experience, have set the vision and strategic direction for Five Below. Messrs. Schlessinger and Vellios have assembled a talented senior management team averaging 24 years of retail experience across a broad range of disciplines, including merchandising, real estate, finance, store operations, supply chain management and information technology. Our management team drives our operating philosophy, which is based on a relentless focus on providing high-quality merchandise at exceptional value and a superior shopping experience utilizing a disciplined, low-cost operating and sourcing structure. We believe our management team is integral to our success and has positioned us well for long-term growth.

Growth Strategy

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

Grow Our Store Base. We believe there is significant opportunity to expand our store base in the U.S. from 199 locations as of April 28, 2012 to more than 2,000 locations within the U.S. over approximately 20 years, based on our experience and supported by research conducted for us by The Buxton Company, a customer analytics research firm. Based upon our strategy of store densification in existing markets and expanding into adjacent states and markets, we expect most of our near-term growth will occur within our existing markets as well as contiguous new markets. This strategy allows us to benefit from enhanced brand awareness and achieve operational efficiencies. We opened 50 net new stores in fiscal 2011 and plan to open approximately 50 in fiscal 2012 and approximately 60 in fiscal 2013. Our stores average approximately 7,500 square feet and are primarily inline locations within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We have a talented and disciplined real estate management team and a rigorous real estate site selection process. We analyze the demographics of the surrounding trade areas, the performance of adjacent retailers as well as traffic and specific site characteristics and other variables. As of April 28, 2012, we have executed lease agreements for the opening of 50 stores in fiscal 2012.

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

Increase Brand Awareness. We have a cost-effective marketing strategy designed to drive store traffic and promote brand awareness. Our strategy includes the use of newspaper circulars, local media and grassroots marketing to support existing and new market entries. We believe we have an opportunity to leverage our growing social media presence to drive brand excitement and increased store visits within existing and new markets. We believe our online platform is an extension of our brand and retail stores, serving as a marketing and informational tool for us. This platform allows us to continue to build brand awareness and expand our customer base.

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

Table of Contents

Our Market Opportunity

As a result of our unique merchandise offering and value proposition, we believe we have effectively tapped the teen and pre-teen markets. According to the U.S. Census Bureau, there were over 63 million people in the U.S. between the ages of 5 and 19, which represented over 20% of the U.S. population as of April 1, 2010. Based on management s experience and industry knowledge, we believe that this segment of the population has a significant amount of disposable income as the vast majority of this age group s basic needs are already met. According to EPM Communications, Inc., a publishing, research and consulting firm, teens and pre-teens between the ages of 8 and 19 were projected to spend over $250 billion in the U.S. in 2011.

Our Merchandise

Strategy

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

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

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

Product Mix

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

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

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

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

Table of Contents

Media: Consists of a selection of accessories for PCs, cell phones, MP3 players and tablet computers. The offering includes cases, chargers, headphones and other related items. We also carry a range of media products including books, video games and DVDs.

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

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

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

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

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

Sales by Product Group	**Percentage of Sales**		
	2011	**2010**	**2009**
Leisure	50.5%	50.5%	51.7%
Fashion and home	33.0	33.1	31.7
Party and snack	16.5	16.4	16.6
Total	100.0%	100.0%	100.0%

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

Fashion and home includes items such as personal accessories, attitude t-shirts, beauty offerings, home goods and storage options.

Party and snack includes items such as party and seasonal goods, greeting cards, candy and other snacks, and beverages.

Table of Contents

Our Stores

As of April 28, 2012, we operated 199 stores throughout the eastern half of the U.S. In fiscal 2011, our average store size was approximately 7,500 square feet. Our stores are primarily located in power, community and lifestyle shopping centers; only approximately 5% of our stores are located in malls. The following map shows the number of stores in each of the states in which we operated as of April 28, 2012.

Store Design and Layout

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

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

Expansion Opportunities and Site Selection

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

Our strategy is to saturate markets with clusters of stores because of the considerable benefit that stores derive from market concentration. Our store model is profitable across a variety of urban, suburban and semi-

rural markets and in multiple real estate venues including power, community and lifestyle shopping centers. Our retail concept works well with a large and varied group of national co-tenants that drive customer traffic.

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

We believe there is a significant opportunity to expand our store base in the U.S. In fiscal 2011, we opened 50 net new stores, and in fiscal 2012, we intend to open approximately 50 new stores through expansion in existing markets and by entering new markets. We maintain a pipeline of real estate sites that have been approved by our real estate committee and have executed 50 leases through April 28, 2012 for new stores in fiscal 2012. Our recent store growth is summarized in the following table:

Period	Stores at Start of Period	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Period
Fiscal 2009	82	20		20	102
Fiscal 2010	102	40		40	142
Fiscal 2011	142	51	1	50	192

During the thirteen weeks ended April 28, 2012, seven additional stores were opened and zero stores closed, bringing the total number of stores open as of April 28, 2012 to 199.

Opening stores within existing markets enables Five Below to benefit from enhanced brand awareness and to achieve advertising, operating and distribution efficiencies. Our targeted new store openings include additional locations in existing markets as well as expansion into adjacent states and markets. In existing markets, we use a store densification strategy that promotes brand awareness and leverages marketing, operating and distribution costs. When entering new markets we employ a store clustering strategy, opening multiple stores in a single market on the same day, enabling us to leverage marketing and pre-opening expenses.

Our store growth is supported by our new store economics, which we believe to be compelling. Our new store model assumes an average store size of approximately 7,500 square feet that achieves sales of approximately $1.5 million to $1.6 million in the first full year of operation, which is in line with the average net sales per store of our existing store base over the last two years, and an average new store cash investment of approximately $300,000, including our store buildout (net of tenant allowances), inventory and cash pre-opening expenses. Our new store model targets an average payback period of less than one year on our initial investment.

Store Management, Culture and Training

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

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

Table of Contents

Our employees are critical to achieving our goals, and we strive to hire talented employees with high energy levels and motivation. We have well-established store operating policies and procedures and an in-store training program for new store managers, assistant managers and staff. In addition, we have a dedicated group of training and new store opening managers who are focused on ensuring a consistent new store opening process and who leverage their extensive experience and knowledge of the Five Below culture to train new store managers. Our customer service and store procedure training programs are designed to enable associates to assist customers in a friendly manner and to help to create a positive sales-driven environment and culture as well as teach successful operating practices and procedures.

Merchandise Sourcing and Distribution

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

Merchandising

Our merchandising team consists of two general merchandise managers, who report directly to our Chief Executive Officer, supported by an approximate 30-member merchandising team. Our merchandising team works directly with our central planning and allocation group to ensure a consistent delivery of products across our store base. Each of our general merchandise managers has over 20 years of experience within the retail sector.

Sourcing

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

We work with approximately 700 active vendors, with no single vendor representing more than 8% of our purchases in fiscal 2011. We source approximately 90% of our purchases from domestic vendors. We typically have no long-term supply agreements or exclusive arrangements with our vendors and our top 20 vendors represent approximately 35% of total goods purchased in fiscal 2011.

Distribution

We distribute over 85% of the merchandise sold by us from our 421,000 square foot distribution center in New Castle, Delaware with the remaining merchandise shipped directly from the vendor to our stores. We realize cost savings by working with our vendors to streamline and reduce packaging to diminish shipping costs.

We generally ship merchandise from our distribution center to our stores between two and four times a week, depending on the season and the volume of a specific store. We use contract carriers to ship merchandise to our stores.

We are in the process of finalizing alternatives for a new distribution center, which we expect to open during fiscal 2013, to support our growth. From time to time, we augment our distribution facilities with third-party warehousing.

Marketing and Advertising

Our cost-effective marketing strategy is designed to drive store traffic and increase brand awareness with our target demographic, as well as other value-oriented customers. Our strategy includes the use of newspaper circulars focused during peak selling seasons that highlight our brand and exceptional value proposition as well as local media and grassroots marketing to support existing and new market entries. Additionally, we rely on the strong visibility and the presence of our store locations, email messaging and community and school marketing to promote and further our brand image and drive traffic.

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

For new store openings, we seek to create community awareness and consumer excitement through a mix of print advertising, public relations and radio promoting the grand opening and by creating an on-site grand opening event that includes free drinks and signature Five Cent hot dogs. We also aim to target multiple store openings in a given new market on the same day in order to leverage marketing efforts to produce maximum impact.

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

Competition

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

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

Trademarks and Other Intellectual Property

We own several trademarks that have been registered with the U.S. Patent and Trademark Office, including Five Below® and Five Below Hot Stuff. Cool Prices®. We also own domain names, including www.fivebelow.com, and unregistered copyrights in our website content. We attempt to obtain registration of our trademarks whenever practicable and pursue any infringement of those marks.

Management Information Systems

Our management information systems provide a full range of business process assistance and timely information to support our merchandising strategy, warehouse management, stores and operating and financial

Table of Contents

teams. We believe our current systems provide us with operational efficiencies, scalability, management control and timely reporting that allow us to identify and respond to merchandising and operating trends in our business. We use a combination of internal and external resources to support store point-of-sale, merchandise planning and buying, inventory management, financial reporting, real estate and administrative functions. We believe that our information systems have the capacity to accommodate our growth plans.

Government Regulation

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

Insurance

We maintain third-party insurance for a number of risk management activities including workers compensation, general liability, property and employee-related health care benefits. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Employees

As of April 28, 2012, we employed approximately 630 full-time and 2,330 part-time personnel. Of our total employees, approximately 110 were based at our corporate headquarters in Philadelphia, Pennsylvania, approximately 110 were based at our distribution center in New Castle, Delaware and approximately 2,740 were store employees. The number of part-time associates fluctuates depending on seasonal needs. We consider our relationship with our employees to be very good. None of our employees belong to a union or are party to any collective bargaining or similar agreement.

Properties

We do not own any real property. Our corporate headquarters are located in Philadelphia, Pennsylvania and are leased under a lease agreement expiring in 2022, with options to renew for two successive five-year periods. Our 421,000 square foot distribution center is located in New Castle, Delaware and is leased under a lease agreement expiring in 2016 with options to renew for two successive five-year periods. We plan to open a second distribution center in the southern U.S. in 2013. As of April 28, 2012, there were 199 Five Below store locations in 17 states. All of our stores are leased from third parties and the leases typically have five to ten year terms with one or more five-year renewal options, and many provide us with the option to terminate early under specified conditions. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

Legal Proceedings

We are subject to various legal proceedings and claims which arise in the ordinary course of our business. 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 on our results of operations.

Corporate Information

Five Below was incorporated in Pennsylvania in January 2002 under the name of Cheap Holdings, Inc. We changed our name to Five Below, Inc. in August 2002.

Table of Contents

MANAGEMENT

Executive Officers, Key Employees and Directors

The following table sets forth information concerning our current executive officers, key employees and directors.

Name	Age	Position/Title
David Schlessinger	57	Executive Chairman, Director
Thomas G. Vellios	57	President and Chief Executive Officer, Director
Kenneth R. Bull	49	Chief Financial Officer, Secretary and Treasurer
David Johnston	47	Chief Operating Officer
Jeffrey D. Moore	45	General Merchandise Manager
Eugene F. Rosadino	52	Senior Vice President, Supply Chain
Lisa Surella	49	General Merchandise Manager
Steven J. Collins	43	Director
Andrew W. Crawford	33	Director
David M. Mussafer	49	Director
Howard D. Ross	60	Director
Thomas M. Ryan	59	Director
Ronald L. Sargent	56	Director

Our directors have been selected pursuant to the terms of a shareholders agreement described more fully below. The terms of the shareholders agreement related to the election of directors will terminate upon the closing of the offering.

Executive Officers

David Schlessinger. Mr. Schlessinger is the co-founder of Five Below and has served as our Executive Chairman since February 2005. Mr. Schlessinger previously served as our President from 2002 to 2005. Mr. Schlessinger has been a director of Five Below since our incorporation in 2002. Previously, Mr. Schlessinger founded Zany Brainy, Inc., a retail children s educational products company, in 1991 and served as Zany Brainy s Chief Executive Officer until 1996 and as its Chairman until 1998. He also founded Encore Books, a retail bookstore chain, in 1973 and served as its Chairman and Chief Executive Officer until 1986. Mr. Schlessinger previously served as a director of Destination Maternity Corporation. Mr. Schlessinger s extensive experience in the management, operations and finance of a retail business as well as his knowledge of our company as a founder has led to the conclusion that he should serve as a director of Five Below.

Thomas G. Vellios. Mr. Vellios is the co-founder of Five Below and has served as our President and Chief Executive Officer since 2005. Mr. Vellios has been a director of Five Below since our incorporation in 2002. Previously, Mr. Vellios served as President, Chief Executive Officer and a director of Zany Brainy, Inc. Prior to joining Zany Brainy, Mr. Vellios served as Senior Vice President, General Merchandise Manager at Caldor, a regional discount chain and a division of the May Company. Mr. Vellios currently serves as a director of Hot Topic, Inc. Mr. Vellios extensive experience in the retail industry, his experience with the management, operations and finance of a retail business, and his knowledge of our company as a founder has led to the conclusion that he should serve as a director of Five Below.

Kenneth R. Bull. Mr. Bull joined Five Below as Senior Vice President, Finance in 2005 and was later appointed as our Secretary and Treasurer. In 2012, he was promoted to Chief Financial Officer. Previously, Mr. Bull was the Finance Director and Treasurer for Urban Outfitters, Inc., a specialty lifestyle merchandising retailer, from 1999 to 2003, and the Vice President, Finance and Controller for Asian American Partners d/b/a Eagle s Eye, a wholesaler and retailer of women s and children s better apparel from 1991 to 1999.

Table of Contents

David Johnston. Mr. Johnston joined Five Below as the Chief Operating Officer in June 2012. Previously, Mr. Johnston served as a senior executive at Wawa, Inc., a multi-state retailer of food products and gasoline, holding the titles of Senior Vice President and Chief Financial Officer, from 2005 to 2006, and Executive Vice President and Chief Operating Officer, from 2007 to 2012.

Key Employees

Jeffrey D. Moore. Mr. Moore joined Five Below in 2007 as General Merchandise Manager. Prior to joining Five Below, Mr. Moore was Senior Vice President and General Merchandise Manager with David s Bridal, a bridal retailer, from 2002 to 2007. Prior to David s Bridal, he was Senior Vice President and General Merchandise Manager at The Bon-Ton Department Stores, a retail store chain, from 1998 to 2002.

Eugene F. Rosadino. Mr. Rosadino joined Five Below in 2008 as Senior Vice President, Supply Chain. Prior to joining Five Below, he was Vice President, Supply Chain with Blue Tulip, Inc., a card and gift retail store, from 2005 to 2008. Prior to joining Blue Tulip, Mr. Rosadino held the roles of Chief Operating Officer with 4R Systems, an inventory management consulting firm, and Executive Vice President of inventory management with Zany Brainy, Inc.

Lisa Surella. Ms. Surella joined Five Below in 2012 as General Merchandise Manager. Prior to joining Five Below, she was the Vice President and Divisional Merchandise Manager, Ladies Apparel with Wal-Mart Stores, Inc., a discount retailer, from 2009 to 2012. Prior to Wal-Mart, she was Senior Vice President and General Merchandise Manager at Lord & Taylor, a specialty-retail department store chain, from 1999 to 2009.

Non-Employee Directors

Steven J. Collins. Mr. Collins has served as a director since 2010. Mr. Collins, a Managing Director of Advent International, which he joined in 1995, currently serves as a director of Party City Holdings, Inc., Kirkland s, Inc. and several privately held businesses, Bojangles Restaurants, Inc. and Charlotte Russe Holding, Inc., and previously served as a director of lululemon athletica inc. Mr. Collins experience serving as a director of public and private companies and his affiliation with Advent International, whose Series A 8% convertible preferred stock holdings entitle it to elect up to five directors (prior to the closing of this offering as described under Board Composition), led to the conclusion that he should serve as a director of Five Below.

Andrew W. Crawford. Mr. Crawford has served as a director since 2010. Mr. Crawford is a Principal with Advent International, which he joined in 2003 as an associate and rejoined as a Principal in 2008, following business school. Mr. Crawford currently serves as a director of privately held businesses, Bojangles Restaurants, Inc. and Charlotte Russe Holding, Inc. Mr. Crawford s experience in private equity fund management, his financial expertise and his affiliation with Advent International, led to the conclusion that he should serve as a director of Five Below.

David M. Mussafer. Mr. Mussafer has served as a director since 2010. Mr. Mussafer, a Managing Partner of Advent International, which he joined in 1990, currently serves as a director of Party City Holdings, Inc., Vantiv, Inc. and Charlotte Russe Holding Inc. and previously served as a director of lululemon athletica inc. and a number of privately held businesses. Mr. Mussafer s experience serving as a director of public and private businesses and his affiliation with Advent International, led to the conclusion that he should serve as a director of Five Below.

Howard D. Ross. Mr. Ross has served as a director since 2005. Mr. Ross, a co-founder of LLR Partners Inc., which manages private equity funds, currently serves as a director of several privately held businesses. Prior to the formation of LLR Partners in 1999, Mr. Ross was a partner in Arthur Andersen LLP, an accounting firm. Mr. Ross background in accounting and private equity fund management, his financial expertise and roles on several boards of directors led to the conclusion that he should serve as a director of Five Below.

Thomas M. Ryan. Mr. Ryan has served as a director since 2011. In 2011, Mr. Ryan became an operating partner of Advent International as a part of its Operating Partner Program. Prior to joining our board of directors, Mr. Ryan served as the Chairman of the board of directors, President and Chief Executive Officer of CVS Caremark Corporation, a retail pharmacy and healthcare corporation, until he retired in 2011. Mr. Ryan became the Chief Executive Officer of CVS Corporation in 1998 and he also served as the Chairman of the board of directors of CVS Corporation from 1999 to 2007. In 2007, Mr. Ryan again became the chairman of CVS Caremark Corporation s board of directors. Mr. Ryan currently serves as a director of Yum! Brands, Inc. and Vantiv, Inc. and previously served as a director of Bank of America Corporation. Mr. Ryan s experience in the retail industry, as both an executive officer and director of a large retail company, led to the conclusion that he should serve as a director of Five Below.

Ronald L. Sargent. Mr. Sargent has served as a director since 2004. Mr. Sargent has served as the Chief Executive Officer of Staples, Inc., an office supply company, since 2002 and as Chairman of its board of directors since 2005. Prior to becoming Chairman and Chief Executive Officer, Mr. Sargent held a variety of executive positions at Staples, Inc. since joining the company in 1989. Mr. Sargent currently serves as a director of The Kroger Co. and The Home Depot, Inc. Mr. Sargent s experience as an executive officer and director of Staples, Inc. as well as his extensive experience in the retail industry led to the conclusion that he should serve as a director of Five Below.

In addition to the information presented above regarding each director s specific experiences, qualifications, attributes and skills, we believe that all of our directors have a reputation for integrity and adherence to high ethical standards. Each of our directors has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to us and our board. Finally, we value our directors experience on other company boards and board committees.

Our executive officers are appointed by our board of directors and serve until their successors have been duly appointed and qualified or their earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

Board Composition

Our business and affairs are managed under the direction of our board of directors, which currently consists of eight members. Upon the closing of this offering, our amended and restated articles of incorporation and amended bylaws will provide that our board of directors will consist of a number of directors, not less than three nor more than eleven, to be fixed exclusively by resolution of the board of directors.

As of the closing of this offering, our amended and restated articles of incorporation will provide for a staggered, or classified, board of directors consisting of three classes of directors, each serving staggered three-year terms, as follows:

- the Class I directors will be Messrs. Ross and Sargent, and their terms will expire at the annual general meeting of shareholders to be held in 2013;

- the Class II directors will be Messrs. Collins, Crawford and Ryan, and their terms will expire at the annual general meeting of shareholders to be held in 2014; and

- the Class III directors will be Messrs. Mussafer, Schlessinger and Vellios, and their terms will expire at the annual general meeting of shareholders to be held in 2015.

Upon expiration of the term of a class of directors, directors for that class will be elected for a three-year term at the annual meeting of shareholders in the year in which that term expires. Each director s term continues until the election and qualification of his or her successor, or his or her earlier death, resignation, retirement, disqualification or removal. Any vacancies on our board of directors will be filled only by the affirmative vote of

a majority of the directors then in office. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The classification of our board of directors will make it more difficult for a third party to acquire control of us.

Our shareholders agreement has provided that the holders of our capital stock must agree to vote their shares in favor of the election to our board of directors of five individuals designated by holders of our Series A 8% convertible preferred stock and three individuals designated by holders of our common stock. Messrs. Collins, Crawford, Mussafer, Ross and Ryan are the designees of holders of our Series A 8% convertible preferred stock and Messrs. Sargent, Schlessinger and Vellios are the designees of holders of our common stock. The shareholders agreement, and all of the rights and obligations of our shareholders under the agreement, will be terminated upon the closing of this offering. See Certain Relationships and Related Party Transactions Second Amended and Restated Shareholders Agreement.

Director Independence and Controlled Company Status

Upon the closing of this offering, Advent will continue to own a majority interest in us and we will be a controlled company under the rules of The NASDAQ Stock Market LLC. We do not intend to avail ourselves of any of the controlled company exemptions under the corporate governance rules of The NASDAQ Stock Market LLC. As such, our board of directors will observe all applicable criteria for independence established by The NASDAQ Stock Market LLC and other governing laws and applicable regulations. No director will be deemed to be independent unless our board of directors determines that the director has no relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our board of directors has determined that Messrs. Collins, Crawford, Mussafer, Ross, Ryan and Sargent are independent as defined under the corporate governance rules of The NASDAQ Stock Market LLC. Of these six independent directors, our board has determined that: (i) Messrs. Ross, Ryan and Sargent, who will comprise our audit committee; (ii) Messrs. Collins, Crawford and Ryan, who will comprise our compensation committee; and (iii) Messrs. Crawford, Mussafer and Sargent, who will comprise our nominating and corporate governance committee, each satisfy the independence standards for those committees established by the applicable rules and regulations of the SEC and The NASDAQ Stock Market LLC.

Board Leadership Structure and Board s Role in Risk Oversight

Our board of directors has no policy with respect to the separation of the offices of Chief Executive Officer and Chairman of the board of directors. It is the board of directors view that rather than having a rigid policy, the board of directors, with the advice and assistance of the nominating and corporate governance committee, and upon consideration of all relevant factors and circumstances, will determine, as and when appropriate, whether the two offices should be separate. Currently, our leadership structure separates the offices of Chief Executive Officer and Chairman of the board of directors with Mr. Vellios serving as our Chief Executive Officer and Mr. Schlessinger as Executive Chairman of the board. We believe this is appropriate as it provides Mr. Vellios with the ability to focus on our day-to-day operations while allowing Mr. Schlessinger to lead our board of directors in its fundamental role of providing advice to, and oversight of management. In addition, as Executive Chairman, Mr. Schlessinger remains involved in key matters affecting our business and in implementing our growth strategy.

Our board of directors plays an active role in overseeing management of our risks. Our board of directors regularly reviews information regarding our credit, liquidity and operations, as well as the risks associated with each. Effective upon the closing of this offering, our compensation committee will be responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. Effective upon the closing of this offering, our audit committee will oversee management of financial risks. Effective upon this offering, our nominating and corporate governance committee will be responsible for managing risks associated with the independence of the board of directors. While each committee will be responsible for evaluating certain risks and overseeing the management of such risks, our full board of directors plans to keep itself regularly informed regarding such risks through committee reports and otherwise.

Table of Contents

Committees of the Board of Directors

Our board of directors has established, or will establish prior to the closing of this offering, an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee will operate under a charter that will be approved by our board of directors and will be available on our website, www.fivebelow.com, under the Investor Relations section, upon the effective date of this offering.

Audit Committee

Our audit committee oversees our corporate accounting and financial reporting process. The audit committee has the following responsibilities, among others things, as set forth in the audit committee charter that will be effective upon the closing of this offering:

- selecting and hiring our independent registered public accounting firm and approving the audit and non-audit services to be performed by our independent registered public accounting firm;
- evaluating the qualifications, performance and independence of our independent registered public accounting firm;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;
- overseeing management of financial risks;
- preparing the audit committee report required by the SEC to be included in our annual proxy statement;
- discussing the scope and results of the audit with the independent registered public accounting firm and reviewing with management and the independent registered public accounting firm our interim and year-end operating results;
- approving related party transactions; and
- reviewing whistleblower complaints relating to accounting, internal accounting controls or auditing matters and overseeing the investigations conducted in connection with such complaints.

Our audit committee currently consists of Messrs. Collins, Crawford, Ross and Sargent. Upon the closing of this offering, our audit committee will be composed of Messrs. Ross, Ryan and Sargent. Mr. Ross will serve as the chairperson of the audit committee. All of the members of the audit committee are independent for purposes of serving on the audit committee and meet the requirements for financial literacy under the applicable rules and regulations of the SEC and The NASDAQ Stock Market LLC. Our board has determined that Mr. Ross is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication defined under the applicable rules of The NASDAQ Stock Market LLC. See Director Independence and Controlled Company Status.

Compensation Committee

Our compensation committee reviews and recommends policies relating to compensation and benefits of our officers and employees. The compensation committee has the following responsibilities, among other things, as set forth in the compensation committee s charter that will be

effective upon the closing of this offering:

- reviewing and approving compensation of our executive officers, including annual base salary, annual incentive bonuses, specific goals, equity compensation, employment agreements, severance and change-in-control arrangements and any other benefits, compensation or arrangements;

- reviewing and recommending the terms of employment agreements with our executive officers;

Table of Contents

- reviewing succession planning for our executive officers;
- reviewing and recommending compensation goals, bonus and stock-based compensation criteria for our employees;
- reviewing and recommending the appropriate structure and amount of compensation for our directors;
- overseeing the management of risks relating to our executive compensation plans and arrangements;
- reviewing and discussing annually with management our Compensation Discussion and Analysis required by SEC rules;
- preparing the compensation committee report required by the SEC to be included in our annual proxy statement; and
- administering, reviewing and making recommendations with respect to our equity compensation plans.

Our compensation committee currently consists of Messrs. Collins, Mussafer, Ross and Sargent. Upon the closing of this offering, our compensation committee will be composed of Messrs. Collins, Crawford and Ryan. Mr. Collins will serve as the chairperson of the compensation committee. All of the members of the compensation committee are determined to be independent under applicable rules and regulations of the SEC and The NASDAQ Stock Market LLC. See Director Independence and Controlled Company Status.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee is responsible for making recommendations regarding candidates for directorships and the size and composition of our board. Among other matters, the nominating and corporate governance committee is responsible for the following as set forth in their charter that will be effective upon the closing of this offering:

- assisting our board of directors in identifying prospective director nominees and recommending nominees for each annual meeting of shareholders to our board of directors;
- reviewing developments in corporate governance practices and developing and recommending governance principles applicable to our board of directors;
- managing risks associated with the independence of the board of directors;
- evaluating and making recommendations as to the size and composition of the board of directors;
- overseeing the evaluation of our board of directors and management; and
- recommending members for each board committee of our board of directors.

Messrs. Crawford, Mussafer and Sargent have been elected to serve on our nominating and corporate governance committee upon the closing of this offering. Mr. Mussafer will serve as the chairperson of the nominating and corporate governance committee. All of the members of the

nominating and corporate governance committee are determined to be independent under applicable rules and regulations of the SEC and The NASDAQ Stock Market LLC. See Director Independence and Controlled Company Status.

Director Compensation

In fiscal 2011, our directors did not receive compensation for their service as directors. After this offering, each of our non-employee directors who is not affiliated with either Advent or LLR Equity Partners will be paid:

an annual cash retainer of $40,000;

- an additional retainer of $15,000 for the audit committee chair and the compensation committee chair and $10,000 for the nominating and corporate governance committee chair; and

- an annual equity grant of $60,000 of restricted stock or restricted stock units.

Each director will have the option to receive some or all of his cash retainer in the form of equity grants. Directors will not receive a fee for attending meetings, but they will be entitled to reimbursement of travel expenses relating to their service.

Compensation Committee Interlocks and Insider Participation

Messrs. Ross and Sargent served as members of the compensation committee throughout fiscal 2011. On May 25, 2011, the board of directors also appointed Messrs. Collins and Mussafer to be members of the compensation committee. Each of Messrs. Ross, Sargent, Collins and Mussafer has relationships with us that require disclosure under Item 404 of Regulation S-K under the Exchange Act. See Certain Relationships and Related Party Transactions for more information.

None of these individuals was at any time during fiscal 2011 an officer or an employee of Five Below. In addition, none of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Code of Business Conduct and Ethics

Upon the closing of this offering, we will adopt a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. Once it is adopted, the code of business conduct and ethics will be available on our website at www.fivebelow.com. Disclosure regarding any amendments to the code, or any waivers of its requirements, will be included in a current report on Form 8-K within four business days following the date of the amendment or waiver, unless posting such information on our website will then satisfy the rules of The NASDAQ Stock Market LLC.

Corporate Governance Guidelines

Our board of directors will adopt corporate governance guidelines that serve as a flexible framework within which our board of directors and its committees operate. These guidelines will cover a number of areas including the size and composition of the board, board membership criteria and director qualifications, director responsibilities, board agenda, roles of the Chairman of the board and Chief Executive Officer, meetings of independent directors, committee responsibilities and assignments, board member access to management and independent advisors, director communications with third parties, director compensation, director orientation and continuing education, evaluation of senior management and management succession planning. A copy of our corporate governance guidelines will be available on our website at www.fivebelow.com.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

This compensation discussion and analysis provides an overview of our executive compensation program together with a description of the material factors underlying the decisions that resulted in the compensation provided with respect to the fiscal year that ended on January 28, 2012 to our principal executive officer, our principal financial officer and our other most highly compensated executive officer in 2011. These individuals are referred to collectively as the Named Executive Officers.

The following table identifies the Named Executive Officers, as well as the positions held by such individuals during fiscal year 2011:

Name	**Position on January 28, 2012**
David Schlessinger	Executive Chairman and Founder
Thomas G. Vellios	President, Chief Executive Officer and Founder
Kenneth R. Bull	Senior Vice President, Finance, Secretary and Treasurer

Overview

Our compensation philosophy for our Named Executive Officers has been driven by the need to recruit, develop, motivate and retain top talent both in the short term and long term, to create long-term value for the shareholders and to align each Named Executive Officer s interests with those of our shareholders.

Other factors affecting compensation are:

- Our annual performance;
- Impact of the employee s performance on our results;
- Our objective to incentivize attainment of our performance goals by providing compensation that can exceed competitive levels upon attainment of such goals; and
- Internal equity and external market competitiveness.

Elements of Our Executive Compensation and Benefits Programs

Consistent with the philosophy that compensation to the Named Executive Officers should be aligned closely with our short- and long-term financial performance, a portion of executive compensation is at risk and is tied to the completion of certain continued service thresholds with us and/or the attainment of certain financial goals. However, we believe that it is prudent to provide competitive base salaries and other benefits to attract and retain the appropriate management talent in order to achieve our strategic objectives. Accordingly, we provide compensation to our Named Executive Officers through a combination of the following:

- Base salary;

Annual cash incentives;

Long-term equity incentives; and

Retirement (401(k) Plan), health and welfare benefits and limited perquisites.

Table of Contents

Purpose and Philosophy

We follow several principles in the development and administration of the above four main elements of our executive compensation program. In establishing executive compensation, we believe that:

- Our executive compensation programs are aligned with and support the strategic direction of our business;
- We design compensation levels to reflect the level of accountability and future potential of each executive and the achievement of outstanding individual results;
- Our compensation programs link executive compensation to personal creation and maintenance of our long-term equity value (i.e., we pay for improving our overall performance);
- As an executive s level of responsibility increases, the proportion of compensation at risk may increase; however, executive compensation programs should not encourage excessive or unnecessary risks; and
- The design and administration of our compensation programs will reflect best practices to be financially efficient, affordable and legally compliant.

Role of the Compensation Committee

As described in more detail under Management Committees of the Board of Directors Compensation Committee, the compensation committee operates under a written charter, which sets forth the roles and responsibilities of the compensation committee regarding executive compensation.

Upon the closing of the offering, Messrs. Collins, Crawford and Ryan will be appointed to the compensation committee, all of whom will be independent under the rules and regulations of the SEC and The NASDAQ Stock Market LLC.

Role of Executives in Establishing Compensation

Our board of directors has delegated administration of our executive compensation program to the compensation committee. Our Chief Executive Officer and our Executive Chairman provide recommendations regarding the design of our compensation programs to the compensation committee for all Named Executive Officers, excluding themselves. Upon the compensation committee s approval, the execution of the elements of the executive compensation programs is the responsibility of the Chief Financial Officer and/or his delegees.

In fiscal year 2011, both our Chief Executive Officer and our Executive Chairman attended each of our compensation committee meetings, but were not present during executive sessions when matters related to them were discussed.

Compensation Consultant, Peer Group Comparison & Benchmarking

Neither we nor the compensation committee currently has any contractual relationships with any compensation consultants. The compensation committee has not utilized any benchmarking in designing or setting executive compensation during the time that we were privately held. From time to time, the compensation committee has worked internally to ascertain best practices in the design of our executive compensation programs. The compensation committee has generally been focused on incentivizing and rewarding internal results and has not generally engaged in any peer group or market review in the design of our executive compensation programs.

Relative Size of Major Compensation Elements

The combination of base salary, annual cash incentives and long-term equity incentives comprises total direct compensation. In setting executive compensation, the compensation committee considers the aggregate

compensation payable to a Named Executive Officer and the form of that compensation. The compensation committee seeks to achieve the appropriate balance between immediate cash rewards and long-term financial incentives for the achievement of both annual and long-term financial and non-financial objectives.

The compensation committee may decide, as appropriate, to modify the mix of base salary, annual cash incentives, long-term equity incentives and retirement/perquisites to best fit a Named Executive Officer s specific circumstances. For example, the compensation committee may make the decision to award more cash and not award an equity grant. This provides more flexibility to the compensation committee to reward executive officers appropriately as they near retirement, when they may only be able to partially fulfill the vesting required for equity options. The compensation committee may also increase the amount of equity option grants to an executive officer if the total number of career equity option grants does not adequately reflect the executive s current position with us or if an above-market compensation package is necessary to attract and retain critical talent. The compensation committee will generally determine to set or adjust the types of compensatory incentive either upon hire of a Named Executive Officer or prior to the commencement of a fiscal year, as appropriate. However, the compensation committee reserves the right to adjust compensatory items during the course of a fiscal year to respond to changes in our performance or as may be needed to retain key personnel. Additionally, the compensation committee may decide to make equity grants, as appropriate, throughout the fiscal year, which may increase the executive s allocation of compensation toward long-term equity incentives in any given fiscal year.

Base Salary

We provide Named Executive Officers with base salaries to compensate them for services rendered during the year. The compensation committee believes that competitive salaries must be paid in order to attract and retain high-quality executives. The compensation committee annually reviews base salary for executive officers and makes adjustments only when necessary based on the executive s and our performance.

In reviewing the performance of Messrs. Schlessinger and Vellios in fiscal year 2011, the compensation committee determined that the performance of these executives exceeded their respective base salaries. Accordingly, the compensation committee decided to (a) increase Mr. Schlessinger s annual base salary from $400,000 to $600,000 and (b) increase Mr. Vellios annual base salary from $600,000 to $700,000, in each case, effective retroactively as of January 30, 2011. These base salary increases were given retroactive effect because the compensation committee determined that these executives had undertaken extraordinary efforts to support our substantial growth both in size and in sales. Accordingly, the compensation committee believed that such increases and the retroactive effectiveness of such increases were both appropriate and earned. Based on these increases, it is the current intention of the compensation committee that the base salaries of each of Messrs. Schlessinger and Vellios would remain at such levels until at least 2014 (although the compensation committee reserves the right to modify such salaries if the performance of either executive so warrants). Accordingly, each executive s employment letter agreement was amended as of September 28, 2011 to reflect these base salary increases and to provide that annual review of the base salary of Messrs. Schlessinger and Vellios would not be required to occur again until fiscal year 2014. We refer to these amendments as the Employment Letter Amendments.

In reviewing the performance of Mr. Bull in fiscal year 2011, the compensation committee determined that his performance exceeded his base salary. Accordingly, based upon the compensation committee s evaluation of his performance, the compensation committee decided to increase Mr. Bull s annual base salary from $275,000 to $325,000, from $257,269 to $275,000, and from $249,776 to $257,269 effective as of April 1, 2012, September 11, 2011, and March 27, 2011 respectively. The compensation committee also determined that a base salary of $325,000 was appropriate base compensation for a principal financial officer of a company of our size and type.

Annual Incentive Compensation

We provide cash incentive awards to Named Executive Officers for achieving and exceeding our annual financial goals, which are guided by a plan term sheet, but are otherwise discretionary based on the subjective

determination of the compensation committee. The compensation committee does review the recommendations of our Chief Executive Officer and our Executive Chairman, but makes its own determinations on all items of executive compensation. Such subjective determinations will be made based upon numerous factors, including but not limited to, individual performance, contributions to our profitability and growth in size and sales, management of other individuals and ability to lead others to achieve successful individual performances. Awards under our bonus program are designed to motivate and compensate executives for the achievement of our annual business objectives. Our performance goals are generally tied to financial performance measures as determined and approved by the compensation committee; however, in determining final annual bonuses the compensation committee retains full discretion to adjust any such bonuses.

In May 2011, the compensation committee approved our general performance goals and award schedule for fiscal 2011, based on our fiscal 2011 budget. The compensation committee chose to provide bonuses based on the attainment of certain levels of Adjusted EBITDA. The compensation committee determined to use these targets because attainment of Adjusted EBITDA objectives was deemed crucial for our growth and continued profitability. Accordingly, the compensation committee wanted to utilize our incentive compensation program to promote these goals. Pursuant to the general parameters of our bonus program, the compensation committee retained the full discretion to increase or decrease awards and no executive, at the time the fiscal 2011 program was established, had a contractual right to be paid any specific bonus regardless of performance. However, on September 28, 2011, pursuant to the Employment Letter Amendments, Messrs. Schlessinger and Vellios received a contractual right to be paid an annual bonus of 40% of such executive s base salary, if we achieved Adjusted EBITDA of $40.1 million (determined after subtracting all incentive payments made under our incentive compensation program) or 50% of such executive s base salary, if we achieved Adjusted EBITDA of $42.6 million (determined after subtracting all incentive payments made under our incentive compensation program), in each case, during fiscal 2011.

Based on the general parameters of the annual incentive program, Mr. Bull s annual target bonus was 20% of his base salary, if we achieved Adjusted EBITDA of $41.2 million with a maximum bonus of 25% of his base salary, if we achieved Adjusted EBITDA of $43.9 million, in each case, during fiscal year 2011. For the purpose of Mr. Bull s bonus, Adjusted EBITDA was calculated before all incentive payments under our incentive compensation program were made.

On March 19, 2012, the compensation committee reviewed the performance of Messrs. Schlessinger and Vellios in 2011 and determined that based on our substantial growth both in size and in sales, payment of their contractual bonuses would not appropriately recognize such outstanding performance. In this regard, the compensation committee subjectively concluded that the extraordinary contributions and leadership of Messrs. Schlessinger and Vellios were integral to our significant success over such time. Accordingly, the compensation committee exercised its discretion to authorize bonuses in excess of those potentially payable and granted each executive a discretionary, one-time bonus of $3.0 million. At the time of these payments, the compensation committee retained the discretion to authorize cash bonuses in excess of those potentially payable under an annual incentive plan term sheet. Effective as of the closing of this offering, cash bonuses will generally be based on the attainment of certain pre-established performance criteria under an annual performance bonus plan, as described more fully under Five Below, Inc. Performance Bonus Plan. Notwithstanding the foregoing, the compensation committee will retain discretion to offer discretionary bonuses to our Named Executive Officers as our performance, retention concerns and other business needs may dictate.

On April 12, 2012, the compensation committee reviewed our individual incentive bonus program results for fiscal year 2011 performance and determined that because we had incurred certain expenses of a character that had not been contemplated at the time our budgeted fiscal 2011 Adjusted EBITDA was established, it would be equitable to further adjust the Adjusted EBITDA of $43.4 million we earned in fiscal 2011 for purposes of measuring achievement by our executive officers of their bonus targets. These expenses included consulting fees and the retroactive salary increases for Messrs. Schlessinger and Vellios. After giving effect to such additional adjustments, the compensation committee concluded that we achieved Adjusted EBITDA (as further adjusted as

described above) of $44.0 million. With respect to Mr. Bull, the compensation committee awarded Mr. Bull his maximum incentive bonus of 25% of his base salary due to our Adjusted EBITDA (as further adjusted as described above) exceeding $43.9 million.

Please see Executive Compensation Decisions Occurring after the End of Fiscal Year 2011 below for a discussion of the bonus performance targets or potential bonus payouts for fiscal 2012.

Long-term Equity Incentive Compensation

Equity awards are a vital piece of our total compensation package and are designed to support our long-term strategy, provide a mechanism to attract and retain talent and to create a commonality of interest between management and our shareholders. Awards under the Five Below, Inc. Equity Incentive Plan, or the Equity Incentive Plan, are intended to compensate Named Executive Officers for sustained long-term performance that is aligned with shareholder interests and to encourage retention through vesting schedules. Long-term equity incentive awards may take a variety of forms, such as stock options and restricted stock grants. Levels and frequency of awards are determined by the compensation committee. Such awards are designed to reflect a recipient s level of responsibility and performance.

While initial hire and promotion grants are targeted to be at competitive levels, actual award values will reflect our actual long-term performance (through stock price appreciation and achievement of long-term performance goals). Service-based restricted stock awards can also be granted as appropriate to recognize performance and provide ownership and/or retention focus. Long-term incentives have the capacity to be the largest component of executive compensation, if our performance and stock price exceed our expectations.

No awards were made to either Messrs. Schlessinger or Vellios in fiscal year 2011. In fiscal 2011, the compensation committee made two grants of non-qualified stock options to Mr. Bull. Accordingly, Mr. Bull was awarded 8,650 non-qualified stock options with an exercise price of $6.31 per share on May 25, 2011 and 25,950 non-qualified stock options with an exercise price of $6.97 per share on October 18, 2011, respectively. Each grant was made under the Equity Incentive Plan and the exercise price of each grant was based on the fair market value of our stock on the date of grant.

The compensation committee awarded the May 2011 grant because of our financial performance over fiscal year 2010, as well as Mr. Bull s performance over such time. Specifically, the compensation committee took into account our profitability and sales increases during fiscal year 2010, and Mr. Bull s individual performance including his leadership and oversight of the finance team, and completion of particular company-wide initiatives such as cost control. The October 2011 grant was part of a broad-based grant made to many of our employees in connection with the Advent transaction to continue to incentivize our employees after the company s change in control. In general, 50% each of Mr. Bull s stock options vest and become exercisable two years after grant. The remaining 50% of each of the stock options vest in equal 6.25% increments, every 90 days thereafter, during the third and fourth year after grant. All vesting events are generally contingent upon continuous employment through the applicable vesting date. Additionally, the compensation committee determined that the vesting component of the awards provided additional retention incentives so that we would be more likely to retain Mr. Bull s services.

Please see Employee Benefit Plans below and the discussion of Five Below, Inc. Amended and Restated Equity Incentive Plan for a more complete summary of this plan.

Retirement, Health and Welfare Benefits and Other Perquisites

Our Named Executive Officers are entitled to participate in all of our employee benefit plans, including medical, dental, vision, group life and disability insurance and the Five Below 401(k) Retirement Savings Plan. We provide vacation and paid holidays to our Named Executive Officers. Generally, our Named Executive Officers participate in these plans and programs on the same or similar basis as are offered to our other senior employees.

In addition, in connection with the 2010 Transaction, Messrs. Schlessinger and Vellios incurred legal expenses with respect to their employment agreements and other compensation arrangements. Pursuant to the terms of each executive s employment agreement, we were obligated to reimburse for these attorney fees. We also made a gross-up payment to each of the executives to cover their respective taxes on income attributable to such reimbursement. As a result, Messrs. Schlessinger and Vellios were paid $48,062 and $47,084, respectively, on April 29, 2011. See the Summary Compensation Table for details regarding the value of perquisites received by our executive officers. The compensation committee does not intend to continue offering gross ups in the future, unless warranted by extraordinary circumstances.

Executive Compensation Decisions Occurring after the End of Fiscal Year 2011

On March 1, 2012, the compensation committee made a grant of non-qualified stock options to Mr. Bull because of our fiscal year 2011 financial review, which included our and Mr. Bull s individual performance over such time. Accordingly, Mr. Bull was awarded 17,300 non-qualified stock options with an exercise price of $11.22 per share. The grant was made under the equity incentive plan and the exercise price was based on the fair market value of our stock on the date of grant.

On March 22, 2012, the compensation committee cancelled options to purchase 1,010,310 shares of common stock made to each of Messrs. Schlessinger and Vellios in exchange for an award of 1,010,310 shares of common stock (of which 673,540 were restricted and 336,770 were unrestricted as of the grant date). In general, the forfeiture restrictions applicable to the restricted shares will lapse as to 336,770 shares on each of March 22, 2013 and March 22, 2014, subject to such executive s continued employment with us as of those dates, as more fully described below in the section entitled Option Cancellation Agreements. The compensation committee had decided that the prior option grants did not appropriately recognize the efforts of Messrs. Schlessinger and Vellios in greatly expanding our sales and profitability, and accelerating our growth. Accordingly, to appropriately recognize those efforts and to further incentivize each of these executives to continue his efforts on behalf of us, the compensation committee granted these shares of restricted stock to each of Messrs. Schlessinger and Vellios. In addition, the compensation committee determined that this stock grant more appropriately aligned Messrs. Schlessinger s and Vellios incentives with the interests of our shareholders.

Additionally, effective April 1, 2012, the compensation committee increased Mr. Bull s annual base salary to $325,000 in connection with his promotion to the position of Chief Financial Officer. Additionally, the compensation committee approved an increase in Mr. Bull s severance benefits upon his termination by us without cause from three months to six months of base salary and health benefits continuation. The compensation committee believed that such changes were warranted due to Mr. Bull s enhanced responsibility and his performance.

In June 2012, David Johnston joined us as our Chief Operating Officer and entered into an employment agreement with an annual base salary of $400,000. Additionally, the agreement provides that Mr. Johnston will be eligible to receive a maximum target performance bonus equal to 75% of his base salary for fiscal 2012 and an initial hire grant of non-qualified stock options to purchase 173,000 shares under the Equity Incentive Plan. The exercise price of such options is equal to the greater of (a) the fair market value of our stock on the date of grant and (b) the public per share price of our stock on the closing date of this offering (provided this offering closes on or before September 30, 2012), and the fair market value of our stock on the date of grant, if this offering closes after September 30, 2012. In general, 50% of Mr. Johnston s stock options vest and become exercisable two years after grant. The remaining 50% of the stock options vest in equal 6.25% increments, every 90 days thereafter, during the third and fourth year after grant. All vesting events are generally contingent upon Mr. Johnston s continuous employment through the applicable vesting date.

In June 2012, our compensation committee of the board of directors approved the performance targets and the potential bonus payouts for the Named Executive Officers for fiscal 2012 under the Five Below, Inc. Performance Bonus Plan, or the Performance Bonus Plan. The compensation committee has determined that a main business objective is to continue to increase our operating income. Accordingly, for fiscal 2012, our

compensation committee determined that our executive officers will receive no payments under the Performance Bonus Plan, unless our operating income (determined prior to giving effect to any bonuses potentially payable under the Performance Bonus Plan) exceeds our target goal of $30.0 million by at least 20%. If operating income exceeds $36.0 million, then each executive officer will receive a target performance bonus equal to 20% of the executive s base salary in effect as of the end of fiscal 2012 (other than Mr. Johnston who will receive 37.5%). If our operating income exceeds $39.5 million, then each executive officer will receive a maximum performance bonus equal to 40% of the executive s base salary (other than Mr. Johnston who will receive 75%). The performance bonus will not be interpolated if our operating income is between the target goal and the maximum goal.

Employment Agreements

We have entered into employment letter agreements with each of Messrs. Schlessinger and Vellios. Additionally, effective as of April 16, 2012 and May 16, 2012, we entered into an employment agreement with Mr. Bull and Mr. Johnston, respectively. These agreements are further described below in the Employment Agreements section. Additionally, the benefits potentially payable under these agreements are more fully described below in the section entitled Potential Payments Upon Termination or Change of Control.

Executive Compensation

The following table shows the annual compensation paid to or earned by the executive officers for the fiscal year ended January 28, 2012:

Summary Compensation Table

Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
David Schlessinger Executive Chairman and Founder	2011	600,000	3,000,000			48,062	3,648,062
Thomas G. Vellios President, Chief Executive Officer and Founder	2011	700,000	3,000,000			47,554	3,747,554
Kenneth R. Bull Senior Vice President, Finance, Secretary and Treasurer(1)	2011	262,956	68,750		121,542	470	453,718

(1) On April 12, 2012, Mr. Bull was named Chief Financial Officer.
(2) The amounts in this column, computed in accordance with current Financial Accounting Standard Board guidance for accounting for and reporting of stock-based compensation, represent the aggregate grant-date fair value of each option award. Further detail surrounding the shares awarded, the method of valuation and the assumptions made are set forth in the Management s Discussion and Analysis of Financial Condition and Results of Operations section under Critical Accounting Policies and Estimates. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes option pricing model.
(3) The following table itemizes the components of the All Other Compensation column:

Name	Reimbursement of Legal Fees and Related Income Taxes ($)	Imputed Income from Long Term Disability Coverage ($)	Total ($)
David Schlessinger	48,062		48,062
Thomas G. Vellios	47,084	470	47,554
Kenneth R. Bull		470	470

Table of Contents

Grants of Plan-Based Awards

The following table shows all grants of awards in fiscal year 2011 to each of the executive officers named in the Summary Compensation Table:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(1)
David Schlessinger											
Thomas G. Vellios											
Kenneth R. Bull(2)	5/25/2011								8,650	6.31	27,418
	10/18/2011								25,950	6.97	94,125

(1) The amounts in this column, computed in accordance with current Financial Accounting Standard Board guidance for accounting for and reporting of stock-based compensation, represent the aggregate grant-date fair value of each option award. Further detail surrounding the shares awarded, the method of valuation and the assumptions made are set forth in the Management s Discussion and Analysis of Financial Condition and Results of Operations section under Critical Accounting Policies and Estimates. The actual value, if any, that may be realized will depend on the excess of the stock price over the exercise price on the date the option is exercised. Therefore, there is no assurance the value realized will be at or near the value estimated by the Black-Scholes option pricing model.

(2) These stock options vest upon the following time-based schedule: 50% of the stock options vest and become exercisable on the second anniversary of the grant date and 6.25% every 90 days thereafter.

Outstanding Equity Awards at Year End Fiscal 2011

The following table details information concerning unexercised stock options, stock options that have not vested and stock awards that have not vested for each of the executive officers named in the Summary Compensation Table as of January 28, 2012:

Name	Option Awards: Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date ($)	Stock Awards: Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value Unearned of Shares, Units or Other Rights That Have Not Vested ($)
David Schlessinger	157,861(1)	347,294(1)		6.31	10/14/2020				

		505,155(2)	6.31	10/14/2020		
Thomas G. Vellios	157,861(1)	347,294(1)	6.31	10/14/2020		
		505,155(2)	6.31	10/14/2020		
Kenneth R. Bull		8,650(3)	6.31	5/25/2021		
		25,950(3)	6.97	10/18/2021		
					1,297(4)	14,539(5)
					2,162(4)	24,236(5)
					10,380(4)	116,359(5)

(1) These stock options vest upon the following time-based schedule: 25% of the stock options vest and become exercisable on October 14, 2011 and 6.25% of the stock options vest and become exercisable every January 14, April 14, July 14 and October 14 thereafter, commencing on January 14, 2012 and ending on October 14, 2014. Please note that pursuant to the Option Cancellation Agreements, these options were canceled on March 22, 2012.

(2) These stock options vest upon the following performance-based schedule: 33.3%, 33.3% and 33.3% of the stock options vest and become exercisable on the date that (i) the Purchasers (as defined in the applicable Investment Agreement dated September 1, 2010) receive proceeds equal to 2.0, 2.5 and 3.0 times the amount of their investment in us, respectively or (ii) the applicable IRR interest rate (as defined in the applicable option award agreement) for the Purchasers is greater than or equal to 30%, 40% or 50%, respectively. Notwithstanding the above, these stock options also vest upon the nine month anniversary of an initial public offering, provided that certain of our market cap targets are met and that the individual is still employed on such date. Please note that pursuant to the Option Cancellation Agreements, these options were canceled on March 22, 2012.

(3) These stock options vest upon the following time-based schedule: 50% of the stock options vest and become exercisable on the second anniversary of the grant date and 6.25% of the stock options vest and become exercisable every 90 days thereafter.

(4) These shares are subject to a repurchase option exercisable by us in the event of an employment resignation or termination of employment prior to vesting.

(5) This value was calculated using an assumed market value of $11.21, based on an independent valuation conducted on February 21, 2012.

Option Exercises and Stock Vested

During fiscal year 2011, Messrs. Schlessinger and Vellios did not exercise any previously issued stock options nor did such individuals vest in any of our stock awards. However, Mr. Bull vested in tranches of 5,190 and 4,757 shares of our stock.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting**	**Value Realized on Vesting ($)**
David Schlessinger				
Thomas G. Vellios				
Kenneth R. Bull			5,190(1)	58,179(3)
			4,757(2)	53,325(3)

(1) These shares of restricted stock vested as follows: approximately 1,297 shares on each of April 2, 2011, July 2, 2011, October 2, 2011 and January 2, 2012, respectively.

(2) These shares of restricted stock vested as follows: 3,460 shares on March 29, 2011 and 432 shares on each of June 29, 2011, September 29, 2011 and December 29, 2011, respectively.

(3) This value was calculated using an assumed market value of $11.21, based on an independent valuation conducted on February 21, 2012.

Potential Payments Upon Termination or Change of Control

Termination Prior to a Change of Control Mr. Schlessinger

If we terminate Mr. Schlessinger s employment without cause or Mr. Schlessinger terminates his employment for good reason (as such terms are defined below), in either case, prior to a Change of Control Transaction (as such term is defined below), Mr. Schlessinger will be entitled to receive:

- severance payments, equal to the *greater of*: (i) $400,000 or (ii) the greater of (x) base salary in effect on the date of termination or resignation or (y) unless Mr. Schlessinger approved a reduction in his annual base salary, such higher annual base salary in effect prior to termination or resignation, such amount under (i) or (ii), as applicable paid in monthly installments for a period of 12 months;

- monthly payments equal to continued health and dental benefits for a period of up to 18 months, extended an additional 6 months following the expiration of such 18-month period if Mr. Schlessinger was still eligible to receive continued COBRA coverage as of the end of such 18-month period, which we refer to as the Medical Payments; and

- monthly payments equal to a full tax gross up for federal, state and local income taxes based upon highest marginal tax rates solely with respect to each Medical Payment, which we refer to as the Medical Gross Up.

Termination Following a Change of Control Mr. Schlessinger

If we terminate Mr. Schlessinger s employment without cause or Mr. Schlessinger terminates his employment for good reason, in either case, after a Change of Control Transaction, Mr. Schlessinger will be entitled to receive:

- severance payments, equal to the *greater of*: (i) $800,000 or (ii) the greater of (x) base salary in effect on the date of termination or resignation or (y) unless Mr. Schlessinger approved a reduction in his annual base salary, such higher annual base salary in effect prior to termination or resignation, such amount under (i) or (ii), as applicable paid in monthly installments for a period of 24 months;

- the Medical Payments; and

- the Medical Gross Up.

Termination Prior to a Change of Control Mr. Vellios

If we terminate Mr. Vellios employment without cause or Mr. Vellios terminates his employment for good reason (as such terms are defined below), in either case, prior to a Change of Control Transaction (as such term is defined below), Mr. Vellios will be entitled to receive:

- severance payments, equal to the *greater of*: (i) base salary in effect on the date of termination or resignation or (ii) unless Mr. Vellios approved a reduction in annual base salary, such higher annual base salary in effect prior to termination or resignation, such amount under (i) or (ii), as applicable paid in monthly installments for a period of 12 months;

- the Medical Payment; and

- the Medical Gross Up.

Termination Following a Change of Control Mr. Vellios

If we terminate Mr. Vellios employment without cause or Mr. Vellios terminates his employment for good reason, in either case, after a Change of Control Transaction, Mr. Vellios will be entitled to receive:

- severance payments, equal to the *greater of*: (i) base salary in effect on the date of termination or resignation or (ii) unless Mr. Vellios approved a reduction in annual base salary, such higher annual base salary in effect prior to termination or resignation, such amount under (i) or (ii), as applicable paid in monthly installments for a period of 24 months;

- the Medical Payment; and

- the Medical Gross Up.

Pursuant to Messrs. Schlessinger s and Vellios Employment Letter Agreements, cause is defined as one of the following:

- the executive s conviction of (or the entry of a plea of guilty or nolo contendere to) a crime that prevents the executive from effectively managing us or that has a material adverse effect on our reputation or business activities;

- the executive s gross negligence, dishonesty, misappropriation of funds or other willful misconduct in the course of employment that has a material adverse effect on our reputation or business activities; or

- the executive s substance abuse, including abuse of alcohol or use of controlled drugs (other than in accordance with a physician s prescription).

Good reason is defined as one of the following:

- a material adverse change in the executive s title, authority, responsibilities or duties;

- a reduction or other material adverse change in the executive s base salary or benefits;

- a requirement that the executive report to anyone other than our board of directors;
- a relocation of the executive s principal offices by more than 25 miles; or
- any other willful action or inaction by us that constitutes a material breach of the applicable Employment Letter Agreement.

However, no event described above will constitute good reason unless (i) the executive provides written notice of the event within the 60-day period following its occurrence and (ii) we fail to cure such event within 30 days after receipt of his notice.

A Change of Control Transaction is deemed to have occurred if:

- any person or group acquires (in one or more transactions) beneficial ownership of our stock possessing 50% or more of the total power to vote for the election of our board of directors;
- a majority of the members of our board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of our board of directors prior to the date of the appointment or election;
- a merger or consolidation with another corporation where our shareholders immediately prior to such transaction will not beneficially own stock possessing 50% or more of the total power to vote for the election of the surviving corporation s board of directors (without consideration of the rights of any class of stock to elect directors by a separate class vote) immediately after such transaction;
- any person or group acquires all or substantially all of our assets;
- we complete a full liquidation or dissolution; or
- our shareholders accept a share exchange, whereby shareholders immediately before such exchange do not (or will not) directly or indirectly own more than 50% of the combined voting power of the surviving entity immediately following such exchange in substantially the same proportion as their ownership immediately before such exchange.

As described more fully below under Employment Agreements, Messrs. Schlessinger and Vellios are also subject to certain restrictive covenants, including non-competition, non-solicitation and confidentiality.

Termination Without Cause Mr. Bull

If we terminate Mr. Bull s employment without cause (as such term is defined below), Mr. Bull will be entitled to receive:

- base salary continuation for six months based on his base salary in effect on the date of termination less any amounts earned during the applicable six month post termination period, paid in monthly installments (pursuant to his agreement as in effect on the last day of the fiscal year, base salary would only have been continued for three months); and
- monthly payments equal to continued health and dental benefits for a period of up to six months (pursuant to his agreement as in effect on the last day of the fiscal year, these benefits would only have been continued for three months).

Pursuant to Mr. Bull s new employment agreement, cause is defined as one of the following:

- the executive s alcohol abuse or use of controlled drugs (other than in accordance with a physician s prescription);

- the executive s refusal, failure or inability to perform any material obligation or fulfill any duty (other than a duty or obligation relating to confidentiality, noncompetition, nonsolicitation or proprietary rights) to us (other than due to a disability as defined in our Equity Incentive Plan), which failure, refusal or inability is not cured by the executive within 10 days after receipt of notice;

the executive s gross negligence or willful misconduct in the course of employment;

any breach by the executive of any obligation or duty to us or any of our affiliates (whether arising by statute, common law, contract or otherwise) relating to confidentiality, noncompetition, nonsolicitation or proprietary rights;

other conduct of the executive involving any type of disloyalty to us or any of our affiliates, including, without limitation, fraud, embezzlement, theft or proven dishonesty; or

the executive s conviction of (or the entry of a plea of guilty or nolo contendere to) a felony or a misdemeanor involving moral turpitude.

Termination Prior to Change of Control Mr. Johnston

If we terminate Mr. Johnston s employment without cause (as such term is defined below), prior to or after the twelve-month period immediately following a change in control (as determined by our board of directors), Mr. Johnston will be entitled to receive:

base salary continuation for six months based on his base salary in effect on the date of termination, less any amounts earned during the applicable six-month post termination period; and

continued health benefits for a period of up to six months, less any amounts earned during the applicable six month post termination period.

Termination Following a Change of Control Mr. Johnston

If we terminate Mr. Johnston s employment without cause, within the twelve-month period immediately following a change in control, Mr. Johnston will be entitled to receive:

base salary continuation for twelve months based on his base salary in effect on the date of termination, less any amounts earned during the applicable twelve-month post termination period; and

continued health benefits for a period of up to twelve months, less any amounts earned during the applicable twelve-month post termination period.

Pursuant to Mr. Johnston s employment agreement, cause is defined as one of the following:

the executive s alcohol abuse or use of controlled drugs (other than in accordance with a physician s prescription);

the executive s gross negligence or willful misconduct in the course of employment;

any breach by the executive of any obligation or duty to us or any of our affiliates (whether arising by statute, common law, contract or otherwise) relating to confidentiality, noncompetition, nonsolicitation or proprietary rights;

other conduct of the executive involving any type of disloyalty to us or any of our affiliates, including, without limitation, fraud, embezzlement, theft or proven dishonesty; or

the executive s conviction of (or the entry of a plea of guilty or nolo contendere to) a felony or a misdemeanor involving moral turpitude.

Table of Contents

Potential Payments

The table below summarizes the payments and benefits that each of Messrs. Schlessinger, Vellios and Bull would have been entitled to receive if his last day of employment with us had been January 28, 2012.

Name	Cash Severance Payment ($)	Accelerated Option Vesting ($)	Health Insurance Coverage	Paid Life Insurance Benefit (6)	Total ($)
David Schlessinger					
Voluntary termination for good reason or involuntary termination without cause	600,000		39,356(4)		639,356
No termination following a change in control		1,701,741(2)			1,701,741
Voluntary termination for good reason or involuntary termination without cause following a change in control	1,200,000	1,701,741(2)	39,356(4)		2,941,097
Death of Named Executive Officer				10,000	10,000
Permanent Disability of Named Executive Officer					
Thomas G. Vellios					
Voluntary termination for good reason or involuntary termination without cause	700,000		39,356(4)		739,356
No termination following a change in control		1,701,741(2)			1,701,741
Voluntary termination for good reason or involuntary termination without cause following a change in control	1,400,000	1,701,741(2)	39,356(4)		3,141,097
Death of Named Executive Officer				10,000	10,000
Permanent Disability of Named Executive Officer					
Kenneth R. Bull					
Involuntary termination without cause	68,750(1)		4,919(5)		73,669
No termination following a change in control		152,413(3)			152,413
Involuntary termination without cause following a change in control	68,750(1)	152,413(3)	4,919(5)		226,082
Death of Named Executive Officer				10,000	10,000
Permanent Disability of Named Executive Officer					

(1) This represents the severance payments Mr. Bull was entitled to as of January 28, 2012, the last day of the fiscal year, which were equal to 25% of his annual base salary in effect on January 28, 2012. Pursuant to his employment agreement entered into on April 16, 2012, Mr. Bull is entitled to severance payments, which are equal to 50% of his current annual base salary of $325,000 or a payment that would be equal to $162,500.

(2) This represents the accelerated gain on the exercise of previously unvested time-based stock options for 347,294 shares, using an assumed market value of $11.21, based on an independent valuation conducted on February 21, 2012. In addition, pursuant to the Option Cancellation Agreements, these options were canceled on March 22, 2012.

(3) This represents the accelerated gain on the exercise of previously unvested time-based stock options for 34,600 shares, using an assumed market value of $11.21, based on an independent valuation conducted on February 21, 2012.

(4) Messrs. Schlessinger and Vellios are entitled to a continuation of their health and dental benefits for up to 24 months.

(5) Mr. Bull was entitled to a continuation of his health and dental benefits for up to three months as of January 28, 2012. Please note that pursuant to his letter agreement entered into on April 16, 2012, Mr. Bull is currently entitled to a continuation of his health and dental benefits for up to six months.

(6) This represents life insurance premiums under our life insurance program.