As filed with the Securities and Exchange Commission on May 13, 2013

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

Five Below, Inc.

(Exact name of Registrant as specified in its charter)

Pennsylvania	**5331**	**75-3000378**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1818 Market Street

Suite 1900

Philadelphia, PA 19103

(215) 546-7909

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Kenneth R. Bull

Chief Financial Officer

1818 Market Street

Suite 1900

Philadelphia, PA 19103

(215) 546-7909

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Philadelphia, PA 19103	
(215) 981-4000	

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act of 1934.

Large Accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered (1)**	**Proposed Maximum Offering Price Per Share (2)**	**Proposed Maximum Aggregate Offering Price (2)**	**Amount of Registration Fee**
Common Stock, $0.01 par value per share	9,847,647	$36.63	$360,719,310	$49,203

(1) Includes shares of common stock that may be purchased by the underwriters to cover the underwriters option to purchase additional shares, if any.
(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, on the basis of the average of the high and low prices for the registrant s common stock on May 7, 2013, as reported by The NASDAQ Global Select Market.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated May 13, 2013.

8,563,172 Shares

Five Below, Inc.

Common Stock

This is a public offering of 8,563,172 shares of common stock of Five Below, Inc. The selling shareholders identified in this prospectus, some of whom are our affiliates, are offering all of the shares. We will not receive any of the proceeds from the sale of the shares sold in this offering. We will bear all of the offering expenses other than the underwriting discounts and commissions.

Our common stock is listed on The NASDAQ Global Select Market under the symbol FIVE. The last reported sales price of our common stock on May 10, 2013 was $38.42 per share.

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 has not, and 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 9 to read about factors you should consider before buying shares of our 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 price to public	$	$
Underwriting discount(1)	$	$
Proceeds, before expenses, to the selling shareholders	$	$

(1) See Underwriting.

To the extent that the underwriters sell more than 8,563,172 shares of common stock, the underwriters have the option to purchase up to an additional 1,284,475 shares from the selling shareholders at the initial price to the public less the underwriting discount. We will not receive any proceeds from the sale of any of the additional shares.

The underwriters expect to deliver the shares against payment in New York, New York on , 2013.

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

Credit Suisse **Deutsche Bank Securities**

UBS Investment Bank **Wells Fargo Securities**

Prospectus dated , 2013.

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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.

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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 2013 or fiscal 2013 refer to the fiscal year ending February 1, 2014, references to fiscal year 2012 or fiscal 2012 refer to the fiscal year ended February 2, 2013, references to fiscal year 2011 or fiscal 2011 refer to the fiscal year ended January 28, 2012, and references to fiscal year 2010 or fiscal 2010 refer to the fiscal year ended January 29, 2011. Fiscal year 2013 consists of a 52-week period, fiscal year 2012 consisted of a 53-week period and each of fiscal years 2011 and 2010 consisted of a 52-week period.

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 were in the same economic position both before and after the reverse stock split. In addition, immediately prior to the closing of our initial public offering, or IPO, the outstanding shares of our Series A 8% convertible preferred stock converted into shares of our 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.

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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 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 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 *Now* (also known as *Seasonal*). 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 May 4, 2013, we operated a total of 258 locations across 18 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 a total of approximately 60 net new stores in fiscal 2013, and we believe we have the opportunity to grow our store base to more than 2,000 locations over time.

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 28 fiscal quarters.

- For the thirteen weeks ended May 4, 2013, our comparable store sales increased by 4.2%. For the same period in the prior year, our comparable store sales increased by 10.4%. Our net sales for the thirteen weeks ended May 4, 2013 were $95.6 million, an increase of 33%, from $71.8 million for the thirteen weeks ended April 28, 2012.

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Our comparable store sales increased by 15.6% in fiscal 2010, 7.9% in fiscal 2011, and 7.1% in fiscal 2012 with positive comparable store sales performance across all geographic regions and store-year classes.

We expanded our store base from 142 stores at the end of fiscal 2010 to 244 stores at the end of fiscal 2012, representing a compound annual growth rate of 31.1%.

Between fiscal 2010 and 2012, our net sales increased from $197.2 million to $418.8 million, representing a compound annual growth rate of 45.7%.

Over the same period, our operating income increased from $11.8 million to $37.7 million, representing a compound annual growth rate of 78.6%.

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 2012 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 66 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 258 locations, as of May 4, 2013, to more than 2,000 locations over time. Based upon our strategy of store densification in existing markets and expanding into adjacent states and markets, we expect most of our near-term growth will occur within our existing markets. We opened 50 net new stores in fiscal 2011, 52 new stores in fiscal 2012, and plan to open a total of approximately 60 net new stores 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.

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.

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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 9, 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.

Principal Shareholders

Following the closing of this offering, funds managed by Advent International Corporation, or Advent, are expected to own approximately 18.9% of our outstanding common stock, or 16.9%, 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 Related to This Offering and Ownership of Our Common Stock 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 $37 billion in private equity capital and completed 285 transactions in 36 countries. Advent s current portfolio is comprised of investments in 47 companies across five sectors Retail, Consumer & Leisure; Financial and Business Services; Industrial; Technology, Media & Telecoms; and Healthcare. The Advent team includes more than 170 investment professionals across Western and Central Europe, North America, Latin America and Asia.

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We expect Advent and certain of our other principal shareholders, directors, executive officers and their affiliates to receive the following approximate offering proceeds in connection with this offering, based on an assumed offering price of $38.42 per share, the last reported sales price of our common stock on The NASDAQ Global Select Market on May 10, 2013 (which amounts will be reduced by the underwriting discount):

Name	Relationship	Gross Proceeds
Advent	Shareholder	$ 278,545,000
FMR LLC	Shareholder	$
David Schlessinger	Executive Chairman, Director	$ 25,304,104
Thomas Vellios	President and Chief Executive Officer, Director	$ 25,147,965
Kenneth R. Bull	Chief Financial Officer, Secretary and Treasurer	$
David Johnston	Chief Operating Officer	$
Steven J. Collins	Director	$
Andrew W. Crawford	Director	$
Michael Devine	Director	$
David M. Mussafer	Director	$
Thomas Ryan	Director	$
Ron Sargent	Director	$

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.

Recent Developments

Net sales for the first quarter ended May 4, 2013 increased 33% to $95.6 million and comparable store sales increased 4.2% from the comparable prior year period. During the first quarter of fiscal 2013, we opened 14 net new stores, of which 6 were opened during the last 9 days of the quarter, and we expect to open approximately 60 net new stores in fiscal 2013. For the first quarter of fiscal 2013, U.S. generally accepted accounting principles, or GAAP, net income is expected to be in the range of $0.8 million to $1.3 million, with a GAAP diluted income per common share range of $0.01 to $0.02 per share on approximately 53.4 million estimated diluted weighted average common shares outstanding. GAAP net income and income per common share expectations include an estimated $0.9 million in tax-effected expenses related to the founders transaction. Excluding the expenses related to the founders transaction, which represent $0.02 per adjusted diluted share, net income is expected to be approximately $1.7 million to $2.2 million, or $0.03 to $0.04 per diluted share based on estimated adjusted diluted weighted average common shares outstanding of approximately 54.5 million. The founders transaction relates to the amortization of expense for options granted to our founders in fiscal 2010 and their modification in March 2012, which cancelled the fiscal 2010 option award to purchase 2,020,620 shares of common stock and granted an equal number of restricted shares that vest through March 2014.

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These expectations include adjusted net income, adjusted income per diluted share, and adjusted diluted weighted average common shares outstanding, each a non-GAAP financial measure. We report our numbers on a GAAP and non-GAAP basis each quarter, and provide a reconciliation table between the two for investors. We believe that these non-GAAP financial measures not only provide our management with comparable financial data for internal financial analysis but also provide meaningful supplemental information to investors. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP.

These expected ranges are preliminary and may change. We have not finalized our normal quarterly closing and review procedures for the quarter ended May 4, 2013, and there can be no assurance that final results for our first quarter will not differ from our expected results, including as a result of quarter-end closing procedures or review adjustments. In addition, the expectations for this first quarter will be subject to quarter closing procedures and/or adjustments, and should not be viewed as a substitute for our full interim unaudited financial statements prepared in accordance with GAAP. These expected results could change materially and are not necessarily indicative of the results to be achieved for our first quarter or any future period. As a result of the foregoing considerations and the other limitations described herein, investors are cautioned not to place undue reliance on this preliminary financial information. See Risk Factors Risks Related to Our Business and Industry There are material limitations with making estimates of our results for current or prior periods prior to the completion of our normal review procedures for such periods, Risk Factors, Special Note Regarding Forward-Looking Statements, Selected Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes thereto included elsewhere in this prospectus.

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The Offering

Common stock offered by selling shareholders	8,563,172 shares (9,847,647 shares if the underwriters exercise their option to purchase additional shares in full)
Common stock outstanding immediately after the offering	54,019,137 shares
Option to purchase additional shares	The underwriters have an option to purchase a maximum of 1,284,475 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.
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.
Symbol for trading on The NASDAQ Global Select Market	FIVE

The number of shares of common stock to be outstanding after this offering is based on 54,019,137 shares outstanding as of May 6, 2013 and excludes:

- 1,218,443 shares of common stock issuable upon the exercise of options to purchase common stock outstanding as of May 6, 2013 at a weighted average exercise price of $ 12.22 per share; and

- 5,423,709 shares of common stock reserved for issuance under our equity incentive plan and employee stock purchase plan (which remains subject to shareholder approval).

Except as otherwise indicated, all information in this prospectus assumes that the underwriters will not exercise their option to purchase additional shares.

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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 2010, 2011 and 2012 and the balance sheet data as of January 28, 2012 and February 2, 2013 have been derived from audited financial statements included elsewhere in this prospectus. The balance sheet data as of January 29, 2011 has been derived from audited financial statements not included 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		
	2010	2011	2012
	(in thousands, except total stores, share and per share data)		
Statements of Operations Data:			
Net sales	$ 197,189	$ 297,113	$ 418,825
Cost of goods sold	131,046	192,252	268,989
Gross profit	66,143	104,861	149,836
Selling, general and administrative expenses(1)	54,339	78,640	112,182
Operating income	11,804	26,221	37,654
Interest expense (income), net	28	(16)	2,374
Loss on debt extinguishment			1,594
Other income			(408)
Income before income taxes	11,776	26,237	34,094
Income tax expense	4,753	10,159	14,069
Net income	7,023	16,078	20,025
Dividend paid to preferred and unvested restricted shareholders			(65,403)
Series A 8% convertible preferred stock cumulative dividends	(4,507)	(15,913)	
Accretion of redeemable convertible preferred stock	(3,329)		
Net income attributable to participating securities		(109)	
Net (loss) income available to common shareholders	$ (813)	$ 56	$ (45,378)
Per Share Data:			
Basic (loss) income per common share(2)	$ (0.08)	$	$ (1.28)
Diluted (loss) income per common share(2)	$ (0.08)	$	$ (1.28)
Dividends declared per common share	$ 13.24	$	$ 2.02
Weighted average shares outstanding:			
Basic shares	9,672,195	15,903,599	35,444,200
Diluted shares	9,672,195	15,904,108	35,444,200
Unaudited pro forma net income(3)			$ 16,737
Unaudited pro forma net income attributable to participating securities(3)			(384)
Unaudited pro forma net income attributable to common shareholders(3)			$ 16,353
Unaudited pro forma basic income per common share(3)			$ 0.31
Unaudited pro forma diluted income per common share(3)			$ 0.31
Unaudited pro forma weighted average shares outstanding:			
Basic shares			52,015,021
Diluted shares			52,256,471
Statements of Cash Flows Data:			
Net cash provided by (used in):			

Operating activities	$ 15,045	$ 46,695	$ 30,363
Investing activities	$ (14,883)	$ (18,558)	$ (22,890)
Financing activities	$ (445)	$ 1,003	$ 7,315
Other Operating and Financial Data:			
Total stores at end of period	142	192	244
Comparable store sales growth	15.6%	7.9%	7.1%
Average net sales per store(4)	$ 1,542	$ 1,658	$ 1,822
Capital expenditures	$ 14,883	$ 18,558	$ 22,890

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	As of January 29, 2011	As of January 28, 2012	As of February 2, 2013
Balance Sheet Data:			
Cash and cash equivalents	$ 12,153	$ 41,293	$ 56,081
Total current assets	45,942	92,249	129,676
Total current liabilities	18,215	49,942	68,784
Total long-term debt, excluding current portion(5)	250	250	19,500
Total liabilities	33,524	72,431	118,916
Series A 8% convertible preferred stock	191,855	191,855	
Total shareholders (deficit) equity	(148,797)	(129,759)	70,744

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual bonus to certain executive officers for performance in fiscal 2011 and associated tax expense. Fiscal 2012 includes $10.5 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares and on-going expense recognition of the awards over the remaining vesting period. In addition, fiscal 2012 includes $1.0 million of expenses related to legal, accounting, and other fees in connection with our secondary public offering in January 2013.

(2) Please see Note 2 in our annual 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.

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. On July 27, 2012, we repaid $65.3 million of principal against the term loan facility and $0.7 million of interest from our proceeds from our IPO. We refer to the term loan facility, the amended and restated senior secured revolving credit facility, or revolving credit facility, and related transactions as the Financing Transactions . Effective immediately prior to the closing of our IPO on July 24, 2012, all outstanding shares of Series A 8% convertible preferred stock were converted into 30,894,953 shares of common stock.

Pro forma net income gives effect to: (i) the 2012 Dividend paid to our preferred shareholders and (ii) the Financing Transactions, including repayment of $65.3 million of outstanding indebtedness under the new term loan facility with proceeds from our IPO.

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

	Fiscal Year 2012
Net loss available/attributable to common shareholders	$ (45,378)
Add:	
Dividend paid to preferred shareholders	62,504
Less:	
Interest expense, net of tax	(324)
Amortization of deferred financing fees, net of tax	(65)
Unaudited pro forma net income	16,737
Unaudited pro forma net income attributable to participating securities	(384)
Unaudited pro forma net income attributable to common shareholders	$ 16,353

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 the IPO and (iii) the number of shares whose proceeds were used to repay $65.3 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 2012
Shares used in computing basic net loss per common share	35,444,200

Adjustment for conversion of preferred stock	14,739,641
Adjustment for shares used to repay outstanding indebtedness under the term loan facility	1,831,180
Unaudited basic pro forma weighted average common shares outstanding	52,015,021
Dilutive effect of securities	241,450
Unaudited diluted pro forma weighted average common shares outstanding	52,256,471

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

(5) We plan to repay approximately $15.0 million of principal on the term loan facility during fiscal 2013, which is classified as a current liability and not included in the long-term balance as of the end of fiscal 2012.

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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 Related 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 258 stores in 18 states as of May 4, 2013, to more than 2,000 locations over time.

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

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

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

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

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

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

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

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

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

- political and economic instability;
- the financial instability and labor problems of vendors;
- the availability and cost of raw materials;
- merchandise quality or safety issues;
- changes in currency exchange rates;
- inflation; and
- transportation availability 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 during fiscal 2012, we signed a lease for a new distribution center in Olive Branch, Mississippi to support our growth objectives, which is now fully operational. Delays in opening new distribution centers in the future could adversely affect our future operations by slowing store growth, which could in turn reduce sales growth. In addition, any distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects 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.

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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 centers from vendors and then from the distribution centers or direct ship vendors to our stores. Our use of outside delivery services for shipments is subject to risks outside of our control and any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays or increases in transportation costs (including through increased fuel costs or a decrease in transportation capacity for overseas shipments) 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 senior management and district, store and distribution center managers, and to control labor costs, as well as other labor issues, could adversely affect our business.

Our growth could be adversely impacted by 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.

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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 32% of our total assets as of February 2, 2013. 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 facilities in New Castle, Delaware and Olive Branch, Mississippi. 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.

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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.

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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 centers, as well as certain of our vendors and customers, are located in areas which have been and could be subject to natural disasters such as floods, hurricanes, tornadoes, fires or earthquakes. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures, may disrupt our business and may adversely affect our ability to sell and distribute products. For example, as a result of Superstorm Sandy in October 2012, we experienced closures in 122 of our stores. In addition, we operate in markets that may be susceptible to pandemic outbreaks, war, terrorist acts or disruptive global political events, such as civil unrest in countries from which our vendors are located or products are manufactured. Our business may be harmed if our ability to sell and distribute products is impacted by any such events, any of which could influence customer trends and purchases and may negatively impact our net sales, properties or operations. Such events could result in physical damage to one or more of our properties, the temporary closure of some or all of our stores or distribution centers, the temporary lack of an adequate work force in a market, temporary or long-term disruption in the transport of goods, delay in the delivery of goods to our distribution centers or stores, disruption of our technology support or information systems, or fuel shortages or dramatic increases in fuel prices, which increase the cost of doing business. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage. Any of these factors, or combination thereof, could adversely affect our operations.

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

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.

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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.

We are 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.

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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.

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

In July 2012 we completed our IPO. As a result, we are now required to incur significant legal, accounting, insurance, compliance and other expenses as a result of being a public company. We are obligated to file annual and quarterly information and other reports with the SEC. In addition, we also became subject to other reporting and corporate governance requirements which 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 imposed increased regulation and disclosure and have required enhanced corporate governance practices of public companies. Our efforts to comply 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, 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 have begun to incur substantial increases in legal, accounting and insurance compliance and we expect to incur 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.

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The terms of our 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 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;
- 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.

There are material limitations with making estimates of our results for current or prior periods prior to the completion of our normal review procedures for such periods.

The estimated results contained in Prospectus Summary Recent Developments are not a comprehensive statement of our financial results for the quarter ended May 4, 2013. Our financial statements for the quarter ended May 4, 2013 will not be available until after this offering is completed and, consequently, will not be available to you prior to investing in this offering. The final financial results for the quarter ended May 4, 2013, may vary from our expectations and may be materially different from the preliminary financial estimates we have provided due to completion of quarterly closing procedures, final adjustments and other developments that may arise between now and the time the financial results for this period are finalized and our financial statements are issued. Accordingly, investors should not place undue reliance on such financial information.

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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 public offering price.

Shares of our common stock were sold in our IPO in July 2012 at a price of $17.00 per share, and our common stock has subsequently traded as high as $40.00 and as low as $25.00 during the period from our IPO to February 2, 2013. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. In addition, broad market and industry factors, most of which we cannot control, may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

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

- investor perceptions of the retail industry in general and our Company in particular;
- major catastrophic events;
- volatility in our stock price, which may lead to higher 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.

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Upon the closing of this offering, we will have approximately 54,019,137 shares of common stock outstanding. All of these shares 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 certain holders 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 90 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 to 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 18.9% of the voting power of our outstanding common stock or 16.9% if the underwriters exercise in full their option to purchase additional shares in this offering. As a result, Advent would be able to exert significant influence over 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.

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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.

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

Our board of directors has the authority, without action or vote of our shareholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares that may be issued to satisfy our obligations under our equity incentive plan or shares of our authorized but unissued preferred stock. We have reserved 7,600,000 shares of common stock under our equity incentive plan for future issuances and, as of May 6, 2013, 1,218,443 shares of our common stock are issuable upon the exercise of options outstanding. We have also reserved 500,000 shares of common stock under our employee stock purchase plan for future issuances, which plan remains subject to shareholder approval. Exercises of these options or issuances of common stock or preferred stock could reduce your influence over matters on which our shareholders vote and, in the case of issuances of preferred stock, likely could result in your interest in us being subject to the prior rights of holders of that preferred stock.

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

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, including under agreements for indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares 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 continue to publish or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

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

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

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

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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 and restated bylaws;
- establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders meetings; and
- permit the board of directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

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

These and other provisions of Pennsylvania law and our amended and restated articles of incorporation and amended and restated 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.

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

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- *current economic conditions and other economic factors;*
- *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;*
- *restrictions imposed by our indebtedness on our current and future operations; and*
- *material limitations with making estimates of our results for periods prior to the completion of the period and/or normal review procedures for such periods.*

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.

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USE OF PROCEEDS

The selling shareholders, which include certain of our affiliates, will receive all of the proceeds from this offering, and we will not receive any proceeds from the sale of shares in this offering. See Principal and Selling Shareholders.

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DIVIDENDS

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

MARKET PRICE OF OUR COMMON STOCK

Our common stock has been listed on the NASDAQ Global Select Market under the symbol FIVE since our IPO. Before then, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by the NASDAQ Global Select Market:

Fiscal 2012	High	Low
Second Quarter (July 19, 2012 July 28, 2012)	$ 29.96	$ 25.00
Third Quarter (July 29, 2012 October 27, 2012)	$ 40.00	$ 28.70
Fourth Quarter (October 28, 2012 February 2, 2013)	$ 37.85	$ 27.73

On May 10, 2013, the last reported sale price on the NASDAQ Global Select Market of our common stock was $38.42 per share. As of May 6, 2013, we had approximately 98 holders of record of our common stock.

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CAPITALIZATION

The following table sets forth our capitalization as of February 2, 2013. In connection with this offering we will incur certain issuance costs, consisting of various registration, printing and professional service fees. We will expense these costs as incurred.

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 February 2, 2013 (in thousands)
Cash and cash equivalents	$	56,081
Long-term debt (including current maturities)		
Revolving line of credit(1)	$	
Notes payable		34,500
Total long-term debt		34,500
Shareholders equity:		
Common stock, $0.01 par value. Authorized 120,000,000 shares; issued and outstanding 53,980,797 shares		540
Additional paid-in capital		270,637
Accumulated deficit		(200,433)
Total shareholders equity		70,744
Total capitalization	$	105,244

(1) At February 2, 2013, there was $0.3 million outstanding on a letter of credit that was undrawn and excess availability was approximately $19.7 million.

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

- 1,187,817 shares of our common stock issuable upon the exercise of stock options outstanding as of February 2, 2013 with a weighted average exercise price of $10.43 per share; and

- 5,492,675 shares of our common stock reserved for future issuance under our equity incentive plan and employee stock purchase plan (which remains subject to shareholder approval) as of February 2, 2013.

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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 2010, 2011 and 2012 and selected balance sheet data as of January 28, 2012 and February 2, 2013 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 January 31, 2009, which we refer to as fiscal 2008, and January 30, 2010, which we refer to as fiscal 2009, and the selected balance sheet data as of January 31, 2009, January 30, 2010 and January 29, 2011 have been derived from our audited financial statements that have not been included 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 2008, 2009, 2010 and 2011 and 53 weeks of operations in fiscal 2012.

	Fiscal Year				
	2008	2009	2010	2011	2012
	(in thousands, except total stores, share and per share data)				
Statements of Operations Data:					
Net sales	$ 89,466	$ 125,135	$ 197,189	$ 297,113	$ 418,825
Cost of goods sold	64,155	85,040	131,046	192,252	268,989
Gross profit	25,311	40,095	66,143	104,861	149,836
Selling, general and administrative expenses(1)	26,930	33,217	54,339	78,640	112,182
Operating (loss) income	(1,619)	6,878	11,804	26,221	37,654
Interest expense (income), net	131	73	28	(16)	2,374
Loss on debt extinguishment					1,594
Other income					(408)
(Loss) income before income taxes	(1,750)	6,805	11,776	26,237	34,094
Income tax expense (benefit)		(4,853)	4,753	10,159	14,069
Net (loss) income	(1,750)	11,658	7,023	16,078	20,025
Dividend paid to preferred and unvested restricted shareholders					(65,403)
Series A 8% convertible preferred stock cumulative dividends			(4,507)	(15,913)	
Accretion of redeemable convertible preferred stock	(2,881)	(4,250)	(3,329)		
Net income attributable to participating securities		(3,365)		(109)	
Net income (loss) available to common shareholders	$ (4,631)	$ 4,043	$ (813)	$ 56	$ (45,378)
Per Share Data:					
Basic (loss) income per common share(2)	$ (0.62)	$ 0.54	$ (0.08)	$	$ (1.28)
Diluted (loss) income per common share(2)	$ (0.62)	$ 0.54	$ (0.08)	$	$ (1.28)
Dividends declared per common share	$	$	$ 13.24	$	$ 2.02
Weighted average shares outstanding:					
Basic Shares	7,417,727	7,452,811	9,672,195	15,903,599	35,444,200
Diluted Shares	7,417,727	7,452,811	9,672,195	15,904,108	35,444,200
Unaudited pro forma net income(3)					$ 16,737
Unaudited pro forma net income attributable to participating securities(3)					(384)
Unaudited pro forma net income attributable to common shareholders(3)					$ 16,353
Unaudited pro forma basic income per common share(3)					$ 0.31
Unaudited pro forma diluted income per common share(3)					$ 0.31
Unaudited pro forma weighted average shares outstanding:					

Basic Shares	52,015,021
Diluted Shares	52,256,471

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	Fiscal Year 2008	2009	2010	2011	2012
	(in thousands, except total stores, share and per share data)				
Statements of Cash Flows Data:					
Net cash (used in) provided by:					
Operating activities	$ 3,671	$ 9,227	$ 15,045	$ 46,695	$ 30,363
Investing activities	$ (5,988)	$ (7,285)	$ (14,883)	$ (18,558)	$ (22,890)
Financing activities	$ 10,900	$ (145)	$ (445)	$ 1,003	$ 7,315
Other Operating and Financial Data:					
Total stores at end of period	82	102	142	192	244
Comparable store sales growth	5.8%	12.1%	15.6%	7.9%	7.1%
Average net sales per store(4)	$ 1,185	$ 1,302	$ 1,542	$ 1,658	$ 1,822
Capital expenditures	$ 5,991	$ 7,285	$ 14,883	$ 18,558	$ 22,890

	As of January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	February 2, 2013
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 10,639	$ 12,436	$ 12,153	$ 41,293	$ 56,081
Total current assets	26,533	35,335	45,942	92,249	129,676
Total current liabilities	10,522	10,983	18,215	49,942	68,784
Total long-term debt, excluding current portion(5)(6)	122		250	250	19,500
Total liabilities	18,331	20,036	33,524	72,431	118,916
Series A 8% convertible preferred stock			191,855	191,855	
Series A redeemable convertible preferred stock	17,030	18,778			
Series A-1 redeemable convertible preferred stock	16,008	18,510			
Total shareholders (deficit) equity	(8,879)	(1,049)	(148,797)	(129,759)	70,744

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual bonus to certain executive officers for performance in fiscal 2011 and associated tax expense. Fiscal 2012 includes $10.5 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares and on-going expense recognition of the awards over the remaining vesting period. In addition, fiscal 2012 includes $1.0 million of expenses related to legal, accounting, and other fees in connection with our secondary public offering in January 2013.

(2) Please see Note 2 in our annual 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) the 2012 Dividend paid to our preferred shareholders and (ii) the Financing Transactions, including repayment of $65.3 million of outstanding indebtedness under the new term loan facility with proceeds from our IPO.

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

	Fiscal Year 2012
Net loss available/attributable to common shareholders	$ (45,378)
Add:	
Dividend paid to preferred shareholders	62,504
Less:	
Interest expense, net of tax	(324)
Amortization of deferred financing fees, net of tax	(65)
Unaudited pro forma net income	16,737
Unaudited pro forma net income attributable to participating securities	(384)
Unaudited pro forma net income attributable to common shareholders	$ 16,353

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 the IPO and (iii) the number of shares whose proceeds were used to repay $65.3 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 2012
Shares used in computing basic net loss per common share	35,444,200
Adjustment for conversion of preferred stock	14,739,641
Adjustment for shares used to repay outstanding indebtedness under the term loan facility	1,831,180
Unaudited basic pro forma weighted average common shares outstanding	52,015,021
Dilutive effect of securities	241,450
Unaudited diluted pro forma weighted average common shares outstanding	52,256,471

(4) Only includes stores open during the full fiscal year.
(5) Includes capital lease obligations, less current portion.
(6) We plan to repay approximately $15.0 million of principal on the term loan facility during fiscal 2013, which is classified as a current liability and not included in the long-term balance as of the end of fiscal 2012.

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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 2013 or fiscal 2013 refer to the fiscal year ending February 1, 2014, references to fiscal year 2012 or fiscal 2012 refer to the fiscal year ended February 2, 2013, references to fiscal year 2011 or fiscal 2011 refer to the fiscal year ended January 28, 2012, and references to fiscal year 2010 or fiscal 2010 refer to the fiscal year ended January 29, 2011. Fiscal year 2012 consisted of a 53-week period and each of fiscal years 2011 and 2010 consisted of a 52-week period. Fiscal 2013 will also consist of a 52-week period. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

Overview

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

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. Between fiscal 2010 and fiscal 2012, our net sales increased from $197.2 million to $418.8 million, representing a compound annual growth rate of 45.7%. Over the same period, our operating income increased from $11.8 million to $37.7 million, representing a compound annual growth rate of 78.6%. Our comparable store sales also increased by 15.6% in fiscal 2010, 7.9% in fiscal 2011 and 7.1% in fiscal 2012 with positive comparable store sales performance across all geographic regions and store-year classes. In addition, we expanded our store base from 142 stores at the end of fiscal 2010 to 244 stores at the end of fiscal 2012. We plan to open a total of approximately 60 net new stores in fiscal 2013.

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 18 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 258 locations at May 4, 2013, to more than 2,000 locations over time. Our ability to open profitable new stores depends on many factors, including our ability to identify suitable markets and sites; negotiate leases with acceptable terms; achieve brand awareness in the new markets; efficiently source and distribute additional merchandise; and achieve sufficient levels of cash flow and financing to support our expansion.

We have a proven and highly profitable store model that has produced consistent financial results and returns. All of our current stores were profitable on a four-wall basis in fiscal 2012 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 $0.3 million. Our new store investment includes our store build-out (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 maintain adequate distribution capacity, enhance our store management systems, financial and management controls, information systems and other operational system capabilities. In addition, we will be required to hire, train and retain store management and other qualified personnel. For further information see Risk Factors Risks Related to Our Business and Industry.

Over the past six 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, in fiscal 2011, we relocated our corporate headquarters and upgraded our warehouse management and information systems, and in fiscal 2012, we signed a lease for a second distribution center in Olive Branch, Mississippi to support our growth, which is now fully operational. 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 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, cost of goods sold and gross profit, selling, general and administrative expenses and operating income.

Net Sales

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

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

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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.

Comparable store sales exclude the 53rd week of sales for 53-week fiscal years. Fiscal 2012 comparable store sales were calculated using a 52-week comparable period through the week ending January 26, 2013.

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;

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

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

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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		
	2010	2011	2012
	(in thousands, except total stores)		
Statements of Operations Data:			
Net sales	$ 197,189	$ 297,113	$ 418,825
Cost of goods sold	131,046	192,252	268,989
Gross profit	66,143	104,861	149,836
Selling, general and administrative expenses(1)	54,339	78,640	112,182
Operating income	11,804	26,221	37,654
Interest expense (income), net	28	(16)	2,374
Loss on debt extinguishment			1,594
Other income			(408)
Income before income taxes	11,776	26,237	34,094
Income tax expense	4,753	10,159	14,069
Net income	$ 7,023	$ 16,078	$ 20,025
Percentage of Net Sales:			
Net sales	100%	100%	100%
Cost of goods sold	66.5%	64.7%	64.2%
Gross profit	33.5%	35.3%	35.8%
Selling, general and administrative expenses(1)	27.6%	26.5%	26.8%
Operating income	6.0%	8.8%	9.0%
Interest expense (income), net	%	%	0.6%
Loss on debt extinguishment	%	%	0.4%
Other income	%	%	(0.1)%
Income before income taxes	6.0%	8.8%	8.1%
Income tax expense	2.4%	3.4%	3.4%
Net income	3.6%	5.4%	4.8%
Operational Data:			
Total stores at end of period	142	192	244
Comparable stores sales growth	15.6%	7.9%	7.1%
Average net sales per store(2)	$ 1,542	$ 1,658	$ 1,822

(1) Fiscal 2010 includes $5.3 million of expense related to the 2010 Transaction and fiscal 2011 includes $6.1 million of non-contractual bonus to certain executive officers for performance in fiscal 2011 and associated tax expense. Fiscal 2012 includes $10.5 million of stock-based compensation expense that relates to the cancellation of certain stock options, in exchange for the grant of restricted shares and on-going expense recognition of the awards over the remaining vesting period. In addition, fiscal 2012 includes $1.0 million of expenses related to legal, accounting, and other fees in connection with our secondary public offering in January 2013.

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

Fiscal Year 2012 Compared to Fiscal Year 2011

Net Sales

Net sales increased to $418.8 million in fiscal year 2012 from $297.1 million in fiscal year 2011, an increase of $121.7 million, or 41.0%. The increase was the result of a comparable store sales increase of $18.5 million and a non-comparable store sales increase of $103.2 million. In fiscal year 2012, we opened 52 new stores compared to a net of 50 new stores in fiscal year 2011. The increase in non-comparable store sales was driven by the number of stores that opened in fiscal 2011 but have not been open for 15 full months and includes $5.0 million of sales contributed by the 53rd week in fiscal 2012.

Comparable store sales increased 7.1% for fiscal year 2012 compared to fiscal year 2011. This increase resulted from an increase of approximately 6.9% in the number of transactions in our stores and an increase in the average dollar value of transactions of approximately 0.2%.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to $269.0 million in fiscal year 2012 from $192.3 million in fiscal year 2011, an increase of $76.7 million, or 39.9%. The increase in cost of goods sold was primarily the result of a $59.9 million increase in the merchandise costs of goods resulting from an increase in sales and a $11.1 million increase in store occupancy as a result of new store openings.

Gross profit increased to $149.8 million in fiscal year 2012 from $104.9 million in fiscal year 2011, an increase of $45.0 million, or 42.9%. Gross margin increased to 35.8% for fiscal year 2012 from 35.3% in fiscal year 2011, an increase of approximately 50 basis points. The increase in gross margin was primarily the result of a decrease of 53 basis points in store occupancy, which increased at a lower rate than the increase in net sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $112.2 million in fiscal year 2012 from $78.6 million in fiscal year 2011, an increase of $33.5 million, or 42.7%. As a percentage of net sales, selling, general and administrative expenses increased approximately 30 basis points to 26.8% in fiscal year 2012 compared to 26.5% in fiscal year 2011. The increase in selling, general and administrative expense was primarily the result of increases of $19.5 million in store-related expenses to support new store growth, $10.5 million of stock-based compensation expense recorded in fiscal year 2012 associated with the cancellation of certain stock options in exchange for the grant of restricted shares in March 2012 and on-going expense recognition of the awards over the remaining vesting period and $9.1 million of corporate related expenses, partially offset by $6.1 million of a non-contractual bonus to certain executive officers for performance in fiscal 2011. Fiscal 2012 also included $1.0 million of fees in connection with the filing of the secondary public offering.

Interest Expense (Income), Net

Interest expense, net increased to $2.4 million in fiscal year 2012. The increase in interest expense resulted from interest on the outstanding balance of our term loan facility of $1.9 million, as well as amortization of deferred financing fees of $0.5 million.

Loss on Debt Extinguishment

In connection with a $65.3 million repayment of our $100.0 million term loan facility, we expensed $1.6 million of deferred financing costs in fiscal 2012.

Income Tax Expense

Income tax expense increased to $14.1 million in fiscal year 2012 from $10.2 million in fiscal year 2011, an increase of $3.9 million, or 38.5%. This increase in income tax expense was primarily the result of a $7.9 million increase in pre-tax net income. Our effective tax rate increased to 41.3% in fiscal year 2012 from 38.7% in fiscal year 2011. Our fiscal year 2012 effective tax rate is negatively impacted by permanent book to tax differences relating to fees paid for our secondary offering in fiscal 2012.

Net Income

As a result of the foregoing, net income increased to $20.0 million in fiscal year 2012 from $16.1 million in fiscal year 2011, an increase of $3.9 million, or 24.5%. The 53rd week in fiscal 2012 had an immaterial impact to net income.

Fiscal Year 2011 Compared to Fiscal Year 2010

Net Sales

Net sales increased to $297.1 million in fiscal year 2011 from $197.2 million in fiscal year 2010, 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 to $192.3 million in fiscal year 2011 from $131.0 million in fiscal year 2010, 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 merchandise 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 to $104.9 million in fiscal year 2011 from $66.1 million in fiscal year 2010, 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 approximately 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 to $78.6 million in fiscal year 2011 from $54.3 million in fiscal year 2010, an increase of $24.3 million, or 44.7%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 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 to $10.2 million in fiscal year 2011 from $4.8 million in fiscal year 2010, 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.

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Net Income

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

Quarterly Results of Operations and Seasonality

The following table summarizes 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**	**Second Quarter**	**Third Quarter**	**Fourth Quarter(2)**
	(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	$ 86,820	$ 86,587	$ 173,589
Gross profit	9,146	13,959	9,983	33,055	14,587	20,011	18,373	51,890	23,020	28,747	26,931	71,138
Operating income (loss) (1)	202	1,686	(6,173)	16,089	1,661	3,688	739	20,133	(1,965)	4,735	1,841	33,043
Net income (loss)	$ 129	$ 1,004	$ (3,678)	$ 9,568	$ 999	$ 2,212	$ 440	$ 12,427	$ (1,157)	$ 1,247	$ 729	19,206
Percentage of Annual Results:												
Net sales	16.0%	21.5%	21.0%	41.4%	16.0%	20.9%	20.8%	42.3%	17.2%	20.7%	20.7%	41.4%
Gross profit	13.8%	21.1%	15.1%	50.0%	13.9%	19.1%	17.5%	49.5%	15.4%	19.2%	18.0%	47.5%
Operating income (loss) (1)	1.7%	14.3%	(52.3%)	136.3%	6.3%	14.1%	2.8%	76.8%	(5.2)%	12.6%	4.9%	87.8%
Net income (loss)	1.8%	14.3%	(52.4%)	136.2%	6.2%	13.8%	2.7%	77.3%	(5.8)%	6.2%	3.6%	95.9%
Percentage of Net Sales:												
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%	100%	100%
Gross profit	28.9%	32.9%	24.1%	40.4%	30.8%	32.3%	29.7%	41.2%	32.0%	33.1%	31.1%	41.0%
Operating income (loss) (1)	0.6%	4.0%	(14.9%)	19.7%	3.5%	6.0%	1.2%	16.0%	(2.7)%	5.5%	2.1%	19.0%
Net income (loss)	0.4%	2.4%	(8.9%)	11.7%	2.1%	3.6%	0.7%	9.9%	(1.6)%	1.4%	0.8%	11.1%
Other Operating Data:												
Total stores at end of period	105	115	138	142	145	168	189	192	199	226	243	244
Comparable store sales growth	22.8%	26.5%	15.9%	6.3%	7.6%	0.7%	7.6%	12.1%	10.4%	8.6%	8.8%	4.4%

(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 bonus to certain executive officers for performance in fiscal 2011 and associated tax expense. The first, second, third and fourth quarters of fiscal year 2012 include $5.9 million, $1.5 million, $1.5 million and $1.6 million, respectively, of expense related to the cancellation of certain stock options in exchange for the grant of restricted shares.

(2) Fiscal 2012 consists of a 53-week fiscal year and the fourth quarter of fiscal 2012 included an extra week, representing the 53rd week.

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 (defined in -*Line of Credit*). Our primary cash needs are for capital expenditures and working capital. During fiscal 2012, we also entered into a Term Loan Facility (defined in -*Financing Transactions*) and used the proceeds to pay the 2012 Dividend in May 2012.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately $26.0 million in fiscal 2013, which we expect to fund from cash generated from operations. We expect to devote approximately $15.4 million of our capital expenditure budget in fiscal 2013 to construct and open a total of approximately 60 net new stores and a new distribution center, with the remainder projected to be spent on corporate infrastructure and store relocations and remodels.

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

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our Revolving Credit Facility. We did not have any direct borrowings under our Revolving Credit Facility during fiscal year 2012. 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.

As of February 2, 2013, the balance outstanding under the Term Loan Facility was $34.5 million. Pursuant to the terms of the Term Loan Facility, due to the repayment of $65.3 million of principal under the Term Loan Facility in July 2012, we are no longer required to make minimum quarterly payments. We plan to repay approximately $15.0 million of principal on the Term Loan Facility within the next 12 months and have classified this amount as a current liability on our balance sheet as of February 2, 2013. The remaining unpaid balance will be due upon maturity.

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

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Cash Flows

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

	Fiscal Year		
	2010	**2011**	**2012**
Net cash provided by operating activities	$ 15.0	$ 46.7	$ 30.4
Net cash used in investing activities	(14.9)	(18.6)	(22.9)
Net cash (used in) provided by financing activities	(0.4)	1.0	7.3
Net (decrease) increase during period in cash and cash equivalents	$ (0.3)	$ 29.1	$ 14.8

Cash Provided by Operating Activities

Net cash provided by operating activities for fiscal 2012 was $30.4 million, a decrease of $16.3 million compared to fiscal 2011. The decrease in net cash provided by operating activities was primarily the result of the net change in income taxes paid of $9.6 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 and an increase in working capital needs to support our growth. Partially offsetting the decreases were increased operating cash flows from store performance. During fiscal 2012, we added 52 new stores and expect to add a total of approximately 60 net new stores in fiscal 2013.

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 net new stores.

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 new 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 fiscal 2012 was $22.9 million, an increase of $4.3 million compared to fiscal 2011 related solely to capital expenditures. The increase in capital expenditures was primarily for our new store construction, our new distribution center 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.

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 Provided by (Used in) Financing Activities

Net cash provided by financing activities for fiscal year 2012 was $7.3 million, an increase of $6.3 million compared to fiscal year 2011. The increase in net cash provided by financing activities was primarily the result of

$100.0 million of proceeds from our Term Loan Facility and $73.2 million of proceeds from the IPO, partially offset by $99.5 million of dividend payments, $65.5 million of repayments of the Term Loan Facility, $2.8 million in debt financing costs and $1.6 million related to the excess tax benefit related to restricted shares and the exercise of stock options and warrants. Please see Financing Transactions for a description of the term loan facility entered into on May 16, 2012.

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.

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 (the Term Loan Facility). We used the net proceeds from the Term Loan Facility and cash on hand to pay a dividend on all outstanding shares of our common stock and Series A 8% convertible preferred stock totaling $99.5 million. On the same day, we amended and restated our existing senior secured Revolving Credit Facility with Wells Fargo Bank, National Association, which is defined below under Line of Credit. We refer to the Term Loan Facility, the amendment and restatement of the Revolving Credit Facility 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. The Term Loan Facility provides for interest on borrowings, at our option, at an alternate base rate which is the greater of (i) the administrative agent s prime rate in effect on such day and (ii) the federal funds effective rate in effect on such day plus 0.50% with a 2.00% floor, plus a margin of 3.25%, or a London Interbank Offer Rate (LIBOR) based rate with a 1.00% floor plus a margin of 4.25%. The credit agreement for the Term Loan Facility includes a maximum consolidated net leverage ratio financial covenant, the calculation of which allows us to net up to $10.0 million of our cash and cash equivalents against our indebtedness. Our leverage ratio must not exceed 3.25x for the testing periods in calendar year 2012, 2.75x to 2.50x for the testing periods in calendar year 2013, 2.00x for the testing periods in calendar year 2014 and 1.75x thereafter.

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

The Term Loan Facility is subject to repayment upon the receipt of certain proceeds, including those from the sale of certain assets, insurance proceeds and indebtedness not otherwise permitted. The Term Loan Facility was also subject to repayment of $50.0 million upon the receipt of proceeds from the IPO. We closed the IPO on July 24, 2012. On July 27, 2012, we repaid $65.3 million of principal on the Term Loan Facility and $0.7 million of interest. On October 26, 2012, we repaid $0.3 million of principal on the Term Loan Facility. As of February 2, 2013, the balance outstanding under the Term Loan Facility was $34.5 million, bearing interest at a rate of 5.25%. Pursuant to the terms of the Term Loan Facility, due to the repayment of $65.3 million of principal in July 2012, we are no longer required to make minimum quarterly payments. We plan to repay approximately $15.0 million of principal on the Term Loan Facility within the next 12 months and have classified the amount as a current liability on our balance sheet as of February 2, 2013. The remaining unpaid balance will be due upon maturity.

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In connection with the Term Loan Facility, we incurred deferred financing costs of $2.7 million which are being amortized over the term of the Term Loan Facility. The amortization is included in interest expense, net, in the statement of operations. In connection with the repayment in July 2012, $1.6 million of the deferred financing costs were written off and included in loss on debt extinguishment in the statement of operations. The remaining deferred financing costs, net of amortization, are included in other assets in the balance sheet at February 2, 2013. We had approximately $0.8 million and $38,000 of remaining deferred financing fees as of February 2, 2013 and January 28, 2012, respectively.

Amounts under the credit agreement for the Term Loan Facility may become due upon certain events of default including, among others, failure to comply with the credit agreement s covenants, bankruptcy, default on certain other indebtedness or a change in control. The default rate under the Term Loan Facility is 2.00% per annum. All obligations under the Term Loan Facility are secured by substantially all of our assets. As of February 2, 2013, we were in compliance with the financial covenant and other covenants applicable to us under the Term Loan Facility. During fiscal 2012, we recorded $2.4 million in interest expense, including amortization of deferred financing fees of $0.5 million.

Line of Credit

On August 18, 2006, we entered into a Loan and Security Agreement (the Loan and Security Agreement) with Wachovia Bank National Association (predecessor in interest to Wells Fargo Bank, National Association) that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement was amended and/or restated several times, the latest on May 16, 2012 (as amended and restated, the Revolving Credit Facility), generally to extend the maturity date, increase maximum borrowings, adjust the applicable interest rates and modify certain definitions.

The Revolving Credit Facility allows maximum borrowings of $20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017, (ii) the date which is 45 days prior to the maturity date of the Term Loan Facility if the Term Loan Facility remains outstanding or (iii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to $30.0 million upon certain conditions. The Revolving Credit Facility includes a $5.0 million sub-limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves. We incurred deferred financing costs of $50,000 in May 2012 in connection with the Revolving Credit Facility and such costs are being amortized over the remaining term of the Revolving Credit Facility.

The Revolving Credit Facility provides for interest on borrowings, at our option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of approximately $12,000 per year. As of February 2, 2013, we had approximately $0.3 million letter of credit outstanding that was undrawn.

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

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

Additionally, the Revolving Credit Facility is subject to payment upon 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 Revolving Credit Facility may become due upon certain events of default including, among others, failure to comply with the Revolving Credit Facility s covenants, bankruptcy, default on certain other indebtedness or a change in control.

During fiscal 2012, the Company had no borrowings or interest expense under the Revolving Credit Facility. At February 2, 2013, we had approximately $20.0 million available on the line of credit of which $19.7 million was available and $0.3 million was issued but undrawn on an outstanding letter of credit obligation. During fiscal 2011, we had no borrowings or interest expense 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 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 $53,000.

All obligations under the Revolving Credit Facility are secured by substantially all of our assets. As of February 2, 2013 and January 28, 2012, we were in compliance with the covenants applicable to us under the Revolving Credit Facility.

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 or were exchanged for unrestricted shares and cash. 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.

Stock Split

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

Initial Public Offering

On July 24, 2012, we completed our IPO of 11,057,692 shares of common stock at a price of $17.00 per share. The common stock was listed on The NASDAQ Global Select Market under the symbol FIVE. The shares sold in the IPO were registered under the Securities Act of 1933, as amended, pursuant to our Registration Statement on Form S-1 (File No. 333-180780), which was declared effective by the SEC on July 18, 2012. Of the 11,057,692 shares sold in the IPO, we issued 4,807,692 shares, and 6,250,000 shares were sold by selling shareholders, including 1,442,308 shares sold pursuant to the exercise in full of the underwriters over-allotment option. We did not receive any proceeds from shares sold by the selling shareholders. We received proceeds of approximately $73.2 million, net of approximately $8.5 million in underwriting discounts and legal, accounting

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and other fees incurred in connection with the IPO. Of the $73.2 million net proceeds received from the IPO, approximately $65.3 million and $0.7 million, respectively, were used to repay principal and interest under our Term Loan Facility that existed as of the date of the IPO. The remaining net proceeds of the IPO were used for general corporate purposes, including working capital.

Secondary Public Offering

On February 4, 2013, we completed our secondary public offering of 13,012,250 shares of common stock at a price of $35.65 per share. The shares sold in the secondary public offering were registered under the Securities Act of 1933, as amended, pursuant to our Registration Statements on Form S-1 (File No. 333-186043 and File No. 333-186275), which were declared effective by the SEC on January 29, 2013. All of the shares sold in the secondary public offering were sold by selling shareholders and we did not receive any proceeds. We did incur fees of approximately $1.0 million related to legal, accounting, and other fees in connection with the secondary public offering.

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

	Six Months Ended June 30,	
	2016	2015
Expected term (in years)	1.3	1.2
Expected volatility	33.7 %	31.9 %

Risk-free interest rate

0.77
%

0.26
%

Expected dividends

—

—

Weighted average fair value at grant date

$
19.96

$
15.98

As of June 30, 2016, the total unamortized compensation cost related to employee purchases was $1.1 million, which we expect to recognize over a weighted average period of 0.4 year.

Note 9. Common Stock Repurchase

In April 2014, we announced that our Board of Directors had authorized a stock repurchase program ("April 2014 Repurchase Program") pursuant to which we may purchase up to $300.0 million of our common stock over the next three years. As of June 30, 2016, we have approximately $50.0 million remaining under the April 2014 Repurchase Program. On May 3, 2016, as part of our $300.0 million April 2014 Repurchase Program, we entered into an ASR to repurchase $50.0 million of our common stock (the "2016 ASR"). Under the terms of the 2016 ASR, we paid $50.0 million and received an initial delivery of approximately 0.5 million shares based on the then current market price of $74.90, which we retired. The final delivery of shares is scheduled during October 2016, with the number of shares to be determined by the Company's volume weighted-average stock price during the term of the ASR less an agreed upon discount. After the completion of the 2016 ASR, we will commence repurchasing $50.0 million of our common stock on the open market. These two actions will complete the April 2014 Repurchase Program.

On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to $300.0 million of the Company's stock. This latest authorization is in addition to the existing $300 million authorization announced in April 2014, which brings the total authorization to $600 million. Any purchases under this stock repurchase program may be made, from time-to-time, pursuant to open market purchases (including pursuant to Rule 10b5-1 plans), privately-negotiated transactions, accelerated stock repurchases, block trades or derivative contracts or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934.

Note 10. Accounting for Income Taxes

Our provision for income taxes was $15.1 million and $11.1 million for the three months ended June 30, 2016 and 2015, respectively, representing effective tax rates of 23.2% and 26.2%, respectively. Our provision for income taxes was $27.5 million and $22.4 million for the six months ended June 30, 2016 and 2015, respectively, representing effective tax rates of 23.2% and 24.9%, respectively. Our effective tax rate differs from the statutory federal income tax rate of 35% due to certain foreign earnings, primarily from Costa Rica, which are subject to a lower tax rate, state income tax expense, the tax impact of certain stock-based compensation charges and unrecognized tax benefits. The decrease in the effective tax rate for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 was primarily related to various items that are not deductible for tax purposes that remained constant between the two periods while pre-tax income increased.

We exercise significant judgment in regards to estimates of future market growth, forecasted earnings and projected taxable income in determining the provision for income taxes, and for purposes of assessing our ability to utilize any future benefit from deferred tax assets.

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As of June 30, 2016, we maintained a valuation allowance of $31.7 million against our deferred tax assets which primarily relate to Israel operating loss carryforwards and Australia capital loss carryforwards. These net operating and capital loss carryforwards would result in us recording an income tax benefit if we were to conclude it is more likely than not that the related deferred tax assets will be realized. On July 1, 2016, the Company implemented a new international corporate structure which may result in a future reassessment of our need for a valuation allowance against these deferred tax assets. As a result, it is possible that we may realize a tax benefit which may have a material impact on the financial statements within the next twelve months.

Our total gross unrecognized tax benefits, excluding interest, was $42.6 million and $39.4 million as of June 30, 2016 and December 31, 2015, respectively, all of which would impact our effective tax rate if recognized. We have elected to recognize interest and penalties related to unrecognized tax benefits as a component of income taxes. The interest accrued as of June 30, 2016 is $1.2 million. We do not expect any significant changes to the amount of unrecognized tax benefit within the next twelve months.

We file U.S. federal, U.S. state, and non-U.S. income tax returns. Our major tax jurisdictions are U.S. federal and the State of California. For U.S. federal and state tax returns, we are no longer subject to tax examinations for years before 2000. With few exceptions, we are no longer subject to examination by foreign tax authorities for years before 2007. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2013. We are currently under audit by the California Franchise Tax Board for fiscal years 2011, 2012 and 2013.

In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of certain income tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in 2017. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced tax rate. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016 and 2015. Income taxes were reduced by $8.6 million and $8.2 million for the three months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.11 and $0.10 in 2016 and 2015, respectively. As a result of these incentives, our income taxes were reduced by $17.2 million and $16.4 million for the six months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.21 and $0.20 in 2016 and 2015, respectively.

Note 11. Net Income Per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted average number of shares of common stock, adjusted for any dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method, includes RSU, MSU, stock options and ESPP.

The following table sets forth the computation of basic and diluted net income per share attributable to common stock (in thousands, except per share amounts):

	Three Months Ended, June 30,		Six Months Ended, June 30,	
	2016	2015	2016	2015
Numerator:				

Net income	$50,148	$31,350	$90,694	$67,527
Denominator:				
Weighted-average common shares outstanding, basic	79,951	80,257	79,891	80,358
Dilutive effect of potential common stock	1,330	1,137	1,549	1,371
Total shares, diluted	81,281	81,394	81,440	81,729
Net income per share, basic	$0.63	$0.39	$1.14	$0.84
Net income per share, diluted	$0.62	$0.39	$1.11	$0.83

For the six months ended June 30, 2016 and 2015, the anti-dilutive effect from RSU, MSU and ESPP was not material.

Note 12. Segments and Geographical Information

Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the Chief Operating Decision Maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer. We report segment information based on the management approach. The management approach designates the internal reporting used by the CODM for decision making and performance assessment as the basis for determining our reportable segments. The performance measures of our reportable segments include net revenues and gross profit.

We have grouped our operations into two reportable segments which are also our reporting units: Clear Aligner segment and Scanner segment.

- Our Clear Aligner segment consists of our Invisalign system which includes Invisalign Full, Express/Lite, Teen, Assist, Vivera retainers, along with our training and ancillary products for treating malocclusion.
- Our Scanner segment consists of intra-oral scanning systems and additional services available with the intra-oral scanners that provide digital alternatives to the traditional cast models. This segment includes our iTero scanner and OrthoCAD services.

These reportable operating segments are based on how our CODM views and evaluates our operations as well as allocation of resources. The following information relates to these segments (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Net Revenues	2016	2015	2016	2015
Clear Aligner	$243,436	$200,817	$463,134	$387,846
Scanner	25,926	8,671	44,948	19,728
Total net revenues	$269,362	$209,488	$508,082	$407,574
Gross profit				
Clear Aligner	$191,326	$157,337	$363,393	$305,297
Scanner	13,890	1,297	22,450	4,427
Total gross profit	$205,216	$158,634	$385,843	$309,724

Geographical Information

Net revenues are presented below by geographic area (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues: (1)				
U.S.	$182,322	$145,368	$348,423	$285,072
the Netherlands	56,598	42,223	103,998	80,868
Other international	30,442	21,897	55,661	41,634
Total net revenues	$269,362	$209,488	$508,082	$407,574

(1) Net revenues are attributed to countries based on location of where revenue is recognized.

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Tangible long-lived assets are presented below by geographic area (in thousands):

	June 30, 2016	December 31, 2015
Long-lived assets:[(2)]		
United States	$133,350	$112,632
Mexico	16,632	15,422
Other International	11,703	8,419
Total long-lived assets	$161,685	$136,473

(2) Long-lived assets are attributed to countries based on the entity that owns the asset.

Note 13. Subsequent Events

On July 1, 2016, Align implemented a new international corporate structure. This changes the structure of our international procurement and sales operations, as well as realigns the ownership and use of intellectual property among our wholly-owned subsidiaries. The structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. federal statutory tax rate. As a result of these changes, we expect that an increasing percentage of our consolidated pre-tax income will be derived from, and reinvested in our foreign operations. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over time.
We maintain sufficient cash reserves in the U.S. and do not intend to repatriate our foreign earnings. As a result, income taxes have not been provided on these foreign earnings. If these earnings were distributed in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, we would be subject to additional U.S. income taxes subject to an adjustment for foreign tax credits and foreign withholding taxes. We intend to use the undistributed earnings for local operating expansions and to meet local operating working capital needs. In addition, a significant amount of the cash earned by foreign subsidiaries is deployed to effect this international restructure

On July 25, 2016, we entered into a Supply Agreement with SmileDirectClub, LLC (“SDC”) to manufacture clear aligners for SDC's doctor-led, at-home program for simple teeth straightening. SDC aligners will use our single-layer EX30 material for cases without attachments or interproximal reduction, and will be manufactured by Align per SDC's specifications for minor tooth movement. Starting October 2016, we will become SDC's exclusive third-party supplier for its minor tooth movement aligner program. SDC will have the exclusive right to distribute the SDC Aligners in the United States and Canada, as well as a right of first negotiation with respect to any other territory in the world in which a party chooses to make aligner products available. The term of the Supply Agreement expires on December 31, 2019.

Align and SDC also entered into a Loan and Security Agreement (the "Loan Agreement") where we agreed to provide a loan of up to $15.0 million in one or more advances to SDC (the "Loan Facility"). Available advances under the Loan Facility are subject to a borrowing base of 80% of SDC's eligible accounts receivable, determined in accordance with the terms of the Loan Agreement, and the satisfaction of other customary conditions. The advances bear interest, paid quarterly, at the rate of 7% per annum. Advances that are repaid or prepaid may be reborrowed. All outstanding principal and accrued and unpaid interest on the advances are due and payable on July 25, 2021. SDC's obligations in respect of the Loan Agreement are secured by a security interest in substantially all of SDC's assets.

As part of the transaction, we will acquire a 17% equity interest, on a fully diluted basis, in SDC for $46.7 million, and will account for this investment under the equity method of accounting. Thus, we will include our proportional share of SDC's earnings or losses in our consolidated statement of operations in future periods. Our financial results, will therefore reflect two components: 1) commencing in October when we begin to supply aligners, the sale of aligners to SDC and the income from under the supply agreement will be reported in our Clear Aligner business segment, and 2) in the third quarter of 2016, our portion of SDC's reported profits and/or losses will be included in our operating expenses. Align will perform a fair value assessment in the third quarter of 2016 in order to determine if we need to value components of the SDC agreements, such as, our Supply Agreement, and our exclusivity arrangement, among others. We expect the transaction to be incremental to both our revenue growth and earnings in 2017.

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

In addition to historical information, this quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, our expectations regarding the anticipated impact that our new products and product enhancements will have on doctor utilization and our market share, our expectation that the policy simplification "Additional Aligners at No Charge" will help increase Invisalign utilization and volume, our expectations regarding product mix and product adoption, our expectations regarding the existence and impact of seasonality, our expectations regarding the financial and strategic benefits of the Scanner and Services ("Scanner") business, our expectations to increase our investment in manufacturing capacity, our expectations regarding the continued expansion of our international markets, the anticipated number of new doctors trained,, our expectations regarding our stock repurchase program, the level of our operating expenses and gross margins, that the SmileDirectClub transaction will be incremental to our revenue and earnings in 2017, and other factors beyond our control, as well as other statements regarding our future operations, financial condition and prospects and business strategies. These statements may contain words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," or other words indicating future results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in particular, the risks discussed below in Part II, Item 1A "Risk Factors." We undertake no obligation to revise or update these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our Condensed Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission.

Overview

Our goal is to establish Invisalign clear aligners as the standard method for treating malocclusion and to establish the iTero intraoral scanner as the preferred scanning device for 3D digital scans, ultimately driving increased product adoption by dental professionals. We intend to achieve this by continued focus and execution of our strategic growth drivers set forth in the Business Strategy section in our Annual Report on Form 10-K.
The successful execution of our business strategy and our results in 2016 and beyond may be affected by a number of other factors including:

- Additional Aligners at No Charge. In July 2015, we launched a new product policy called "Additional Aligners at No Charge" that addresses one of our customers' top complaints. Previously, we charged customers for additional aligners ordered beyond those covered by the initial treatment plan. With this product policy change, we no longer distinguish between mid-course corrections and case refinements and allow doctors to order additional aligners to address either treatment need at no charge, subject to certain requirements. These changes were effective for all new Invisalign Full, Teen, and Assist treatments shipped worldwide after July 18, 2015 as well as any open Invisalign Full, Teen and Assist cases as of that date. While this policy change was largely immaterial to our cash flows, it does impact the timing at which we recognize revenue. Based on this new product policy, beginning in the third quarter of 2015, we deferred more revenue as a result of providing free additional aligners for eligible treatments. While this product policy change will impact the timing of our revenue recognition, we believe this policy change will result in a significant improvement in customer satisfaction and loyalty, and ultimately increase Invisalign utilization and volume over time.

• New Products, Feature Enhancements and Technology Innovation. Product innovation drives greater treatment predictability and clinical applicability, and ease of use for our customers, which supports adoption of Invisalign in their practices. Increasing applicability and treating more complex cases requires that we move away from individual features to more comprehensive solutions so that Invisalign providers can more predictably treat the whole case, such as with Invisalign G5 for deep bite treatment, Invisalign G6 for premolar extraction and ClinCheck Pro, the next generation Invisalign treatment software tool, designed to provide more precise control over final tooth position and to help Invisalign providers achieve their treatment goals. In addition, we began shipping the next generation

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iTero Element Intraoral Scanner in September 2015 and expect to continue to ramp up our production over the next few quarters accordingly; however, our ability to fulfill existing orders may be impacted by capacity constraints due to a variety of factors, including our dependency on third party vendors for key components in addition to limited production yields. If we are unable to scale production of our iTero Element scanner to meet customer demand, our financial results may be negatively impacted. We believe that over the long-term, clinical solutions and treatment tools will increase adoption of Invisalign and increase sales of our intraoral scanners; however, it is difficult to predict the rate of adoption which may vary by region and channel.

- Invisalign Adoption. Our goal is to establish Invisalign as the treatment of choice for treating malocclusion ultimately driving increased product adoption and frequency of use by dental professionals, also known as "utilization rates." Our quarterly utilization rates for the previous 9 quarters are as follows:

* Invisalign Utilization rates = # of cases shipped divided by # of doctors cases were shipped to

Total utilization in the second quarter of 2016 increased to 5.1 cases per doctor compared to 4.6 in the second quarter of 2015. Utilization among our North American orthodontist customers reached an all time high of 10.7 cases per doctor in the second quarter of 2016 compared to 9.5 in the second quarter of 2015. International doctor utilization increased to 5.0 cases in the second quarter of 2016 from 4.6 in the second quarter of 2015. North American GP doctor utilization increased to 3.1 cases in the second quarter of 2016 from 3.0 in the second quarter of 2015. The increase in North America orthodontist utilization reflects improvements in product and technology, which continues to strengthen our doctors' clinical confidence in the use of Invisalign such that they now utilize Invisalign more often and on more complex cases, including their teenage patients. Increased International utilization reflects growth in both EMEA and our Asia Pacific regions due to increasing adoption of the product and its ability to treat more complex cases, particularly in the Asia Pacific region. We expect that over the long-term our utilization rates will gradually improve as a result of advancements in product and technology, which continue to strengthen our doctors' clinical confidence in the use of Invisalign, however, we expect that our utilization rates may fluctuate from period to period due to a variety of factors, including seasonal trends in our business along with adoption rates of new products and features.

- Number of new Invisalign doctors trained. We continue to expand our Invisalign customer base through the training of new doctors. During fiscal year 2015, Invisalign growth was driven primarily by increased utilization across all regions as well as by the continued expansion of our customer base as we trained a total of 9,795 new Invisalign doctors, of which 56% were trained internationally. During the second quarter of 2016, we trained 2,885 new Invisalign doctors, up from 2,455 trained in second quarter of 2015.

- International Clear Aligner Growth. We will continue to focus our efforts towards increasing adoption of our products by dental professionals in our direct international markets. On a year over year basis, international volume increased 38.3 % driven primarily by strong performance in our Asia Pacific and in Europe regions. In 2016, we are continuing to expand in our existing markets through targeted investments in sales coverage and professional marketing and education programs, along with consumer marketing in selected country markets. We expect international revenues to continue to grow at a faster rate than North America for the foreseeable future due to our continued investment in international market expansion, the size of the market opportunity, and our relatively low market penetration in this region. As our international revenues have increased from $61.9 million in the second quarter of 2015 to $83.7 million in the second quarter of 2016, we are increasingly subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Although we have historically accepted the exposure to exchange rate movements without using derivative financial instruments to manage risk, we have in the past and may in the future initiate foreign currency economic hedging program to mitigate the foreign currency risk in countries where we have significant monetary assets and liabilities denominated in currencies other than the functional currency. The impact from forward contracts was not material to our financial statements for the six months ended June 30, 2016.

In addition, as we plan for further international expansion over the next several years, we must provide better support to our customers in these regions and be geographically closer to their practices. Accordingly, we intend to make further investments in our manufacturing over the next few years to enhance our regional capabilities.

- Establish Regional Order Acquisition and Treatment Planning facilities: We intend to establish additional Order Acquisition and Treatment Planning facilities closer to our International customers in order to improve our operational efficiency and provide doctors with a great experience to further improve their confidence in using Invisalign to treat more patients, more often. If demand for our product in 2016 exceeds our current expectations, or if the timing of receipt of case product orders during a given quarter is different from our expectations, we may not be able to fulfill orders in a timely manner, which may negatively impact our financial results and overall business. Conversely, if demand decreases or if we fail to forecast demand accurately, we could be required to record excess capacity charges, which would lower our gross margin.
- Operating Expenses. We expect operating expenses to increase in 2016 due in part to:

investments in international expansion in new country markets such as India and Korea;
the increase in sales and customer support resources; and
product and technology innovation to address such things as treatment times, indications unique to teens, and predictability.
inclusion of equity income or loss from our equity investment in SmileDirectClub, LLC

We believe that these investments will position us to increase our revenue and continue to grow our market share.

- Stock Repurchase Authorization. On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to $300.0 million of the Company's stock. Any purchases under this stock repurchase program may be made, from time-to-time, pursuant to open market purchases (including pursuant to Rule 10b5-1 plans), privately-negotiated transactions, accelerated stock repurchases, block trades or derivative contracts or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934.

- Accelerated Stock Repurchase. On May 3, 2016, as part of our $300.0 million April 2014 stock repurchase program, we entered into an Accelerated Stock Repurchase agreement to repurchase $50.0 million of our common stock (the "2016 ASR"). Under the terms of the 2016 ASR, we paid $50.0 million on May 4, 2016 and received an initial delivery of approximately 0.5 million shares based on current market prices. The final delivery is scheduled during October 2016 and the final number of shares to be repurchased will be based on our volume-weighted average stock price during the term of the 2016 ASR, less an agreed upon discount. (Refer to Note 9 "Common Stock Repurchase", of the Notes to condensed consolidated financial statements for details on common stock repurchase).

- 10b5-1 Stock Repurchase Plan. On May 3, 2016, we also entered into a stock repurchase plan under which we will repurchase up to $50 million of our common stock. This stock repurchase plan is in addition to, and will become effective upon, the completion of the 2016 ASR. This stock repurchase plan will operate in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934. Accordingly, transactions, if any, will be carried out in accordance with the terms of the share repurchase plan, including specified price, volume, and timing conditions.

SmileDirectClub. On July 25, 2016, we entered into a Supply Agreement with SmileDirectClub, LLC to manufacture clear aligners for SmileDirectClub's doctor-led, at-home program for simple teeth straightening. SmileDirectClub aligners will use our single-layer EX30 material for cases without attachments or interproximal reduction, and will be manufactured by Align according to SmileDirectClub's specifications for minor tooth movement. The Invisalign brand and system of clear aligners will continue to be available exclusively through Invisalign-trained orthodontists and general dentists for in-office treatment. Starting October 2016, we will become SmileDirectClub's exclusive third-party supplier for its minor tooth movement aligner program. We also provided a revolving line of credit to SmileDirectClub of up to $15 million to fund their working capital and general corporate needs. As part of the transaction, we acquired a 17% equity interest in SmileDirectClub for $46.7 million. As a result of our equity holdings in SmileDirectClub, we are required to account for SmileDirectClub's operations in our financial statements based on the equity method of accounting. Our financial results, will therefore reflect two components: 1) commencing in October when we begin to supply aligners, the sale of aligners to SmileDirectClub and the income from under the supply agreement will be reported in our Clear Aligner business segment, and 2) in the third quarter of 2016, our portion of SmileDirectClub's reported profits and/or losses will be included in our operating expenses. Align will perform a fair value assessment in the third quarter of 2016 in order to determine if we need to value components of the SDC agreements, such as, our Supply Agreement, and our exclusivity arrangement, among others. We expect the transaction to be incremental to both our revenue growth and earnings in 2017.

Results of Operations

Net revenues by Reportable Segment

We group our operations into two reportable segments: Clear Aligner segment and Scanner segment.

Our Clear Aligner segment consists of our Invisalign system which includes Invisalign Full, Teen and Assist ("Full Products"), Express/Lite ("Express Products"),Vivera retainers, along with our training and ancillary products for treating malocclusion.

Our Scanner segment consists of intra-oral scanning systems and additional services available with the intra-oral scanners that provide digital alternatives to the traditional cast models. This segment includes our iTero scanner and OrthoCAD services.

Net revenues for our Clear Aligner segment by region and our Scanner segment by region for the three and six months ended June 30, 2016 and 2015 is as follows (in millions):

	For the Three Months Ended, June 30,				For the Six Months Ended, June 30,			
Net Revenues	2016	2015	Net Change	% Change	2016	2015	Net Change	% Change
Clear Aligner Revenues:								
North America	$143.9	$126.1	$ 17.8	14.1 %	$279.6	$245.0	$34.6	14.1 %
International	83.7	61.9	21.8	35.2 %	153.6	117.8	35.8	30.4 %
Invisalign non-case	15.8	12.8	3.0	23.8 %	29.9	25.0	4.9	19.6 %
Total Clear Aligner net revenues	$243.4	$200.8	$ 42.6	21.2 %	$463.0	$387.8	$75.2	19.4 %
Scanner net revenues	26.0	8.7	17.3	199.0%	45.0	19.7	25.3	128.4%
Total net revenues	$269.4	$209.5	$ 59.8	28.6 %	$508.1	$407.6	$100.5	24.7 %

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

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Clear Aligner Case Volume by Region

Case volume data which represents Invisalign case shipments by region for the three and six months ended June 30, 2016 and 2015 is as follows (in thousands):

Region	For the Three Months Ended, June 30, 2016	2015	Net Change	% Change	For the Six Months Ended, June 30, 2016	2015	Net Change	% Change
North America Invisalign	114.9	99.6	15.3	15.3 %	225.4	190.7	34.7	18.1 %
International Invisalign	62.1	44.9	17.2	38.3 %	115.3	84.6	30.7	36.3 %
Total Invisalign case volume	177.0	144.5	32.5	22.4 %	340.7	275.3	65.4	23.7 %

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Total net revenues increased by $59.8 million and $100.5 million for the three and six months ended June 30, 2016, respectively, as compared to the same period in 2015, primarily as a result of Invisalign case volume growth across all regions and products.

Clear Aligner - North America

In the three months ended June 30, 2016, Clear Aligner North America net revenues increased by $17.8 million compared to the same period in 2015 primarily due to Invisalign case volume growth of approximately $19.3 million across all channels and products. This increase was slightly offset by lower average selling prices (“ASP”) which reduced net revenues by $1.5 million. ASP declined in the current period compared to the same period in the prior year as a result of the increased revenue deferrals of approximately $5.2 million related to our additional aligner product policy launched in July 2015 and higher promotional discounts of $3.6 million, offset in part by the price increase on our Full products effective April 1, 2016, which contributed $6.2 million to net revenues.

In the six months ended June 30, 2016, Clear Aligner North America net revenues increased by $34.6 million compared to the same period in 2015 primarily due to Invisalign case volume growth of approximately $44.4 million across all channels and products. This increase was offset in part by lower average selling prices ("ASP") which decreased net revenues by approximately $9.8 million. ASP declined in the current period compared to the same period in the prior year as a result of increased revenue deferrals of approximately $10.1 million, related to our additional aligner product policy launched in July 2015, and higher promotional discounts of $9.0 million, partially offset by the price increases on our Full products effective April 1, 2015 and April 1, 2016 which contributed $10.1 million to net revenues.

Clear Aligner - International

In the three months ended June 30, 2016, Clear Aligner international net revenues increased by $21.8 million compared to the same period in 2015 primarily driven by Invisalign case volume growth of $23.7 million across all products. This was offset in part by lower ASP which decreased net revenues by approximately $1.9 million. ASP declined in the current period compared to the same period in the prior year as a result of higher promotional discounts of $2.1 million, a product mix shift towards lower priced Invisalign products of $1.2 million, higher net deferrals of $0.4 million, which includes the impact of our new additional aligner product policy launched in July 2015 of approximately $3.1 million, offset in part by the price increase on our Full products effective July 1, 2015 as well as our transition to a direct sales model in certain Asia Pacific countries which contributed $2.2 million to net revenues in the current period compared to the same period in the prior year.

In the six months ended June 30, 2016, Clear Aligner international net revenues increased by $35.8 million compared to the same period in 2015 primarily driven by Invisalign case volume growth of $42.8 million across all products. This was offset in part by lower ASP which decreased net revenues by approximately $7.0 million. ASP declined in the current period compared to the same period in the prior year primarily a result of higher promotional discounts of $3.6 million, a region and product mix shift towards lower priced Invisalign products of $3.6 million, and higher net deferrals of $1.9 million which includes the impact of our new additional aligner product policy launched in July 2015 of approximately $5.7 million. These decreases were partially offset by the price increase on our Full products effective July 1, 2015 as well as our transition to a direct sales model in certain Asia Pacific countries which contributed $2.8 million to net revenues in the current period compared to the same period in the prior year.

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Clear Aligner - Invisalign Non-Case

Invisalign non-case net revenues consists of training fees and ancillary product revenues. Invisalign non-case net revenues increased by $3.0 million and $5.0 million, respectively for the three and six months ended June 30, 2016, respectively compared to the same periods in 2015 primarily due to increased Vivera volume both in North America and International.

Scanner

Scanner net revenues increased $17.3 million and $25.3 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily as a result of an increase in the number of scanners recognized as we began shipping our next generation iTero Element scanner in September 2015, and, to a lesser extent, due to an increase in ASP.

Cost of net revenues and gross profit (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Clear Aligner						
Cost of net revenues	$52.1	$43.5	$ 8.6	$99.7	$82.5	$ 17.2
% of net segment revenues	21.4 %	21.7 %		21.5 %	21.3 %	
Gross profit	$191.3	$157.3	$ 34.0	$363.3	$305.3	$ 58.0
Gross margin %	78.6 %	78.3 %		78.5 %	78.7 %	
Scanner and Services						
Cost of net revenues	$12.0	$7.4	$ 4.6	$22.5	$15.3	$ 7.2
% of net segment revenues	46.4 %	85.0 %		50.1 %	77.6 %	
Gross profit	$14.0	$1.3	$ 12.7	$22.5	$4.4	$ 18.1
Gross margin %	53.6 %	15.0 %		49.9 %	22.4 %	
Total cost of net revenues	$64.1	$50.9	$ 13.2	$122.2	$97.9	$ 24.3
% of net revenues	23.8 %	24.3 %		24.1 %	24.0 %	
Gross profit	$205.2	$158.6	$ 46.6	$385.8	$309.7	$ 76.1
Gross margin %	76.2 %	75.7 %		75.9 %	76.0 %	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Cost of net revenues for our Clear Aligner and Scanner segments includes salaries for staff involved in the production process, the cost of materials, packaging, shipping costs, depreciation on capital equipment used in the production process, amortization of acquired intangible assets from Cadent, training costs and stock-based compensation.

Clear Aligner

Gross margin increased slightly for the three months ended June 30, 2016 compared to the same period in 2015 from lower freight costs which was partially offset by a lower ASP related to our new Additional Aligner policy implemented in July last year.

Gross margin declined slightly for six months ended June 30, 2016 compared to the same period in 2015 primarily due to lower ASP related to our new Additional Aligner Policy implemented in July last year, which was partially offset by lower freight costs.

Scanner

Gross margin increased for the three and six months ended June 30, 2016 compared to the same period in 2015 primarily due to a product mix shift to our iTero Element scanner resulting in a higher ASP and lower costs per unit.

Selling, General and administrative (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Selling, general and administrative	$121.5	$100.6	$ 20.9	$233.7	$188.9	$ 44.8
% of net revenues	45.1 %	48.0 %		46.0 %	46.3 %	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Selling, general and administrative expense includes personnel-related costs including payroll, commissions and stock-based compensation for our sales force, marketing and administration in addition to media and advertising expenses, clinical education, trade shows and industry events, product marketing, outside consulting services, legal expenses, depreciation and amortization expense, the medical device excise tax ("MDET") and allocations of corporate overhead expenses including facilities and IT.

Selling, general and administrative expense for the three months ended June 30, 2016 increased compared to the same period in 2015 primarily due to higher compensation related costs of $12.1 million as a result of increased headcount, which led to higher salaries expense, stock based compensation, commissions and incentive bonuses; and higher marketing costs.

Selling, general and administrative expense for the six months ended June 30, 2016 increased compared to the same period in 2015 primarily due to higher compensation related costs of $23.7 million as a result of increased headcount, which led to higher salaries expense, stock based compensation, commissions and incentive bonuses; and higher marketing costs.

Research and development (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Research and development	$ 18.6	$ 15.7	$ 2.9	$33.7	$29.6	$ 4.1
% of net revenues	6.9 %	7.5 %		6.6 %	7.3 %	

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.
Research and development expense includes the personnel-related costs including stock-based compensation and outside consulting expenses associated with the research and development of new products and enhancements to existing products and allocations of corporate overhead expenses including facilities and IT.

Research and development expense for the three months ended June 30, 2016 increased compared to the same period in 2015 due to higher compensation costs from additional headcount and salary increases, increased outside services and depreciation and amortization.

Research and development expense for the six months ended June 30, 2016 increased compared to the same period in 2015 due to higher compensation costs from additional headcount and salary increases, depreciation and amortization off-set by lower outside services.

Interest and other income (expenses), net (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change

Interest and other income (expenses), net	$ 0.1	$ 0.2	$ (0.1)	$(0.3)	$(1.3)	$ 1.0

Changes and percentages are based on actual values. Certain tables may not sum or recalculate due to rounding.

Interest and other income (expenses), net, includes foreign currency translation gains and losses, interest income earned on cash, cash equivalents and investment balances, gains and losses on foreign currency forward contracts and other miscellaneous charges.

Interest and other income (expenses), net decreased slightly for the three months ended June 30, 2016 compared to the same period in 2015 and improved slightly for the six months ended June 30, 2016 compared to the same period in 2015 due to foreign currency fluctuations against the U.S. dollar, off-set by increased interest income on higher balances of marketable securities.

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Income tax (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Provision for income taxes	$ 15.1	$ 11.1	$ 4.0	$ 27.5	$ 22.4	$ 5.1
Effective tax rates	23.2 %	26.2 %		23.2 %	24.9 %	

Our provision for income taxes was $15.1 million and $11.1 million for the three months ended June 30, 2016 and 2015, respectively, representing effective tax rates of 23.2% and 26.2%, respectively. Our provision for income taxes was $27.5 million and $22.4 million for the six months ended June 30, 2016 and 2015, respectively, representing effective tax rates of 23.2% and 24.9%, respectively. Our effective tax rate differs from the statutory federal income tax rate of 35% due to certain foreign earnings, primarily from Costa Rica, which are subject to a lower tax rate, state income tax expense, the tax impact of certain stock-based compensation charges and unrecognized tax benefits. The decrease in the effective tax rate for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 was primarily related to various items that are not deductible for tax purposes that remained constant between the two periods while pre-tax income increased.

We exercise significant judgment in regards to estimates of future market growth, forecasted earnings and projected taxable income in determining the provision for income taxes, and for purposes of assessing our ability to utilize any future benefit from deferred tax assets.

As of June 30, 2016, we maintained a valuation allowance of $31.7 million against our deferred tax assets which primarily relate to Israel operating loss carryforwards and Australia capital loss carryforwards. These net operating and capital loss carryforwards would result in us recording an income tax benefit if we were to conclude it is more likely than not that the related deferred tax assets will be realized. On July 1, 2016, the Company implemented a new international corporate structure which may result in a future reassessment of our need for a valuation allowance against these deferred tax assets. As a result, it is possible that we may realize a tax benefit which may have a material impact on the financial statements within the next twelve months.

Our total gross unrecognized tax benefits, excluding interest, was $42.6 million and $39.4 million as of June 30, 2016 and December 31, 2015, respectively, all of which would impact our effective tax rate if recognized. We have elected to recognize interest and penalties related to unrecognized tax benefits as a component of income taxes. The interest accrued as of June 30, 2016 is $1.2 million. We do not expect any significant changes to the amount of unrecognized tax benefit within the next twelve months.

We file U.S. federal, U.S. state, and non-U.S. income tax returns. Our major tax jurisdictions are U.S. federal and the State of California. For U.S. federal and state tax returns, we are no longer subject to tax examinations for years before 2000. With few exceptions, we are no longer subject to examination by foreign tax authorities for years before 2007. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2013. We are currently under audit by the California Franchise Tax Board for fiscal years 2011, 2012 and 2013.

In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of certain income tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in 2017. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced tax rate. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016 and 2015. Income taxes were reduced by $8.6 million and $8.2 million for the three months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.11 and $0.10 in 2016 and 2015, respectively. As a result of these incentives, our income taxes were reduced by $17.2 million and $16.4 million for the six months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.21 and $0.20 in 2016 and 2015, respectively.

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Liquidity and Capital Resources

We fund our operations primarily from product sales and available cash and cash equivalents and marketable securities. As of June 30, 2016 and December 31, 2015, we had the following cash, cash equivalents, and short-term and long-term marketable securities (in thousands):

	June 30, 2016	December 31, 2015
Cash and cash equivalents	$167,706	$ 167,714
Short-term investments	404,107	359,581
Long-term investments	113,158	151,370
Total	$684,971	$ 678,665

Cash flows (in thousands):

	Six Months Ended June 30, 2016	2015
Net cash flow provided by (used in):		
Operating activities	$106,847	$98,585
Investing activities	(51,503)	(60,322)
Financing activities	(55,508)	(74,927)
Effect of exchange rate changes on cash and cash equivalents	156	(1,454)
Net decrease in cash and cash equivalents	$(8)	$(38,118)

As of June 30, 2016, we had $685.0 million of cash, cash equivalents and short-term and long-term marketable securities. Cash equivalents and marketable securities are comprised primarily of money market funds and debt instruments which include corporate bonds, U.S. dollar denominated foreign corporate bonds, commercial paper, municipal securities, U.S. government agency bonds, U.S. government treasury bonds and asset-backed securities. We do not enter into investments for trading or speculative purposes.

As of June 30, 2016, approximately $503.6 million of cash, cash equivalents and short-term and long-term marketable securities was held by our foreign subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The costs to repatriate our foreign earnings to the U.S. would likely be material; however, our intent is to permanently reinvest our earnings from foreign operations, and our current plans do not require us to repatriate them to fund our U.S. operations as we generate sufficient domestic operating cash flow and have access to external funding under our current revolving line of credit. Additionally, we implemented a new international corporate structure on July 1, 2016. This corporate structure may reduce our overall effective tax rate over time through changes in the structure of our international procurement and sales operations, as well as realignment of the ownership and use of intellectual property among our wholly-owned subsidiaries.

The structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. federal statutory tax rate. Such intercompany arrangements would be designed to result in income earned by such entities in accordance with arm's-length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over the medium to long term.

In April 2014, we announced that our Board of Directors had authorized a stock repurchase program ("April 2014 Repurchase Program") pursuant to which we may purchase up to $300.0 million of our common stock over the next three years. As of June 30, 2016, we have approximately $50.0 million remaining under the April 2014 Repurchase Program. On May 3, 2016, as part of our $300.0 million April 2014 Repurchase Program, we entered into an ASR to repurchase $50.0 million of our common stock (the "2016 ASR"). Under the terms of the 2016 ASR, we paid $50.0 million and received an initial delivery of approximately 0.5 million shares based on the then current market price of $74.90, which we retired. The final delivery of shares is scheduled during October 2016, with the number of shares to be determined by the Company's volume weighted-average stock price during the term of the ASR less an agreed upon discount. After the completion of the 2016 ASR, we will commence repurchasing $50.0 million of our common stock on the open market. These two actions will complete the April 2014 Repurchase Program.

On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to $300.0 million of the Company's stock. This latest authorization is in addition to the existing $300 million authorization announced in April 2014, which brings the total authorization to $600 million. Any purchases under this stock repurchase program may be made, from time-to-time, pursuant to open market purchases (including pursuant to Rule 10b5-1 plans), privately-negotiated transactions, accelerated stock repurchases, block trades or derivative contracts or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. (Refer to Note 9 "Common Stock Repurchase", of the Notes to condensed consolidated financial statements for details on our common stock repurchase).

On March 17, 2016, we amended the credit facility originally entered into On March 22, 2013, extending the maturity date to March 22, 2017. The credit facility provides for a $50.0 million revolving line of credit, with a $10.0 million letter of credit sublimit. (Refer to Note 5 "Credit Facility", of the Notes to condensed consolidated financial statements for details of the credit facility).

We believe that our current cash and cash equivalents and marketable securities combined with our positive cash flows from operations will be sufficient to fund our operations and stock repurchases for at least the next 12 months. If we are unable to generate adequate operating cash flows, we may need to suspend our stock repurchase program or seek additional sources of capital through equity or debt financing, collaborative or other arrangements with other companies, bank financing and other sources in order to realize our objectives and to continue our operations. There can be no assurance that we will be able to obtain additional debt or equity financing on terms acceptable to us, or at all. If adequate funds are not available, we may need to make business decisions that could adversely affect our operating results such as modifications to our pricing policy, business structure or operations. Accordingly, the failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations and financial condition.

Operating Activities

For the six months ended June 30, 2016, cash flows from operations of $106.8 million resulted primarily from our net income of approximately $90.7 million as well as the following:

Significant non-cash activities:

- stock-based compensation of $26.2 million related to equity incentive compensation awards granted to our employees, and
- depreciation and amortization of $9.9 million related to our fixed assets and acquired intangible assets, offset in part by
- excess tax benefits from our share-based compensation arrangements of $10.7 million.

Significant changes in working capital:

- an increase of $38.4 million in accounts receivable which is a result of the increase in net revenues,
- an increase of $29.8 million in deferred revenues corresponding to the increases in case shipments,
- an increase of $5.0 million in prepaid assets related to prepaid software and maintenance costs.
- a decrease of $4.8 million in accounts payable due to timing of certain invoice payments,
- a decrease of $4.4 million in accrued and other long-term liabilities primarily due to the payment of our 2015 bonus.

Investing Activities

Net cash used in investing activities was $51.5 million for the six months ended June 30, 2016 primarily consisting of purchases of marketable securities of $241.4 million, and property, plant and equipment purchases of $39.0 million and $6.0 million of other investing activities. These outflows were partially offset by $234.9 million of maturities and sales of our marketable securities.

For the remainder of 2016, we expect to spend an additional $40.0 million to $45.0 million on capital expenditures for estimated total capital expenditures of $80.0 million to $85.0 million for 2016 primarily for additional manufacturing capacity and infrastructure including a project to implement a new enterprise resource planning system. Although we believe our current investment portfolio has little risk of impairment, we cannot predict future market conditions or market liquidity and can provide no assurance that our investment portfolio will remain unimpaired.

Financing Activities

Net cash used in financing activities was $55.5 million for the six months ended June 30, 2016 primarily resulting from a common stock repurchase of $50.0 million and payroll taxes paid for vesting of restricted stock units through share withholdings of $23.2 million. These outflows were offset in part by $10.7 million from excess tax benefits from our share-based compensation arrangements and $7.0 million in proceeds from issuance of common stock.

Contractual Obligations

Our contractual obligations have not significantly changed since December 31, 2015 as disclosed in our Annual Report on Form 10-K. We believe that our current cash, cash equivalents and short-term marketable securities combined with our existing borrowing capacity will be sufficient to fund our operations for at least the next 12 months. If we are unable to generate adequate operating cash flows and need more funds beyond our available liquid investments and those available under our credit facility, we may need to suspend our stock repurchase program or seek additional sources of capital through equity or debt financing, collaborative or other arrangements with other companies, bank financing and other sources in order to realize our objectives and to continue our operations. There can be no assurance that we will be able to obtain additional debt or equity financing on terms acceptable to us, or at all. If adequate funds are not available, we may need to make business decisions that could adversely affect our operating results such as modifications to our pricing policy, business structure or operations. Accordingly, the failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations and financial condition.

Off-Balance Sheet Arrangements

As of June 30, 2016, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

Indemnification Provisions

In the normal course of business to facilitate transactions in our services and products, we indemnify certain parties: customers, vendors, lessors and other parties with respect to certain matters, including, but not limited to, services to be provided by us and intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. Several of these agreements limit the time within which an indemnification claim can be made and the amount of the claim.

It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, we have a limited history of prior indemnification claims and the payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows, or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our results of operations or cash flows in a particular period. As of June 30, 2016, we did not have any material indemnification claims that were probable or reasonably possible.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of condensed consolidated financial statements requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, net revenues and expenses and disclosures at the date of the financial statements. We evaluate our estimates on an on-going basis, including those related to revenue recognition, accounts receivable, intangible assets, legal contingencies, impairment of goodwill and income taxes. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates.

We believe the following critical accounting policies reflect our most significant estimates, judgments and assumptions used in the preparation of our consolidated financial statements. These critical accounting policies and related disclosures appear in our Annual Report on Form 10-K for the year ended December 31, 2015:

- Revenue recognition;
- Stock-based compensation expense;
- Goodwill and finite-lived acquired intangible assets,
- Impairment of goodwill, finite-lived acquired intangible assets and long-lived assets, and
- Accounting for income taxes.

Recent Accounting Pronouncements

See Note 1 “Summary of Significant Accounting Policies” of the Notes to Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we are exposed to foreign currency exchange rate and interest rate risks that could impact our financial position and results of operations.

Interest Rate Risk

Changes in interest rates could impact our anticipated interest income on our cash equivalents and investments in marketable securities. Our cash equivalents and investments are fixed-rate short-term and long-term securities. Fixed-rate securities may have their fair market value adversely impacted due to a rise in interest rates, and, as a result, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of June 30, 2016, we had approximately $517.0 million invested in available-for-sale marketable securities. An immediate 10% change in interest rates would not have a material adverse impact on our future operating results and cash flows.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We do not have interest bearing liabilities outstanding as of June 30, 2016, and, therefore, we were not subject to risks from immediate interest rate increases.

Currency Rate Risk

We operate in North America, Europe, Asia Pacific, Costa Rica, and Israel. As a result of our international business activities, our financial results could be affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets, and there is no assurance that exchange rate fluctuations will not harm our business in the future. We generally sell our products in the local currency of the respective countries. This provides some natural hedging because most of the subsidiaries’ operating expenses are generally denominated in their local currencies as discussed further below. Regardless of this natural hedging, our results of operations may be adversely impacted by exchange rate fluctuations.

We have in the past and may in the future enter into foreign currency forward contracts to minimize the short-term impact of foreign currency exchange rate fluctuations on cash and certain trade and intercompany receivables and payables. These forward contracts are not designated as hedging instruments and do not subject us to material balance sheet risk due to fluctuations in foreign currency exchange rates. The gains and losses on these forward contracts are intended to offset the gains and losses in the underlying foreign currency denominated monetary assets and liabilities being economically hedged. These instruments are marked to market through earnings every period and generally are one month in original maturity. We do not enter into foreign currency forward contracts for trading or speculative purposes. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates. It is difficult to predict the impact hedging activities could have on our results of operations. As of June 30, 2016 we had no foreign currency forward contracts outstanding.

Although we will continue to monitor our exposure to currency fluctuations, and, where appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, the impact of an aggregate change of 10% in foreign currency exchange rates relative to the U.S. dollar on our results of operations and financial position could be material.

ITEM 4.CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of June 30, 2016, to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required

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disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Securities Class Action Lawsuit

On November 28, 2012, plaintiff City of Dearborn Heights Act 345 Police & Fire Retirement System filed a lawsuit against Align, Thomas M. Prescott ("Mr. Prescott"), Align's former President and Chief Executive Officer, and Kenneth B. Arola ("Mr. Arola"), Align's former Vice President, Finance and Chief Financial Officer, in the United States District Court for the Northern District of California on behalf of a purported class of purchasers of our common stock (the "Securities Action"). On July 11, 2013, an amended complaint was filed, which named the same defendants, on behalf of a purported class of purchasers of our common stock between January 31, 2012 and October 17, 2012. The amended complaint alleged that Align, Mr. Prescott and Mr. Arola violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and that Mr. Prescott and Mr. Arola violated Section 20(a) of the Securities Exchange Act of 1934. Specifically, the amended complaint alleged that during the purported class period defendants failed to take an appropriate goodwill impairment charge related to the April 29, 2011 acquisition of Cadent Holdings, Inc. in the fourth quarter of 2011, the first quarter of 2012 or the second quarter of 2012, which rendered our financial statements and projections of future earnings materially false and misleading and in violation of U.S. GAAP. The amended complaint sought monetary damages in an unspecified amount, costs and attorneys' fees. On December 9, 2013, the court granted defendants' motion to dismiss with leave for plaintiff to file a second amended complaint. Plaintiff filed a second amended complaint on January 8, 2014 on behalf of the same purported class. The second amended complaint states the same claims as the amended complaint. On August 22, 2014, the court granted our motion to dismiss without leave to amend. On September 22, 2014, Plaintiff filed a notice of appeal to the Ninth Circuit Court of Appeals. Briefing for the appeals was completed in May 2015 and the Ninth Circuit notified the parties that it is considering the case for possible oral arguments in October 2016. Align intends to vigorously defend itself against these allegations. Align is currently unable to predict the outcome of this amended complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible loss, if any.

Shareholder Derivative Lawsuit

On February 1, 2013, plaintiff Gary Udis filed a shareholder derivative lawsuit against several of Align's current and former officers and directors in the Superior Court of California, County of Santa Clara. The complaint alleges that our reported income and earnings were materially overstated because of a failure to timely write down goodwill related to the April 29, 2011 acquisition of Cadent Holdings, Inc., and that defendants made allegedly false statements concerning our forecasts. The complaint asserts various state law causes of action, including claims of breach of fiduciary duty, unjust enrichment, and insider trading, among others. The complaint seeks unspecified damages on behalf of Align, which is named solely as nominal defendant against whom no recovery is sought. The complaint also seeks an order directing Align to reform and improve its corporate governance and internal procedures, and seeks restitution in an unspecified amount, costs, and attorneys' fees. On July 8, 2013, an Order was entered staying this derivative lawsuit until an initial ruling on our first motion to dismiss the Securities Action. On January 15, 2014, an Order was entered staying this derivative lawsuit until an initial ruling on our second motion to dismiss the Securities Action. On October 14, 2014, an Order was entered staying this derivative lawsuit until a ruling by the Ninth Circuit in the Securities Action discussed above. Align is currently unable to predict the outcome of this complaint and therefore cannot determine the likelihood of loss nor estimate a range of possible losses, if any.

In addition, in the course of Align's operations, Align is involved in a variety of claims, suits, investigations, and proceedings, including actions with respect to intellectual property claims, patent infringement claims, government investigations, labor and employment claims, breach of contract claims, tax, and other matters. Regardless of the outcome, these proceedings can have an adverse impact on us because of defense costs, diversion of management resources, and other factors. Although the results of complex legal proceedings are difficult to predict and Align's view of these matters may change in the future as litigation and events related thereto unfold; Align currently does not believe that these matters, individually or in the aggregate, will materially affect Align's financial position, results of operations or cash flows.

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ITEM 1A.RISK FACTORS

We depend on the sale of the Invisalign system for the vast majority of our net revenues, and any decline in sales of Invisalign treatment for any reason, or a decline in average selling prices would adversely affect net revenues, gross margin and net income.

We expect that net revenues from the sale of the Invisalign System, primarily Invisalign Full and Invisalign Teen, will continue to account for the vast majority of our total net revenues for the foreseeable future. Continued and widespread market acceptance of Invisalign by orthodontists, GPs and consumers is critical to our future success. If orthodontists and GPs experience a reduction in consumer demand for orthodontic services, if consumers prove unwilling to adopt Invisalign as rapidly as we anticipate or in the volume that we anticipate, if orthodontists or GPs choose to use a competitive product rather than Invisalign or if the average selling price of our product declines, our operating results would be harmed.

Demand for our products may not increase as rapidly as we anticipate due to a variety of factors including a weakness in general economic conditions.

Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, gas prices, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. economy and certain international economies or an uncertain economic outlook would adversely affect consumer spending habits which may, among other things, result in a decrease in the number of overall orthodontic case starts, reduced patient traffic in dentists' offices, reduction in consumer spending on higher value procedures or a reduction in the demand for dental services generally, each of which would have a material adverse effect on our sales and operating results. Weakness in the global economy results in a challenging environment for selling dental technologies and dentists may postpone investments in capital equipment, such as intra-oral scanners. In addition, Invisalign treatment, which currently accounts for the vast majority of our net revenues, represents a significant change from traditional orthodontic treatment, and customers and consumers may be reluctant to accept it or may not find it preferable to traditional treatment. We have generally received positive feedback from orthodontists, GPs and consumers regarding Invisalign treatment as both an alternative to braces and as a clinical method for the treatment of malocclusion, but a number of dental professionals believe that the Invisalign treatment is appropriate for only a limited percentage of their patients. Increased market acceptance of all of our products will depend in part upon the recommendations of dental professionals, as well as other factors including effectiveness, safety, ease of use, reliability, aesthetics, and price compared to competing products.

The frequency of use of the Invisalign system by orthodontists or GPs may not increase at the rate that we anticipate or at all.

One of our key objectives is to continue to increase utilization, or the adoption and frequency of use, of the Invisalign System by new and existing customers. If utilization of the Invisalign System by our existing and newly trained orthodontists or GPs does not occur or does not occur as quickly as we anticipate, our operating results could be harmed.

We may experience declines in average selling prices of our products which may decrease our net revenues.

We provide volume based discount programs to our doctors. In addition, we sell a number of products at different list prices. If we introduce any price reductions or consumer rebate programs; if we expand our discount programs in the future or participation in these programs increases; if our product mix shifts to lower priced products or products that have a higher percentage of deferred revenue, our average selling prices would be adversely affected and our net revenues, gross profit, gross margin and net income may be reduced. In July 2015, we launched a new product policy called "Additional Aligners at No Charge" that addresses one of our customer's top complaints. With this product policy change, we no longer distinguish between mid-course correction and case refinements and allow doctors to order additional aligners to address either treatment need at no charge, subject to certain requirements. Based on this new product policy, beginning in the third quarter of 2015, we deferred more revenue as a result of providing free additional aligners for eligible treatments. Additionally, as we grandfathered over 1 million open cases, we will recognize lower revenues as additional aligners are shipped for at least the next two years until these cases complete.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Although the U.S. dollar is our reporting currency, a portion of our net revenues and net income are generated in foreign currencies. Net revenues and net income generated by subsidiaries operating outside of the U.S. are translated into U.S. dollars using exchange rates effective during the respective period and are affected by changes in exchange rates. As a result, negative movements in currency exchange rates against the U.S. dollar will adversely affect our net revenues and net income in our consolidated financial statements. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We have in the past and may in the future enter into currency hedging transactions in an effort to cover some of our exposure to foreign currency exchange fluctuations. These transactions may not operate to fully or effectively hedge our exposure to currency fluctuations, and, under certain circumstances, these transactions could have an adverse effect on our financial condition.

As we continue to grow, we are subject to growth related risks, including risks related to excess or constrained capacity at our existing facilities.

We are subject to growth related risks, including excess or constrained capacity and pressure on our internal systems and personnel. In order to manage current operations and future growth effectively, we will need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain employees. We may be unable to manage such growth effectively. Any such failure could have a material adverse impact on our business, operations and prospects. We intend to establish additional Order Acquisition and Treatment Planning facilities closer to our International customers in order to improve our operational efficiency and provide doctors with a great experience to further improve their confidence in using Invisalign to treat more patients, more often. Our ability to plan, construct and equip additional manufacturing facilities is subject to significant risk and uncertainty, including risks inherent in the establishment of a new manufacturing facility, such as hiring and retaining employees and delays and cost overruns as a result of a number of factors, any of which may be out of our control. If the transition into this additional facility is significantly delayed or demand for our product exceeds our current expectations, we may not be able to fulfill orders timely, which may negatively impact our financial results and overall business. In addition, because we cannot immediately adapt our production capacity and related cost structures to changing market conditions, our manufacturing capacity may at times exceed or fall short of our production requirements. In addition, if product demand decreases or we fail to forecast demand accurately, we could be required to write off inventory or record excess capacity charges, which would lower our gross margin. Production of our intra oral scanners may also be limited by capacity constraints due to a variety of factors, including our dependency on third party vendors for key components in addition to limited production yields. Any or all of these problems could result in the loss of customers, provide an opportunity for competing products to gain market acceptance and otherwise harm our business and financial results.

If we fail to sustain or increase profitability or revenue growth in future periods, the market price for our common stock may decline.

If we are to sustain or increase profitability in future periods, we will need to continue to increase our net revenues, while controlling our expenses. Because our business is evolving, it is difficult to predict our future operating results or levels of growth, and we have in the past not been and may in the future not be able to sustain our historical growth rates. If we do not increase profitability or revenue growth or otherwise meet the expectations of securities analysts or investors, the market price of our common stock will likely decline.

Our financial results have fluctuated in the past and may fluctuate in the future which may cause volatility in our stock price.

Our operating results have fluctuated in the past and we expect our future quarterly and annual operating results to fluctuate as we focus on increasing doctor and consumer demand for our products. These fluctuations could cause our stock price to decline or significantly fluctuate. Some of the factors that could cause our operating results to fluctuate include:

- limited visibility into and difficulty predicting the level of activity in our customers’ practices from quarter to quarter;
- weakness in consumer spending as a result of the slowdown in the U.S. economy and global economies;
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- changes in relationships with our distributors;
- changes in the timing of receipt of Invisalign case product orders during a given quarter which, given our cycle time and the delay between case receipts and case shipments, could have an impact on which quarter revenue can be recognized;
- fluctuations in currency exchange rates against the U.S. dollar;
- changes in product mix;
- our inability to scale production of our iTero Element scanner to meet customer demand;
- if participation in our customer rebate or discount programs increases our average selling price will be adversely affected;
- seasonal fluctuations in the number of doctors in their offices and their availability to take appointments;

- success of or changes to our marketing programs from quarter to quarter;
- our reliance on our contract manufacturers for the production of sub-assemblies for our intra-oral scanners;
- timing of industry tradeshows;
- changes in the timing of when revenue is recognized, including as a result of the introduction of new products or promotions, modifications to our terms and conditions or as a result of changes to critical accounting estimates or new accounting pronouncements;
- changes to our effective tax rate;
- unanticipated delays in production caused by insufficient capacity or availability of raw materials;
- any disruptions in the manufacturing process, including unexpected turnover in the labor force or the introduction of new production processes, power outages or natural or other disasters beyond our control;
- the development and marketing of directly competitive products by existing and new competitors;
- disruptions to our business as a result our agreement to manufacture clear aligners for SmileDirectClub, including, market acceptance of the SmileDirectClub business model and product, possible adverse customer reaction, and negative publicity about us and our products,
- major changes in available technology or the preferences of customers may cause our current product offerings to become less competitive or obsolete;
- aggressive price competition from competitors;
- costs and expenditures in connection with litigation;
- the timing of new product introductions by us and our competitors, as well as customer order deferrals in anticipation of enhancements or new products;
- unanticipated delays in our receipt of patient records made through an intraoral scanner for any reason;
- disruptions to our business due to political, economic or other social instability, including the impact of an epidemic any of which results in changes in consumer spending habits, consumers unable or unwilling to visit the orthodontist or general practitioners office, as well as any impact on workforce absenteeism;
- inaccurate forecasting of net revenues, production and other operating costs,
- investments in research and development to develop new products and enhancements; and

- our ability to successfully hedge against a portion of our foreign currency-denominated assets and liabilities.

To respond to these and other factors, we may need to make business decisions that could adversely affect our operating results such as modifications to our pricing policy, business structure or operations. Most of our expenses, such as employee compensation and lease payment obligations, are relatively fixed in the short term. Moreover, our expense levels are based, in part, on our expectations regarding future revenue levels. As a result, if our net revenues for a particular period fall below our expectations, whether caused by changes in consumer spending, consumer preferences, weakness in the U.S. or global economies, changes in customer behavior related to advertising and prescribing our product, or other factors, we may be unable to adjust spending quickly enough to offset any shortfall in net revenues. Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful. You should not rely on our results for any one quarter as an indication of our future performance.

Our future success may depend on our ability to develop, successfully introduce and achieve market acceptance of new products.

Our future success may depend on our ability to develop, manufacture, market, and obtain regulatory approval or clearance of new products. There can be no assurance that we will be able to successfully develop, sell and achieve market acceptance of these and other new products and applications and enhanced versions of our existing product or software. The extent of, and rate at which, market acceptance and penetration are achieved by future products is a function of many variables, which include, among other things, our ability to:

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- correctly identify customer needs and preferences and predict future needs and preferences;
- include functionality and features that address customer requirements;
- ensure compatibility of our computer operating systems and hardware configurations with those of our customers;
- allocate our research and development funding to products with higher growth prospects;
- anticipate and respond to our competitors' development of new products and technological innovations;
- differentiate our offerings from our competitors' offerings;
- innovate and develop new technologies and applications;
- the availability of third-party reimbursement of procedures using our products;
- obtain adequate intellectual property rights; and
- encourage customers to adopt new technologies.

If we fail to accurately predict customer needs and preferences or fail to produce viable technologies, we may invest heavily in research and development of products that do not lead to significant revenue. Even if we successfully innovate and develop new products and produce enhancements, we may incur substantial costs in doing so, and our profitability may suffer. In addition, even if our new products are successfully introduced, it is unlikely that they will rapidly gain market share and acceptance primarily due to the relatively long period of time it takes to successfully treat a patient with Invisalign. Since it takes approximately 12 to 24 months to treat a patient, our customers may be unwilling to rapidly adopt our new products until they successfully complete at least one case or until more historical clinical results are available.

Our ability to market and sell new products may also be subject to government regulation, including approval or clearance by the FDA, and foreign government agencies. Any failure in our ability to successfully develop and introduce or achieve market acceptance of our new products or enhanced versions of existing products could have a material adverse effect on our operating results and could cause our net revenues to decline.

A disruption in the operations of our primary freight carrier or higher shipping costs could cause a decline in our net revenues or a reduction in our earnings.

We are dependent on commercial freight carriers, primarily UPS, to deliver our products to our customers. If the operations of these carriers are disrupted for any reason, we may be unable to deliver our products to our customers on a timely basis. If we cannot deliver our products in an efficient and timely manner, our customers may reduce their orders from us and our net revenues and operating profits could materially decline. In a rising fuel cost environment, our freight costs will increase. If freight costs materially increase and we are unable to pass that increase along to our customers for any reason or otherwise offset such increases in our cost of net revenues, our gross margin and financial results could be adversely affected.

We are dependent on our international operations, which exposes us to foreign operational, political and other risks that may harm our business.

Our key production steps are performed in operations located outside of the U.S. At our facility in San Jose, Costa Rica, technicians use a sophisticated, internally developed computer-modeling program to prepare digital treatment plans, which are then transmitted electronically to Juarez, Mexico. These digital files form the basis of the ClinCheck treatment plan and are used to manufacture aligner molds. Our order acquisition, aligner fabrication and shipping operations are conducted in Juarez, Mexico. In addition to the research and development efforts conducted in our North America facilities, we also carry out research and development at locations in Moscow, Russia. In addition, our customer-care, accounts receivable, credit and collections and customer event registration organizations are located at our facility in San Jose, Costa Rica. We also have operations in Israel where the design and wand assembly and our intra-oral scanner are manufactured. Our reliance on international operations exposes us to risks and uncertainties that may affect our business or results of operation, including:

- difficulties in hiring and retaining employees generally, as well as difficulties in hiring and retaining employees with the necessary skills to perform the more technical aspects of our operations;
- difficulties in managing international operations, including any travel restrictions to or from our facilities located in Russia and Israel;

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- fluctuations in currency exchange rates;
- increased income taxes, and other restrictions and limitations, if we were to decide to repatriate any of our foreign cash balances back to the U.S.;
- import and export license requirements and restrictions;
- controlling production volume and quality of the manufacturing process;
- political, social and economic instability, including as a result of increased levels of violence in Juarez, Mexico or the Middle East. We cannot predict the effect on us of any future armed conflict, political instability or violence in these regions. In addition, some of our employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for additional active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occurs. If many of our employees are called for active duty, our operations in Israel and our business may not be able to function at full capacity;
- acts of terrorism and acts of war;
- geopolitical risks around the Ukraine and the possibility of additional sanctions against Russia which continue to bring uncertainty to this region;
- interruptions and limitations in telecommunication services;
- product or material transportation delays or disruption, including as a result of increased levels of violence, acts of terrorism, acts of war or health epidemics restricting travel to and from our international locations or as a result of natural disasters, such as earthquakes or volcanic eruptions;
- burdens of complying with a wide variety of local country and regional laws, including the risks associated with the Foreign Corrupt Practices Act and local anti-bribery compliance;
- trade restrictions and changes in tariffs; and
- potential adverse tax consequences.

If any of these risks materialize in the future, we could experience production delays and lost or delayed revenue.

We earn an increasingly larger portion of our total revenues from international sales and face risks attendant to those operations.

We earn an increasingly larger portion of our total revenues from international sales generated through our foreign direct and indirect operations. As a result of these sales operations, we face a variety of risks, including:

- local political and economic instability;

- the engagement of activities by our employees, contractors, partners and agents, especially in countries with developing economies, that are prohibited by international and local trade and labor laws and other laws prohibiting corrupt payments to government officials, including the Foreign Corrupt Practices Act, the UK Bribery Act of 2010 and export control laws, in spite of our policies and procedures designed to ensure compliance with these laws;

- although it is our intention to indefinitely reinvest earnings outside the U.S., restrictions on the transfer of funds held by our foreign subsidiaries, including with respect to restrictions on our ability to repatriate foreign cash to the U.S at favorable tax rates;

- fluctuations in currency exchange rates; and

- increased expense of developing, testing and making localized versions of our products.

Any of these factors, either individually or in combination, could materially impact our international operations and adversely affect our business as a whole.

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If we are unable to accurately predict our volume growth, and fail to hire a sufficient number of technicians in advance of such demand, the delivery time of our products could be delayed which could adversely affect our results of operations.

Treatment planning is a key step leading to our manufacturing process which relies on sophisticated computer technology requiring new technicians to undergo a relatively long training process. Training production technicians takes approximately 90 to 120 days. As a result, if we are unable to accurately predict our volume growth, we may not have a sufficient number of trained technicians to deliver our products within the timeframe our customers expect. Such a delay could cause us to lose existing customers or fail to attract new customers. This could cause a decline in our net revenues and net income and could adversely affect our results of operations.

Our headquarters, digital dental modeling processes, and other manufacturing processes are principally located in regions that are subject to earthquakes and other natural disasters.

Our digital dental modeling is processed in our facility located in San Jose, Costa Rica. The operations team in Costa Rica creates ClinCheck treatment plans using sophisticated computer software. In addition, our customer facing operations are located in Costa Rica. Our aligner molds and finished aligners are fabricated in Juarez, Mexico. Both locations in Costa Rica and Mexico are in earthquake zones and may be subject to other natural disasters. If there is a major earthquake or any other natural disaster in a region where one of these facilities is located, our ability to create ClinCheck treatment plans, respond to customer inquiries or manufacture and ship our aligners could be compromised which could result in our customers experiencing a significant delay in receiving their completed aligners and a decrease in service levels for a period of time. In addition, our headquarters facility in California is located in the San Francisco Bay Area. An earthquake or other natural disaster in this region could result in a disruption in our operations. Any such business interruption could materially and adversely affect our business, financial condition and results of operations.

Our information technology systems are critical to our business. System integration and implementation issues and system security risks could disrupt our operations, which could have a material adverse impact on our business and operating results.

We rely on the efficient and uninterrupted operation of complex information technology systems. All information technology systems are vulnerable to damage or interruption from a variety of sources. As our business has grown in size and complexity, the growth has placed, and will continue to place, significant demands on our information technology systems. To effectively manage this growth, our information systems and applications require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. We are in the process of implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including the transition to a single enterprise resource planning ("ERP") software system to perform various functions. We implemented the first phase of our ERP on July 1, 2016, and while we believe we are past any potential significant business disruption, we are still monitoring and troubleshooting potential issues. The implementation of additional functionality in the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt our operations, such as our ability to track orders and timely ship products, manage our supply chain and aggregate financial and operational data. Additionally, this implementation may not achieve the anticipated benefits and may divert management's attention from other operational activities, negatively affect employee morale, or have other unintended consequences. Additionally, if we are not able to accurately forecast expenses and capitalized costs related to the project, this may have an adverse impact on our financial condition and operating results.

If the information we rely upon to run our businesses were to be found to be inaccurate or unreliable, if we fail to properly maintain our information systems and data integrity, or if we fail to develop new capabilities to meet our business needs in a timely manner, we could have operational disruptions, have customer disputes, lose our ability to produce timely and accurate reports, have regulatory or other legal problems, have increases in operating and administrative expenses, lose existing customers, have difficulty in attracting new customers or in implementing our growth strategies, or suffer other adverse consequences. In addition, experienced computer programmers and hackers may be able to penetrate our network security and misappropriate our confidential information or that of third parties, create system disruptions or cause shutdowns. Furthermore, sophisticated hardware and operating system software and applications that we either internally develop or procure from third parties which we depend upon may contain defects in design and manufacture, including "bugs" and other problems that can unexpectedly interfere with the operation of the system. The costs to eliminate or alleviate security problems, viruses and bugs could be significant, and the efforts to address these problems could result in interruptions that may have a material adverse impact on our operations, net revenues and operating results.

System upgrades and enhancements require significant expenditures and allocation of valuable employee resources. Delays in integration or disruptions to our business from implementation of these new or upgraded systems could have a material adverse impact on our financial condition and operating results.

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Additionally, we continuously upgrade our customer facing software applications, specifically the ClinCheck and MyAligntech software. Software applications frequently contain errors or defects, especially when they are first introduced or when new versions are released. The discovery of a defect or error or the incompatibility with the computer operating system and hardware configurations of customers in a new upgraded version or the failure of our primary information systems may result in the following consequences, among others: loss of revenue or delay in market acceptance, damage to our reputation or increased service costs, any of which could have a material adverse effect on our business, financial condition or results of operations.

Furthermore, our business requires the secure transmission of confidential information over public networks. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation, possible liability and loss. Our security measures may be inadequate to prevent security breaches, and our business operations and profitability would be adversely affected by, among other things, loss of customers and potential criminal and civil sanctions if they are not prevented.

There can be no assurance that our process of improving existing systems, developing new systems to support our expanding operations, integrating new systems, protecting confidential patient information, and improving service levels will not be delayed or that additional systems issues will not arise in the future. Failure to adequately protect and maintain the integrity of our information systems and data may result in a material adverse effect on our financial position, results of operations and cash flows.

Competition in the markets for our products is intense and we expect aggressive competition from existing competitors and other companies that may introduce new technologies in the future.

Currently, our products compete directly against products manufactured and distributed by various companies, both within and outside the U.S. Many of these manufacturers, including Danaher Corporation, 3M, Sirona Dental Systems, Inc. and Dentsply International, have substantially greater financial resources and manufacturing and marketing experience than we do and may, in the future, attempt to develop an orthodontic system similar to ours or combine technologies that make our product economically unattractive. The expiration of certain key patents commencing in 2017 owned by us may result in additional competition. Existing competitors may begin offering products more similar to ours. We may face more intense competition if new entrants to the clear aligner market are significantly larger than we are with greater resources and the ability to leverage their existing channels in the dental market to compete directly with us. In addition, corresponding foreign patents will start to expire in 2018, which may lead to increased competition in some of the markets outside the U.S. Large consumer product companies may also enter the orthodontic supply market. Furthermore, we may face competition in the future from new companies that may introduce new technologies. We may be unable to compete with these competitors and one or more of these competitors may render our technology obsolete or economically unattractive. If we are unable to compete effectively with existing products or respond effectively to any products developed by new or existing competitors, our business could be harmed. Increased competition has resulted in the past and may in the future result in volume discounting and price reductions, reduced gross margins, reduced profitability and loss of market share, and reduce dental professionals' efforts and commitment to expand their use of our products, any of which could have a material adverse effect on our net revenues, volume growth, net income and stock price. We cannot assure you that we will be able to compete successfully against our current or future competitors or that competitive pressures will not have a material adverse effect on our business, results of operations and financial condition.

If the security of our customer and patient information is compromised, patient care could suffer, and we could be liable for related damages, and our reputation could be impaired.

We retain confidential customer and patient information in our processing centers. Therefore, it is critical that our facilities and infrastructure remain secure and that our facilities and infrastructure are perceived by the marketplace and our customers to be secure. Despite the implementation of security measures, our infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. If we fail to meet our clients' expectations regarding the security of healthcare information, we could be liable for damages and our reputation could be impaired. In addition, patient care could suffer, and we could be liable if our systems fail to deliver correct information in a timely manner. Our insurance may not protect us from this risk.

Our success depends in part on our proprietary technology, and if we are unable to successfully enforce our intellectual property rights, our competitive position may be harmed. Litigating claims of this type is costly and could distract our management and cause a decline in our results of operations and stock price.

Our success will depend in part on our ability to maintain existing intellectual property and to obtain and maintain further intellectual property protection for our products, both in the U.S. and in other countries. Our inability to do so could harm our competitive position. As of June 30, 2016, we had issued 403 U.S. patents, 312 foreign issued patents, and 349 pending global

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patent applications.

We intend to rely on our portfolio of issued and pending patent applications in the U.S. and in other countries to protect a large part of our intellectual property and our competitive position; however, our currently pending or future patent filings may not result in the issuance of patents. Additionally, any patents issued to us may be challenged, invalidated, held unenforceable, circumvented, or may not be sufficiently broad to prevent third parties from producing competing products similar in design to our products. In addition, any protection afforded by foreign patents may be more limited than that provided under U.S. patents and intellectual property laws. We also rely on protection of our copyrights, trade secrets, know-how and proprietary information. We generally enter into confidentiality agreements with our employees, consultants and our collaborative partners upon commencement of a relationship with us; however, these agreements may not provide meaningful protection against the unauthorized use or disclosure of our trade secrets or other confidential information, and adequate remedies may not exist if unauthorized use or disclosure were to occur. Our inability to maintain the proprietary nature of our technology through patents, copyrights or trade secrets would impair our competitive advantages and could have a material adverse effect on our operating results, financial condition and future growth prospects. In particular, a failure to protect our proprietary rights might allow competitors to copy our technology, which could adversely affect our pricing and market share. In addition, in an effort to protect our intellectual property we have in the past been and may in the future be involved in litigation. The potential effects on our business operations resulting from litigation that we may participate in the future, whether or not ultimately determined in our favor or settled by us, are costly and divert the efforts and attention of our management and technical personnel from normal business operations.

Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases where injunctive relief is sought, an injunction prohibiting us from selling our products. Any of these results from our litigation could adversely affect our results of operations and stock price.

While we believe we currently have adequate internal control over financial reporting, we are required to assess our internal control over financial reporting on an annual basis and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC, we are required to furnish in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we believe our internal control over financial reporting is currently effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate because of changes in conditions, and, as a result, the degree of compliance of our internal control over financial reporting with the existing policies or procedures may become ineffective. Establishing, testing and maintaining an effective system of internal control over financial reporting requires significant resources and time commitments on the part of our management and our finance staff, may require additional staffing and infrastructure investments, and would increase our costs of doing business. If we are unable to assert that our internal control over financial reporting is effective in any future period (or if our auditors are unable to express an opinion on the effectiveness of our internal controls or conclude that our internal controls are ineffective), we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.
If we lose our key personnel or are unable to attract and retain key personnel, we may be unable to pursue business opportunities or develop our products.

We are highly dependent on the key employees in our clinical engineering, technology development, sales, training and marketing personnel and management teams. The loss of the services provided by those individuals may significantly delay or prevent the achievement of our product development and other business objectives and could harm our business. Our future success will also depend on our ability to identify, recruit, train and retain additional qualified personnel, including orthodontists. Few orthodontists are accustomed to working in a manufacturing environment since they are generally trained to work in private practices, universities and other research institutions. Thus, we may be unable to attract and retain personnel with the advanced qualifications necessary for the further development of our business. Furthermore, we may not be successful in retaining our key personnel or their services. If we are unable to attract and retain key personnel, our business could be materially harmed.

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If we infringe the patents or proprietary rights of other parties or are subject to a patent infringement claim, our ability to grow our business may be severely limited.

Extensive litigation over patents and other intellectual property rights is common in the medical device industry. We have been sued for infringement of third party's patents in the past and we may be the subject of patent or other litigation in the future. From time to time, we have received and may in the future receive letters from third parties drawing our attention to their patent rights. While we do not believe that we infringe upon any valid and enforceable rights that have been brought to our attention, there may be other more pertinent rights of which we are presently unaware. The defense and prosecution of intellectual property suits, interference proceedings and related legal and administrative proceedings could result in substantial expense to us and significant diversion of effort by our technical and management personnel. An adverse determination of any litigation or interference proceeding to which we may become a party could subject us to significant liabilities. An adverse determination of this nature could also put our patents at risk of being invalidated or interpreted narrowly or require us to seek licenses from third parties. Licenses may not be available on commercially reasonable terms or at all, in which event, our business would be materially adversely affected.

We maintain single supply relationships for certain of our key machines and materials technologies, and our business and operating results could be harmed if supply is restricted or ends or the price of raw materials used in our manufacturing process increases.

We are highly dependent on manufacturers of specialized scanning equipment, rapid prototyping machines, resin and other advanced materials, as well as the optics, electronic and other mechanical components of our intra-oral scanners. We maintain single supply relationships for many of these machines and materials technologies. In particular, our CT scanning and stereolithography equipment used in our aligner manufacturing and many of the critical components for the optics of our scanners are provided by single suppliers. We are also committed to purchasing the vast majority of our resin and polymer, the primary raw materials used in our manufacturing process for clear aligners, from a single source. If these or other suppliers encounter financial, operating or other difficulties or if our relationship with them changes, we might not be able to quickly establish or qualify replacement sources of supply and could face production interruptions, delays and inefficiencies. In addition, technology changes by our vendors could disrupt access to required manufacturing capacity or require expensive, time consuming development efforts to adapt and integrate new equipment or processes. Our growth may exceed the capacity of one or more of these manufacturers to produce the needed equipment and materials in sufficient quantities to support our growth. Conversely, in order to secure supplies for production of products, we sometimes enter into non-cancelable purchase commitments with vendors, which could impact our ability to adjust our inventory to reflect declining market demands. If demand for our products is less than we expect, we may experience additional excess and obsolete inventories and be forced to incur additional charges and our profitability may suffer. In the event of technology changes, delivery delays, or shortages of or increases in price for these items, our business and growth prospects may be harmed.

We depend on a single contract manufacturer and supplier of parts used in our iTero scanner and any disruption in this relationship may cause us to fail to meet the demands of our customers and damage our customer relationships.

We rely on a third party manufacturer to supply key sub-assemblies for our iTero Element scanner. As a result, if this third party manufacturer fails to deliver its components, if we lose its services or if we fail to negotiate acceptable terms, we may be unable to deliver our products in a timely manner and our business may be harmed. Any difficulties encountered by the third party manufacturer with respect to hiring personnel and maintaining acceptable manufacturing standards, controls, procedures and policies could disrupt our ability to deliver our products in a timely manner. Finding a substitute manufacturer may be expensive, time-consuming or impossible and could result in a significant interruption in the supply of our intra-oral scanning products. Any failure by our contract manufacturer that results in delays in our fulfillment of customer orders may cause us to lose revenues and suffer damage to our customer relationships.

We primarily rely on our direct sales force to sell our products, and any failure to maintain our direct sales force could harm our business.

Our ability to sell our products and generate revenues primarily depends upon our direct sales force within our North American and international markets. We do not have any long-term employment contracts with the members of our direct sales force. The loss of the services provided by these key personnel may harm our business. If we are unable to retain our direct sales force personnel or replace them with individuals of equivalent technical expertise and qualifications, or if we are unable to successfully instill such technical expertise or if we fail to establish and maintain strong relationships with our customers within a relatively short period of time, our net revenues and our ability to maintain market share could be materially harmed. In addition, due to our large and fragmented customer base, we may not be able to provide all of our customers with product support immediately upon the launch of a new product. As a result, adoption of new products by our customers may be slower than anticipated and our ability to grow market share and increase our net revenues may be harmed.

If our distributor relationships are not successful, our ability to market and sell our products would be harmed and our financial performance will be adversely affected.

We depend on relationships with distributors for the marketing and sales of our products in various geographic regions, and we have a limited ability to influence their efforts. Relying on distributors for our sales and marketing could harm our business for various reasons, including:

- agreements with distributors may terminate prematurely due to disagreements or may result in litigation between the partners;
- we may not be able to renew existing distributor agreements on acceptable terms;
- our distributors may not devote sufficient resources to the sale of products;
- our distributors may be unsuccessful in marketing our products;
- our existing relationships with distributors may preclude us from entering into additional future arrangements with other distributors; and
- we may not be able to negotiate future distributor agreements on acceptable terms.

Complying with regulations enforced by the FDA and other regulatory authorities is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.

Our products are considered medical devices and are subject to extensive regulation in the U.S. and internationally. FDA regulations are wide ranging and govern, among other things:

- product design, development, manufacturing and testing;
- product labeling;
- product storage;
- pre-market clearance or approval;
- complaint handling and corrective actions;
- advertising and promotion; and
- product sales and distribution.

Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA or state agencies, which may include any of the following sanctions:

- warning letters, fines, injunctions, consent decrees and civil penalties;
- repair, replacement, refunds, recall or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or pre-market approval of new products, new intended uses, or modifications to existing products;
- withdrawing clearance or pre-market approvals that have already been granted; and
- criminal prosecution.

If any of these events were to occur, they could harm our business. We must comply with facility registration and product listing requirements of the FDA and adhere to applicable Quality System regulations. The FDA enforces its Quality System regulations through periodic unannounced inspections. Our failure to take satisfactory corrective action in response to an adverse inspection or the failure to comply with applicable manufacturing regulations could result in enforcement action, and we may be required to find alternative manufacturers, which could be a long and costly process. Any FDA enforcement action could have a material adverse effect on us.

Before we can sell a new medical device in the U.S., or market a new use of or claim for an existing product we must obtain FDA clearance or approval, unless an exemption applies. Obtaining regulatory clearances or approvals can be a lengthy and time-consuming process. Even though the devices we market have obtained the necessary clearances from the FDA, we may be unable to maintain such clearances in the future. Furthermore, we may be unable to obtain the necessary clearances for new devices that we intend to market in the future. Our inability to maintain or obtain regulatory clearances or approvals could materially harm our business.

In addition, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted disclosure requirements regarding the use of certain minerals, known as conflict minerals, which are mined from the Democratic Republic of Congo and adjoining countries, as well as procedures regarding a manufacturer's efforts to identify and discourage the sourcing of such minerals and metals produced from those minerals. Additional reporting obligations are being proposed by the European Union. The U.S. requirements and any additional requirements in Europe could affect the sourcing and availability of metals used in the manufacture of a limited number of parts (if any) contained in our products. For example, the implementation of these disclosure requirements may decrease the number of suppliers capable of supplying our needs for certain metals, thereby negatively affecting our ability to obtain products in sufficient quantities or at competitive prices. Our material sourcing is broad based and multi-tiered, and we may be unable to conclusively verify the origins for all metals used in our products. We may suffer financial and reputational harm if customers require, and we are unable to deliver, certification that our products are conflict free. Regardless, we will incur additional costs associated with compliance with these disclosure requirements, including time-consuming and costly efforts to determine the source of any conflict minerals used in our products.

If compliance with healthcare regulations becomes costly and difficult for our customers or for us, we may not be able to grow our business.

Participants in the healthcare industry are subject to extensive and frequently changing regulations under numerous laws administered by governmental entities at the federal, state and local levels, some of which are, and others of which may be, applicable to our business. In response to perceived increases in health care costs in recent years, Congress passed health care reform legislation that President Obama signed into law in March 2010. This legislation contains many provisions designed to generate the revenues necessary to fund the coverage expansions. The most relevant of these provisions are those that impose fees or taxes on certain health-related industries, including medical device manufacturers.

Furthermore, our healthcare provider customers are also subject to a wide variety of laws and regulations that could affect the nature and scope of their relationships with us. The healthcare market itself is highly regulated and subject to changing political, economic and regulatory influences. Regulations implemented pursuant to the Health Insurance Portability and Accountability Act ("HIPAA"), including regulations affecting the security and privacy of patient healthcare information held by healthcare providers and their business associates may require us to make significant and unplanned enhancements of software applications or services, result in delays or cancellations of orders, or result in the revocation of endorsement of our products and services by healthcare participants. The effect of HIPAA and newly enforced regulations on our business is difficult to predict, and there can be no assurance that we will adequately address the business risks created by HIPAA and its implementation or that we will be able to take advantage of any resulting business opportunities.

Extensive and changing government regulation of the healthcare industry may be expensive to comply with and exposes us to the risk of substantial government penalties.

In addition to medical device laws and regulations, numerous state and federal healthcare-related laws regulate our business, covering areas such as:

- storage, transmission and disclosure of medical information and healthcare records;
- prohibitions against the offer, payment or receipt of remuneration to induce referrals to entities providing healthcare services or goods or to induce the order, purchase or recommendation of our products; and
- the marketing and advertising of our products.

Complying with these laws and regulations could be expensive and time-consuming, and could increase our operating costs or reduce or eliminate certain of our sales and marketing activities or our revenues.

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We face risks related to our international sales, including the need to obtain necessary foreign regulatory clearance or approvals.

Outside of North America, we currently sell our products in Europe, Asia Pacific, Latin America and the Middle East and may expand into other countries from time to time. For sales of our products outside the U.S., we are subject to foreign regulatory requirements that vary widely from country to country. The time required to obtain clearances or approvals required by other countries may be longer than that required for FDA clearance or approval, and requirements for such approvals may differ from FDA requirements. We may be unable to obtain regulatory approvals in one or more of the other countries in which we do business or in which we may do business in the future. We may also incur significant costs in attempting to obtain and maintain foreign regulatory approvals. If we experience delays in receipt of approvals to market our products outside of the U.S., or if we fail to receive these approvals, we may be unable to market our products or enhancements in international markets in a timely manner, if at all.

Our business exposes us to potential product liability claims, and we may incur substantial expenses if we are subject to product liability claims or litigation.

Medical devices involve an inherent risk of product liability claims and associated adverse publicity. We may be held liable if any product we develop or any product that uses or incorporates any of our technologies causes injury or is otherwise found unsuitable. Although we intend to continue to maintain product liability insurance, adequate insurance may not be available on acceptable terms, if at all, and may not provide adequate coverage against potential liabilities. A product liability claim, regardless of its merit or eventual outcome, could result in significant legal defense costs. These costs would have the effect of increasing our expenses and diverting management's attention away from the operation of our business, and could harm our business.

Historically, the market price for our common stock has been volatile.

The market price of our common stock could be subject to wide price fluctuations in response to various factors, many of which are beyond our control. The factors include:

- quarterly variations in our results of operations and liquidity;
- changes in recommendations by the investment community or in their estimates of our net revenues or operating results;
- speculation in the press or investment community concerning our business and results of operations;
- strategic actions by our competitors, such as product announcements or acquisitions;
- announcements of technological innovations or new products by us, our customers or competitors; and
- general economic market conditions.

In addition, the stock market in general, and the market for technology and medical device companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated to or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Historically, class action litigation is often brought against an issuing company following periods of volatility in the market price of a company's securities.

Future sales of significant amounts of our common stock may depress our stock price.

A large percentage of our outstanding common stock is currently owned by a small number of significant stockholders. These stockholders have sold in the past, and may sell in the future, large amounts of common stock over relatively short periods of time. Sales of substantial amounts of our common stock in the public market by our existing stockholders may adversely affect the market price of our common stock. Such sales could create public perception of difficulties or problems with our business and may depress our stock price.

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If our goodwill or long-lived assets become impaired, we may be required to record a significant charge to earnings.

Under Generally Accepted Accounting Principles in the United States (“U.S. GAAP”), we review our goodwill and long-lived asset group for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Additionally, goodwill is required to be tested for impairment at least annually. The qualitative and quantitative analysis used to test goodwill are dependent upon various assumptions and reflect management’s best estimates. Changes in certain assumptions including revenue growth rates, discount rates, earnings multiples and future cash flows may cause a change in circumstances indicating that the carrying value of goodwill or the asset group may be impaired. We may be required to record a significant charge to earnings in the financial statements during the period in which any impairment of goodwill or asset group are determined.

Changes in, or interpretations of, accounting rules and regulations, could result in unfavorable accounting charges.

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Our accounting policies that recently have been, or may be affected by changes in the accounting rules relate to revenue recognition and leases.

If we fail to manage our exposure to global financial and securities market risk successfully, our operating results and financial statements could be materially impacted.

The primary objective of our investment activities is to preserve principal. To achieve this objective, a majority of our marketable investments are investment grade, liquid, fixed-income securities and money market instruments denominated in U.S. dollars. If the carrying value of our investments exceeds the fair value, and the decline in fair value is deemed to be other-than-temporary, we will be required to write down the value of our investments, which could materially harm our results of operations and financial condition. Moreover, the performance of certain securities in our investment portfolio correlates with the credit condition of the U.S. financial sector. In a current unstable credit environment, we might incur significant realized, unrealized or impairment losses associated with these investments.

On July 1, 2016, we changed our corporate structure; however, if we are unable to maintain this structure or if it is challenged by U.S. or foreign tax authorities, we may be unable to realize tax savings which could materially and adversely affect our operating results.

We implemented a new international corporate structure on July 1, 2016. This corporate structure may reduce our overall effective tax rate over time through changes in the structure of our international procurement and sales operations, as well as realignment of the ownership and use of intellectual property among our wholly-owned subsidiaries.

The structure includes legal entities located in jurisdictions with income tax rates lower than the U.S. federal statutory tax rate. Such intercompany arrangements would be designed to result in income earned by such entities in accordance with arm’s-length principles and commensurate with functions performed, risks assumed and ownership of valuable corporate assets. We believe that income taxed in certain foreign jurisdictions at a lower rate relative to the U.S. federal statutory rate will have a beneficial impact on our worldwide effective tax rate over the medium to long term.

If the structure is challenged by U.S. or foreign tax authorities, if changes in domestic and international tax laws negatively impact the structure, including proposed legislation to reform U.S. taxation of international business activities, or if we do not operate our business in a manner consistent with the structure and applicable regulatory provisions, we may fail to achieve the financial and operational efficiencies that we anticipate as a result of the structure, and our business, financial condition and operating results may be materially and adversely affected.

Our effective tax rate may vary significantly from period to period.

Various internal and external factors may have favorable or unfavorable effects on our future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, non-deductible goodwill impairments, changing interpretations of existing tax laws or regulations, changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates, the future levels of tax benefits of stock option deductions relating to incentive stock options and employee stock purchase plans, settlement of income tax audits, and changes in overall levels of pretax earnings. For example, the FASB issued ASU No. 2016-19 “Improvements to Employee Share-Based Payment Accounting,” which will, among other things, change how we account for our tax shortfalls or benefits from stock based awards, and this guidance may have a favorable or unfavorable effect on our future effective tax rate. We are still evaluating the impact of this guidance on our consolidated financial statements.

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In June 2009, the Costa Rica Ministry of Foreign Trade, an agency of the Government of Costa Rica, granted a twelve year extension of various income tax incentives, which were previously granted in 2002. The incentive tax rates will expire in various years beginning in 2017. Under these incentives, all of the income in Costa Rica during these twelve year incentive periods is subject to a reduced rate of Costa Rica income tax. In order to receive the benefit of these incentives, we must hire specified numbers of employees and maintain certain minimum levels of fixed asset investment in Costa Rica. If we do not fulfill these conditions for any reason, our incentive could lapse, and our income in Costa Rica would be subject to taxation at higher rates, which could have a negative impact on our operating results. The Costa Rica corporate income tax rate that would apply, absent the incentives, is 30% for 2016 and 2015. As a result of these incentives, our income taxes were reduced by $8.6 million and $8.2 million for the three months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.11 and $0.10 in 2016 and 2015, respectively. As a result of these incentives, our income taxes were reduced by $17.2 million and $16.4 million for the six months ended June 30, 2016 and 2015, respectively, representing a benefit to diluted net income per share of $0.21 and $0.20 in 2016 and 2015, respectively. Our subsidiary in Israel is under audit by the local tax authorities for calendar years 2006 through 2012. We are currently under audit by the California Franchise Tax Board for fiscal year 2011, 2012 and 2013.

Changes in tax laws or tax rulings could negatively impact our income tax provision and net income.

As a U.S. multinational corporation, we are subject to changing tax laws both within and outside of the U.S. Changes in tax laws or tax rulings, or changes in interpretations of existing tax laws, could affect our income tax provision and net income or require us to change the manner in which we operate our business. Many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws. For example, the Organization for Economic Cooperation and Development ("OECD") has been working on a "Base Erosion and Profit Shifting Project," which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. The OECD has issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. In addition, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings.

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

Following is a summary of stock repurchases for the three months ended June 30, 2016:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Program [(1)]
May 1, 2016 through May 31, 2016	467,290	$ 74.90	64,978,175	$ 64,978,175

(1) In April 2014, we announced that our Board of Directors had authorized a stock repurchase program ("April 2014") pursuant to which we may purchase up to $300.0 million of our common stock over the next three years. As of June 30, 2016, we have approximately $50.0 million remaining under the April 2014 stock repurchase program. On May 3, 2016, as part of our $300.0 million April 2014 stock repurchase program, we entered into an ASR to repurchase $50.0 million of our common stock (the "2016 ASR"). Under the terms of the 2016 ASR, we paid $50.0 million and received an initial delivery of approximately 0.5 million shares based on current market price of $74.90, which we retired. The final delivery is scheduled during October 2016, with the number of shares to be determined by the Company's volume weighted-average stock price during the term of the ASR less an agreed upon discount. After the completion of the 2016 ASR, we will commence repurchasing $50.0 million of our common stock on the open market. These two actions will complete the April 2014 stock repurchase program.
On April 28, 2016, we announced that our Board of Directors had authorized a plan to repurchase up to $300.0 million of the Company's stock. This latest authorization is in addition to the existing $300 million authorization announced in April 2014, which brings the total authorization to $600 million. Any purchases under this stock repurchase program may be made, from time-to-time, pursuant to open market purchases (including pursuant to Rule 10b5-1 plans), privately-negotiated transactions, accelerated stock repurchases, block trades or derivative contracts or otherwise in accordance with applicable federal securities laws, including Rule 10b-18 of the Securities Exchange Act of 1934. (Refer to Note 9 "Common Stock Repurchase", of the Notes to condensed consolidated financial statements for details of the common stock repurchase).

We expect to finance future stock repurchases with current cash on hand.

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits:

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Exhibit Number	Description	Filing	Date	Exhibit Number	Filed here with
10.1	Class C Non-Incentive Unit Purchase Agreement, July 25, 2016	Form 8-K	07/28/16	10.1	
10.2	Fixed Dollar Accelerated Repurchase Transaction Agreement dated April 25, 2016 between Morgan Stanley and Align				*
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				*
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				*
101.INS	XBRL Instance Document				*
101.SCH	XBRL Taxonomy Extension Schema Document				*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				*

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SIGNATURES

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

ALIGN TECHNOLOGY, INC.

August 4, 2016	By:	/S/ JOSEPH M. HOGAN Joseph M. Hogan President and Chief Executive Officer
	By:	/S/ DAVID L. WHITE David L. White Chief Financial Officer

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