

PRICESMART INC
Form 10-Q
January 08, 2015

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

FORM 10-Q

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

For the quarterly period ended November 30, 2014

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-22793

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0628530

(I.R.S. Employer
Identification No.)

9740 Scranton Road, San Diego, CA 92121

(Address of principal executive offices)

(858) 404-8800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 30,211,917 shares of its common stock, par value \$0.0001 per share, outstanding at December 31, 2014.

PRICESMART, INC.

INDEX TO FORM 10-Q

| | Page |
|--|-----------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| <u>ITEM 1. FINANCIAL STATEMENTS</u> | <u>1</u> |
| <u>CONSOLIDATED BALANCE SHEETS AS OF NOVEMBER 30, 2014 (UNAUDITED) AND AUGUST 31, 2014</u> | <u>2</u> |
| <u>CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013 - UNAUDITED</u> | <u>3</u> |
| <u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013 - UNAUDITED</u> | <u>4</u> |
| <u>CONSOLIDATED STATEMENTS OF EQUITY FOR THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013 - UNAUDITED</u> | <u>5</u> |
| <u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013 - UNAUDITED</u> | <u>6</u> |
| <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED</u> | <u>7</u> |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>35</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | <u>56</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u> | <u>57</u> |
| <u>PART II - OTHER INFORMATION</u> | |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | <u>59</u> |
| <u>ITEM 1A. RISK FACTORS</u> | <u>59</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | <u>59</u> |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u> | <u>59</u> |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u> | <u>59</u> |
| <u>ITEM 5. OTHER INFORMATION</u> | <u>59</u> |
| <u>ITEM 6. EXHIBITS</u> | <u>60</u> |

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.'s ("PriceSmart" or the "Company") unaudited consolidated balance sheet as of November 30, 2014 and the consolidated balance sheet as of August 31, 2014, the unaudited consolidated statements of income for the three months ended November 30, 2014 and 2013, the unaudited consolidated statements of comprehensive income for the three months ended November 30, 2014 and 2013, the unaudited consolidated statements of equity for the three months ended November 30, 2014 and 2013, and the unaudited consolidated statements of cash flows for the three months ended November 30, 2014 and 2013, are included herein. Also included herein are the notes to the unaudited consolidated financial statements.

1

PRICESMART, INC.
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| | November 30, 2014 (Unaudited) | August 31, 2014 |
|---|-------------------------------------|-----------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$119,213 | \$137,098 |
| Short-term restricted cash | 4,376 | 2,353 |
| Receivables, net of allowance for doubtful accounts of \$3 and \$0 as of November 30, 2014 and August 31, 2014, respectively | 6,467 | 7,910 |
| Merchandise inventories | 323,408 | 226,383 |
| Deferred tax assets – current | 7,121 | 6,177 |
| Prepaid expenses and other current assets (includes \$1,493 and \$495 as of November 30, 2014 and August 31, 2014, respectively, for the fair value of derivative instruments and \$1,484 as of November 30, 2014 for the fair value of foreign currency forward contracts) | 25,189 | 17,260 |
| Total current assets | 485,774 | 397,181 |
| Long-term restricted cash | 27,062 | 27,013 |
| Property and equipment, net | 432,872 | 426,325 |
| Goodwill | 36,162 | 36,108 |
| Deferred tax assets – long term | 9,449 | 11,825 |
| Other non-current assets (includes \$3,926 and \$1,095 as of November 30, 2014 and August 31, 2014, respectively, for the fair value of derivative instruments) | 35,744 | 30,755 |
| Investment in unconsolidated affiliates | 10,069 | 8,863 |
| Total Assets | \$1,037,132 | \$938,070 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Short-term borrowings | \$17,066 | \$— |
| Accounts payable | 282,435 | 223,559 |
| Accrued salaries and benefits | 16,221 | 17,799 |
| Deferred membership income | 20,190 | 17,932 |
| Income taxes payable | 7,577 | 7,718 |
| Other accrued expenses (includes \$7 and \$14 as of November 30, 2014 and August 31, 2014, respectively, for the fair value of foreign currency forward contracts) | 25,052 | 21,030 |
| Long-term debt, current portion | 10,932 | 11,848 |
| Deferred tax liability – current | 162 | 157 |
| Total current liabilities | 379,635 | 300,043 |
| Deferred tax liability – long-term | 2,398 | 2,290 |
| Long-term portion of deferred rent | 5,951 | 5,591 |
| Long-term income taxes payable, net of current portion | 1,816 | 1,918 |
| Long-term debt, net of current portion | 85,378 | 79,591 |
| Other long-term liabilities (includes \$535 and \$0 for the fair value of derivative instruments and \$370 and \$372 for the defined benefit plan as of November 30, 2014 and August 31, 2014, respectively) | 905 | 372 |
| Total liabilities | 476,083 | 389,805 |
| Equity: | | |

Edgar Filing: PRICESMART INC - Form 10-Q

| | | | |
|---|-------------|-----------|---|
| Common stock, \$0.0001 par value, 45,000,000 shares authorized; 30,950,701 shares issued and 30,209,917 shares outstanding (net of treasury shares) as of November 30, 2014 and August 31, 2014 | 3 | 3 | |
| Preferred stock \$0.0001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of November 30, 2014 and August 31, 2014 | — | — | |
| Additional paid-in capital | 398,706 | 397,150 | |
| Tax benefit from stock-based compensation | 9,505 | 9,505 | |
| Accumulated other comprehensive loss | (58,705) | (49,286) |) |
| Retained earnings | 236,260 | 215,613 | |
| Less: treasury stock at cost; 740,784 shares as of November 30, 2014 and August 31, 2014 | (24,720) | (24,720) |) |
| Total equity | 561,049 | 548,265 | |
| Total Liabilities and Equity | \$1,037,132 | \$938,070 | |

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED—AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Three Months Ended November 30, | |
|---|------------------------------------|-----------|
| | 2014 | 2013 |
| Revenues: | | |
| Net warehouse club sales | \$636,415 | \$589,694 |
| Export sales | 8,431 | 5,721 |
| Membership income | 10,115 | 9,268 |
| Other income | 1,060 | 918 |
| Total revenues | 656,021 | 605,601 |
| Operating expenses: | | |
| Cost of goods sold: | | |
| Net warehouse club | 539,028 | 504,287 |
| Export | 8,027 | 5,441 |
| Selling, general and administrative: | | |
| Warehouse club operations | 56,210 | 51,772 |
| General and administrative | 13,350 | 11,184 |
| Pre-opening expenses | 3,149 | 474 |
| Loss/(gain) on disposal of assets | (28 |) 84 |
| Total operating expenses | 619,736 | 573,242 |
| Operating income | 36,285 | 32,359 |
| Other income (expense): | | |
| Interest income | 264 | 181 |
| Interest expense | (1,174 |) (1,038 |
| Other income (expense), net | (2,632 |) 311 |
| Total other expense | (3,542 |) (546 |
| Income before provision for income taxes and income (loss) of unconsolidated affiliates | 32,743 | 31,813 |
| Provision for income taxes | (12,102 |) (10,385 |
| Income (loss) of unconsolidated affiliates | 6 | 4 |
| Net income | 20,647 | \$21,432 |
| Net income per share available for distribution: | | |
| Basic net income per share | \$0.68 | \$0.71 |
| Diluted net income per share | \$0.68 | \$0.71 |
| Shares used in per share computations: | | |
| Basic | 29,791 | 29,690 |
| Diluted | 29,799 | 29,702 |
| Dividends per share | \$— | \$— |

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED—AMOUNTS IN THOUSANDS)

| | Three Months Ended November | |
|---|-----------------------------|----------|
| | 30, | |
| | 2014 | 2013 |
| Net income | \$20,647 | \$21,432 |
| Other Comprehensive Income, net of tax: | | |
| Foreign currency translation adjustments ⁽¹⁾ | \$(11,651) | \$1,289 |
| Defined benefit pension plan: | | |
| Net gain (loss) arising during period | (11) | 3 |
| Total defined benefit pension plan | (11) | 3 |
| Unrealized gains/(losses) on change in fair value of interest rate swaps ⁽²⁾ | 2,243 | (143) |
| Other comprehensive income (loss) | (9,419) | 1,149 |
| Comprehensive income | \$11,228 | \$22,581 |

Translation adjustments arising in translating the financial statements of a foreign entity have no effect on the income taxes of that foreign entity. They may, however, affect: (a) the amount, measured in the parent entity's reporting currency, of withholding taxes assessed on dividends paid to the parent entity and (b) the amount of taxes ⁽¹⁾ assessed on the parent entity by the government of its country. The Company has determined that the reinvestment of earnings of its foreign subsidiaries are indefinite because of the long-term nature of the Company's foreign investment plans. Therefore, deferred taxes are not provided for on translation adjustments related to non-remitted earnings of the Company's foreign subsidiaries.

⁽²⁾ See Note 9 - Derivative Instruments and Hedging Activities.

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED—AMOUNTS IN THOUSANDS)

| | Common Stock | | Additional Paid-in Capital | Tax Benefit From Stock Based Compen-sation | Accumulated Other Compre-hensive Income(Loss) | Retained Earnings | Treasury Stock Shares | Treasury Stock Amount | Total Equity |
|---------------------------------------|-----------------|------|----------------------------------|--|--|----------------------|--------------------------|--------------------------|-----------------|
| Balance at August 31, 2013 | 30,924 | \$ 3 | \$390,581 | \$ 8,016 | \$ (41,475) | \$ 143,871 | 690 | \$(19,947) | \$481,049 |
| Forfeiture of restricted stock awards | (1) | — | — | — | — | — | — | — | — |
| Stock-based compensation | — | — | 1,430 | — | — | — | — | — | 1,430 |
| Net income | — | — | — | — | — | 21,432 | — | — | 21,432 |
| Other comprehensive income (loss) | — | — | — | — | 1,149 | — | — | — | 1,149 |
| Balance at November 30, 2013 | 30,923 | \$ 3 | \$392,011 | \$ 8,016 | \$ (40,326) | \$ 165,303 | 690 | \$(19,947) | \$505,060 |
| Balance at August 31, 2014 | 30,951 | \$ 3 | \$397,150 | \$ 9,505 | \$ (49,286) | \$ 215,613 | 741 | \$(24,720) | \$548,265 |
| Stock-based compensation | — | — | 1,556 | — | — | — | — | — | 1,556 |
| Net income | — | — | — | — | — | 20,647 | — | — | 20,647 |
| Other comprehensive income (loss) | — | — | — | — | (9,419) | — | — | — | (9,419) |
| Balance at November 30, 2014 | 30,951 | \$ 3 | \$398,706 | \$ 9,505 | \$ (58,705) | \$ 236,260 | 741 | \$(24,720) | \$561,049 |

See accompanying notes.

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED—AMOUNTS IN THOUSANDS)

| | Three Months Ended November 30, | |
|--|---------------------------------|-----------|
| | 2014 | 2013 |
| Operating Activities: | | |
| Net income | \$20,647 | \$21,432 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 7,797 | 6,654 |
| Allowance for doubtful accounts | — | 7 |
| (Gain)/loss on sale of property and equipment | (28 |) 84 |
| Deferred income taxes | 2,607 | (5 |
| Equity in (gains) of unconsolidated affiliates | (6 |) (4 |
| Stock-based compensation | 1,556 | 1,430 |
| Change in operating assets and liabilities: | | |
| Change in receivables, prepaid expenses and other current assets, accrued salaries and benefits, deferred membership income and other accruals | (6,888 |) (20,345 |
| Merchandise inventories | (97,025 |) (81,308 |
| Accounts payable | 57,474 | 34,413 |
| Net cash provided by (used in) operating activities | (13,866 |) (37,642 |
| Investing Activities: | | |
| Additions to property and equipment | (26,332 |) (18,288 |
| Deposits for land purchase option agreements | (2,023 |) — |
| Proceeds from disposal of property and equipment | 39 | 22 |
| Investment in joint ventures | (1,200 |) — |
| Net cash provided by (used in) investing activities | (29,516 |) (18,266 |
| Financing Activities: | | |
| Proceeds from bank borrowings | 35,416 | 13,000 |
| Repayment of bank borrowings | (10,625 |) (10,182 |
| Release of restricted cash | — | 8,000 |
| Net cash provided by (used in) financing activities | 24,791 | 10,818 |
| Effect of exchange rate changes on cash and cash equivalents | 706 | 442 |
| Net increase (decrease) in cash and cash equivalents | (17,885 |) (44,648 |
| Cash and cash equivalents at beginning of period | 137,098 | 121,874 |
| Cash and cash equivalents at end of period | \$119,213 | \$77,226 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest, net of amounts capitalized | \$1,040 | \$1,059 |
| Income taxes | \$11,657 | \$15,216 |
| Supplemental non-cash item: | | |
| Dividends declared but not paid | \$— | \$— |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

November 30, 2014

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart" or the "Company") business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of November 30, 2014, the Company had 36 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (six in Costa Rica and Colombia; four in Panama and Trinidad; three in Guatemala, Honduras and the Dominican Republic; two in El Salvador; and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). During October of fiscal year 2014, the Company opened its sixth membership warehouse club in Costa Rica in La Union, Cartago, and in May of fiscal year 2014, the Company opened its third warehouse club in Honduras in Tegucigalpa, the Company's second in the capital city. In January of fiscal year 2014, the Company acquired land in the southern area of Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. The Company built new warehouse clubs at these three sites, and opened the Bogota location in October 2014 and opened the other two sites in November 2014. Together with the three warehouse clubs that were operating prior to these openings in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of PriceSmart warehouse clubs operating in Colombia to six. In September 2014, the Company acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which the Company's fifth PriceSmart warehouse club in Panama is scheduled to open in the summer of 2015. The Company continues to explore other potential sites for future warehouse clubs in Central America, the Caribbean and Colombia. The warehouse club sales and membership sign-ups experienced with the opening of the warehouse clubs in Colombia have reinforced the Company's belief that there could be a market for additional PriceSmart warehouse clubs in other Colombian cities.

Basis of Presentation - The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2014 (the "2014 Form 10-K"). The interim consolidated financial statements include the accounts of PriceSmart, Inc., a Delaware corporation, and its subsidiaries. Inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

The Company has evaluated subsequent events through the date and time these financial statements were issued.

Reclassifications to consolidated balance sheet recorded during fiscal year 2015 for fiscal year 2014 - Certain reclassifications to the consolidated balance sheet have been made to prior fiscal year amounts to conform to the presentation in the current fiscal year. These reclassifications relate to the presentation of certain income tax receivables (see note 2). The table below summarizes these reclassifications.

| | August 31, 2014 balance sheet line item as previously reported | Amount reclassified Dr/(Cr) | August 31, 2014 balance sheet line item as currently reported |
|---|--|--------------------------------|---|
| Prepaid expenses and other current assets | 22,570 | \$(5,310) |) 17,260 |
| Other non-current assets | 27,593 | 3,162 | 30,755 |
| Accounts payable | (225,761) |) 2,202 | (223,559) |
| Income taxes payable | (7,664) |) (54) |) (7,718) |

Net Amount of reclassifications

\$—

7

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The interim consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company’s wholly owned subsidiaries and the Company’s investment in, and the Company’s share of the income (loss) of, joint ventures recorded under the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation. The interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC, and reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of the results for the full year. As of November 30, 2014, all of the Company’s subsidiaries were wholly owned. Additionally, the Company’s ownership interest in real estate development joint ventures as of November 30, 2014 is listed below:

| Real Estate Development Joint Ventures | Countries | Ownership | Basis of Presentation |
|--|------------|-----------|-------------------------|
| GolfPark Plaza, S.A. | Panama | 50.0 | % Equity ⁽¹⁾ |
| Price Plaza Alajuela PPA, S.A. | Costa Rica | 50.0 | % Equity ⁽¹⁾ |

⁽¹⁾Joint venture interests are recorded as investment in unconsolidated affiliates on the consolidated balance sheets.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Variable Interest Entities – The Company reviews and determines at the start of each arrangement, or subsequently if a reconsideration event occurs, whether any of its investments in joint ventures are a Variable Interest Entity (“VIE”) and whether it must consolidate a VIE and/or disclose information about its involvement in a VIE. The Company has determined that the joint ventures for GolfPark Plaza (Panama) and Price Plaza Alajuela (Costa Rica) are VIEs. The Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method.

Cash and Cash Equivalents – Cash and cash equivalents represent cash and short-term investments with maturities of three months or less when purchased and proceeds due from credit and debit card transactions, which are generally settled within a few days of the underlying transaction.

Restricted Cash – The changes in restricted cash are disclosed within the consolidated statement of cash flows based on the nature of the restriction. The following table summarizes the restricted cash reported by the Company (in thousands):

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | November 30, 2014 | August 31, 2014 |
|---|-------------------|-----------------|
| Short-term restricted cash: | | |
| Restricted cash for Honduras loan | \$ 1,200 | \$ 1,200 |
| Restricted cash for land purchase option agreements | 1,266 | 1,095 |
| Restricted cash in Panama for purchase of property | 1,852 | — |
| Other short-term restricted cash ⁽¹⁾ | 58 | 58 |
| Total short-term restricted cash | \$ 4,376 | \$ 2,353 |
| Long-term restricted cash: | | |
| Restricted cash for Honduras loan | \$ 1,720 | \$ 1,720 |
| Restricted cash for Colombia bank loans | 24,000 | 24,000 |
| Other long-term restricted cash ⁽¹⁾ | 1,342 | 1,293 |
| Total long-term restricted cash | \$ 27,062 | \$ 27,013 |
| Total restricted cash | \$ 31,438 | \$ 29,366 |

(1) Other short-term and long-term restricted cash consists mainly of cash deposits held within banking institutions in compliance with federal regulatory requirements in Costa Rica and Panama.

Tax Receivables - The Company pays Value Added Tax (“VAT”) or similar taxes (“input VAT”), income taxes, and other taxes within the normal course of its business in most of the countries in which it operates related to the procurement of merchandise and/or services it acquires and/or on estimated sales and taxable income. The Company also collects VAT or similar taxes on behalf of the government (“output VAT”) for merchandise and/or services it sells. If the output VAT exceeds the input VAT, then the difference is remitted to the government, usually on a monthly basis. If the input VAT exceeds the output VAT, this creates a VAT receivable. In some countries where the Company operates, the governments have implemented additional collection procedures, such as requiring credit card processors to remit a portion of sales processed via credit card directly to the government as advance payments of VAT and/or income tax. In the case of VAT these procedures alter the natural offset of input and output VAT and generally leave the Company with a net VAT receivable, forcing the Company to process significant refund claims on a recurring basis. With respect to income taxes paid, if the estimated income taxes paid or withheld exceed the actual income tax due this creates an income tax receivable. The Company either requests a refund of these tax receivables or applies the balance to expected future tax payments. These refund or offset processes can take anywhere from several months to several years to complete.

In most countries where the Company operates, the tax refund process is defined and structured with regular refunds or offsets. However, in two countries the respective governments have alleged that there is no defined process in the law to allow them to refund VAT receivables. The Company together with its tax and legal advisers is currently appealing these interpretations in court and expects to prevail. In one of these countries, where there is recent favorable jurisprudence, the government has recently begun an audit to verify the amount of the respective VAT receivables as a required precursor to any refund. The balance of the VAT receivable in these countries was \$6.6 million and \$5.7 million as of November 30, 2014 and August 31, 2014, respectively. In another country in which we have warehouse clubs, beginning in fiscal year 2015, a new minimum income tax mechanism takes effect, which will require the Company to pay taxes based on a factor of sales rather than income. This would result in the Company having to make income tax payments substantially in excess of those due based on taxable income. The current rules would not allow the Company to obtain a refund or offset this excess against other taxes. Due to the timing of these

rules, as of November 30, 2014, the Company did not yet have an outstanding income tax receivable in this country; however, there were deferred tax assets of approximately \$1.1 million outstanding as of that date. The Company has not placed any type of allowance on the recoverability of these tax receivables or deferred income taxes.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's policy for classification and presentation of VAT receivables, income tax receivables and other tax receivables is as follows:

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where the Company's subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. The Company also classifies as short-term any approved refunds or credit notes to the extent that the Company expects to receive the refund or use the credit notes within one year.

- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where the Company's subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when the Company does not expect to eventually prevail in its recovery.

The following table summarizes the VAT receivables reported by the Company (in thousands):

| | November 30, 2014 | August 31, 2014 |
|---|-------------------|-----------------|
| Prepaid expenses and other current assets | \$ 4,069 | \$ 3,565 |
| Other non-current assets | 18,655 | 17,115 |
| Total amount of VAT receivable reported | \$ 22,724 | \$ 20,680 |

The following table summarizes the Income tax receivables reported by the Company (in thousands):

| | November 30, 2014 | August 31, 2014 |
|--|-------------------|-----------------|
| Prepaid expenses and other current assets | \$ 1,992 | \$ 1,916 |
| Other non-current assets | 8,331 | 7,218 |
| Total amount of income tax receivable reported | \$ 10,323 | \$ 9,134 |

Lease Accounting – Certain of the Company's operating leases where the Company is the lessee (see Revenue Recognition Policy for lessor accounting) provide for minimum annual payments that increase over the expected life of the lease. The aggregate minimum annual payments are expensed on the straight-line basis beginning when the Company takes possession of the property and extending over the expected term of the related lease including renewal options when the exercise of the option is reasonably assured as an economic penalty may be incurred if the option is not exercised. The amount by which straight-line rent exceeds actual lease payment requirements in the early years of the leases is accrued as deferred rent and reduced in later years when the actual cash payment requirements exceed the straight-line expense. The Company also accounts in its straight-line computation for the effect of any “rental holidays” and lessor-paid tenant improvements. In addition to the minimum annual payments, in certain locations, the Company pays additional contingent rent based on a contractually stipulated percentage of sales.

Merchandise Inventories - Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or market. The Company provides for estimated inventory losses and obsolescence between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically to reflect the

trend of actual physical inventory count results, with physical inventories occurring primarily in the second and fourth fiscal quarters. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Fair Value Measurements – The Company measures the fair value for all financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties able to engage in the transaction. A liability's fair value is defined as the amount that would be paid to transfer the

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

The Company has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring and revaluing fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company was not required to revalue any assets or liabilities utilizing Level 1 or Level 3 inputs at the balance sheet dates. The Company's Level 2 assets and liabilities revalued at the balance sheet dates, on a recurring basis, primarily included cash flow hedges (interest rate swaps and cross-currency interest rate swaps) and forward foreign exchange contracts. In addition, the Company utilizes Level 2 inputs in determining the fair value of long-term debt. The Company has elected not to revalue long-term debt because this debt will be settled at the carrying value and not at the fair market value. The Company did not make any significant transfers in and out of Level 1 and Level 2 fair value tiers during the periods reported on herein.

Nonfinancial assets and liabilities are revalued and recognized at fair value subsequent to initial recognition when there is evidence of impairment. For the periods reported, no impairment of such nonfinancial assets was recorded.

The disclosure of fair value of certain financial assets and liabilities recorded at cost is as follows:

Cash and cash equivalents: The carrying value approximates fair value due to the short maturity of these instruments.

Short-term restricted cash: The carrying value approximates fair value due to the short maturity of these instruments.

Long-term restricted cash: Long-term restricted cash primarily consists of auto renewable 3-12 month certificates of deposit, which are held as collateral on our long-term debt. The carrying value approximates fair value due to the short maturity of the underlying certificates of deposit.

Accounts receivable: The carrying value approximates fair value due to the short maturity of these accounts.

Short-term debt: The carrying value approximates fair value due to the short maturity of these instruments.

Long-term debt: The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments. These inputs are not quoted prices in active markets but they are either directly or indirectly observable; therefore, they are classified as Level 2 inputs. The carrying value and fair value of the Company's debt as of November 30, 2014 and August 31, 2014 is as follows (in thousands):

| | November 30, 2014 | | August 31, 2014 | |
|---|-------------------|------------|-----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt, including current portion | \$96,310 | \$96,684 | \$91,439 | \$92,893 |

Derivatives Instruments and Hedging Activities - The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest and currency exchange rates. In using derivative financial instruments for the purpose of hedging the Company's exposure to interest and currency exchange rate risks,

the contractual terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria (effective hedge) are recorded using hedge accounting. If a derivative financial instrument is an effective hedge, changes in the fair value of the instrument will be offset in accumulated other comprehensive income (loss) until the hedged item completes its contractual term. If any portion of the hedge is deemed ineffective, the change in fair value of the hedged assets or liabilities will be immediately recognized in earnings during the period. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. Valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company's consolidated balance sheets were not changed from previous practice during the reporting period. The Company seeks to manage counterparty risk associated

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

with these contracts by limiting transactions to counterparties with which the Company has an established banking relationship. There can be no assurance, however, that this practice effectively mitigates counterparty risk.

Cash Flow Instruments. The Company is a party to receive floating interest rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain U.S. dollar denominated debt within its international subsidiaries. The swaps are designated as cash flow hedges of interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive variable interest rate, pay fixed interest rate cross-currency interest rate swaps to hedge the interest rate and currency exposure associated with the expected payments of principal and interest of U.S. denominated debt within its international subsidiaries whose functional currency is other than the U.S. dollar. The swaps are designated as cash flow hedges of the currency risk related to payments on the U.S. denominated debt. These instruments are also considered to be effective hedges and are recorded using hedge accounting. Under cash flow hedging, the effective portion of the fair value of the derivative, calculated as the net present value of the future cash flows, is deferred on the consolidated balance sheets in accumulated other comprehensive loss. If any portion of an interest rate swap is determined to be an ineffective hedge, the gains or losses from changes in fair value would be recorded directly in the consolidated statements of income. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. See Note 9 - Derivative Instruments and Hedging Activities for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of November 30, 2014 and August 31, 2014.

Fair Value Instruments. The Company is exposed to foreign-currency exchange rate fluctuations in the normal course of business. The Company is also exposed to foreign-currency exchange rate fluctuations on U.S. dollar denominated liabilities within its international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flow attributable to currency exchange movements. The contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. Currently, these contracts are treated for accounting purposes as fair value instruments and do not qualify for derivative hedge accounting, and as such the Company does not apply derivative hedge accounting to record these transactions. As a result, these contracts are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. The Company seeks to mitigate foreign-currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features and are limited to less than one year in duration. See Note 9 - Derivative Instruments and Hedging Activities for information on the fair value of open, unsettled forward foreign-exchange contracts as of November 30, 2014 and August 31, 2014.

The following tables summarize financial assets and liabilities measured and recorded at fair value on a recurring basis in the Company's consolidated balance sheet as of November 30, 2014 and August 31, 2014 (in thousands) for derivatives that qualify for hedge accounting:

| Assets and Liabilities as of November 30, 2014 | Quoted Prices in Active Markets for Identical | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|---|---|--|-------|
|--|---|---|--|-------|

Edgar Filing: PRICESMART INC - Form 10-Q

| | Assets (Level 1) | | | |
|--|---------------------|---------|-----|---------|
| Prepaid expenses and other current assets (Cross-currency interest rate swaps) | \$— | \$1,493 | \$— | \$1,493 |
| Other non-current assets - (Cross-currency interest rate swaps) | — | 3,926 | — | 3,926 |
| Other long-term liabilities – (Interest rate swaps) | — | (246 |) — | (246) |
| Other long-term liabilities – (Cross-currency interest rate swaps) | — | (289 |) — | (289) |
| Total | \$— | \$4,884 | \$— | \$4,884 |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| Assets and Liabilities as of August 31, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|--|---|--|----------|
| Prepaid expenses and other current assets (Cross-currency interest rate swaps) | \$— | \$ 495 | \$— | \$ 495 |
| Other non-current assets - (Cross-currency interest rate swaps) | — | 970 | — | 970 |
| Other non-current assets - (Interest rate swaps) | — | 125 | — | 125 |
| Total | \$— | \$ 1,590 | \$— | \$ 1,590 |

The following tables summarize financial assets and liabilities measured and recorded at fair value on a recurring basis in the Company's consolidated balance sheet as of November 30, 2014 and August 31, 2014 (in thousands) for derivatives that do not qualify for hedge accounting:

| Assets and Liabilities as of November 30, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|--|---|--|----------|
| Prepaid expenses and other current assets (Foreign currency forward contracts) | \$— | \$ 1,484 | \$— | \$ 1,484 |
| Other accrued expenses (Foreign currency forward contracts) | — | (7 |) — | (7) |
| Net fair value of derivatives designated as hedging instruments that do not qualify for hedge accounting | \$— | \$ 1,477 | \$— | \$ 1,477 |

| Assets and Liabilities as of August 31, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|--|---|--|---------|
| Prepaid expenses and other current assets (Foreign currency forward contracts) | \$— | \$— | \$— | \$— |
| Other accrued expenses (Foreign currency forward contracts) | — | (14 |) — | (14) |
| Net fair value of derivatives designated as hedging instruments that do not qualify for hedge accounting | \$— | \$(14 |) \$— | \$(14) |

Goodwill – The table below presents goodwill resulting from certain business combinations as of November 30, 2014 and August 31, 2014 (in thousands). The change in goodwill is a result of foreign exchange translation losses.

Edgar Filing: PRICESMART INC - Form 10-Q

| | November 30, 2014 | August 31, 2014 | Change |
|----------|-------------------|-----------------|--------|
| Goodwill | \$ 36,162 | \$ 36,108 | \$ 54 |

13

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company reviews goodwill at the entity level for impairment. The Company first reviews qualitative factors for each reporting unit, in determining if an annual goodwill test is required. If the Company's review of qualitative factors indicates a requirement for a test of goodwill impairment, the Company then will assess whether the carrying amount of a reporting unit is greater than zero and exceeds its fair value established during the Company's prior test of goodwill impairment ("established fair value"). If the carrying amount of a reporting unit at the entity level is greater than zero and its established fair value exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If either the carrying amount of the reporting unit is not greater than zero or if the carrying amount of the entity exceeds its established fair value, the Company performs a second test to determine whether goodwill has been impaired and to calculate the amount of that impairment.

Revenue Recognition – The Company recognizes merchandise sales revenue when title passes to the customer. Membership income represents annual membership fees paid by the Company's warehouse club members, which are recognized ratably over the 12-month term of the membership. Membership refunds are prorated based on the remaining term of the membership; accordingly, no refund reserve is required to be established for the periods presented. The Company recognizes and presents revenue-producing transactions on a net of value added/sales tax basis.

The Company began offering Platinum memberships in Costa Rica during fiscal year 2013, which provides members with a 2% rebate on most items, up to an annual maximum of \$500.00. Platinum members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. The Company records this 2% rebate as a reduction of revenue at the time of the sales transaction. Accordingly, the Company has reduced warehouse sales and has accrued a liability within other accrued expenses. The rebate expires within six months of the membership renewal date. However, the Company has determined that in the absence of relevant historical experience, the Company is not able to make a reasonable estimate of rebate redemptions and accordingly has assumed a 100% redemption rate. The Company periodically reviews expired unused rebates outstanding, and the expired unused rebates are recognized as Revenues: Other income on the consolidated statements of income. The Company recognizes gift certificate sales revenue when the certificates are redeemed. The outstanding gift certificates are reflected as other accrued expenses in the consolidated balance sheets. These gift certificates generally have a one-year stated expiration date from the date of issuance. However, the absence of a large volume of transactions for gift certificates impairs the Company's ability to make a reasonable estimate of the redemption levels for gift certificates. Therefore, the Company assumes a 100% redemption rate that is the equivalent of no breakage prior to expiration of the gift certificate. The Company periodically reviews unredeemed outstanding gift certificates, and the gift certificates that have expired are recognized as Revenues: Other income on the consolidated statements of income.

Operating leases, where the Company is the lessor, with lease payments that have fixed and determinable rent increases are recognized as revenue on a straight-line basis over the expected lease term. The Company also accounts in its straight-line computation for the effect of any "rental holidays." Contingent rental revenue is recognized as the contingent rent becomes due per the individual lease agreements.

Cost of Goods Sold – The Company includes the cost of merchandise, food service and bakery raw materials, and one hour photo supplies in cost of goods sold. The Company also includes in cost of goods sold the external and internal distribution and handling costs for supplying merchandise, raw materials and supplies to the warehouse clubs. External costs include inbound freight, duties, drayage, fees, insurance, and non-recoverable value-added tax related to inventory shrink, spoilage and damage. Internal costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, building and equipment depreciation at its distribution facilities and

payroll and other direct costs for in-store demonstrations.

Vendor consideration consists primarily of volume rebates, time-limited product promotions, slotting fees, demonstration reimbursements and prompt payment discounts. Volume rebates that are not threshold-based are incorporated into the unit cost of merchandise reducing the inventory cost and cost of goods sold. Volume rebates that are threshold-based are recorded as a reduction to cost of good sold when the Company achieves established purchase levels that are confirmed by the vendor in writing or upon receipt of funds. On a quarterly basis, the Company calculates the amount of rebates recorded in cost of goods sold that relates to inventory on hand and this amount is reclassified as a reduction to inventory. Product promotions are generally linked to coupons that provide for reimbursement to the Company from vendor rebates for the product being promoted. Slotting fees are related to consideration received by the Company from vendors for preferential "end cap" placement of the vendor's products within the warehouse club. Demonstration reimbursements are related to consideration received by the Company from vendors for the in-store promotion of the vendors' products. The Company records the reduction in cost of goods sold on a transactional basis for

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

these programs. Prompt payment discounts are taken in substantially all cases, and therefore, are applied directly to reduce the acquisition cost of the related inventory, with the resulting effect recorded to cost of goods sold when the inventory is sold.

Selling, General and Administrative – Selling, general and administrative costs are comprised primarily of expenses associated with warehouse operations. Warehouse operations include the operating costs of the Company's warehouse clubs, including all payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, building and equipment depreciation, and bank and credit card processing fees. Also included in selling, general and administrative expenses are the payroll and related costs for the Company's U.S. and regional purchasing and management centers.

Pre-Opening Costs – The Company expenses pre-opening costs (the costs of start-up activities, including organization costs and rent) as incurred.

Asset Impairment Costs – The Company periodically evaluates its long-lived assets for indicators of impairment. Management's judgments are based on market and operational conditions at the time of the evaluation and can include management's best estimate of future business activity. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair value. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges.

Contingencies and Litigation – The Company records and reserves for loss contingencies if (a) information available prior to issuance of the consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can be reasonably estimated. If one or both criteria for accrual are not met, but there is at least a reasonable possibility that a loss will occur, the Company does not record and reserve for a loss contingency but describes the contingency within a note and provides detail, when possible, of the estimated potential loss or range of loss. If an estimate cannot be made, a statement to that effect is made.

Foreign Currency Translation – The assets and liabilities of the Company's foreign operations are translated to U.S. dollars when the functional currency in the Company's international subsidiaries is the local currency and not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will affect net income upon the sale or liquidation of the underlying investment. Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including transactions recorded involving these monetary assets and liabilities, are recorded as Other income (expense) in the consolidated statements of income. The following table summarizes the amounts recorded for the three month period ending November 30, 2014 and 2013 (in thousands):

| | Three Months Ended | |
|----------------------|--------------------|-------------------|
| | November 30, 2014 | November 30, 2013 |
| Currency gain (loss) | \$ (2,632 |) \$ 311 |

Income Taxes –The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company and its subsidiaries are required to file federal and state income tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state and foreign taxing authorities in the jurisdictions in which the Company or one of its subsidiaries files tax returns. As part of these reviews, a taxing authority may disagree with

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

respect to the income tax positions taken by the Company (“uncertain tax positions”) and, therefore, require the Company or one of its subsidiaries to pay additional taxes.

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate. There were no material changes in the Company's uncertain income tax positions for the periods ended on November 30, 2014 and August 31, 2014. However, during the fiscal year 2014, the Company was required to make payments of \$4.2 million to the governments in two countries with respect to various income tax cases that it is currently appealing, but in which the Company believes it will eventually prevail. These amounts have been recorded in the balance sheet as Other non-current assets, as the Company considers this a payment on account and expects to get a refund thereof upon eventually prevailing on these cases, but is unsure of the timing thereof. Furthermore, during the three months ended November 30, 2014, one of the Company’s subsidiaries received provisional assessments claiming \$2.5 million of taxes, penalties and interest related to withholding taxes on certain charges for services rendered by the Company. In addition, this subsidiary received provisional assessments totaling \$5.2 million for lack of deductibility of the underlying service charges due to the lack of withholding. Based on the Company's interpretation of local law, rulings and jurisprudence (including Supreme Court precedents with respect to the deductibility assessment), the Company expects to prevail in both instances and has not recorded a provision for these assessments. The Company has not provided for U.S. deferred taxes on cumulative non-U.S. undistributed earnings as such earnings are deemed by the Company to be indefinitely reinvested. It is not practicable to determine the U.S. federal income tax liability that would be associated with such earnings because of the complexity of the computation.

The following tables present a reconciliation of the effective tax rate for the periods presented:

| | Three Months Ended | | | |
|--|--------------------|---|-------------------|---|
| | November 30, 2014 | | November 30, 2013 | |
| Federal tax provision at statutory rates | 35.0 | % | 35.0 | % |
| State taxes, net of federal benefit | 0.5 | | 0.4 | |
| Differences in foreign tax rates | (4.6 |) | (4.2 |) |
| Permanent items and other adjustments | 3.2 | | 1.7 | |
| Increase (decrease) in foreign valuation allowance | 2.9 | | (0.3 |) |
| Provision for income taxes | 37.0 | % | 32.6 | % |

The variance in the effective tax rate for the three-month period ended on November 30, 2014 compared to the same period of the prior year was primarily attributable to the unfavorable impact of 3.2% resulting from an increased taxable loss incurred in the Company’s Colombia subsidiary for which no tax benefit was recognized net of adjustment to valuation allowance, a 0.4% unfavorable variance resulting from the adjustment during fiscal year 2014 of a deferred tax asset related to estimated 2014 state taxes and the unfavorable impact of 0.4% resulting from changes in income tax liabilities for uncertain tax positions.

Recent Accounting Pronouncements

FASB ASC 606 ASU 2014-09 - Revenue from contracts with customers.

In May 2014, the FASB issued amended guidance on contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The guidance requires an entity to recognize revenue on contracts with customers relating to the transfer of

16

PRICESMART, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires that an entity depict the consideration by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost. The historical cost of acquiring an asset includes the costs incurred to bring it to the condition and location necessary for its intended use. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The useful life of fixtures and equipment ranges from three to 15 years and that of certain components of building improvements and buildings from 10 to 25 years. Leasehold improvements are amortized over the shorter of the life of the improvement or the expected term of the lease. In some locations, leasehold improvements are amortized over a period longer than the initial lease term where management believes it is reasonably assured that the renewal option in the underlying lease will be exercised as an economic penalty may be incurred if the option is not exercised. The sale or purchase of property and equipment is recognized upon legal transfer of property. For property and equipment sales, if any long-term notes are carried by the Company as part of the sales terms, the sale is reflected at the net present value of current and future cash streams.

Property and equipment consist of the following (in thousands):

| | November 30, 2014 | August 31, 2014 |
|---|-------------------|-----------------|
| Land | \$ 131,133 | \$ 124,082 |
| Building and improvements | 263,067 | 244,485 |
| Fixtures and equipment | 157,698 | 148,143 |
| Construction in progress | 32,598 | 55,664 |
| Total property and equipment, historical cost | 584,496 | 572,374 |
| Less: accumulated depreciation | (151,624 |) (146,049) |
| Property and equipment, net | \$ 432,872 | \$ 426,325 |

Depreciation and amortization expense (in thousands):

| | Three Months Ended November 30, | |
|---------------------------------------|---------------------------------|----------|
| | 2014 | 2013 |
| Depreciation and amortization expense | \$ 7,797 | \$ 6,654 |

The Company capitalizes interest on expenditures for qualifying assets over a period that covers the duration of the activities required to get the asset ready for its intended use, provided that expenditures for the asset have been made and interest cost is being incurred. Interest capitalization continues as long as those activities and the incurrence of interest cost continues. The amount capitalized in an accounting period is determined by applying the capitalization rate (average interest rate) to the average amount of accumulated expenditures for the qualifying asset during the period. The capitalization rates are based on the interest rates applicable to borrowings outstanding during the period.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | | |
|--|---------------------------------|-----------------------|
| Total interest capitalized (in thousands): | | |
| | As of November 30, 2014 | As of August 31, 2014 |
| Total interest capitalized | \$ 6,332 | \$ 6,542 |
| Total interest capitalized (in thousands): | | |
| | Three Months Ended November 30, | |
| | 2014 | 2013 |
| Interest capitalized | \$ 616 | \$ 299 |

The Company recorded within accounts payable and other accrued expenses approximately \$2.5 million and \$1.9 million, respectively, as of November 30, 2014 and \$4.1 million and \$0, respectively, as of August 31, 2014 in liabilities related to the acquisition and/or construction of property and equipment.

NOTE 4 – EARNINGS PER SHARE

The Company presents basic and diluted net income per share using the two-class method. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common stockholders and that determines basic net income per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings that would have been available to common stockholders. A participating security is defined as a security that may participate in undistributed earnings with common stock. The Company's capital structure includes securities that participate with common stock on a one-for-one basis for distribution of dividends. These are the restricted stock awards authorized within the 2002 and 2013 Equity Participation Plans/Equity Incentive Awards Plan of the Company and restricted stock units authorized within the 2001, 2002 and 2013 Equity Participation Plans/Equity Incentive Awards Plan. In addition, the Company determines the diluted net income per share by using the more dilutive of the two class-method or the treasury stock method and by including the basic weighted average of outstanding stock options in the calculation of diluted net income per share under the two-class method and including all potential common shares assumed issued in the calculation of diluted net income per share under the treasury stock method.

The following table sets forth the computation of net income per share for the three months ended November 30, 2014 and 2013 (in thousands, except per share amounts):

| | | |
|---|---------------------------------|-----------|
| | Three Months Ended November 30, | |
| | 2014 | 2013 |
| Net income | \$ 20,647 | \$ 21,432 |
| Less: Allocation of income to unvested stockholders | (333) | (440) |
| Net earnings available to common stockholders | \$ 20,314 | \$ 20,992 |
| Basic weighted average shares outstanding | 29,791 | 29,690 |
| Add dilutive effect of stock options (two-class method) | 8 | 12 |
| Diluted average shares outstanding | 29,799 | 29,702 |
| Basic net income per share | \$ 0.68 | \$ 0.71 |
| Diluted net income per share | \$ 0.68 | \$ 0.71 |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 5 – STOCKHOLDERS' EQUITY

Dividends

No dividends were declared by the Company's Board of Directors during the first three months of fiscal year 2015. The following table summarizes the dividends declared and paid during fiscal year 2015 and 2014.

| Declared | Amount | First Payment | | Date Payable | Amount | Second Payment | | Date Payable | Amount |
|----------|--------|---------------|-----------|--------------|--------|----------------|-----------|--------------|--------|
| | | Record Date | Date Paid | | | Record Date | Date Paid | | |
| 1/23/14 | \$0.70 | 2/14/14 | 2/28/14 | N/A | \$0.35 | 8/15/14 | 8/29/2014 | N/A | \$0.35 |

The Company anticipates the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, the amount of such dividends, and the establishment of record and payment dates is subject to final determination by the Board of Directors at its discretion after its review of the Company's financial performance and anticipated capital requirements.

Comprehensive Income and Accumulated Other Comprehensive Loss

The following tables disclose the tax effects allocated to each component of other comprehensive income (loss) (in thousands):

| | Three Months Ended November 30, 2014 | | | Total |
|--------------------------------------|--|-------------------------------|------------------------|------------|
| | Foreign currency translation adjustments | Defined benefit pension plans | Derivative Instruments | |
| Beginning balance, September 1, 2014 | \$(50,410) |) \$113 | \$1,011 | \$(49,286) |
| Other comprehensive income (loss) | (11,651) |) (11) |) 2,243 | (9,419) |
| Ending balance, November 30, 2014 | \$(62,061) |) \$102 | \$3,254 | \$(58,705) |
| | Three Months Ended November 30, 2013 | | | Total |
| | Foreign currency translation adjustments | Defined benefit pension plans | Derivative Instruments | |
| Beginning balance, September 1, 2013 | \$(42,321) |) \$(152) |) \$998 | \$(41,475) |
| Other comprehensive income (loss) | 1,289 |) 3 | (143) |) 1,149 |
| Ending balance, November 30, 2013 | \$(41,032) |) \$(149) |) \$855 | \$(40,326) |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | Twelve Months Ended August 31, 2014 | | | |
|--|---|-------------------------------------|---------------------------|-------------------------|
| | Foreign currency translation adjustments | Defined benefit pension plans | Derivative Instruments | Total |
| Beginning balance, September 1, 2013 | \$(42,321) | \$(152) | \$998 | \$(41,475) |
| Other comprehensive income (loss) | (8,089) | 260 | 101 | (7,728) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 5 | (88) ⁽²⁾ | (83) ⁽¹⁾⁽³⁾ |
| Ending balance, August 31, 2014 | \$(50,410) | \$113 | \$1,011 | \$(49,286) |

(1) See Note 9 - Derivative Instruments and Hedging Activities.

(2) Amounts reclassified from accumulated other comprehensive income (loss) related to the minimum pension liability are included in warehouse club operations in the Company's Consolidated Statements of Income.

(3) Amounts reclassified from accumulated other comprehensive income (loss) for settlement of derivative instruments are included in other income (expense), net in the Company's Consolidated Statements of Income.

Retained Earnings Not Available for Distribution

The following table summarizes retained earnings designated as legal reserves of various subsidiaries which cannot be distributed as dividends to PriceSmart, Inc. according to applicable statutory regulations (in thousands):

| | November 30, 2014 | August 31, 2014 |
|--|-------------------|-----------------|
| Retained earnings not available for distribution | \$4,666 | \$4,556 |

NOTE 6 – STOCK BASED COMPENSATION

The three types of equity awards offered by the Company are stock options (“options”), restricted stock awards (“RSAs”) and restricted stock units (“RSUs”). Compensation related to options is accounted for by applying the valuation technique based on the Black-Scholes model. Compensation related to RSAs and RSUs is based on the fair market value at the time of grant with the application of an estimated forfeiture rate. The Company recognizes the compensation cost related to these awards over the requisite service period as determined by the grant, amortized ratably or on a straight line basis over the life of the grant. The Company utilizes “modified grant-date accounting” for true-ups due to actual forfeitures at the vesting dates. The Company records the tax savings resulting from tax deductions in excess of expense for stock-based compensation as additional paid-in capital and the tax deficiency resulting from stock-based compensation in excess of the related tax deduction as a reduction in paid-in capital, based on the Tax Law Ordering method. In addition, the Company reflects the tax savings (deficiency) resulting from the taxation of stock-based compensation as a financing cash flow in its consolidated statement of cash flows, rather than as operating cash flows.

RSAs have the same cash dividend and voting rights as other common stock and are considered to be currently issued and outstanding shares of common stock. Shares of common stock underlying RSUs are not issued nor outstanding until the RSUs vest and RSUs do not have the same dividend and voting rights as common stock. However, all outstanding RSUs have accompanying dividend equivalents, requiring payment to the employees and directors with unvested RSUs of amounts equal to the dividend they would have received had the shares of common stock

underlying the RSUs been actually issued and outstanding. Payments of dividend equivalents to employees are recorded as compensation expense.

The Company adopted the 2013 Equity Incentive Award Plan (the "2013 Plan") for the benefit of its eligible employees, consultants and non-employee directors on January 22, 2013. The 2013 Plan provides for awards covering up to (1) 600,000 shares of common stock plus (2) the number of shares that remained available for issuance as of January 22, 2013 under three equity participation plans previously maintained by the Company. The number of shares reserved for issuance under the 2013 Plan increases during the term of the plan by the number of shares relating to awards outstanding under the 2013 Plan or any of the prior plans that expire, or are forfeited, terminated, canceled or repurchased, or are settled in cash in lieu of shares.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

However, in no event will more than an aggregate of 1,531,818 shares of the Company's common stock be issued under the 2013 Plan. The following table summarizes the shares authorized and shares available for future grants:

| | Shares authorized for issuance (including shares originally authorized for issuance under the prior plans) | Shares available to grant | |
|-----------|--|---------------------------|-----------------|
| | | November 30, 2014 | August 31, 2014 |
| 2013 Plan | 838,766 | 821,124 | 821,124 |

The following table summarizes the components of the stock-based compensation expense (in thousands), which are included in general and administrative expense and warehouse club operations in the consolidated statements of income:

| | Three Months Ended November 30, | |
|----------------------------------|---------------------------------|----------|
| | 2014 | 2013 |
| Options granted to directors | \$ 27 | \$ 29 |
| Restricted stock awards | 1,249 | 1,151 |
| Restricted stock units | 280 | 250 |
| Stock-based compensation expense | \$ 1,556 | \$ 1,430 |

The following table summarizes other information related to stock-based compensation:

| | November 30, | |
|---|--------------|-----------|
| | 2014 | 2013 |
| Remaining unrecognized compensation cost (in thousands) | \$ 18,002 | \$ 24,014 |
| Weighted average period of time over which this cost will be recognized (years) | 6 | 7 |

The Company began issuing restricted stock awards in fiscal year 2006 and restricted stock units in fiscal year 2008. The restricted stock awards and units vest over a five to ten year period and the unvested portion of the award is forfeited if the employee or non-employee director leaves the Company before the vesting period is completed. Restricted stock awards and units activity for the period was as follows:

| | Three Months Ended November 30, | |
|---|---------------------------------|---------|
| | 2014 | 2013 |
| Grants outstanding at beginning of period | 488,416 | 623,424 |
| Granted | — | — |
| Forfeited | — | (999) |
| Vested | — | — |
| Grants outstanding at end of period | 488,416 | 622,425 |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the weighted average per share grant date fair value for restricted stock awards and units for the period:

| Weighted Average Grant Date Fair Value | Three Months Ended November 30, | |
|---|---------------------------------|---------|
| | 2014 | 2013 |
| Restricted stock awards and units granted | \$— | \$— |
| Restricted stock awards and units vested | \$— | \$— |
| Restricted stock awards and units forfeited | \$— | \$53.62 |

The following table summarizes the total fair market value of restricted stock awards and units vested for the period (in thousands):

| | Three Months Ended November 30, | |
|---|---------------------------------|------|
| | 2014 | 2013 |
| Total fair market value of restricted stock awards and units vested | \$— | \$— |

At the vesting dates of restricted stock awards, the Company repurchases shares at the prior day's closing price per share, with the funds used to pay the employees' minimum statutory tax withholding requirements. The Company expects to continue this practice going forward. The following table summarizes this activity during the period:

| | Three Months Ended November 30, | |
|---|---------------------------------|------|
| | 2014 | 2013 |
| Shares repurchased | — | — |
| Cost of repurchase of shares (in thousands) | \$— | \$— |

The Company reissues treasury shares as part of its stock-based compensation programs. The following table summarizes the treasury shares reissued:

| | Three Months Ended November 30, | |
|--------------------------|---------------------------------|------|
| | 2014 | 2013 |
| Reissued treasury shares | — | — |

The following table summarizes the stock options outstanding:

| | November 30, 2014 | August 31, 2014 |
|---------------------------|-------------------|-----------------|
| Stock options outstanding | 23,000 | 23,000 |

Due to the substantial shift from the use of stock options to restricted stock awards and units, the Company believes stock option activity is no longer significant and that any further disclosure on options is not necessary.

PRICESMART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business and property ownership. The Company evaluates such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which the Company believes are without merit. The Company establishes an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Company monitors those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjusts the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, the Company does not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, the Company will provide disclosure regarding the contingency. The Company believes that the final disposition of the pending legal proceedings, claims and litigation will not have a material adverse effect on its financial position, results of operations or liquidity. It is possible, however, that the Company's future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to such matters.

Taxes

The Company is required to file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various taxing authorities in the jurisdictions in which the Company files its returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations the Company used to calculate its tax liability and therefore require the Company to pay additional taxes.

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained.

In evaluating the exposure associated with various non-income tax filing positions, the Company accrues for probable and estimable exposures for non-income tax related tax contingencies. As of November 30, 2014 and August 31, 2014, the Company had recorded within other accrued expenses a total of \$3.1 million for various non-income tax related tax contingencies.

While the Company believes the recorded liabilities are adequate, there are inherent limitations in projecting the outcome of litigation, in estimating probable additional income tax liability taking into account uncertain tax positions and in evaluating the probable additional tax associated with various non-income tax filing positions. As such, the Company is unable to make a reasonable estimate of the sensitivity to change of estimates affecting its recorded liabilities. As additional information becomes available, the Company assesses the potential liability and revises its

estimates as appropriate.

During fiscal year 2014 the Company was required to make tax payments with respect to various income tax cases that it is currently appealing and during the three months ended November 30, 2014, the Company received provisional tax assessments with respect to deductibility and withholdings. These payments and assessments are discussed in further detail within Note 2, Income Taxes.

PRICESMART, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Commitments

The Company is committed under non-cancelable operating leases for the rental of facilities and land. Future minimum lease commitments for facilities under these leases with an initial term in excess of one year are as follows (in thousands):

| Three months ended November 30, | Open Locations ⁽¹⁾ |
|---------------------------------|----------------------------------|
| 2015 | \$9,052 |
| 2016 | 7,693 |
| 2017 | 10,400 |
| 2018 | 10,322 |
| 2019 | 10,170 |
| Thereafter | 89,349 |
| Total | \$136,986 |

⁽¹⁾ Operating lease obligations have been reduced by approximately \$428,000 to reflect sub-lease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

The Company is also committed to non-cancelable construction services obligations for various warehouse club developments and expansions. As of November 30, 2014 the Company has approximately \$7.0 million in contractual obligations for construction services not yet rendered.

The Company has entered into land purchase option agreements that have not been recorded as commitments, for which the Company has recorded within the balance sheet approximately \$1.5 million in restricted cash deposits and prepaid expenses. The land purchase option agreements can be canceled at the sole option of the Company. The Company does not have a time table of when or if it will exercise these land purchase options, due to the uncertainty related to the completion of the Company's due diligence review. The Company's due diligence review includes evaluations of the legal status of the property, the zoning and permitting issues related to acquiring approval for the construction and operation of a warehouse club and any other issues related to the property itself that could render the property unsuitable or limit the property's economic viability as a warehouse club site. If the purchase option agreements are all exercised, the cash use would be approximately \$34.2 million.

See Note 10 - Unconsolidated Affiliates for a description of additional capital contributions that may be required in connection with joint ventures to develop commercial centers adjacent to PriceSmart warehouse clubs in Panama and Costa Rica.

The Company contracts for distribution center services in Mexico. The contract for this distribution center's services was renewed on December 31, 2011 for an additional three years, with the applicable fees and rates to be reviewed at the beginning of each calendar year. Future minimum service commitments related to this contract through the end of the contract term is approximately \$10,000.

NOTE 8 – DEBT

Short-term borrowings consist of lines of credit which are secured by certain assets of the Company and its subsidiaries and in some cases are guaranteed by the Company as summarized below (in thousands):

| | Total Amount of Facilities | Facilities Used Short-term Borrowings | Letters of Credit | Facilities Available | Weighted average interest rate | |
|-------------------|-------------------------------|---|-------------------|-------------------------|-----------------------------------|---|
| November 30, 2014 | \$60,558 | \$17,066 | \$104 | \$43,388 | 4.55 | % |
| August 31, 2014 | \$61,869 | \$— | \$436 | \$61,433 | N/A | |

Each of the facilities expires annually and is normally renewed.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table provides the changes in our long-term debt for the three months ended November 30, 2014:

| (Amounts in millions) | Current Portion of Long-term debt | Long-term debt | Total | |
|--|--------------------------------------|----------------|---------|-----|
| Balances as of August 31, 2014 | 11,848 | 79,591 | 91,439 | (1) |
| Proceeds from long-term debt: | | | | |
| Panama subsidiary | 1,000 | 9,000 | 10,000 | |
| Honduras subsidiary | 1,600 | 6,750 | 8,350 | |
| Repayments of long-term debt: | | | | |
| Repayment of loan by Honduras subsidiary, originally entered into on January 12, 2012 with Scotiabank El Salvador, S.A. | (3,200) | — | (3,200) |) |
| Partial repayment of loan by Honduras subsidiary, originally entered into on March 7, 2014 with Banco de America Central Honduras, S.A. | — | (5,000) | (5,000) |) |
| Regularly scheduled loan payments | (316) | (2,109) | (2,425) |) |
| Reclassifications of long-term debt | — | — | — |) |
| Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar (2) | — | (2,854) | (2,854) |) |
| Balances as of November 30, 2014 | 10,932 | 85,378 | 96,310 | (3) |

(1) The carrying amount cash assets assigned as collateral for this total was \$24.6 million and the carrying amount on non-cash assets assigned as collateral for this total was \$84.2 million.

(2) These foreign currency translation adjustments are recorded within Other comprehensive income.

(3) The carrying amount cash assets assigned as collateral for this total was \$24.4 million and the carrying amount on non-cash assets assigned as collateral for this total was \$93.4 million.

As of November 30, 2014, the Company had approximately \$68.5 million of long-term loans in Trinidad, Panama, El Salvador, Honduras and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. During the first quarter, the Company determined that it was not in compliance with the covenants described in the underlying contract with the Bank of Nova Scotia in its Honduras subsidiary. The Company has received a written waiver from the bank with respect to any non-compliance for the first quarter of fiscal year 2015 and the Bank of Nova Scotia has amended the covenants in the underlying contract going forward. As of November 30, 2014 the Company was in compliance with all covenants, amended covenants or has received a written waiver from the bank with respect to any non-compliance.

Annual maturities of long-term debt are as follows (in thousands):

| Three months ended November 30, | Amount |
|---------------------------------|----------|
| 2015 | \$10,932 |
| 2016 | 26,849 |
| 2017 | 17,754 |
| 2018 | 10,617 |

Edgar Filing: PRICESMART INC - Form 10-Q

| | |
|------------|----------|
| 2019 | 25,649 |
| Thereafter | 4,509 |
| Total | \$96,310 |

25

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risks relating to its ongoing business operations. One risk managed by the Company using derivative instruments is interest rate risk. To manage interest rate exposure, the Company enters into hedge transactions (interest rate swaps) using derivative financial instruments. The objective of entering into interest rate swaps is to eliminate the variability of cash flows in the LIBOR interest payments associated with variable-rate loans over the life of the loans. As changes in interest rates impact the future cash flow of interest payments, the hedges provide a synthetic offset to interest rate movements.

In addition, the Company is exposed to foreign currency and interest rate cash flow exposure related to a non-functional currency long-term debt of one of its wholly owned subsidiaries. To manage this foreign currency and interest rate cash flow exposure, the Company's subsidiary entered into a cross-currency interest rate swap that converts its foreign currency denominated floating interest payments to functional currency fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedge is intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

These derivative instruments (cash flow hedging instruments) are designated and qualify as cash flow hedges, with the effective portion of the gain or loss on the derivative reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction is determined to be ineffective. There were no such amounts recorded for ineffectiveness for the periods reported herein related to the interest rate or cross-currency interest rate swaps of long-term debt.

The Company is exposed to foreign-currency exchange-rate fluctuations in the normal course of business, particularly in the case of U.S. dollar denominated liabilities within its international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. Currently, these contracts do not qualify for derivative hedge accounting. The Company seeks to mitigate foreign-currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features.

Cash Flow Hedges

The Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting. As of November 30, 2014, all of the Company's interest rate swap and cross-currency interest rate swap derivative financial instruments are designated and qualify as cash flow hedges. The cross-currency interest rate swap agreements convert the Company's subsidiary's foreign currency United States dollar denominated floating interest payments on long-term debt to the functional currency fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedge is intended to offset changes in cash flows attributable to interest rate and foreign currency exchange movements. Various subsidiaries entered into interest rate swap agreements that fix the interest rate over the life of the underlying loans. These derivative financial instruments were also designated and qualified as cash flow hedges.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes agreements for which the Company has recorded cash flow hedge accounting transactions during the three months ended November 30, 2014:

| Subsidiary | Date Entered into | Derivative Financial Counter-party | Derivative Financial Instruments | Initial US\$ Notional Amount | Bank US\$ loan Held with | Floating Leg (swap counter-party) | Fixed Rate for PSMT Subsidiary | Settlement Dates | Effective Period of swap |
|------------|-------------------|------------------------------------|-----------------------------------|------------------------------|--------------------------|---------------------------------------|--------------------------------|---|---------------------------------------|
| Honduras | 23-Oct-14 | Citibank, N.A. ("Citi") | Cross currency interest rate swap | \$5,000,000 | Citibank, N.A. | Variable rate 3-month Libor plus 3.5% | 11.6% | 22nd day of January, April, July, and October beginning on January 22, 2015 | October 22, 2014 - October 22, 2017 |
| Panama | 1-Aug-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$5,000,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.89% | 21st day of each month beginning on September 22, 2014 | August 21, 2014 - August 21, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$19,800,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98% | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$3,970,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98% | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Colombia | 11-Dec-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 4.79% | March, June, September and December, beginning on March 5, 2013 | December 5, 2012 - December 5, 2014 |
| Colombia | 21-Feb-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.6% | 6.02% | February, May, August and November beginning on May 22, | February 21, 2012 - February 21, 2017 |

Edgar Filing: PRICESMART INC - Form 10-Q

| | | | | | | | | | |
|----------|-----------|------------------------------------|-----------------------------------|-------------|---------------------|---------------------------------------|-------|--|------------------------------------|
| Colombia | 21-Oct-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$2,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 5.30% | 2012 January, April, July and October, beginning on October 29, 2011 March, June, September and December, beginning on December 29, 2011 January, April, July and October, beginning on July 5, 2011 | July 29, 2011 - April 1, 2016 |
| Colombia | 21-Oct-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$6,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 5.45% | September and December, beginning on December 29, 2011 January, April, July and October, beginning on July 5, 2011 | September 29, 2011 - April 1, 2016 |
| Colombia | 5-May-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 6.09% | April, July and October, beginning on July 5, 2011 | April 1, 2011 - April 1, 2016 |

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the three-month period ended November 30, 2014 and 2013, the Company included the gain or loss on the hedged items (that is, variable-rate borrowings) in the same line item—interest expense—as the offsetting gain or loss on the related interest rate swaps as follows (in thousands):

| Income Statement Classification | Interest expense on borrowings ⁽¹⁾ | Cost of swaps ⁽²⁾ | Total |
|---|---|------------------------------|-------|
| Interest expense for the three months ended November 30, 2014 | \$349 | \$512 | \$861 |
| Interest expense for the three months ended November 30, 2013 | \$126 | \$431 | \$557 |

⁽¹⁾ This amount is representative of the interest expense recognized on the underlying hedged transactions.

⁽²⁾ This amount is representative of the interest expense recognized on the cross-currency interest rate swaps designated as cash flow hedging instruments.

The total notional balance of the Company's pay-fixed/receive-variable interest rate swaps and cross-currency interest rate swaps was as follows (in thousands):

| Floating Rate Payer (Swap Counterparty) | November 30, 2014 | August 31, 2014 |
|---|-------------------|-----------------|
| Scotiabank | \$59,350 | \$60,200 |
| Citibank N.A. | 5,000 | — |
| Total | \$64,350 | \$60,200 |

The following table summarizes the fair value of interest rate swap and cross-currency interest rate swap derivative instruments that qualify for derivative hedge accounting (in thousands, except footnote data):

| Derivatives designated as cash flow hedging instruments | November 30, 2014 | | August 31, 2014 | |
|---|-------------------------------------|------------|-------------------------------------|------------|
| | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Cross-currency interest rate swaps ⁽¹⁾ | Prepaid expenses and current assets | \$1,493 | Prepaid expenses and current assets | \$495 |
| Cross-currency interest rate swaps ⁽¹⁾ | Other non-current assets | 3,926 | Other non-current assets | 970 |
| Interest rate swaps ⁽²⁾ | Other non-current assets | — | Other non-current assets | 125 |
| Interest rate swaps ⁽²⁾ | Other long-term liabilities | (246) | Other long-term liabilities | — |
| Cross-currency interest rate swaps ⁽³⁾ | Other long-term liabilities | (289) | Other long-term liabilities | — |
| Net fair value of derivatives designated as hedging instruments - assets (liability) ⁽⁴⁾ | | \$4,884 | | \$1,590 |

⁽¹⁾ The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for \$(3.6) million and \$(917,000) net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax liability amount with an offset to other comprehensive income - tax of \$(1.8) million and \$(548,000) as of November 30, 2014 and August 31, 2014, respectively, related to asset positions of cross-currency interest rate swaps. However, the equity effect of this

deferred tax liability is offset by the full valuation allowance provided for the net deferred tax asset recorded for this subsidiary.

(2) The effective portion of the interest rate swaps was recorded to Accumulated other comprehensive loss / (income) for \$185,000 and \$(94,000) net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax asset / (liability) amount with an offset to other comprehensive income - tax of \$61,000 and \$(31,000) as of November 30, 2014 and August 31, 2014, respectively.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for \$194,000 and \$0 net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax asset amount with an offset to other comprehensive income - tax of \$95,000 and \$0 as of November 30, 2014 and August 31, 2014, respectively.
- (4) Derivatives listed on the above table were designated as cash flow hedging instruments.

Fair Value Instruments

The Company has entered into non-deliverable forward foreign-exchange contracts. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The use of non-deliverable forward foreign-exchange contracts is intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically hedge exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. The Company entered into non-deliverable forward foreign exchange contracts during the three months ended November 30, 2014. The open contracts as of November 30, 2014 are summarized below:

| Subsidiary | Dates entered into | Derivative Financial Counter-party | Derivative Financial Instrument | Notional Amount (in thousands) | Settlement Date | Effective Period of Forward |
|------------|-------------------------|------------------------------------|------------------------------------|--------------------------------|-------------------------|-----------------------------|
| Colombia | October - November 2014 | Bank of Nova Scotia | Forward foreign exchange contracts | \$33,000 | December - January 2015 | October - January 2015 |
| Colombia | October - November 2014 | Citibank, N.A. | Forward foreign exchange contracts | \$5,000 | December 2014 | October - December 2014 |

For the three-month periods ended November 30, 2014 and 2013, the Company included in its consolidated statements of income the forward derivative gain or (loss) on the non-deliverable forward foreign-exchange contracts as follows (in thousands):

| Income Statement Classification | Three Months Ended | |
|---------------------------------|--------------------|-------------------|
| | November 30, 2014 | November 30, 2013 |
| Other income (expense), net | \$2,613 | \$123 |

The following table summarizes the fair value of foreign currency forward contracts that do not qualify for derivative hedge accounting (in thousands):

| Derivatives designated as fair value hedging instruments | November 30, 2014 | | August 31, 2014 | |
|--|---|------------|---|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign currency forward contracts | Prepaid expenses and other current assets | \$1,484 | Prepaid expenses and other current assets | \$— |
| Foreign currency forward contracts | Other accrued expenses | (7) | Other accrued expenses | (14) |

| | | |
|---|----------|---------|
| Net fair value of derivatives designated as hedging instruments that do not qualify for hedge accounting | \$ 1,477 | \$(14) |
|---|----------|---------|

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 10 – UNCONSOLIDATED AFFILIATES

The Company determines whether any of the joint ventures in which it has made investments is a Variable Interest Entity (“VIE”) at the start of each new venture and if a reconsideration event has occurred. At this time, the Company also considers whether it must consolidate a VIE and/or disclose information about its involvement in a VIE. A reporting entity must consolidate a VIE if that reporting entity has a variable interest (or combination of variable interests) that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A reporting entity must consider the rights and obligations conveyed by its variable interests and the relationship of its variable interests with variable interests held by other parties to determine whether its variable interests will absorb a majority of a VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE.

In 2008, the Company entered into real estate joint ventures to jointly own and operate separate commercial retail centers adjacent to warehouse clubs in Panama (Golf Park Plaza, S.A.) and Costa Rica (Plaza Alajuela, S.A.). Due to the initial nature of the joint ventures and the continued commitments for additional financing, the Company determined these joint ventures are VIEs. Since all rights and obligations are equally absorbed by both parties within each joint venture, the Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method. Under the equity method, the Company's investments in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted for the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of the initial investment.

On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company is constructing its central offices in Panama. Construction of the offices were completed in October 2014. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. The monthly lease expense is approximately \$8,800. For the three months ended November 30, 2014, the Company recognized rent expense of \$26,400 for this lease.

The table below summarizes the Company's interest in these VIEs and the Company's maximum exposure to loss as a result of its involvement with these VIEs as of November 30, 2014 (in thousands):

| Entity | % Ownership | Initial Investment | Additional Investments | Net Loss Inception to Date | Company's Variable Interest in Entity | Commitment to Future Additional Investments ⁽¹⁾ | Company's Maximum Exposure to Loss in Entity ⁽²⁾ |
|----------------------------|-------------|--------------------|------------------------|----------------------------|---------------------------------------|--|---|
| GolfPark Plaza, S.A. | 50 | % \$4,616 | \$2,283 | \$(84) | \$6,815 | \$217 | \$7,032 |
| Price Plaza Alajuela, S.A. | 50 | % 2,193 | 1,076 | (15) | 3,254 | 945 | 4,199 |
| Total | | \$6,809 | \$3,359 | \$(99) | \$10,069 | \$1,162 | \$11,231 |

- The parties intend to seek alternate financing for the project, which could reduce the amount of investments each party would be required to provide. The parties may mutually agree on changes to the project, which could increase or decrease the amount of contributions each party is required to provide.
- (1) party would be required to provide. The parties may mutually agree on changes to the project, which could increase or decrease the amount of contributions each party is required to provide.
 - (2) The maximum exposure is determined by adding the Company's variable interest in the entity and any explicit or implicit arrangements that could require the Company to provide additional financial support.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The summarized financial information of the unconsolidated affiliates is as follows (in thousands):

| | November 30, 2014 | August 31, 2014 |
|------------------------|---------------------------------|-----------------|
| Current assets | \$2,002 | \$803 |
| Noncurrent assets | \$10,129 | \$8,900 |
| Current liabilities | \$1,140 | \$1,126 |
| Noncurrent liabilities | \$13 | \$13 |
| | Three Months Ended November 30, | |
| | 2014 | 2013 |
| Net income (loss) | \$12 | \$8 |

31

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 11 – SEGMENTS

The Company and its subsidiaries are principally engaged in the operation of membership shopping warehouse clubs in 13 countries/territories that are located in Latin America and the Caribbean. In addition, the Company operates distribution centers and corporate offices in the United States. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, which are used by management in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. The Company's operating segments are the United States, Latin America and the Caribbean. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues and operating costs included in the United States segment have not been allocated, as it is impractical to do so.

The Company has made reclassifications to the consolidated balance sheet recorded during fiscal year 2015 (see Note 1 - Company Overview and Basis of Presentation) to the consolidated balance sheet for fiscal year 2014 to conform to the presentation in fiscal year 2015. These reclassifications did not impact net income. The following tables summarize the impact of these reclassifications to the amounts reported for each segment (in thousands):

| | United States Operations | Latin American Operations | Caribbean Operations | Total |
|---|--------------------------------|---------------------------------|-------------------------|------------|
| Three Month Period Ended November 30, 2013 | | | | |
| Long-lived assets (other than deferred tax assets) as previously reported | \$ 10,096 | \$ 320,754 | \$ 117,303 | \$ 448,153 |
| Reclassifications to long-lived assets | — | 73 | — | 73 |
| Long-lived assets (other than deferred tax assets) as currently reported | \$ 10,096 | \$ 320,827 | \$ 117,303 | \$ 448,226 |
| Total assets as previously reported | \$ 50,711 | \$ 588,239 | \$ 241,612 | \$ 880,562 |
| Reclassifications to total assets | — | 73 | — | 73 |
| Total assets as currently reported | \$ 50,711 | \$ 588,312 | \$ 241,612 | \$ 880,635 |
| As of August 31, 2014 | | | | |
| Long-lived assets (other than deferred tax assets) as previously reported | \$ 16,488 | \$ 396,280 | \$ 113,134 | \$ 525,902 |
| Reclassifications to long-lived assets | 96 | 3,066 | — | 3,162 |
| Long-lived assets (other than deferred tax assets) as currently reported | \$ 16,584 | \$ 399,346 | \$ 113,134 | \$ 529,064 |

reported

| | | | | |
|-------------------------------------|----------|-----------|-----------|-----------|
| Total assets as previously reported | \$91,190 | \$625,777 | \$223,251 | \$940,218 |
| Reclassifications to total assets | (15) | (2,133) | — | (2,148) |
| Total assets as currently reported | \$91,175 | \$623,644 | \$223,251 | \$938,070 |

32

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables summarize by segment certain revenues, operating costs and balance sheet items (in thousands):

| | United States Operations | Latin American Operations | Caribbean Operations | Reconciling Items ⁽¹⁾ | Total |
|--|--------------------------------|---------------------------------|-------------------------|-------------------------------------|-----------|
| Three Month Period Ended November 30, 2014 | | | | | |
| Revenue from external customers | \$8,431 | \$449,199 | \$198,391 | \$— | \$656,021 |
| Intersegment revenues | 338,328 | — | 1,383 | (339,711) | — |
| Depreciation and amortization | 542 | 4,967 | 2,288 | — | 7,797 |
| Operating income | 12,133 | 16,884 | 7,268 | — | 36,285 |
| Net income | 7,593 | 7,701 | 5,353 | — | 20,647 |
| Capital expenditures, net | (2,773) |) ⁽²⁾ 29,197 | 3,196 | — | 29,620 |
| Long-lived assets (other than deferred tax assets) | 13,261 | 414,026 | 114,622 | — | 541,909 |
| Goodwill | — | 31,445 | 4,717 | — | 36,162 |
| Total assets | 69,240 | 718,672 | 249,220 | — | 1,037,132 |
| Three Month Period Ended November 30, 2013 | | | | | |
| Revenue from external customers | \$5,721 | \$407,820 | \$192,060 | \$— | \$605,601 |
| Intersegment revenues | 305,592 | — | 1,476 | (307,068) | — |
| Depreciation and amortization | 572 | 3,863 | 2,219 | — | 6,654 |
| Operating income | 10,971 | 16,499 | 4,889 | — | 32,359 |
| Net income | 7,087 | 10,613 | 3,732 | — | 21,432 |
| Capital expenditures, net | (426) |) ⁽²⁾ 14,761 | 3,953 | — | 18,288 |
| Long-lived assets (other than deferred tax assets) | 10,096 | 320,827 | 117,303 | — | 448,226 |
| Goodwill | — | 31,461 | 4,828 | — | 36,289 |
| Total assets | 50,711 | 588,312 | 241,612 | — | 880,635 |
| As of August 31, 2014 | | | | | |
| Long-lived assets (other than deferred tax assets) | \$16,584 | \$399,346 | \$113,134 | \$— | \$529,064 |
| Goodwill | — | 31,383 | 4,725 | — | 36,108 |
| Total assets | 91,175 | 623,644 | 223,251 | — | 938,070 |

⁽¹⁾ The reconciling items reflect the amount eliminated on consolidation of intersegment transactions.

⁽²⁾ The decrease in capital expenditures is a result of the transfers of capital assets from this segment to other segments.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 12 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of November 30, 2014 through the date of issuance of these consolidated financial statements and have determined that, except as set forth below, there are no subsequent events that require disclosure.

Financing Transactions

On December 4, 2014, the Company's Colombia subsidiary entered into a loan agreement with Citibank, N.A. The agreement establishes a credit facility for \$15.0 million with a variable interest rate of three-month LIBOR plus 2.8%. The loan term is for five years with quarterly interest and principal payments. The loan was funded on December 4, 2014.

Derivative Transactions

On December 16, 2014, the Company's El Salvador subsidiary entered into an interest rate swap agreement with the Bank of Nova Scotia for a notional amount of \$4.0 million. The interest rate swap agreement converts the El Salvador subsidiary's floating interest payments of the \$4.0 million long-term monthly amortizing debt with the Bank of Nova Scotia to fixed interest payments during the life of the hedging instrument. As changes in interest rates impact the future cash flows of loan interest payments, the hedge is intended to offset changes in cash flows attributable to variable interest rate movements. The hedged loan has a variable interest rate of 1-month LIBOR plus 3.5%. Under the interest rate swap agreement, the Company will receive variable interest based on the 1-month LIBOR rate plus 3.5% on a monthly amortizing notional amount of \$4.0 million and pay fixed interest of 4.78% for a term of approximately five years (effective date of December 1, 2014 through August 29, 2019). The LIBOR reset dates for the hedged long-term debt and the interest rate swap occur on the 29th day of each month beginning on December 29, 2015. The hedged loan was funded on August 29, 2014.

On December 10, 2014, the Company's Colombia subsidiary entered into a cross-currency interest rate swap agreement with Citibank, N.A for a notional amount of \$15.0 million. The cross-currency interest rate swap agreement converts the Colombian subsidiary's U.S. dollar denominated principal and floating interest payments on the first \$7.9 million of the total \$15.0 million long-term quarterly amortizing debt with Citibank to functional currency principal and fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of principal and interest payments, the hedge is intended to offset changes in cash flows attributable to interest rate and foreign exchange movements. The hedged loan has a variable interest rate of three-month LIBOR plus 2.8%. Under the cross-currency interest rate swap agreement, the Company will receive variable U.S. dollar principal and interest based on the three-month LIBOR rate plus 2.8% on a quarterly amortizing notional amount of \$15.0 million and pay fixed interest of 8.25% on a quarterly amortizing notional amount of 34,350,000,000 Colombian Pesos for a term of approximately five years (effective date of December 4, 2014 through December 3, 2019). The LIBOR reset dates for the hedged long-term debt and the cross-currency interest rate swap occur on the fourth day of March, June, September, and December beginning on March 4, 2015. The hedged loan was funded on December 4, 2014.

On December 9, 2014, the Company's Panama subsidiary entered into an interest rate swap agreement with the Bank of Nova Scotia for a notional amount of \$10.0 million. The interest rate swap agreement converts the Panama subsidiary's floating interest payments on the first \$5.0 million of the total \$10.0 million long-term monthly amortizing debt with the Bank of Nova Scotia to fixed interest payments during the life of the hedging instrument. As changes in interest rates impact the future cash flows of loan interest payments, the hedge is intended to offset changes

in cash flows attributable to variable interest rate movements. The hedged loan has a variable interest rate of 1-month LIBOR plus 3.5%. Under the interest rate swap agreement, the Company will receive variable interest based on the 1-month LIBOR rate plus 3.5% on a monthly amortizing notional amount of \$10.0 million and pay fixed interest of 5.159% for a term of approximately five years (effective date of November 28, 2014 through November 29, 2019). The LIBOR reset dates for the hedged long-term debt and the interest rate swap occur on the 28th day of each month beginning on December 29, 2015. The hedged loan was funded on November 28, 2014. The Company's Colombia subsidiary has entered into forward exchange contracts for approximately \$51.0 million with settlement dates of December-February 2015.

PRICESMART, INC.

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

This Quarterly Report on Form 10-Q contains forward-looking statements concerning PriceSmart Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flow, proposed warehouse club openings, the Company's performance relative to competitors, the outcome of tax proceedings and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "anticipated," "scheduled," and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the following risks: our financial performance is dependent on international operations, which exposes us to various risks; any failure by us to manage our widely dispersed operations could adversely affect our business; we face significant competition; future sales growth depends, in part, on our ability to successfully open new warehouse clubs; we might not identify in a timely manner or effectively respond to changes in consumer preferences for merchandise, which could adversely affect our relationship with members, demand for our products and market share; although we have begun to offer limited online shopping to our members, our sales could be adversely affected if one or more major international online retailers were to enter our markets or if other competitors were to offer a superior online experience; we face difficulties in the shipment of and inherent risks in the importation of, merchandise to our warehouse clubs; we are exposed to weather and other natural disaster risks; general economic conditions could adversely impact our business in various respects; we are subject to risks associated with possible changes in our relationships with third parties with which we do business, as well as the performance of such third parties; we rely extensively on computer systems to process transactions, summarize results and manage our business, and failure to adequately maintain our systems or disruptions in our systems could harm our business and adversely affect our results of operations; we could be subject to additional tax liabilities; a few of our stockholders own approximately 28.1% of our voting stock as of November 30, 2014, which may make it difficult to complete some corporate transactions without their support and may impede a change in control; our inability to develop and retain existing key personnel or to attract highly qualified employees could adversely impact our business, financial condition and results of operations; we are subject to volatility in foreign currency exchange rates; we face the risk of exposure to product liability claims, a product recall and adverse publicity; if we do not maintain the privacy and security of confidential information, we could damage our reputation, incur substantial additional costs and become subject to litigation; we are subject to payment related risks; changes in accounting standards and assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations; we face increased public company compliance risks and compliance risks related to our international operations; we face increased compliance risks associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; and if remediation costs or hazardous substance contamination levels at certain properties for which we maintain financial responsibility exceed management's current expectations, our financial condition and results of operations could be adversely impacted. The risks described above as well as the other risks detailed in the Company's U.S. Securities and Exchange Commission ("SEC") reports, including the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2014 filed on October 30, 2014 pursuant to the Securities Exchange Act of 1934, see "Part II - Item 1A - Risk Factors," could materially and adversely affect our business, financial condition and results of operations. These risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

The following discussion and analysis compares the results of operations for the three month periods ended November 30, 2014 and 2013 and should be read in conjunction with the consolidated financial statements and the accompanying notes included therein.

Our business consists primarily of operating international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. Our ownership in all operating subsidiaries as of November 30, 2014 is 100%, and they are presented on a consolidated basis. The number of warehouse clubs in operation as of November 30, 2014 for each country or territory are as follows:

| Country/Territory | Number of Warehouse Clubs in Operation as of November 30, 2014 | Number of Warehouse Clubs in Operation as of November 30, 2013 | Anticipated warehouse club openings within the next 12 months |
|---------------------|--|--|---|
| Colombia | 6 | 3 | — |
| Panama | 4 | 4 | 1 |
| Costa Rica | 6 | 6 | — |
| Dominican Republic | 3 | 3 | — |
| Guatemala | 3 | 3 | — |
| El Salvador | 2 | 2 | — |
| Honduras | 3 | 2 | — |
| Trinidad | 4 | 4 | — |
| Aruba | 1 | 1 | — |
| Barbados | 1 | 1 | — |
| U.S. Virgin Islands | 1 | 1 | — |
| Jamaica | 1 | 1 | — |
| Nicaragua | 1 | 1 | — |
| Totals | 36 | 32 | 1 |

During October of fiscal year 2014, we opened our sixth membership warehouse club in Costa Rica in La Union, Cartago, and in May of fiscal year 2014, we opened our third warehouse club in Honduras in Tegucigalpa, our second in the capital city. In January of fiscal year 2014, we acquired land in the southern area of Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. We built new warehouse clubs at these three sites, and opened the Bogota location in October 2014 and opened the other two sites in November 2014. Together with the three warehouse clubs that were operating prior to these openings in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of PriceSmart warehouse clubs operating in Colombia to six. In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which our fifth PriceSmart warehouse club in Panama is scheduled to open in the summer of 2015.

Our warehouse clubs and local distribution centers are located in Latin America and the Caribbean, and our corporate headquarters, U.S. buying operations and regional distribution centers are located primarily in the United States. Our reportable segments are based on management's organization of these locations into operating segments by general geographic location. Our operating segments are the United States, Latin America and the Caribbean.

General Economic Factors

Economic conditions are making for a challenging environment in some of our markets and could continue to have a negative effect on sales growth in the next fiscal quarter. Where economic conditions are stable or favorable, such as Panama, Trinidad, Guatemala, and Aruba, we are experiencing generally positive retail strength and growing sales. On the other hand, in Colombia, Costa Rica, Jamaica, Honduras and El Salvador. Our sales are being affected by a combination of negative economic factors, including weaker local currencies versus the U.S. dollar, especially in Colombia, Costa Rica and Jamaica; violence and high unemployment in Honduras and El Salvador; and job losses in Costa Rica associated with multi-national companies transferring some jobs to other parts of the world. During the last two months of the first quarter of fiscal year 2015, the Colombian peso has lost in excess of 20% of its value

versus the U.S. dollar. This decline in the value of the peso results in U.S. imports, which account for over 60% of PriceSmart sales in Colombia, becoming more expensive, thereby reducing demand for imported products. In addition, the decline in the value of the peso negatively impacts warehouse sales and membership income when converted to and reported in U.S. dollars. Although the drop in value of the peso makes imported products more expensive, products manufactured in Colombia for export have become more competitive, which should be a positive factor for one of the more vibrant economies in Latin America. Costa Rica continues to be impacted by the approximate 10% devaluation of the Costa

Rican colon which occurred in February 2014, although the currency has now stabilized. Costa Rica and Colombia are two of our largest markets and therefore these macro-economic issues can have a material impact on our financial performance.

Currency exchange rate fluctuations affect our consolidated sales and membership income as local-currency-denominated sales are translated to U.S. dollars. They can also impact net income as we revalue all U.S. dollar-denominated monetary assets and liabilities within our markets that do not use the U.S. dollar as their functional currency. These monetary assets and liabilities include, but are not limited to, excess cash permanently reinvested offshore, U.S. dollar-denominated long-term debt used to finance land acquisitions and the construction of warehouse clubs, and U.S. dollar-denominated accounts payable related to the purchase of merchandise. Approximately 53% of our net warehouse sales are of merchandise purchased in U.S. dollars, but approximately 79% of our net warehouse sales are in non-U.S. dollar currencies.

We seek to manage foreign exchange risk by (1) adjusting prices on goods acquired in U.S. dollars on a periodic basis to maintain our target margins after taking into account changes in exchange rates; (2) obtaining local currency loans from banks within certain markets where it is economical to do so and where management believes the risk of devaluation and the level of U.S. dollar denominated liabilities warrants this action; (3) reducing the time between the acquisition of product in U.S. dollars and the settlement of that purchase in local currency; (4) maintaining a balance between assets held in local currency and in U.S. dollars; and (5) by entering into cross-currency interest rate swaps and forward currency derivatives. We have local-currency-denominated long-term loans in Honduras and Guatemala and have cross-currency interest rate swaps and forward currency derivatives in Colombia. Turbulence in the currency markets can have a significant impact on the value of the foreign currencies within the countries in which we operate. We report the gains or losses associated with the revaluation of these monetary assets and liabilities on our Consolidated Statements of Income under the heading "Other income (expense), net." Future volatility and uncertainties regarding the currencies in our countries could have a material impact on our operations in future periods. However, there is no way to accurately forecast how currencies may trade in the future and, as a result, we cannot accurately project the impact of the change in rates on our future demand for imported products, reported sales, or financial results.

We do not currently face direct competition from U.S. branded membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers and specialty stores, including those within Central America that are owned and operated by a large U.S.-based retailer. We have competed effectively in these markets in the past and expect to continue to do so in the future due to the unique nature of the membership warehouse club format. However, new retail competitors may enter our markets (for example, Cost-U-Less, a cash and carry, low price operator with which we compete in St. Thomas, opened a location in Barbados in February 2013) and existing retailers may expand (for example, Wal-Mart recently announced that it intends to invest \$1.1 billion in Mexico and Central America), which could adversely impact our ability to compete within these markets. Further, it is possible that U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format, although we have no current indication that such an event is imminent.

Business Strategy

Our business strategy is to offer for sale to businesses and families a limited number of stock keeping units (SKU's) covering a wide range of products at the lowest possible prices. We charge an annual membership fee to our customers. These fees combined with warehouse and distribution operating efficiencies and volume purchasing enable us to operate our business on lower merchandise margins than conventional retail stores. The combination of annual membership fees, operating efficiencies and low margins enable us to offer our members high quality merchandise at very competitive prices which, in turn, enhances the value of the PriceSmart membership.

Current and Future Management Actions

Generally, our operating efficiencies, earnings and cash flow from operations improve as sales increase. Higher sales provide greater purchasing power and often result in lower product prices from our suppliers. Further, increased sales permit us to leverage our selling, general and administrative expenses. Sales growth in our existing locations (comparable warehouse club sales) create the highest degree of expense leverage. Therefore, we prioritize initiatives that we expect will have the greatest impact on increasing sales, particularly within our existing locations. Looking forward to the next several quarters, the following actions are likely to have an impact on our business and the results of operations.

We seek to increase sales by growing sales with existing members in our warehouse clubs, by attracting new members to our clubs and by adding new warehouse clubs. Our continued focus on initiatives to increase comparable warehouse club sales within existing warehouse clubs locations resulted in a 2.0% increase in comparable warehouse club sales for the 13-week period ended November 30, 2014 compared to the same 13-week period the prior year. During the first quarter of fiscal 2014, we opened our sixth membership warehouse club in Costa Rica in La Union, Cartago, and in the third quarter opened our third warehouse

club in Honduras. In both cases, these new clubs negatively impacted reported comparable warehouse club sales during the quarter as warehouse sales transferred to these new clubs from existing clubs. With the comparable warehouse club sales growth and the addition of these two new warehouse clubs and the opening of our three new Colombia warehouse clubs during the quarter, the Company grew warehouse sales by 7.9% compared to a year ago. In addition, the Company increased the number of member accounts 15.2% over the prior year at quarter end.

Effective June 1, 2012, we raised the annual membership fee by approximately \$5.00 in most markets. The annual fee for a Diamond membership in these markets is now approximately \$35.00 (entitling members to two cards). A membership fee helps us offer high quality merchandise at low prices, providing value to our members. In October 2012, we launched the Platinum membership account in Costa Rica. Platinum members pay an annual membership fee of approximately \$75.00 for a primary membership card for which they receive an annual 2% rebate of their purchases on most items, up to a maximum annual rebate of \$500.00. Platinum members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. We continue to evaluate the Platinum membership program to determine if Platinum memberships should be offered in any of our other markets.

Logistics and distribution operations are an important part of what allows us to deliver high quality merchandise at low prices to our members. We continue to explore areas to improve efficiency, lower costs and ensure a good flow of merchandise to our warehouse clubs. We have added local and regional distribution centers in several of our markets to improve merchandise flow and in-stock conditions and reduce operating costs, the benefit of which can be passed on to our members in the form of lower merchandise prices, and we expect to add more in fiscal year 2015 as merchandise volumes increase.

We offer on-line shopping options to our members. Members have the ability to purchase merchandise that is not stocked in their local warehouse clubs through our e-commerce website. These purchases are shipped from the U.S. distribution warehouse for pick-up at the member's local warehouse club location. In Colombia, members in certain markets who do not reside in a city where one of our warehouse clubs is located, can purchase in-club merchandise on-line from warehouse clubs located within Colombia and have it delivered to their home or office via a third-party delivery service. We have been expanding our offerings in these alternative shopping methods, and while the percentage of sales through these channels relative to our overall sales is small, we believe it is an important and growing way to serve our current members and attract new members.

Purchasing land and constructing warehouse clubs is our single largest capital investment. Securing land for warehouse club locations is challenging within our markets, especially in Colombia, because suitable sites at economically feasible prices are difficult to find. In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which our fifth PriceSmart warehouse club in Panama is scheduled to open in the summer of 2015. While our preference is to own rather than lease real estate, we have entered into real estate leases in certain cases (most recently our Bogota, Colombia site) and will likely do so in the future. Real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. In order to secure warehouse club locations, we occasionally have purchased more land than is actually needed for the warehouse club facility. To the extent that we acquire property in excess of what is needed for a particular warehouse club, we generally have looked to either sell or develop the excess property. Excess land at Alajuela and Brisas is being developed by joint ventures formed by us and the sellers of the property, which commenced in fiscal year 2011. We are employing a similar development strategy for the excess land at the San Fernando, Trinidad and Arroyo Hondo, Dominican Republic locations where the properties are fully owned by us. The recent land purchases in Colombia and Panama do not contain excess property beyond that which will be needed for warehouse clubs. The profitable sale or development of real estate is highly dependent on real estate market conditions.

Financial highlights for the first quarter of fiscal year 2015 included:

Net warehouse club sales increased 7.9% over the comparable prior year period. We ended the quarter with 36 warehouse clubs compared to 32 warehouse clubs at the end of the first quarter of fiscal year 2014. Comparable warehouse club sales (that is, sales in the warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 13 weeks ended November 30, 2014 grew 2.0%.

Membership income for the first quarter of fiscal year 2015 increased 9.1% to \$10.1 million.

Warehouse gross profits (net warehouse club sales less associated cost of goods sold) in the quarter increased 14.0% over the prior year period and warehouse gross profits as a percent of net warehouse club sales were 15.3%, an increase of 82 basis points from the same period last year.

The opening of three new warehouse clubs in the quarter resulted in \$3.1 million of pre-opening expense.

Operating income for the first quarter of fiscal year 2015 was \$36.3 million, an increase of \$3.9 million over the first quarter of fiscal year 2014.

We had a \$(2.6) million net loss from currency exchange transactions in the current quarter compared to a \$311,000 net gain from currency exchange transactions in the same period last year, largely due to activity in Colombia.

Net income for the first quarter of fiscal year 2015 was \$20.6 million or \$0.68 per diluted share, compared to \$21.4 million, or \$0.71 per diluted share, in the comparable prior year period.

COMPARISON OF THE THREE MONTHS ENDED NOVEMBER 30, 2014 AND 2013

The following discussion and analysis compares the results of operations for our fiscal first quarter ended on November 30, 2014 with the fiscal first quarter ended on November 30, 2013 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. Unless otherwise noted, all tables present U.S. dollar amounts in thousands. Certain percentages presented are calculated using actual results prior to rounding.

Net Warehouse Club Sales

| | Three Months Ended November 30, | | |
|--------------------------|---------------------------------|----------|-------------|
| | 2014 | % Change | 2013 |
| | Amount | | Amount |
| Net warehouse club sales | \$636,415 | 7.9 | % \$589,694 |

Comparison of Three Months Ended November 30, 2014 and 2013

Net warehouse club sales for the first three months of fiscal year 2015 showed year-on-year growth in nearly all countries when compared to the same period in fiscal year 2014. Jamaica continued to experience the effect of a currency devaluation, resulting in negative sales growth, and both Barbados and USVI also had slightly negative growth. The countries with the highest sales growth (recording double digit growth) were Colombia, Panama, and Honduras. Honduras sales benefited from the opening of the third warehouse club in May 2014 and Colombia, despite significant currency devaluation, experienced the highest sales growth of any country with the opening of three new warehouse clubs during the quarter. Total net warehouse club sales growth of 7.9% during the first three months of fiscal year 2015 resulted from a 5.3% growth in transactions and a 2.5% growth in average ticket.

Comparable Sales

We report comparable warehouse club sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher warehouse club sales on the weekends. Further, each of the warehouse clubs used in the calculations was open for at least 13 1/2 calendar months before its results for the current period were compared with its results for the prior period. For example, the sales related to the warehouse club opened in Cali, Colombia ("Menga") on May 3, 2013 were not used in the calculation of comparable warehouse club sales until July 2014. Sales related to the warehouse club opened in La Union, Cartago, Costa Rica ("Tres Rios") on October 18, 2013 will not be used in the calculation of comparable warehouse sales until January 2015. Sales related to the warehouse club opened in Tegucigalpa, Honduras ("El Sauce") on May 1, 2014 will not be used in the calculation of comparable warehouse club sales until July 2015. Sales related to the warehouse club opened in Bogota, Colombia on October 29, 2014 will not be used in the calculation of comparable sales until January 2016. Sales related to the warehouse clubs opened in Pereira and Medellin, Colombia on November 13, 2014 and November 26, 2014, respectively, will not be used in the calculation of comparable sales until January and February 2016, respectively.

Comparison of Three Months Ended November 30, 2014 and 2013

Comparable warehouse club sales increased 2.0% for the 13-week period ended November 30, 2014, compared to the same 13-week period last year. We opened two new warehouse clubs, one in La Cartago, Costa Rica in October and one in Tegucigalpa, Honduras in May. These new warehouse clubs are attracting new members from areas of their respective cities who were not being served by us. They are also creating the opportunity for some existing members, particularly those that shopped at our Zapote warehouse club in Costa Rica and our first Tegucigalpa, Honduras warehouse club, to shop at the respective new location. This transfer of sales from a warehouse club that is included in the calculation of comparable warehouse club sales to a warehouse club that is not included in the calculation had an adverse impact on comparable warehouse club sales. We have not made a specific determination of what the comparable warehouse club sales would have been had we not opened those new warehouse clubs given various factors, such as whether previously existing members are now shopping more often given the greater convenience of these new clubs, which would make it difficult to provide an accurate assessment. However, if we exclude in their entirety the net warehouse sales of the two warehouse clubs most impacted (Zapote and Tegucigalpa) that are in the comparable warehouse club calculation but were negatively impacted by the openings of the new warehouse clubs, the remaining 30 warehouse clubs would have recorded comparable warehouse club growth of 3.8% for the 13-week period ending November 30, 2014. Although there may be some impact to our first three warehouse clubs in Colombia, we do not expect to experience the same level of transfer of sales from existing warehouse clubs in our Colombia market (Baranquilla, Menga and Canas Gordas) to the newly opened warehouse clubs in Bogota, Pereira, and Medellin.

Net Warehouse Club Sales by Segments

The following tables indicate the net warehouse club sales by segment in the segments which we operate, and the percentage growth in net warehouse club sales by segment during the three months ended November 30, 2014 and 2013.

During the first quarter of fiscal 2014, we opened our sixth membership warehouse club in Costa Rica in La Union, Cartago, and in the third quarter of fiscal year 2014, we opened our third warehouse club in Honduras. During the first quarter of fiscal year 2015, we opened three additional warehouse clubs in Colombia (Bogota, Pereira and Medellin)

bringing the total warehouse clubs in Colombia to six.

| | Three Months Ended November 30, 2014 | | | Change | 2013 | | |
|-----------------------------|---|----------------|-----------------------------|--------|-------------|----------------|---|
| | Amount | % of net sales | Increase from prior year | | Amount | % of net sales | |
| Latin America | \$440,843 | 69.3 | % \$40,477 | 10.1 | % \$400,366 | 67.9 | % |
| Caribbean | 195,572 | 30.7 | % 6,244 | 3.3 | % 189,328 | 32.1 | % |
| Net warehouse club sales | \$636,415 | 100.0 | % \$46,721 | 7.9 | % \$589,694 | 100.0 | % |

Comparison of Three Months Ended November 30, 2014 and 2013

For the three months ended November 30, 2014 and 2013, the higher net warehouse club sales growth in Latin America compared to the Caribbean primarily reflects the sales associated with the additional warehouse club sales in La Union, Costa Rica and Tegucigalpa, Honduras and the three Colombia warehouse clubs opened during quarter. We expect Latin America sales growth to continue to outpace Caribbean sales growth because of the opening of the three new warehouse clubs in Colombia and because the next warehouse club we expect to open is in Panama.

Export Sales

| | Three Months Ended November 30, 2014 | | | | 2013 | | |
|--------------|---|----------------|-----------------------------|--------|---------|----------------|---|
| | Amount | % of net sales | Increase from prior year | Change | Amount | % of net sales | |
| Export sales | 8,431 | 1.3 | % \$2,710 | 47.4 | % 5,721 | 1.0 | % |

Export sales are direct sales to a single institutional customer (retailer) in the Philippines for which we earn an approximate 5% margin. The increase in the current quarter reflects the growth of that retailer's business.

Membership Income

| | Three Months Ended November 30, 2014 | | | | 2013 | |
|---|---|-----------------------------|----------|-------------|------|---|
| | Amount | Increase from prior year | % Change | Amount | | |
| Membership income | \$10,115 | \$847 | 9.1 | % \$9,268 | | |
| Membership income % to net warehouse club sales | 1.6 | % | | 1.6 | | % |
| Number of total accounts | 1,290,755 | 170,722 | 15.2 | % 1,120,033 | | |

Comparison of Three Months Ended November 30, 2014 and 2013

Membership income is recognized ratably over the one year life of the membership. The increase in membership income primarily reflects a growth in membership accounts during the last twelve months. The average number of member accounts during the quarter increased 12.0% compared to the average number of membership accounts in the first quarter of fiscal year 2014. The income recognized per member account decreased 2.5% which reflects the effect of the impact of devaluation in Costa Rica and Colombia on the translation of membership fees in local currency to U.S. dollars. While we have raised the fee in Costa Rica for new and renewing members to offset the effect of devaluation, the income being recognized on membership fees collected prior to the February devaluation result in a lower average income per member account recognized in the current period. In Colombia, the membership is priced in Colombian pesos. We have not raised the fee despite the recent devaluation given that we just opened three new warehouse clubs. We ended the fiscal quarter with a renewal rate of 84% for the twelve-month period ended November 30, 2014.

Other Income

| | Three Months Ended November 30, 2014 | | | 2013 | |
|--------------|---|-----------------------------|----------|---------|--|
| | Amount | Increase from prior year | % Change | Amount | |
| Other income | \$1,060 | \$142 | 15.5 | % \$918 | |

Other income consists of rental income, advertising revenue and other miscellaneous revenue, with the year-over-year increase coming largely from higher rental income.

Gross Margin

Warehouse Gross Profit Margin

| | Three Months Ended November 30, 2014 | | | 2013 | | |
|-------------------------------|---|-----------------------------|------------|-------------|------------|---|
| | Amount | Increase from prior year | % to sales | Amount | % to sales | |
| Warehouse club sales | \$636,415 | \$46,721 | 100.0 | % \$589,694 | 100.0 | % |
| Less associated cost of goods | 539,028 | 34,741 | 84.7 | % 504,287 | 85.5 | % |
| Warehouse gross profit margin | \$97,387 | \$11,980 | 15.3 | % \$85,407 | 14.5 | % |

Comparison of Three Months Ended November 30, 2014 and 2013

For the three months ended November 30, 2014, warehouse gross profit margin as a percent of sales was 82 basis points higher than the three months ended November 30, 2013. In the current quarter we benefited from lower costs as a percent of sales in a number of areas, including lower merchandise distribution costs and reduced shrink. Vendor rebates and a higher level of product demonstration activity also contributed to the higher gross margin in the current period compared to a year ago.

Export Sales Gross Profit Margin

| | Three Months Ended November 30, 2014 | | | 2013 | | |
|------------------------------------|---|-----------------------------|------------|-----------|------------|---|
| | Amount | Increase from prior year | % to sales | Amount | % to sales | |
| Export sales | \$8,431 | \$2,710 | 100.0 | % \$5,721 | 100.0 | % |
| Less associated cost of goods sold | 8,027 | 2,586 | 95.2 | % 5,441 | 95.1 | % |
| Export sales gross profit margin | \$404 | \$124 | 4.8 | % \$280 | 4.9 | % |

Comparison of Three Months Ended November 30, 2014 and 2013

For the three months ended November 30, 2014 and 2013, the increase in export sales gross margin dollars in fiscal year 2015 was due to an increase in direct sales to an institutional customer (retailer) in the Philippines for which we generally earn lower margins than those obtained through our warehouse club sales.

Selling, General and Administrative Expenses

Warehouse Club Operations

| | Three Months Ended November 30, 2014 | | | | 2013 | | | |
|-----------------------------------|---|---------------------------------|--------------------------------|----------|------------|---------------------------------|--|---|
| | Amount | % to warehouse club sales | Increase from prior year | % Change | Amount | % to warehouse club sales | | % |
| Warehouse club operations expense | \$56,210 | 8.8 | % \$4,438 | 8.6 | % \$51,772 | 8.8 | | % |

Comparison of Three Months Ended November 30, 2014 and 2013

Warehouse club operations expense as a percent of net warehouse sales for the first quarter of fiscal year 2015 increased five basis points (0.05%) compared to the same period in fiscal 2014. Higher depreciation expense associated with the new warehouse clubs opened over the past 15 months contributed 11 basis points (0.11%) and one-time statutory fees and taxes associated primarily with the registration of equity in Colombia added eight basis points (0.08%) to the year on year increase. Most other areas of operating expenses within our warehouse clubs were equal to or less than last year as a percentage of sales.

General and Administrative Expenses

| | Three Months Ended November 30, 2014 | | | | 2013 | | | |
|-------------------------------------|---|---------------------------------|--------------------------------|----------|------------|---------------------------------|--|---|
| | Amount | % to warehouse club sales | Increase from prior year | % Change | Amount | % to warehouse club sales | | % |
| General and administrative expenses | \$13,350 | 2.1 | % \$2,166 | 19.4 | % \$11,184 | 1.9 | | % |

Comparison of Three Months Ended November 30, 2014 and 2013

The expenses associated with our corporate and U.S. buying operations grew 19.4% in the first quarter of fiscal year 2015 when compared to the same period last year, primarily resulting from increased spending within our IT, E-Commerce, and U.S. buying departments required to support the growth and enhance the capabilities of our company. General and administrative expenses as a percentage of warehouse club sales increased 20 basis points to 2.1% of sales.

Pre-Opening Expenses

Expenses incurred before a warehouse club is in operation are captured in pre-opening expenses.

| | Three Months Ended November 30, 2014 | | | 2013 | |
|----------------------|---|--|----------|---------|---|
| | Amount | Increase/ (decrease) from prior year | % Change | Amount | % |
| Pre-opening expenses | \$3,149 | \$2,675 | 564.3 | % \$474 | |

Comparison of Three Months Ended November 30, 2014 and 2013

All of the pre-opening expenses in the quarter related entirely to the three Colombia warehouse clubs that were opened in the quarter. Upon opening, those same expenses became warehouse club operations expense. In the year ago quarter, the pre-opening expenses were associated with the warehouse club opened in October 2013 in La Union, Cartago, Costa Rica (“Tres Rios”).

Loss/(Gain) on Disposal of Assets

Asset disposal activity consisted mainly of normally scheduled asset replacement and upgrades.

| | Three Months Ended November 30, 2014 | | | 2013 | |
|-----------------------------------|---|---|-----------|--------|--|
| | Amount | Increase/ (decrease) from prior year | % Change | Amount | |
| Loss/(gain) on disposal of assets | \$ (28) | \$ (112) | (133.3)% | \$ 84 | |

Operating Income

| | Three Months Ended November 30, 2014 | | | | 2013 | | |
|------------------|---|---------------------------------|--|----------|----------|---------------------------------|---|
| | Amount | % to warehouse club sales | Increase/(decrease) from prior year | % Change | Amount | % to warehouse club sales | % |
| Operating income | 36,285 | 5.7 | % \$ 3,926 | 12.1 | % 32,359 | 5.5 | % |

Comparison of Three Months Ended November 30, 2014 and 2013

For the three months ended November 30, 2014, operating income improved \$3.9 million compared to the prior year period, primarily due to higher sales and related merchandise margins and higher membership income. As a percentage of sales, operating income increased 21 basis points, resulting from higher merchandise margins.

Interest Expense

| | Three Months Ended November 30, 2014 | | | 2013 | |
|--|---|--|--|----------|--|
| | Amount | Increase/(decrease) from prior year | | Amount | |
| Interest expense on loans | \$ 1,278 | \$ 372 | | \$ 906 | |
| Interest expense related to hedging activity | 512 | 81 | | 431 | |
| Capitalized interest | (616) | (317) | | (299) | |
| Net interest expense | \$ 1,174 | \$ 136 | | \$ 1,038 | |

Comparison of Three Months Ended November 30, 2014 and 2013

Interest expense reflects borrowings by our wholly owned foreign subsidiaries to finance new warehouse club construction and land acquisition, the capital requirements of warehouse club operations and ongoing working capital requirements.

Net interest expense for the three months ended November 30, 2014 increased from a year ago, with an increase in interest expense on loans and on interest expenses related to hedging activity partially offset by an increase in the amount of capitalized interest compared with the same period in the prior year. These changes were mainly due to the net increases in loans outstanding, hedging activities related to new loan activity and the increase in construction activities related to the three new warehouse clubs being constructed in Colombia.

Other Income (Expense), net

Other income consists of currency gain or loss.

| | Three Months Ended November 30, | | |
|-----------------------------|---------------------------------|-----------------------------|---------|
| | 2014 | | 2013 |
| | Amount | Increase from prior year | Amount |
| Other income (expense), net | \$(2,632 |) \$(2,943 |) \$311 |

Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gain (losses), including repatriation of funds, are recorded as currency gain or losses.

Comparison of Three Months Ended November 30, 2014 and 2013

For the first quarter of fiscal year 2015, we recorded a sizable net currency loss of \$(2.6) million resulting from the revaluation of non-functional currency monetary assets and liabilities net of gains associated with non-deliverable forwards that were in place to manage currency fluctuations. Of the total loss, \$2.3 million resulted from the devaluation of the Colombian peso. Merchandise and fixed asset shipments during the quarter in advance of the opening of the three new warehouse clubs in Colombia created large U.S. dollar denominated liabilities in Colombia which were re-measured at the end of the quarter at a lower exchange rate. While a large portion of this exposure was covered by non-deliverable forward contracts, there was a net negative impact to income related to the devaluation in Colombia in the period. The gain during the prior fiscal quarter primarily related to the net U.S. dollar asset position held by various of our subsidiaries other than Colombia at a time when their local currency strengthened, thereby resulting in a revaluation gain.

Provision for Income Taxes

| | Three Months Ended November 30, | | | |
|--------------------------------------|---------------------------------|---------------------------|-----------|---|
| | 2014 | | 2013 | |
| | Amount | Change from prior year | Amount | |
| Current tax expense | \$9,495 | \$(282 |) \$9,777 | |
| Net deferred tax provision (benefit) | 2,607 | 1,999 | 608 | |
| Provision for income taxes | \$12,102 | \$1,717 | \$10,385 | |
| Effective tax rate | 37.0 | % | 32.6 | % |

Comparison of Three Months Ended November 30, 2014 and 2013

The variance in the effective tax rate for the three-month period ended on November 30, 2014 compared to the same period of the prior year was primarily attributable to the unfavorable impact of 3.2% resulting from an increased taxable loss incurred in the Company's Colombia subsidiary for which no tax benefit was recognized net of adjustment to valuation allowance, a 0.4% unfavorable variance resulting from the adjustment during fiscal year 2014 of a deferred tax asset related to estimated 2014 state taxes and the unfavorable impact of 0.4% resulting from changes in income tax liabilities for uncertain tax positions.

Other Comprehensive Income (Loss)

Edgar Filing: PRICESMART INC - Form 10-Q

| | Three Months Ended August 31, 2014 | | | 2013 |
|-----------------------------------|------------------------------------|--|----------|-------------|
| | Amount | Increase/(decrease) from prior year | % Change | Amount |
| Other comprehensive income (loss) | \$ (9,419 |) \$ (10,568 |) (919.8 |)% \$ 1,149 |

Comparison of Three Months Ended November 30, 2014 and 2013

Other comprehensive income/loss for the three month periods ended November 30, 2014 and 2013 resulted primarily from foreign currency translation adjustments related to the assets, liabilities, revenue, costs and expenses of the Company's subsidiaries, with the largest adjustment related to the Colombia subsidiary, and the recording of the unrealized gains (losses) on change in fair value of interest rate swaps. When the functional currency in our international subsidiaries is the local currency and not U.S. dollars, the assets and liabilities of such subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will not affect net income until the sale or liquidation of the underlying investment. The reported other comprehensive income or loss reflects the unrealized increase or decrease in the value in U.S. dollars of the net assets of the subsidiaries as of the date of the balance sheet, which will vary from period to period as exchange rates fluctuate.

For the three months ended November 30, 2014, the Company recorded approximately \$11.6 million in other comprehensive losses due to foreign currency translations and approximately \$2.2 million, net of tax, of other comprehensive gains related to the change in fair value of interest rate swaps.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

We require cash to fund our operating expenses and working capital requirements, including the investment in merchandise inventories, acquisition of land and construction of new warehouse clubs, expansion of existing warehouse clubs and distribution centers, acquisitions of fixtures and equipment, routine upgrades and maintenance of fixtures and equipment within existing warehouse clubs, investments in joint ventures in Panama and Costa Rica to own and operate commercial retail centers located adjacent to the new warehouse clubs, the purchase of treasury stock upon the vesting of restricted stock awards and payment of dividends to stockholders. Our primary source for funding these requirements are cash and cash equivalents on hand and cash generated from operations. We evaluate on a regular basis whether we may need to borrow additional funds to cover any shortfall in our ability to generate sufficient cash from operations to meet our operating and capital requirements. As such, we may enter into or obtain additional loans and/or credit facilities to provide additional liquidity when necessary.

The following table summarizes the cash and cash equivalents held by our foreign subsidiaries and domestically (in thousands). Repatriation of cash and cash equivalents held by foreign subsidiaries may require us to accrue and pay taxes. We have no plans at this time to repatriate cash through the payment of cash dividends by our foreign subsidiaries to our domestic operations and, therefore, have not accrued taxes that would be due from repatriation.

| | November 30, 2014 | August 31, 2014 |
|--|-------------------|-----------------|
| Cash and cash equivalents held by foreign subsidiaries | \$102,735 | \$110,447 |
| Cash and cash equivalents held domestically | 16,478 | 26,651 |
| Total cash and cash equivalents | \$119,213 | \$137,098 |

Our cash flows are summarized as follows (in thousands):

| | Three Months Ended | |
|---|--------------------|-------------------|
| | November 30, 2014 | November 30, 2013 |
| Net cash provided by (used in) operating activities | \$(13,866) | \$(37,642) |
| Net cash provided by (used in) investing activities | (29,516) | (18,266) |

Edgar Filing: PRICESMART INC - Form 10-Q

| | | | |
|--|-----------|-------------|---|
| Net cash provided by (used in) financing activities | 24,791 | 10,818 | |
| Effect of exchange rates | 706 | 442 | |
| Net increase (decrease) in cash and cash equivalents | \$(17,885 |) \$(44,648 |) |

46

Edgar Filing: PRICESMART INC - Form 10-Q

Our net cash provided by (used in) operating activities for the three months ended November 30, 2014 and 2013 is summarized below:

| | Three Months Ended | | Increase/ (Decrease) 2015 to 2014 |
|--|--------------------|-------------------|---|
| | November 30, 2014 | November 30, 2013 | |
| Net income | \$20,647 | \$21,432 | \$(785) |
| Adjustments to reconcile net income to net cash provided from (used in) operating activities: | | | |
| Depreciation and amortization | 7,797 | 6,654 | 1,143 |
| (Gain) loss on sale of property and equipment | (28) | 84 | (112) |
| Deferred income taxes | 2,607 | (5) | 2,612 |
| Stock-based compensation expenses | 1,556 | 1,430 | 126 |
| Other non-cash operating activities | (6) | 3 | (9) |
| Net non-cash related expenses | 11,926 | 8,166 | 3,760 |
| Net income from operating activities reconciled for non-cash operating activities | 32,573 | 29,598 | 2,975 |
| Changes in operating assets and liabilities not including merchandise inventories and accounts payable | (6,888) | (20,345) | 13,457 |
| Changes in merchandise inventories | (97,025) | (81,308) | (15,717) |
| Changes in accounts payable | 57,474 | 34,413 | 23,061 |
| Net cash provided by (used in) operating activities | \$(13,866) | \$(37,642) | \$23,776 |

Net income from operating activities reconciled for non-cash operating activities increased \$3.0 million for the three months ended November 30, 2014 over the same period last year. This was primarily as a result of an increase in non-cash adjustments of approximately \$3.8 million. This included decreases in deferred income taxes for approximately \$2.6 million primarily as a result of deferred tax assets used during the period to reduce the amount of taxes paid. Additionally, increases in depreciation expense for approximately \$1.1 million due to the increase in warehouse clubs recently opened and continued ongoing capital improvements to existing warehouse clubs added to the net income from operating activities reconciled for non-cash activities. These increases were partially offset by a year-on-year decrease in net income of approximately \$785,000 as explained within the comparison of the three months ended November 30, 2014. Changes in operating assets and liabilities not including merchandise inventories generated additional cash from operating activities. This was primarily a result of the year-on-year increase in trade accounts payable for approximately \$23.1 million arising from the increase in inventory purchases related to the addition of three warehouse clubs opened during the first quarter of fiscal year 2015, and the addition of one warehouse club opened in May of fiscal year 2014, increasing the levels of inventory required to support projected increases in sales and our increased leveraging on vendor payment terms. Inventories increased year-on-year by approximately \$15.7 million. Additionally, the net increases in other assets and liabilities not including merchandise inventories and trade accounts payable contributed year on year an additional \$13.5 million to net cash provided by operating activities.

Our use of cash in investing activities for the three months ended November 30, 2014 and 2013 is summarized below:

| | Three Months Ended | | Increase/ (Decrease) 2015 to 2014 |
|--|--------------------|-------------------|---|
| | November 30, 2014 | November 30, 2013 | |
| Cash used for additions of property and equipment: | | | |
| Land acquisitions | \$3,678 | \$— | \$3,678 |
| Deposits for land purchase option agreements | 2,023 | — | 2,023 |
| | 11,250 | 7,202 | 4,048 |

Edgar Filing: PRICESMART INC - Form 10-Q

Warehouse club expansion, construction, and land improvements

| | | | |
|---|----------|----------|----------|
| Acquisition of fixtures and equipment | 11,404 | 11,086 | 318 |
| Proceeds from disposals of property and equipment | (39 |) (22 |) (17) |
| Capital contribution to joint ventures | 1,200 | — | 1,200 |
| Net cash flows used by (provided in) investing activities | \$29,516 | \$18,266 | \$11,250 |

47

Net cash used in investing activities increased in the first three months of fiscal year 2015 compared to fiscal year 2014 by approximately \$11.3 million primarily due to an increase in cash expended for the construction and completion of warehouse clubs in Bogota, Colombia ("Salitre"), Pereira, Colombia, and Medellin, Colombia and the additions of fixtures and equipment for these warehouse clubs. During the first three months of fiscal year 2014, the investing activity included cash expended for the construction and completion of a warehouse club in La Union, Cartago, Costa Rica ("Tres Rios"), and the start of construction of a warehouse club in Tegucigalpa, Honduras ("El Sauce").

We incur approximately \$30.0 million annually in normal capital expenditures for ongoing replacement of equipment and building and leasehold improvements. Additionally, we have either commitments or plans for capital spending during fiscal year 2015 for a previously announced new warehouse club construction of approximately \$7.0 million. Future additional capital expenditures will be dependent on the timing of future land purchases and/or warehouse club construction activity.

We have entered into land purchase option agreements that have not been recorded as commitments as of November 30, 2014, for which we have recorded within the balance sheet approximately \$1.5 million in restricted cash deposits and prepaid expenses. The land purchase option agreements can be canceled at our sole option with the amounts deposited subject to forfeiture. We do not have a time table of when or if we will exercise these land purchase options due to the uncertainty related to the completion of our due diligence review. Our due diligence review includes evaluations of the legal status of the property, the zoning and permitting issues related to acquiring approval for the construction and operation of a warehouse club and any other issues related to the property itself that could render the property unsuitable or limit the property's economic viability as a warehouse club site. If the purchase option agreements are all exercised, the cash use would be approximately \$34.2 million.

Net cash provided, (used in) financing activities for the three months ended November 30, 2014 and 2014 is summarized below:

| | Three Months Ended | | Increase/ (Decrease) |
|--|--------------------|-------------------|-------------------------|
| | November 30, 2014 | November 30, 2013 | 2015 to 2014 |
| New bank loans offset by establishment of certificates of deposit held against loans and payments on existing bank loans (loan activities) | \$24,791 | \$10,818 | \$13,973 |
| Net cash provided by (used in) financing activities | \$24,791 | \$10,818 | \$13,973 |

Net cash provided by loan activities increased approximately \$14.0 million over the same period in fiscal year 2014 as we received cash from three additional loans entered into by our Panama and Honduras subsidiaries for approximately \$10.0 million and \$8.3 million, respectively. We also received additional cash from increases in short term borrowings within our Colombia subsidiary and our corporate facility for approximately \$9.1 million and \$8.0 million, respectively. These amounts were offset by repayments of long-term loans of approximately \$3.2 million and \$5.0 million by our Honduras subsidiary and regularly scheduled loan payments of \$2.4 million. For the same period last year we increased borrowings under short-term loans by approximately \$13.0 million, offset by the repayment of a long-term loan of approximately \$8.1 million under the loan agreement entered into by our Colombia subsidiary on November 1, 2010 with Citibank, N.A. in New York and regularly scheduled loan payments during the period of approximately \$2.1 million. In addition, cash also was provided by financing activities from the release of approximately \$8.0 million in restricted cash upon repayment of the long-term loan in Colombia.

No dividends were declared by the Company's Board of Directors during the first three months of fiscal year 2015. The following table summarizes the dividends declared and paid during fiscal year 2014.

Edgar Filing: PRICESMART INC - Form 10-Q

| Declared | Amount | First Payment | | | Amount | Second Payment | | | Amount |
|----------|--------|---------------|-----------|--------------|--------|----------------|-----------|--------------|--------|
| | | Record Date | Date Paid | Date Payable | | Record Date | Date Paid | Date Payable | |
| 1/23/14 | \$0.70 | 2/14/14 | 2/28/14 | N/A | \$0.35 | 8/15/14 | 8/29/14 | N/A | \$0.35 |

We anticipate the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, the amount of such dividends, and the establishment of record and payment dates is subject to final determination by the Board of Directors at its discretion after its review of the Company's financial performance and anticipated capital requirements.

Financing Activities

On November 28, 2014, our Panama subsidiary drew down the final \$10.0 million available against the credit facility established on March 31, 2014 under a loan agreement with The Bank of Nova Scotia. That agreement established a credit facility of \$34.0 million at a variable interest rate of 30-day LIBOR plus 3.5% for a five year term, monthly principal and interest payments, and a \$17.0 million principal payment due at maturity. The facility provides a five year renewal option upon approval of the Bank of Nova Scotia. The loan is secured by assets of our Panama subsidiary. During April 2014, we drew down \$24.0 million of the \$34.0 million facility.

On October 22, 2014, our Honduras subsidiary entered into a loan agreement with Citibank, N.A. The agreement establishes a credit facility for \$5.0 million with a variable interest rate of three-month LIBOR plus 3.5%. The loan term is for five years with quarterly interest and principal payments. This loan is secured by assets of the Company's Honduras subsidiary. The loan was funded at execution.

On October 3, 2014, our Honduras subsidiary paid down \$3.2 million of the loan agreement entered into by the subsidiary on January 12, 2010 with Scotiabank El Salvador, S.A. The original agreement established a loan facility for \$6.0 million. The interest rate was fixed at 5.5%. The loan term was for five years with monthly interest and principal payment. The loan facility was renewable for an additional five-year period upon approval of Scotiabank El Salvador, S.A. The subsidiary has paid down this loan, and this loan facility has terminated.

On October 1, 2014, our Honduras subsidiary entered into a loan agreement with The Bank of Nova Scotia. The agreement establishes a credit facility for \$3.4 million with a variable interest rate of 30-day LIBOR plus 3.5%. The loan term is for five years with monthly interest and principal payments. The purpose of the loan was to refinance the previously existing loan with ScotiaBank El Salvador, S.A. This loan is secured by assets of the Company's Honduras subsidiary.

On August 30, 2014, PriceSmart, Inc. entered into an agreement with MUFG Union Bank N.A. to increase our short-term borrowing facilities by approximately \$15.0 million. The interest rate for day to day draw down of the facility is the prime rate.

On August 29, 2014, our El Salvador subsidiary entered into a loan agreement with The Bank of Nova Scotia. The agreement establishes a credit facility for \$4.2 million with a variable interest rate of 30-day LIBOR plus 3.5%. The loan term is for five years with monthly interest and principal payments. This loan is secured by assets of our El Salvador subsidiary.

On August 29, 2014, our El Salvador subsidiary repaid the remaining balance of \$4.1 million on the loan agreement entered into by the subsidiary on September 1, 2009 with Scotiabank El Salvador, S.A. The original agreement established a loan facility for \$8.0 million. The interest rate was fixed at 5.5%. The loan term was for five years with monthly interest and principal payments. The loan facility was renewable for an additional five-year period upon approval of Scotiabank El Salvador, S.A.

On August 25, 2014, our Colombia subsidiary entered into an agreement to establish short-term borrowing facilities with Citibank-Colombia S.A. for approximately \$10.9 million. The interest rate is the Inter Bank Rate plus 180 basis points set at the date of the funds draw down.

On March 31, 2014, our Panama subsidiary entered into a loan agreement with The Bank of Nova Scotia. The agreement establishes a credit facility of \$34.0 million at a variable interest rate of 30-day LIBOR plus 3.5% for a five year term, monthly principal and interest payments, and a \$17.0 million principal payment due at maturity. The facility provides a five year renewal option upon approval of the Bank of Nova Scotia. The loan is secured by assets of our Panama subsidiary. The purpose of the loan is to repay borrowings due to MetroBank, S.A. of \$3.2 million and to fund our warehouse club expansion plans. During April 2014, we drew down \$24.0 million of the \$34.0 million facility and repaid the borrowings due to MetroBank, S.A. of \$3.2 million.

On March 31, 2014, our Panama subsidiary entered into a loan renewal agreement with The Bank of Nova Scotia renewing for an additional five years a 5.5% fixed rate loan originally entered into on August 21, 2009. The balance on the loan as of August 21, 2014 was \$5.0 million. The renewal agreement became effective on August 21, 2014.

The renewal agreement establishes a credit facility of \$5.0 million at a variable interest rate of 30-day LIBOR plus 3.5%, for a five year term, with monthly principal and interest payments. The facility provides a five year renewal option upon approval of the Bank of Nova Scotia.

On March 7, 2014, our Honduras subsidiary entered into a loan agreement with Banco de America Central Honduras, S.A. The agreement establishes a credit facility for 286.0 million Lempiras, approximately USD \$13.7 million. The loan has a variable interest rate of 12.75%, which will be reviewed semiannually. The interest rate may not be less than 12.5%. The loan is for 10 years with interest and principal payments due quarterly, subject to a 24-month grace period on principal payments. This

loan is secured by assets of our Honduras subsidiary. On March 10, 2014, we drew down the full amount of the LPS 286.0 million loan.

On November 3, 2013, we paid down \$8.0 million of the loan agreement entered into by our Colombia subsidiary on November 1, 2010 with Citibank, N.A. in New York. The original agreement established a loan facility for \$16.0 million to be disbursed in two tranches of \$8.0 million each, however we did not draw down the second tranche. The interest rate was set at the six-month LIBOR rate plus 2.4%. The loan term was for five years with interest only payments and a balloon payment at maturity. The loan facility was renewable for an additional five-year period at the option of our Colombia subsidiary, but if we did not draw on the facility or pay off the loan, the facility would terminate. We have repaid this loan, and this loan facility has terminated. This loan was secured by a time deposit pledged by us equal to the amount outstanding on the loan. The secured time deposit of \$8.0 million pledged by us was released on November 3, 2013.

Derivatives

We are exposed to certain risks relating to our ongoing business operations. One risk managed by us using derivative instruments is interest rate risk. To manage interest rate exposure, we enter into hedging transactions (interest rate swaps) using derivative financial instruments. The objective of entering into interest rate swaps is to eliminate the variability of cash flows in the interest payments associated with variable-rate LIBOR loans over the life of the loans. As changes in interest rates impact the future cash flow of interest payments, the hedges provide a synthetic offset to interest rate movements.

In addition, we are exposed to foreign currency and interest rate cash flow exposure related to a non-functional currency long-term debt of one of our wholly owned subsidiaries. To manage this foreign currency and interest rate cash flow exposure, this subsidiary enters into cross-currency interest rate swaps that convert its U.S. dollar denominated floating interest payments to functional currency fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedges are intended to offset changes in cash flows attributable to interest rate and foreign exchange movements.

We are also exposed to foreign-currency exchange-rate fluctuations on U.S. dollar denominated liabilities within our international subsidiaries whose functional currency is other than the U.S. dollar. We manage these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flow attributable to currency exchange movements. The contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by our international subsidiaries whose functional currency is other than the U.S. dollar. We seek to mitigate foreign-currency exchange-rate risk with the use of these contracts and do not intend to engage in speculative transactions. Currently, these contracts do not contain any credit-risk-related contingent features. These contracts do not qualify for derivative hedge accounting. The forward currency hedges are not effective cash flow hedges because the notional amount and maturity date of the forward contract does not coincide with the accounts payable balance and due dates. The hedge ineffectiveness is measured by use of the "hypothetical derivative method," and we record the changes in the fair value of the forward contract related to the re-measurement of the payable at spot exchange rates as exchange rate gains or losses. The implied interest rate included within the forward contract is reflected in earnings as interest expense.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction is determined to be ineffective. There were no such amounts for the periods reported herein.

Edgar Filing: PRICESMART INC - Form 10-Q

The following table summarizes agreements for which we recorded cash flow hedge accounting transactions during the three months ended November 30, 2014:

| Subsidiary | Date Entered into | Derivative Financial Counter-party | Derivative Financial Instruments | Initial US\$ Notional Amount | Bank US\$ loan Held with | Floating Leg (swap counter-party) | Fixed Rate for PSMT Subsidiary | Settlement Dates | Effective Period of swap |
|------------|-------------------|------------------------------------|-----------------------------------|------------------------------|--------------------------|---------------------------------------|--------------------------------|---|---------------------------------------|
| Honduras | 23-Oct-14 | Citibank, N.A. ("Citi") | Cross currency interest rate swap | \$5,000,000 | Citibank, N.A. | Variable rate 3-month Libor plus 3.5% | 11.6% | 22nd day of January, April, July, and October beginning on January 22, 2015 | October 22, 2014 - October 22, 2017 |
| Panama | 1-Aug-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$5,000,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.89% | 21st day of each month beginning on September 22, 2014 | August 21, 2014 - August 21, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$19,800,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98% | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | \$3,970,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98% | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Colombia | 11-Dec-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 4.79% | March, June, September and December, beginning on March 5, 2013 | December 5, 2012 - December 5, 2014 |
| Colombia | 21-Feb-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.6% | 6.02% | February, May, August and November beginning on May 22, 2012 | February 21, 2012 - February 21, 2017 |
| Colombia | 21-Oct-11 | Bank of Nova Scotia | Cross currency | \$2,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor | 5.30% | January, April, July | July 29, 2011 - |

Edgar Filing: PRICESMART INC - Form 10-Q

| | | | | | | | | | |
|----------|-----------|------------------------------------|-----------------------------------|-------------|---------------------|---------------------------------------|-------|--|------------------------------------|
| | | ("Scotiabank") | interest rate swap | | Scotia | plus 0.7% | | and | April 1, 2016 |
| | | | | | | | | October, beginning on October 29, 2011 | |
| | | | | | | | | March, June, September and | |
| Colombia | 21-Oct-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$6,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 5.45% | December, beginning on December 29, 2011 | September 29, 2011 - April 1, 2016 |
| | | | | | | | | January, April, July and | |
| Colombia | 5-May-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | \$8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 6.09% | October, beginning on July 5, 2011 | April 1, 2011 - April 1, 2016 |

We measure the fair value for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis during the reporting period. We have designated the interest rate swaps and cross-currency interest rate swap agreements as hedging instruments and have accounted for them under hedge accounting rules. The following table summarizes the fair value of interest rate swaps and cross-currency interest rate swaps that qualify for derivative hedge accounting (in thousands, except footnote data):

| Derivative designated as cash flow hedging instruments | November 30, 2014 | | August 31, 2014 | |
|---|-------------------------------------|------------|-------------------------------------|------------|
| | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Cross currency interest rate swaps ⁽¹⁾ | Prepaid expenses and current assets | \$ 1,493 | Prepaid expenses and current assets | \$ 495 |
| Cross currency interest rate swaps ⁽¹⁾ | Other non-current assets | 3,926 | Other non-current assets | 970 |
| Interest rate swaps ⁽²⁾ | Other non-current assets | — | Other non-current assets | 125 |
| Interest rate swaps ⁽²⁾ | Other long-term liabilities | (246 |) Other long-term liabilities | — |
| Cross currency interest rate swaps ⁽³⁾ | Other long-term liabilities | (289 |) Other long-term liabilities | — |
| Net fair value of derivatives designated as hedging instruments - assets (liability) ⁽⁴⁾ | | \$ 4,884 | | \$ 1,590 |

The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for \$(3.6) million and \$(917,000) net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax liability amount with an offset to other comprehensive income - tax of \$(1.8) million and \$(548,000) as of November 30, 2014 and August 31, 2014, respectively, related to asset positions of cross-currency interest rate swaps. However, the equity effect of this deferred tax liability is offset by the full valuation allowance provided for the net deferred tax asset recorded for this subsidiary.

The effective portion of the interest rate swaps was recorded to Accumulated other comprehensive loss / (income) for \$185,000 and \$(94,000) net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax asset / (liability) amount with an offset to other comprehensive income - tax of \$61,000 and \$(31,000) as of November 30, 2014 and August 31, 2014, respectively.

The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for \$194,000 and \$0 net of tax as of November 30, 2014 and August 31, 2014, respectively. The Company has recorded a deferred tax asset amount with an offset to other comprehensive income - tax of \$95,000 and \$0 as of November 30, 2014 and August 31, 2014, respectively.

⁽⁴⁾ Derivatives listed on the above table were designated as cash flow hedging instruments.

From time to time, we enter into non-deliverable forward exchange contracts. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting.

The following table summarizes the fair value of foreign currency forward contracts that do not qualify for derivative hedge accounting (in thousands):

| Derivatives designated as fair value hedging instruments | November 30, 2014 | | August 31, 2014 | |
|---|---|------------|---|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign currency forward contracts | Prepaid expenses and other current assets | \$ 1,484 | Prepaid expenses and other current assets | \$ — |
| Foreign currency forward contracts | Other accrued expenses | (7 |) Other accrued expenses | (14 |
| Net fair value of derivatives designated as hedging instruments | | \$ 1,477 | | \$(14 |

that do not qualify for hedge
accounting

52

Short-Term Borrowings and Long-Term Debt

Short-term borrowings consist of lines of credit which are secured by certain assets of our domestic company and by our those of our subsidiaries. The short-term borrowing facilities are summarized below (in thousands):

| | Total Amount of Facilities | Facilities Used Short-term Borrowings | Letters of Credit | Facilities Available | Weighted average interest rate | |
|-------------------|----------------------------------|---|----------------------|-------------------------|-----------------------------------|---|
| November 30, 2014 | \$60,558 | \$17,066 | \$104 | \$43,388 | 4.55 | % |
| August 31, 2014 | \$61,869 | \$— | \$436 | \$61,433 | N/A | |

As of November 30, 2014, we had approximately \$40.0 million of short-term facilities in the U.S. that require us to comply with certain quarterly financial covenants, which include debt service and leverage ratios. As of November 30, 2014 and August 31, 2014, we were in compliance with respect to these covenants.

The following table provides the changes in our long-term debt for the three months ended November 30, 2014:

| (Amounts in millions) | Current Portion of Long-term debt | Long-term debt | Total | |
|---|--------------------------------------|----------------|----------|-----|
| Balances as of August 31, 2014 | \$11,848 | \$79,591 | \$91,439 | (1) |
| Proceeds from long-term debt: | | | | |
| Panama subsidiary | 1,000 | 9,000 | 10,000 | |
| Honduras subsidiary | 1,600 | 6,750 | 8,350 | |
| Repayments of long-term debt: | | | | |
| Repayment of loan by Honduras subsidiary, originally entered into on January 12, 2012 with Scotiabank El Salvador, S.A. | (3,200) | — | (3,200) |) |
| Partial repayment of loan by Honduras subsidiary, originally entered into on March 7, 2014 with Banco de America Central Honduras, S.A. | — | (5,000) | (5,000) |) |
| Regularly scheduled loan payments | (316) | (2,109) | (2,425) |) |
| Reclassifications of long-term debt | — | — | — | |
| Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar (2) | — | (2,854) | (2,854) |) |
| Balances as of November 30, 2014 | \$10,932 | \$85,378 | \$96,310 | (3) |

(1) The carrying amount cash assets assigned as collateral for this total was \$24.6 million and the carrying amount on non-cash assets assigned as collateral for this total was \$84.2 million.

(2) These foreign currency translation adjustments are recorded within Other comprehensive income.

(3) The carrying amount cash assets assigned as collateral for this total was \$24.4 million and the carrying amount on non-cash assets assigned as collateral for this total was \$93.4 million.

As of November 30, 2014, we had approximately \$68.5 million of long-term loans in Trinidad, Panama, El Salvador, Honduras and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. During the first quarter, the Company determined that it was not in compliance with the covenants described in the underlying contract with the Bank of Nova Scotia in its Honduras subsidiary. The Company has received a written waiver from the bank with respect to any non-compliance for the first

quarter of fiscal year 2015 and the Bank of Nova Scotia has amended the covenants in the underlying contract going forward. As of November 30, 2014 the Company was in compliance with all covenants, amended covenants or has received a written waiver from the bank with respect to any non-compliance.

As of August 31, 2014, we had approximately \$62.5 million of long-term loans in Trinidad, Panama, El Salvador, Honduras and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of August 31, 2014, we were in compliance with all covenants or amended covenants.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on its financial condition or consolidated financial statements.

Repurchase of Equity Securities and Reissuance of Treasury Shares

At the vesting dates for restricted stock awards to our employees, we repurchase a portion of the shares that have vested at the prior day's closing price per share, with the funds used to pay the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock awards. We do not have a stock repurchase program.

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in the reduction of stockholders' equity in our Consolidated Balance Sheets. We may reissue these treasury shares. When treasury shares are reissued, we use the first in/first out ("FIFO") cost method for determining cost of the reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in capital ("APIC"). If the issuance price is lower than the cost, the difference is first charged against any credit balance in APIC from treasury stock and the balance is charged to retained earnings.

The following table summarizes the shares repurchased during fiscal years 2015 and 2014:

| | Three Months Ended November 30, | |
|---|---------------------------------|------|
| | 2014 | 2013 |
| Shares repurchased | — | — |
| Cost of repurchase of shares (in thousands) | \$— | \$— |

We have reissued treasury shares as part of our stock-based compensation programs. However, as summarized below, no treasury shares were reissued during the periods presented as of August 31:

| | Three Months Ended November 30, | |
|--------------------------|---------------------------------|------|
| | 2014 | 2013 |
| Reissued treasury shares | — | — |

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that management make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of our accounting policies require management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Management continues to review its accounting policies and evaluate its estimates, including those related to contingencies and litigation, income taxes, tax receivables, and long-lived assets. We base our estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances. Using different estimates could have a material impact on our financial condition and results of operations.

Contingencies and Litigation: In the ordinary course of business, we are periodically named as a defendant in various lawsuits, claims and pending actions and are exposed to tax risks (other than income tax). The principal risks that we insure against are workers' compensation, general liability, vehicle liability, property damage, employment practices, errors and omissions, fiduciary liability and fidelity losses. If a potential loss arising from these lawsuits, claims, actions and non-income tax issues is probable and reasonably estimable, we record the estimated liability based on circumstances and assumptions existing at the time. The estimates affecting our litigation reserves can be affected by new claims filed after the balance sheet date with respect to

events occurring prior to the balance sheet date and developments in pending litigation that may affect the outcome of the litigation. While we believe the recorded liabilities are adequate, there are inherent limitations in projecting the outcome of litigation and in evaluating the probable additional tax associated with various non-income tax filing positions. As such, we are unable to make a reasonable estimate of the sensitivity to change of estimates affecting our recorded liabilities. As additional information becomes available, we assess the potential liability and revise our estimates as appropriate.

Income Taxes: We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized. As of November 30, 2014, we evaluated our deferred tax assets and liabilities and determined that a valuation allowance was necessary for certain foreign deferred tax asset balances, primarily because of the existence of significant negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, indicating that certain net operating loss carry-forward periods are not sufficient to realize the related deferred tax assets.

We and our subsidiaries are required to file federal and state income tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax we pay. In consultation with our tax advisors, we base our tax returns on interpretations that we believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state and foreign taxing authorities in the jurisdictions in which we or one of our subsidiaries file tax returns. As part of these reviews, a taxing authority may disagree with respect to the income tax positions we have taken (“uncertain tax positions”) and, therefore, require us or one of our subsidiaries to pay additional taxes.

We accrue an amount for our estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. There were no material changes in our uncertain income tax positions for the periods ended on November 30, 2014 and August 31, 2014. However, during the fiscal year 2014, we were required to make payments of \$4.2 million to the governments in two countries with respect to various income tax cases that we are currently appealing, but we believe we will eventually prevail. These amounts have been recorded in the balance sheet as Other non-current assets, as we consider these a payment on account and expect to get a refund thereof upon eventually prevailing on these cases, but we are unsure of the timing thereof. Additionally, subsequent to the fiscal year ended August 31, 2014, one of the Company’s subsidiaries received provisional assessments claiming \$2.5 million of taxes, penalties and interest related to withholding taxes on certain charges for services rendered by the Company. In addition, during the first quarter of fiscal year 2015 this subsidiary received provisional assessments totaling \$5.2 million for lack of deductibility of the underlying service charges due to the lack of withholding. Based on the Company's interpretation of local law, rulings and jurisprudence (including Supreme Court precedents with respect to the deductibility assessment), the Company expects to prevail in both instances and has not recorded a provision for these assessments. We have not provided for U.S. deferred taxes on cumulative non-U.S. undistributed earnings as we deem such earnings to be indefinitely reinvested. It is not practicable to determine the U.S. federal income tax liability that would be associated with the repatriation earnings because of the complexity of the computation.

Tax Receivables: We pay Value Added Tax (“VAT”) or similar taxes (“input VAT”), income taxes, and other taxes within the normal course of our business in most of the countries in which we operate related to the procurement of merchandise and/or services we acquires and/or on estimated sales and taxable income. We also collect VAT or similar taxes on behalf of the government (“output VAT”) for merchandise and/or services we sell. If the output VAT exceeds the input VAT, then the difference is remitted to the government, usually on a monthly basis. If the input VAT exceeds the output VAT, this creates a VAT receivable. In some countries where we operate, the governments have implemented additional collection procedures, such as requiring credit card processors to remit a portion of sales processed via credit card directly to the government as advance payments of VAT and/or income tax. In the case of VAT, these procedures alter the natural offset of input and output VAT and generally leave us with a net VAT receivable, forcing us to process significant refund claims on a recurring basis. With respect to income taxes paid, if the estimated income taxes paid or withheld exceed the actual income tax due this creates an income tax receivable. We either request a refund of these tax receivables or apply the balance to expected future tax payments. These refund or offset processes can take anywhere from several months to several years to complete.

In most countries where we operate, the tax refund process is defined and structured with regular refunds or offsets. However, in two countries the respective governments have alleged that there is no defined process in the law to allow them to refund VAT receivables. We together with our tax and legal advisers are currently appealing these interpretations in court and expect to prevail. In one of these countries, where there is recent favorable jurisprudence, the government has recently begun an audit to verify the amount of the respective VAT receivables as a required precursor to any refund. The balance of the VAT receivable in these countries was \$6.6 million and \$5.7 million as of November 30, 2014 and August 31, 2014, respectively. In another country, beginning in fiscal year 2015, a new minimum income tax mechanism takes effect, which will require us to pay taxes based on factor of sales rather than income. This would result in our having to make income tax payments substantially in excess of those due based on taxable income. The current rules would not allow the Company to obtain a refund or offset this excess against other taxes. Due to the timing of these rules, as of November 30, 2014, we did not yet have an outstanding income tax receivable in this country; however, there were deferred tax assets of approximately \$1.1 million outstanding as of that date. We have not placed any type of allowance on the recoverability of these tax receivables or deferred income taxes.

Our policy for classification and presentation of VAT receivables, income tax receivables and other tax receivables is as follows:

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where our subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. We also classify as short-term any approved refunds or credit notes to the extent that we expect to receive the refund or use the credit notes within one year.
- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where our subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when we do not expect to eventually prevail in its recovery.

Long-lived Assets: We periodically evaluate our long-lived assets for indicators of impairment. Indicators that an asset may be impaired are:

- the asset's inability to continue to generate income from operations and positive cash flow in future periods;
- loss of legal ownership or title to the asset;
- significant changes in its strategic business objectives and utilization of the asset(s); and
- the impact of significant negative industry or economic trends.

Management's judgments are based on market and operational conditions at the time of the evaluation and can include management's best estimate of future business activity, which in turn drives estimates of future cash flows from these assets. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges. No impairment charges have been recorded during fiscal year 2015.

Seasonality

Historically, our merchandising businesses have experienced holiday retail seasonality in their markets. In addition to seasonal fluctuations, our operating results fluctuate quarter-to-quarter as a result of economic and political events in markets that we serve, the timing of holidays, weather, the timing of shipments, product mix, and currency effects on the cost of U.S.-sourced products which may make these products more or less expensive in local currencies and

therefore more or less affordable. Because of such fluctuations, the results of operations of any quarter are not indicative of the results that may be achieved for a full fiscal year or any future quarter. In addition, there can be no assurance that our future results will be consistent with past results or the projections of securities analysts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and changes in currency exchange rates. There have been no material changes in our market risks at November 30, 2014 compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended August 31, 2014. At November 30, 2014, the fair value of our derivative financial instruments designated as cash flow hedges have increased approximately \$2.2 million, net of tax since August 31, 2014, primarily due to a devaluation of the currencies that are being hedged and the scheduled maturities of the underlying instruments during the three months ended November 30, 2014.

Movements in currency exchange rates and the related impact on the translation of the balance sheets of the Company's subsidiaries whose functional currency is not the U.S. dollar were the primary cause of the \$(11.7) million net loss for the three months ended November 30, 2014 in the foreign currency translation adjustments category of accumulated other comprehensive income (loss).

In addition, the Company's subsidiaries whose functional currency is not the U.S. dollar carry monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including transactions recorded involving these monetary assets and liabilities, are recorded as currency gain (loss) within Other income (expense) in the consolidated statements of income. The following table summarizes the amounts recorded for the three month period ending November 30, 2014 and 2013 (in thousands):

| | Three Months Ended | |
|----------------------|--------------------|-------------------|
| | November 30, 2014 | November 30, 2013 |
| Currency gain (loss) | \$ (2,632) | \$ 311 |

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the timelines specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decision regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. Because we do not control or manage those entities, our control procedures with respect to those entities were substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by SEC Rules 13a-15(e) or 15d-15(e), we carried out an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon their evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our systems and processes to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and automating manual processes. There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibit 31.1 and 31.2 to this report.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the reader should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended August 31, 2014. There have been no material changes in the Company’s risk factors from those disclosed in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2014.

Available Information

The PriceSmart, Inc. website or internet address is www.pricessmart.com. On this website the Company makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, and the annual report to the security holders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). The Company’s SEC reports can be accessed through the investor relations section of its website under “SEC Filings.” All of the Company’s filings with the SEC may also be obtained at the SEC’s Public Reference Room at Room 1580, 100 F Street NE, Washington, DC 20549. For information regarding the operation of the SEC’s Public Reference Room, please contact the SEC at 1-800-SEC-0330. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company made available its annual report on Form 10-K and its annual Proxy Statement for the fiscal year 2013 at the internet address <http://materials.proxyvote.com/741511>.

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

- (a) None.
- (b) None.
- (c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

59

PRICESMART, INC.

ITEM 6. EXHIBITS

(a) Exhibits:

- 3.1(1) Amended and Restated Certificate of Incorporation of the Company.
- 3.2(2) Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
- 3.3(3) Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
- 3.4(1) Amended and Restated Bylaws of the Company.

- 10.1 Twenty-Fourth Amendment to Employment Agreement between the Company and Jose Luis Laparte, dated October 1, 2014.
- 10.2 Thirty-Fourth Amendment to Employment Agreement between the Company and Robert M. Gans, dated October 1, 2014.
- 10.3 Third Amendment to Lease (Expansion) Agreement between the Company and CREA Centrewest LP, dated September 18, 2014.
- 10.4 Term Loan between the Bank of Nova Scotia and PriceSmart Honduras S.A. de C.V. dated October 1, 2014.
- 10.5 Promissory Note between PriceSmart Honduras S.A. de C.V. and Citibank, N.A. dated October 22, 2014.

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1** Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2** Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Identifies management contract or compensatory plan or arrangement.
These certifications are being furnished solely to accompany this Report pursuant to 18 U.S.C. 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of PriceSmart, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.
- **

(1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 1997 filed with the Commission on November 26, 1997.

(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 filed with the Commission on April 14, 2004.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2004 filed with the Commission on November 24, 2004.

SIGNATURES

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

PRICESMART, INC.

Date: January 8, 2015

By: /s/ JOSE LUIS LAPARTE
Jose Luis Laparte
Director, Chief Executive Officer and President
(Principal Executive Officer)

Date: January 8, 2015

By: /s/ JOHN M. HEFFNER
John M. Heffner
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer and
Principal Accounting Officer)