

PRICESMART INC
Form 10-Q
April 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2007

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)

9740 Scranton Road, San Diego, CA 92121

(Address of principal executive offices)

33-0628530
(I.R.S. Employer
Identification No.)

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(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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 29,552,580 shares of its common stock, par value \$.0001 per share, outstanding at March 30, 2007.

PRICESMART, INC.

INDEX TO FORM 10-Q

	Page
PART I <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	3
<u>CONSOLIDATED BALANCE SHEETS AS OF AUGUST 31, 2006 AND FEBRUARY 28, 2007 (UNAUDITED)</u>	4
<u>UNAUDITED CONSOLIDATED STATEMENTS OF INCOME FOR THE QUARTERS AND SIX MONTHS ENDED FEBRUARY 28, 2006 AND FEBRUARY 28, 2007</u>	5
<u>UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006 AND FEBRUARY 28, 2007</u>	6
<u>UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006 AND FEBRUARY 28, 2007</u>	7
<u>NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	8
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	23
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	32
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	33
PART II <u>OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	34
ITEM 1A. <u>RISK FACTORS</u>	34
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	34
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	34
ITEM 4. <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	35
ITEM 5. <u>OTHER INFORMATION</u>	35
ITEM 6. <u>EXHIBITS</u>	36

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc. (PriceSmart or the Company) unaudited consolidated balance sheet as of February 28, 2007, the consolidated balance sheet as of August 31, 2006, the unaudited consolidated statements of income for the three and six months ended February 28, 2007 and 2006, the unaudited consolidated statements of cash flows for the three and six months ended February 28, 2007 and 2006, are included elsewhere herein. Also included herein are notes to the unaudited consolidated financial statements.

PRICESMART, INC.

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	February 28, 2007 (Unaudited)	August 31, 2006 (See Note)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 33,441	\$ 39,995
Short-term restricted cash	7,844	7,651
Receivables, net of allowance for doubtful accounts of \$176 and \$191, respectively	4,326	3,599
Merchandise inventories	84,108	77,432
Prepaid expenses and other current assets	10,596	8,985
Assets of discontinued operations	1,543	1,594
Total current assets	141,858	139,256
Long-term restricted cash	407	531
Notes receivable	2,130	
Property and equipment, net	160,918	162,029
Goodwill	31,702	31,870
Deferred tax asset	19,875	20,183
Other assets	3,926	1,903
Investment in unconsolidated affiliate	2,980	3,271
Total Assets	\$ 363,796	\$ 359,043
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings	\$ 4,062	\$ 158
Accounts payable	72,503	65,520
Accounts payable to unconsolidated affiliate		381
Accrued salaries and benefits	5,448	5,765
Deferred membership income	6,720	5,780
Income taxes payable	4,217	4,098
Other accrued expenses	14,469	15,194
Dividend payable	9,458	
Long-term debt, current portion	1,000	5,417
Liabilities of discontinued operations	145	130
Total current liabilities	118,022	102,443
Deferred tax liability	1,307	1,101
Deferred rent	1,708	1,730
Accrued closure costs	3,150	3,226
Long-term debt, net of current portion	53	13,252
Total liabilities	124,240	121,752
Minority interest	2,928	2,672
Commitments and contingencies		
Stockholders Equity:		
Common stock, \$.0001 par value, 45,000,000 shares authorized; 29,552,580 and 29,404,457 shares issued and 29,076,867 and 28,966,294 shares outstanding (net of treasury shares), respectively	3	3

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Additional paid-in capital	365,317	364,132
Tax benefit from stock-based compensation	3,902	3,509
Accumulated other comprehensive loss	(14,010)	(13,883)
Accumulated deficit	(108,517)	(109,676)
Less: treasury stock at cost; 475,713 shares and 438,163 shares held, respectively	(10,067)	(9,466)
Total stockholders' equity	236,628	234,619
Total Liabilities and Stockholders' Equity	\$ 363,796	\$ 359,043

Note: The consolidated balance sheet at August 31, 2006 has been derived from the audited consolidated financial statements.

See accompanying notes.

PRICESMART, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended February 28,		Six Months Ended February 28,	
	2007	2006	2007	2006
Revenues:				
Sales:				
Net warehouse club	\$ 226,722	\$ 189,562	\$ 424,822	\$ 356,075
Export	171	11	266	11
Membership income	3,421	2,817	6,662	5,462
Other income	1,543	868	2,604	1,684
Total revenues	231,857	193,258	434,354	363,232
Operating expenses:				
Cost of goods sold:				
Net warehouse club	192,959	162,170	361,457	304,690
Export	168	16	260	16
Selling, general and administrative:				
Warehouse club operations	21,749	19,134	42,042	37,488
General and administrative	6,877	5,753	12,845	11,379
Preopening expenses	23	1	255	336
Asset impairment and closure costs	472	60	663	113
Total operating expenses	222,248	187,134	417,522	354,022
Operating income	9,609	6,124	16,832	9,210
Other income (expense):				
Interest income	479	412	843	724
Interest expense	(90)	(829)	(445)	(1,550)
Other income (expense), net	(36)	1	(22)	25
Total other income (expense)	353	(416)	376	(801)
Income from continuing operations before provision for income taxes, loss of unconsolidated affiliate and minority interest	9,962	5,708	17,208	8,409
Provision for income taxes	(3,219)	(2,152)	(6,192)	(3,494)
Loss of unconsolidated affiliate	(99)	(80)	(183)	(44)
Minority interest	(128)	(129)	(262)	(173)
Income from continuing operations	6,516	3,347	10,571	4,698
Discontinued operations, net of tax	28	(107)	46	547
Net income	\$ 6,544	\$ 3,240	\$ 10,617	\$ 5,245
Basic income per share:				
Continuing operations	\$ 0.23	\$ 0.12	\$ 0.37	\$ 0.18
Discontinued operations, net of tax				0.02
Net income	\$ 0.23	\$ 0.12	\$ 0.37	\$ 0.20

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Diluted income per share:				
Continuing operations	\$ 0.22	\$ 0.12	\$ 0.36	\$ 0.18
Discontinued operations, net of tax				0.02
Net income	\$ 0.22	\$ 0.12	\$ 0.36	\$ 0.20
Shares used in per share computations:				
Basic	28,477	26,821	28,441	26,256
Diluted	29,224	27,139	29,153	26,569
Dividends per share	\$ 0.32	\$ 0.00	\$ 0.32	\$ 0.00

See accompanying notes.

PRICESMART, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	Six Months Ended February 28,	
	2007	2006
OPERATING ACTIVITIES:		
Income from continuing operations	\$ 10,571	\$ 4,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,758	4,595
Allowance for doubtful accounts	(15)	(26)
Asset impairment and closure costs	663	113
Gain on sale of property and equipment	(5)	
Mark to market of stockholder note receivable		(1)
Deferred income taxes	504	1,452
Minority interest	262	173
Loss of unconsolidated affiliate	183	44
Stock-based compensation expense	998	851
Change in operating assets and liabilities:		
Change in accounts receivable, prepaids, other current assets, accrued salaries, deferred membership and other accruals	(2,199)	683
Merchandise inventory	(6,676)	(5,506)
Accounts payable	6,601	1,714
Net cash provided by continuing activities	15,645	8,790
Net cash provided by discontinued activities	20	533
Net cash provided by operating activities	15,665	9,323
INVESTING ACTIVITIES:		
Additions to property and equipment	(7,572)	(20,497)
Sale of property and equipment	24	
Purchase of Jamaica minority interest		(2,402)
Purchase of Trinidad minority interest		(300)
Return of investment in unconsolidated affiliate		2,800
Net cash used in continuing activities	(7,548)	(20,399)
Net cash provided by (used in) discontinued activities	77	(576)
Net cash used in investing activities	(7,471)	(20,975)
FINANCING ACTIVITIES:		
Proceeds from bank borrowings	4,739	37
Repayment of bank borrowings, net of proceeds from warrant exercise	(18,451)	(3,513)
Issuance of common stock in connection with the rights offering		19,059
Restricted cash	(69)	340
Purchase of treasury stock	(601)	
Proceeds from related party borrowing		12,500
Issuance of common stock		1,500
Proceeds from exercise of stock options	187	119
Tax benefit from stock-based compensation	418	
Net cash (used in) provided by financing activities	(13,777)	30,042

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Effect of exchange rate changes on cash and cash equivalents	(971)	(580)
Net (decrease) increase in cash and cash equivalents	(6,554)	17,810
Cash and cash equivalents at beginning of period	39,995	30,147
Cash and cash equivalents at end of period	\$ 33,441	\$ 47,957
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 558	\$ 3,661
Income taxes	\$ 5,359	\$ 1,019
Supplemental disclosure of non-cash financing activities:		
Issuance of common stock for warrant exercise	\$	\$ 1,400
Dividends declared but not paid	\$ 9,458	\$

See accompanying notes.

PRICESMART, INC.

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED FEBRUARY 28, 2006 AND 2007

(AMOUNTS IN THOUSANDS)

	Common Stock		Additional Paid-in Capital	Tax Benefit from Stock-Based Compensation	Notes Receivable from Stockholder	Accumulated Other Comprehensive Income		Less: Treasury Stock		Total Stockholders Equity
	Shares	Amount				Loss	Deficit	Shares	Amount	
Balance at August 31, 2005	26,031	\$ 3	\$ 339,644	\$ 3,379	\$ (29)	\$ (13,757)	\$ (121,534)	434	\$ (9,433)	
Shares issued	169		1,500							1,500
Rights offering	2,386		19,059							19,059
Warrant exercise	200		1,400							1,400
Donated services			16							16
Issuance of restricted stock awards	560									
Exercise of stock options	17		119							119
Share-based compensation			851							851
Mark to market of employee restricted stock					(1)					(1)
Net income							5,245			5,245
Translation adjustment						17				17
Comprehensive Income										5,262
Balance at February 28, 2006	29,363	\$ 3	\$ 362,589	\$ 3,379	\$ (30)	\$ (13,740)	\$ (116,289)	434	\$ (9,433)	\$ 226,479
Balance at August 31, 2006	29,404	\$ 3	\$ 364,132	\$ 3,509		\$ (13,883)	\$ (109,676)	438	\$ (9,466)	\$ 234,619
Purchase of treasury stock								38	(601)	(601)
Issuance of restricted stock awards	125									
Forfeiture of restricted stock awards	(9)									
Exercise of stock options	33		187							187
Tax benefit from exercise of stock options				393						393
Share-based compensation			998							998
Dividend payable to stockholders							(9,458)			(9,458)
Net income							10,617			10,617
Translation adjustment						(127)				(127)
Comprehensive Income										10,490
Balance at February 28, 2007	29,553	\$ 3	\$ 365,317	\$ 3,902		\$ (14,010)	\$ (108,517)	476	\$ (10,067)	\$ 236,628

See accompanying notes.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

February 28, 2007

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 February 28, 2007, the Company had 23 consolidated warehouse clubs in operation in 11 countries and one U.S. territory (four each in Panama and Costa Rica, two each in Dominican Republic, El Salvador, Guatemala, Honduras and Trinidad and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which the Company owns at least a majority interest. During fiscal 2005, the Company sold its interest in its former Philippine subsidiary. There was one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people as of February 28, 2007. The Company principally operates in three segments based on geographic area.

Basis of Presentation - The consolidated financial statements have been prepared on a going concern basis. The Company has an accumulated deficit of \$108.5 million as of February 28, 2007. However, for the three months ended February 28, 2007, the Company had net income of \$6.5 million, and for the six months ended February 28, 2007, the Company had net income of \$10.6 million. The Company s ability to fund its operations and service debt during fiscal 2007 has improved following the implementation and completion of the Financial Program as described in Note 8 Financial Program and improvements in the underlying business operations. As a result, the Company prepaid \$14.9 million of its long-term debt during the first quarter of fiscal 2007. In addition, the Company was able to fund the build up of its inventory, which contributed to the increase of sales year over year. Reclassifications within selling, general and administrative expenses have been made to prior periods to conform to the current period presentation. These reclassifications decreased general and administrative expense and increased warehouse club operations expense by approximately \$310,000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated interim financial statements of the Company included herein include the assets, liabilities and results of operations of the Company s majority and wholly owned subsidiaries as listed below. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated interim financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (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 interim period presented. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The results for interim periods are not necessarily indicative of the results for the full year. The interim financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Form 10-K for the fiscal year ended August 31, 2006.

The table below indicates the Company's percentage ownership of and basis of presentation for each subsidiary as of February 28, 2007:

	Ownership	Basis of Presentation
PriceSmart Aruba	90.0%	Consolidated
PriceSmart Barbados	100.0%	Consolidated
PSMT Caribe, Inc.:		
Costa Rica	100.0%	Consolidated
Dominican Republic	100.0%	Consolidated
El Salvador	100.0%	Consolidated
Honduras	100.0%	Consolidated
PriceSmart Guam	100.0%	Consolidated ⁽¹⁾
PriceSmart Guatemala	100.0%	Consolidated
PriceSmart Jamaica	100.0%	Consolidated
PriceSmart Mexico	50.0%	Equity
PriceSmart Nicaragua	51.0%	Consolidated
PriceSmart Panama	100.0%	Consolidated
PriceSmart Trinidad	95.0%	Consolidated
PriceSmart U.S. Virgin Islands	100.0%	Consolidated

(1) Entity is treated as discontinued operations in the consolidated financial statements.

Use of Estimates - The preparation of financial statements in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents represent cash and short-term investments with maturities of three months or less when purchased.

Restricted Cash - Short-term restricted cash primarily represents time deposits that are pledged as collateral for the Company's revolving line of credit and long-term restricted cash represents deposits with Federal Regulatory agencies in Costa Rica and Panama.

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.

Allowance for Doubtful Accounts - The Company generally does not extend credit to its members, but may do so for specific wholesale, government or other large volume members. The Company maintains an allowance for doubtful accounts based on assessments as to the probability of collection of specific customer accounts, the aging of accounts receivable, and general economic conditions. If the credit worthiness of a specific customer deteriorates, the Company's estimates could change and it could have a material impact on the Company's reported results.

Property and Equipment - Property and equipment are stated at cost. 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 buildings from ten 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 as management believes it is reasonably assured that the renewal option in the underlying lease will be 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.

Lease Accounting - Certain of our operating leases provide for minimum annual payments that increase over the life of the lease. The aggregate minimum annual payments are expensed on the straight-line basis beginning when we take possession of the property and extending over the term of the related lease. 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.

Goodwill - Goodwill resulting from certain business combinations totaled \$31.7 million at February 28, 2007 and \$31.9 million at August 31, 2006. The decrease in goodwill was due to the foreign exchange translation losses in Guatemala and Jamaica for \$107,000 and \$61,000, respectively. The Company reviews previously reported goodwill at the entity reporting level for impairment on an annual basis or more frequently if circumstances dictate. No impairment of goodwill has been recorded to date.

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. The historical membership fee refunds have been minimal and, accordingly, no reserve has been established for membership refunds for the periods presented. The Company recognizes and presents revenue-producing transactions on a net basis, as defined within EITF Issue No. 06-03 (EITF 06-03), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation).

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 the external and internal distribution and handling costs for supplying such merchandise, raw materials and supplies to the warehouse clubs. External costs include inbound freight, duties, drayage, fees and insurance. Internal costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, and building and equipment depreciation at our distribution facilities.

Vendor consideration consists primarily of volume rebates and prompt payment discounts. Volume rebates are generally linked to pre-established purchase levels and are recorded as a reduction of cost of goods sold when the achievement of these levels is 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 recorded as a reduction to inventory, if significant. 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 impact 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.

Closure Costs - The Company records the costs of closing warehouse clubs as follows: severance costs are accrued when a termination and benefit plan is communicated to the employees; lease obligations are accrued at the cease use date by calculating the net present value of the minimum lease payments net of the fair market value of rental income that could be received for these properties from third parties; gain or loss on the sale of property, buildings and equipment is recognized based on the net present value of cash or future cash received as compensation for such; all other costs are expensed as incurred. The Company closed one warehouse club during fiscal year 2004 and two warehouse clubs during fiscal year 2003. During the first quarter of fiscal year 2007, the Company's original San Pedro Sula location was vacated and the operation was relocated to a new site, which was acquired in fiscal year 2006 in another section of the city.

Impact of Foreign Currency Rate Changes - The functional currency in many of our international subsidiaries is the local currency, which in many cases is not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to US 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 loss.

Monetary assets and liabilities in currencies other than the functional currency of the respective entity are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including repatriation of funds, which are included as a part of the costs of goods sold in the consolidated statements of income, for the first six months of fiscal quarter of 2007, and 2006 were approximately \$(123,000) and \$1.1 million, respectively.

Stock-Based Compensation - As of February 28, 2007, the Company had four stock-based employee compensation plans. In the first quarter of fiscal 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payments, which revises SFAS 123, Accounting for Stock-Based Compensation. The Company had adopted the fair value based method of recording stock options consistent with SFAS 123 for all employee stock options granted subsequent to fiscal year 2002. Specifically, the Company adopted SFAS 123 using the prospective method with guidance provided from SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. All employee stock option grants made or re-priced since the beginning of fiscal 2003 have been or will be expensed over the related stock option vesting period based on the fair value at the date the options are granted. Prior to fiscal 2003, the Company applied Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for stock options.

Under SFAS 123(R), the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard, which includes a binomial model and the Black-Scholes model. At the present time, the Company is continuing to use the Black-Scholes model. The adoption of SFAS 123R, applying the modified prospective method as elected by the Company, requires the Company to value stock options granted prior to its adoption of SFAS 123 under the fair value method and expense these amounts over the stock options remaining vesting period. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur. In addition, SFAS 123R requires the Company to reflect the tax savings resulting from tax deductions in excess of expense reflected as a financing cash flow in its statement of cash flows, rather than as an operating cash flow as in prior periods.

In the first six months of fiscal 2007 and 2006, the Company recognized stock-based compensation expenses of \$998,000, and \$851,000, respectively. The stock-based compensation cost for the first six months of fiscal 2007 includes \$527,000 for restricted stock grants and \$471,000 for stock options. The stock-based compensation expense for the first six months of fiscal 2006 includes \$87,000 for restricted stock grants and \$764,000 for stock options. The remaining unrecognized compensation expense related to unvested awards at February 28, 2007, was approximately \$5.2 million and the weighted-average period of time over which this cost will be recognized is 4.18 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants issued in the first quarter of fiscal 2007 and 2006:

	Six Months Ended	
	February 28,	
	2007	2006
Risk free interest rate	4.85%	4.35%
Expected life	5 years	5 years
Expected volatility	45.88%	43.96%
Expected dividend yield	0%	0%

There were no stock option grants after the dividend declared on February 7, 2007, therefore no calculated change to the expected dividend yield affects the six month percentage reported.

The following table summarizes stock options outstanding as of February 28, 2007, as well as activity during the six months then ended:

	Shares	Weighted-Average Exercise Price
Outstanding at August 31, 2006	697,787	\$ 13.68
Options granted	9,000	16.00
Exercised	(33,083)	6.55
Forfeited or expired	(13,464)	19.87
Outstanding at February 28, 2007 (a)	660,240	\$ 13.94
Exercisable at February 28, 2007	561,097	\$ 14.84

(a) At February 28, 2007 the weighted-average remaining contractual life of options outstanding was 2.1 years. For the first six months of fiscal 2007 and 2006, the intrinsic value of stock options exercised was approximately \$338,000 and \$35,000, respectively. At February 28, 2007, the aggregate intrinsic value of stock options outstanding and exercisable was \$396,000 and \$168,000, respectively. (The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option on the date exercised).

The weighted-average grant date fair value of stock options granted during the six months of fiscal 2007 and 2006 was \$6.75 and \$3.64 respectively.

Total stock grant activity, relating to the 2002 Plan, was as follows for the first six months of fiscal 2007:

	Grants
Outstanding at August 31, 2006	540,700
Granted	124,400
Cancelled	(9,360)
Vested	(106,220)
Outstanding at February 28, 2007	549,520

The Company repurchased from employees 37,550 shares of common stock for \$601,000, based on the stock price at that date of repurchase to cover the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock grants.

Accounting Pronouncements - In September 2006 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement simplifies and codifies related guidance within GAAP. The Company is required to adopt SFAS 157 no later than the Company's fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the interpretation will have on its financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, provides guidance associated with the recognition and measurement of tax positions and related reporting and disclosure requirements. The Company is required to adopt the provisions of FIN 48 beginning in fiscal 2008. The Company is currently evaluating the impact, if any, the interpretation will have on its financial statements.

NOTE 3 DISCONTINUED OPERATIONS

The Company was unsuccessful in its efforts to achieve sustained profitability in its PriceSmart Philippines operation. As a result, and in part to resolve outstanding litigation between the Company and E-Class Corporation (E-Class), one of the minority shareholders of PSMT Philippines, Inc. (PSMT Philippines), the Company entered into an agreement dated August 5, 2005 to dispose of its interest (the Divestiture) in PSMT Philippines. The Divestiture was consummated on August 12, 2005.

The Company has released PSMT Philippines from its obligations with respect to amounts owed to the Company by PSMT Philippines primarily related to past merchandise shipments and has agreed to indemnify PSMT Philippines and its officers, directors, stockholders and agents and to hold them harmless from any claims arising out of previously settled litigation between the Company and its prior Philippines licensee.

In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the accompanying consolidated financial statements reflect the results of operations and financial position of the Philippines and Guam as discontinued operations. Following its closure in December 2003, the Company had previously included the results of operations from Guam in the closure costs line of the Statement of Income. However, due to the shared management structure, as the Philippines and Guam activities were viewed as one activity, following the disposal of the Philippines operations, the results of the Philippines and Guam activities were consolidated in the discontinued operations line of the Statement of Operations.

The assets and liabilities of the discontinued operations are presented in the consolidated balance sheets under the captions Assets of discontinued operations and Liabilities of discontinued operations. The underlying assets and liabilities of the discontinued operations for the periods presented are as follows (in thousands):

	February 28, 2007	August 31, 2006
Cash and cash equivalents	\$ 73	\$ 110
Accounts receivable, net	496	429
Prepaid expenses and other current assets	2	
Other assets	972	1,055
Assets of discontinued operations	\$ 1,543	\$ 1,594
Accrued expenses	\$ 145	\$ 130
Liabilities of discontinued operations	\$ 145	\$ 130

The following table sets forth key components of income from the discontinued operations of the closed warehouse clubs in Guam and the Philippines, (in thousands):

	Three Months Ended		Six Months Ended	
	February 28, 2007	February 28, 2006	February 28, 2007	February 28, 2006
Net warehouse club sales	\$	\$	\$	\$
Pre-tax income (loss) from discontinued operations	28	(170)	46	885
Income tax (provision) benefit		63		(338)
Income (loss) from discontinued operations	\$ 28	\$ (107)	\$ 46	\$ 547

The pre-tax income from discontinued operations, for the six months ended February 28, 2006 includes approximately \$1.0 million from the reversal of the provision against recoverability of a loan principal installment and accrued interest receivable from the former Philippines subsidiary which were collected in December 2005, and the net results of the subleasing activity in Guam.

NOTE 4 PROPERTY AND EQUIPMENT

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

	February 28, 2007	August 31, 2006
Land	\$ 47,335	\$ 48,820
Building and improvements	107,716	105,123
Fixtures and equipment	64,559	61,304
Construction in progress	3,649	6,207
	223,259	221,454
Less: accumulated depreciation	(62,341)	(59,425)
Property and equipment, net	\$ 160,918	\$ 162,029

Building and improvements includes net capitalized interest of \$1.2 million for both February 28, 2007 and August 31, 2006, respectively.

NOTE 5 INCOME PER SHARE

Basic income per share is computed based on the weighted average common shares outstanding in the period. Diluted income per share is computed based on the weighted average common shares outstanding in the period and the effect of dilutive securities (options, warrants and rights) except where the inclusion is antidilutive (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	February 28, 2007	February 28, 2006	February 28, 2007	February 28, 2006
Net income	\$ 6,544	\$ 3,240	\$ 10,617	\$ 5,245
Determination of shares:				
Average common shares outstanding	28,477	26,821	28,441	26,256
Assumed conversion of:				
Stock options	138	100	139	104
Warrants ⁽¹⁾				101
Restricted stock grant ⁽²⁾	609	218	573	108
Diluted average common shares outstanding	29,224	27,139	29,153	26,569
Net income:				
Basic income per share	\$ 0.23	\$ 0.12	\$ 0.37	\$ 0.20
Diluted income per share	\$ 0.22	\$ 0.12	\$ 0.36	\$ 0.20

- (1) A warrant for 400,000 shares of common stock at an exercise price of \$7 per share was issued in January 2005, at which time 200,000 shares were immediately exercised. The remaining 200,000 shares were exercised November 30, 2005.
- (2) Restricted stock was issued to certain employees in the second and third quarters of fiscal 2006 and in the second quarter of fiscal 2007, the dilutive effects of which are 573,512 shares for the six months ended February 28, 2007.

NOTE 6 DIVIDENDS

On February 7, 2007 the Company's Board of Directors declared a cash dividend, in the total amount of \$0.32 per share, \$0.16 per share payable on April 30, 2007 to stockholders of record as of the close of business on April 15, 2007 and \$0.16 per share payable on October 31, 2007 to stockholders of record as of the close of business on October 15, 2007.

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 in its discretion, after its review of the Company's financial performance and anticipated capital requirements.

NOTE 7 ASSET IMPAIRMENT AND CLOSURE COSTS

During fiscal 2003, the Company closed two warehouse clubs, one each in the Dominican Republic and Guatemala and the Company also closed its Commerce, California distribution center on August 31, 2004. The decision to close the warehouse clubs resulted from the determination that the locations were not conducive to the successful operation of a PriceSmart warehouse club.

During the first and second quarters of fiscal year 2007, the Company recorded asset impairment charges of approximately \$72,000 and \$20,000 respectively which were due to the San Pedro Sula, Honduras location being vacated and the operation being relocated to a new site which was acquired during fiscal year 2006 in another section of the city. In the second quarter of fiscal year 2007 the Company recorded approximately \$360,000 in charges as a result of the sale of the Eastside Santo Domingo, Dominican Republic location.

A reconciliation of the changes and related liabilities derived from the closed warehouse clubs as of February 28, 2007 is as follows (in thousands):

	Liability as of August 31, 2006	Charged to Expense	Non-cash Amounts	Cash paid	Liability as of February 28, 2007
Lease obligations	\$ 3,466			(128)	\$ 3,338
Asset impairment		92	(92)		
Sale of land & building		360	(360)		
Other associated costs	36	211	(36)	(211)	
Total	\$ 3,502	663	(488)	(339)	\$ 3,338

The land, building and remaining furniture, fixtures and equipment for the former Eastside Santo Domingo warehouse club were sold during the second quarter of fiscal 2007 for their approximate book value of \$2.5 million. However, a net loss on this disposal of \$360,000 was recorded to reflect the broker commission and the imputed interest on the notes receivable, which will be collected over a 24 month period, beginning four months after the sale date.

NOTE 8 - FINANCIAL PROGRAM

On September 3, 2004, the Company announced a plan to implement a series of transactions (the Financial Program). The Financial Program was approved by the stockholders on October 29, 2004. The elements of the Financial Program and the status of each element are as follows:

A private placement of an aggregate of 3,164,726 shares of the Company's common stock, at a price of \$8 per share, to The Price Group, LLC, a California limited liability company (the Price Group), to be funded through the conversion of a \$25.0 million bridge loan, together with accrued and unpaid interest, extended to the Company by the Price Group in August 2004. The private placement was completed on October 29, 2004, resulting in the issuance of 3,164,726 shares of the Company's common stock.

The issuance of an aggregate of 2,200,000 shares of common stock to the Sol and Helen Price Trust, the Price Family Charitable Fund, the Robert and Allison Price Charitable Remainder Trust, the Robert and Allison Price Trust 1/10/75 (collectively, the Price Trusts) and the Price Group (collectively, with the Price Trusts, the Series B Holders) in exchange for all of the outstanding shares of the Company's 8% Series B Cumulative Convertible Redeemable Preferred Stock. This exchange was completed on October 29, 2004, resulting in the issuance of 2,200,000 shares of the Company's common stock.

The issuance of an aggregate of 2,597,200 shares of common stock, valued for such purpose at a price of \$8 per share, to the Price Group in exchange for up to \$20.0 million of current obligations, plus accrued and unpaid interest, owed by the Company to the Price Group. This exchange was completed on October 29, 2004, resulting in the issuance of 2,597,200 shares of the Company's common stock.

The issuance of up to 16,052,668 shares of common stock in connection with a rights offering pursuant to rights distributed to the holders of outstanding shares of common stock, and the issuance of up to 3,125,000 shares of common stock, at a price of \$8 per share, to the Price Group to ensure that the above-mentioned rights offering generates at least \$25.0 million in proceeds. The \$7 rights offering subscription period began on December 21, 2004 and ended on January 24, 2005. A total of 6,827,542 shares of common stock were sold during this period. The total proceeds were \$47.8 million. The \$8 rights offering period began on January 25, 2005 and initially expired on December 21, 2005 but was extended to January 31, 2006. A total of 2,463,614 shares of common stock were sold during the \$8 rights offering period. The total proceeds for the \$8 rights offering period were \$19.7 million.

The issuance of up to 2,223,104 shares of common stock to exchange common stock, valued for such purpose at a price of \$10 per share, to the holders of all of the shares of the Company's 8% Series A Cumulative Convertible Redeemable Preferred Stock, in exchange for all of the outstanding shares of the Series A Preferred Stock at its initial stated value of \$20.0 million plus all accrued and unpaid dividends. This was completed on November 23, 2004, resulting in the issuance of 2,223,104 shares of common stock.

An amendment to the Amended and Restated Certificate of Incorporation of the Company to increase the number of authorized shares of common stock from 20,000,000 to 45,000,000 shares, which was approved by the Company's stockholders on October 29, 2004.

In connection with the Financial Program described above, the Company and certain of its subsidiaries entered into an agreement with the International Finance Corporation (the IFC) in the first fiscal quarter of 2005 providing for the following: (i) the Company granted the IFC a warrant to purchase 400,000 shares of the Company's common stock at a price of \$7 per share; (ii) the Company purchased a \$10.2 million loan extended by the IFC to PriceSmart Philippines, Inc.; (iii) the Company obtained a waiver of certain IFC loan covenants regarding incurring additional debt, in order to borrow the \$25.0 million in the bridge loan mentioned above; (iv) \$5.2 million of restricted cash pledged as collateral to certain loans was released; (v) all pre-payment penalties were waived for all outstanding loans from the IFC; (vi) the net carrying costs were reduced on one loan by eliminating the IFC's right to a percentage of the Company's earnings, before interest, taxes, depreciation and amortization. Additionally, in connection with the Company's transactions with the IFC, the Price Group (a related party to the Company) granted a put option giving the right to the IFC to sell 300,000 shares of Common Stock to the Price Group at a price of \$12 per share between November 30, 2005 and November 30, 2006. The put option was exercised in the second quarter of fiscal 2006 and the transaction completed in March 2006. All of the above elements were completed during the Company's first and second quarters of fiscal 2005. The warrant was issued in the second quarter of fiscal 2005, and the warrant was exercised with respect to 200,000 shares of the Company's common stock on January 26, 2005. Pursuant to the terms of the warrant, the exercise price

was paid by reducing the principal amount of two of the loans extended to the Company by the IFC. As a result, long-term debt was reduced by \$1.4 million. The balance of the warrant was exercised on November 30, 2005, and long-term debt was reduced by an additional \$1.4 million.

NOTE 9 COMMITMENTS AND CONTINGENCIES

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business, the outcome of which, in the opinion of management, would not have a material adverse effect on the Company. 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.

During fiscal year 2005, the Company sub-leased its closed location in Guatemala for \$300,000 a year for the first and second year; \$414,000 for the third year; with CPI increases not exceeding 3.5% each year for the fourth and fifth year; \$500,000 for the sixth year; and with CPI increases each year not exceeding 3.5% each year for the remaining six years until the end of the sub-lease in 2017. For the discontinued operation in Guam, the Company sub-leased the warehouse for approximately the same amount as its rental expense, \$400,000 a year, until the termination of the master lease in August 2011 at which time the sublease also ends. The Company's annual future minimum lease commitments for the closed warehouse clubs in Guatemala and Guam are \$642,000 and \$400,000, respectively.

The SEC issued a formal order of private investigation on January 8, 2004 to investigate the circumstances surrounding a financial restatement associated with fiscal year 2002 and the first three quarters of fiscal year 2003. The SEC issued subpoenas to the Company for the production of documents and has taken testimony, pursuant to subpoena, from several of the Company's present and former employees, but to the Company's knowledge there has been no activity relating to this matter for almost two years.

The Company operates in multiple international jurisdictions, which creates certain risks regarding the interpretation and enforcement of tax laws and regulations. In the ordinary course of a global business there are many transactions for which the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of inter-company arrangements to share revenue and costs. In such arrangements there are uncertainties about the amount and manner of such sharing which could ultimately result in changes once the arrangements are reviewed by taxing authorities. Although the Company believes that its approach to determining the amounts of such arrangements is reasonable, no assurance can be given that the final exposure from these matters will not be materially different than that which is reflected in the historical income tax provisions and accruals.

In evaluating the exposure associated with various tax filing positions, the Company accrues charges for probable and estimable exposures. At February 28, 2007, the Company believes it has appropriately accrued for probable exposures. To the extent the Company were to prevail in matters for which accruals have been established or be required to pay amounts in excess of reserves, the Company's effective tax rate in a given financial statement period could be materially affected. As of February 28, 2007 and August 31, 2006, the Company had recorded within other accrued expenses a total of \$9.7 million and \$8.3 million, respectively, for income and other tax related contingencies.

The Company is currently evaluating the impact, if any, of the adoption of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which provides guidance associated with the recognition and measurement of tax positions and related reporting and disclosure requirements.

NOTE 10 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

As of February 28, 2007 and August 31, 2006, the Company, together with its majority or wholly-owned subsidiaries, had \$4.1 million and \$158,000, respectively, outstanding in short-term borrowings, at weighted-average interest rates of 8.4% and 8.0%, respectively, which are secured by certain assets of the Company and its subsidiaries and are guaranteed by the Company. Each of the facilities expires during the year and is typically renewed. As of February 28, 2007 and August 31, 2006, the Company had approximately \$1.9 million and \$11.0 million available on these facilities, respectively.

Additionally, the Company has a bank credit agreement, secured by short-term restricted cash, for up to \$7.0 million, which can be used as a line of credit or to issue letters of credit. As of February 28, 2007, letters of credit totaling \$2.1 million (that includes \$1.9 million in Letters of Credit as described in Note 12) were outstanding under this facility, leaving availability under this facility of \$4.9 million.

As of February 28, 2007 and August 31, 2006, the Company, together with its majority or wholly owned subsidiaries, had \$1.1 million and \$18.7 million, respectively, outstanding in long-term borrowings. The carrying amount of the non-cash assets (land, building, fixtures, and equipment) assigned as collateral for long-term debt was \$1.2 million and \$27.9 million as of February 28, 2007 and August 31, 2006, respectively. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

During the first quarter of fiscal 2007, the Company repaid the remaining \$17.3 million balance on the long-term debt held by the International Finance Corporation, which included a prepayment of principal in the amount of \$14.9 million with semi-annual principal payments due through 2010.

NOTE 11 ACQUISITION OF MINORITY INTEREST

The Company's business combinations are accounted for under the purchase method of accounting, and include the results of operations of the acquired business from the date of acquisition. Net assets of the acquired business are recorded at their fair value at the date of the acquisition. The excess of the purchase price over the fair value of tangible net assets acquired is included in goodwill in the accompanying consolidated balance sheets.

During fiscal 2006, the Company purchased the minority interests of its Jamaica subsidiary in order to strengthen the Company's position for the future and consequently increased its ownership percentage in its Jamaica subsidiary from 67.5% to 100%. The Company acquired the minority interests of its three partners, Big Box Sales, Ltd., Chancellor Holdings Limited, and P.S.C., SA, whose ownership percentages were 15%, 10% and 7.5% respectively, on November 17, 2005, November 15, 2005, and December 23, 2005, respectively. The consideration provided in connection with this acquisition consisted of \$2.4 million in cash and forgiveness of a \$413,000 note receivable. The purchase price of \$2.8 million was allocated to minority interest of \$556,000, \$126,000 to buildings and \$2.1 million to goodwill. Also, during the second quarter of fiscal year 2006, the Company purchased a 5% minority interest of its Trinidad subsidiary from one of its partners and thereby increased its ownership percentage in its Trinidad subsidiary from 90% to 95%. The consideration provided in connection with this acquisition was \$300,000. The purchase price was allocated to minority interest of \$132,000 and \$168,000 to goodwill. The goodwill related to these transactions has been allocated to the Caribbean Operations segment.

NOTE 12 UNCONSOLIDATED AFFILIATE

In January 2002, the Company entered into a joint venture agreement with Grupo Gigante, S.A. de C.V. (Gigante) to initially open four PriceSmart warehouse clubs in Mexico. The Company and Gigante contributed \$20.0 million each for a total of \$40.0 million, and each owned 50% of the operations in PSMT Mexico, S.A. de C.V., which owned five subsidiary companies (collectively, PSMT Mexico). The Company accounts for this investment under the equity method of accounting, in which the Company reflects its proportionate share of the income or loss from the joint venture. Three warehouse clubs were eventually opened during fiscal year 2003.

During the fourth quarter of fiscal 2004, due to the historical operating losses and management's assessment as to the inability to recover the full carrying amount of its investment in PSMT Mexico, the Company recorded a non-cash charge of \$3.1 million to reduce the Company's Investment in unconsolidated affiliate.

On February 11, 2005, it was announced that the Company and Gigante had decided to close the warehouse club operations of PSMT Mexico and the closure was completed on February 28, 2005. The joint venture sold two of the three warehouse clubs, consisting of land and buildings, in September 2005 for an aggregate price of \$11.2 million. One warehouse club remains unsold, although efforts are underway to sell it as well. The fixtures and equipment are also being sold. The Company has purchased approximately \$2.3 million of fixtures from PSMT Mexico as of February 28, 2007. The Company paid \$750,000 in cash and offset the remainder with receivables and a note owed by PSMT Mexico to the Company.

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As part of the closure of the joint venture, PSMT Mexico, through its subsidiaries, filed with the Mexico tax authorities claims for refunds of approximately \$4.5 million in VAT taxes. As a condition to reviewing these claims, the Mexican tax authorities required the PSMT Mexico subsidiaries to provide guarantees of payment in case, upon review, it was determined that the applicant subsidiaries actually owed money for unpaid VAT taxes rather than being entitled to a refund. The Company and Gigante jointly provided these guarantees. PriceSmart provided its portion of the guarantee by obtaining and posting letters of credit for approximately \$1.9 million dollars in favor of the Mexican tax authorities. These letters of credit expire on December 6, 2007. The letters of credit must be maintained in force until final resolution of the claim for refund by the Mexican tax authorities or until PSMT Mexico withdraws its claims. In accounting for the investment in this joint venture, no provision for this contingency has been recorded, as the Company believes no payment will be made to settle this contingency.

	As of February 28, 2007	As of August 31, 2006
Current assets	\$ 5,955	\$ 5,887
Noncurrent assets	\$ 5,860	\$ 7,038
Current liabilities	\$ 988	\$ 839
Noncurrent liabilities	\$ 73	\$

	Six Months Ended February 28,	
	2007	2006
Revenues	\$	\$ 50
Cost of Goods Sold	\$	