

PRICESMART INC  
Form 10-Q  
July 09, 2012

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 May 31, 2012

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 30,204,353 shares of its common stock, par value \$0.0001 per share, outstanding at June 30, 2012.

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 MAY 31, 2012 (UNAUDITED) AND AUGUST 31, 2011</u>	<u>2</u>
<u>CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2012 AND 2011- UNAUDITED</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF EQUITY FOR THE NINE MONTHS ENDED MAY 31, 2012 AND 2011 - UNAUDITED</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED MAY 31, 2012 AND 2011 - UNAUDITED</u>	<u>5</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED</u>	<u>6</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>24</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>48</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>50</u>
<u>PART II - OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>52</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>52</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>52</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>53</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>53</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>53</u>
<u>ITEM 6. EXHIBITS</u>	<u>54</u>

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.'s ("PriceSmart" or the "Company") unaudited consolidated balance sheet as of May 31, 2012 and the consolidated balance sheet as of August 31, 2011, the unaudited consolidated statements of income for the three and nine months ended May 31, 2012 and 2011, the unaudited consolidated statements of equity for the nine months ended May 31, 2012 and 2011, and the unaudited consolidated statements of cash flows for the nine months ended May 31, 2012 and 2011, 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)

	May 31, 2012 (Unaudited)	August 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$104,943	\$76,817
Short-term restricted cash	1,288	1,240
Receivables, net of allowance for doubtful accounts of \$4 and \$5 as of May 31, 2012 and August 31, 2011, respectively	4,323	3,655
Merchandise inventories	180,263	177,232
Deferred tax assets – current	4,897	4,252
Prepaid expenses and other current assets	28,743	29,117
Assets of discontinued operations	10	464
Total current assets	324,467	292,777
Long-term restricted cash	36,665	22,626
Property and equipment, net	289,700	281,111
Goodwill	37,104	37,361
Deferred tax assets – long term	14,947	17,000
Other non-current assets (includes \$79 as of May 31, 2012 for the fair value of derivative instruments)	5,492	5,390
Investment in unconsolidated affiliates	7,565	8,063
Total Assets	\$715,940	\$664,328
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Short-term borrowings	\$2,169	\$2,259
Accounts payable	164,756	163,432
Accrued salaries and benefits	13,590	11,681
Deferred membership income	13,079	11,416
Income taxes payable	8,107	7,655
Other accrued expenses	13,969	12,556
Dividends payable	9,063	—
Long-term debt, current portion	7,266	7,771
Deferred tax liability – current	378	533
Liabilities of discontinued operations	—	40
Total current liabilities	232,377	217,343
Deferred tax liability – long-term	1,624	1,888
Long-term portion of deferred rent	4,362	4,143
Long-term income taxes payable, net of current portion	2,618	3,310
Long-term debt, net of current portion	73,317	60,451
Other long-term liabilities (includes \$914 and \$884 for the fair value of derivative instruments and \$606 and \$471 for the defined benefit plan as of May 31, 2012 and August 31, 2011, respectively)	1,520	1,355
Total liabilities	315,818	288,490
Equity:		
Common stock, \$0.0001 par value, 45,000,000 shares authorized; 30,847,734 and 30,695,933 shares issued and 30,204,353 and 29,900,030 shares outstanding (net of	3	3

Edgar Filing: PRICESMART INC - Form 10-Q

treasury shares) as of May 31, 2012 and August 31, 2011, respectively		
Additional paid-in capital	382,570	383,549
Tax benefit from stock-based compensation	5,979	5,242
Accumulated other comprehensive loss	(32,121	) (22,915 )
Retained earnings	60,030	28,238
Less: treasury stock at cost; 643,381 and 795,903 shares as of May 31, 2012 and August 31, 2011, respectively	(16,339	) (18,279 )
Total equity	400,122	375,838
Total Liabilities and Equity	\$715,940	\$664,328
See accompanying notes.		

2

---

## PRICESMART, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED—AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended		Nine Months Ended	
	May 31,	May 31,	May 31,	May 31,
	2012	2011	2012	2011
Revenues:				
Net warehouse club sales	\$494,898	\$421,637	\$1,501,043	\$1,239,232
Export sales	2,768	1,890	8,476	5,170
Membership income	6,944	5,824	19,668	16,825
Other income	2,163	1,797	6,104	5,610
Total revenues	506,773	431,148	1,535,291	1,266,837
Operating expenses:				
Cost of goods sold:				
Net warehouse club	421,512	359,064	1,281,306	1,052,279
Export	2,622	1,804	8,075	4,906
Selling, general and administrative:				
Warehouse club operations	46,197	38,819	135,090	111,192
General and administrative	10,940	9,293	30,559	26,977
Pre-opening expenses	94	284	255	672
Total operating expenses	481,365	409,264	1,455,285	1,196,026
Operating income	25,408	21,884	80,006	70,811
Other income (expense):				
Interest income	279	300	668	667
Interest expense	(1,344)	) (984)	) (3,915)	) (3,012)
Other income (expense), net	(538)	) 2,367	(975)	) 2,893
Total other expense	(1,603)	) 1,683	(4,222)	) 548
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	23,805	23,567	75,784	71,359
Provision for income taxes	(8,078)	) (7,199)	) (25,854)	) (22,093)
Income (loss) of unconsolidated affiliates	(19)	) (3)	) (9)	) (45)
Income from continuing operations	15,708	16,365	49,921	49,221
Income (loss) from discontinued operations, net of tax	(2)	) (75)	) (6)	) (161)
Net income	15,706	16,290	49,915	49,060
Net income per share available for distribution:				
Basic net income per share from continuing operations	\$0.52	\$0.55	\$1.66	\$1.65
Basic net income (loss) per share from discontinued operations, net of tax	\$—	\$—	\$—	\$—
Basic net income per share	\$0.52	\$0.55	\$1.66	\$1.65
Diluted net income per share from continuing operations	\$0.52	\$0.55	\$1.66	\$1.65
Diluted net income (loss) per share from discontinued operations, net of tax	\$—	\$—	\$—	\$—
Diluted net income per share	\$0.52	\$0.55	\$1.66	\$1.65
Shares used in per share computations:				
Basic	29,584	29,493	29,543	29,422

Edgar Filing: PRICESMART INC - Form 10-Q

Diluted	29,595	29,502	29,555	29,430
Dividends per share	\$—	\$—	\$0.60	\$0.60
See accompanying notes.				

3

---

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

	Common Stock Shares	Amount	Additional Paid-in Capital	Tax Benefit From Stock-based Compensation	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Treasury Stock Shares	Amount	Total Equity
Balance at August 31, 2010	30,625	\$3	\$379,368	\$4,490	\$(16,672)	\$(15,578)	727	\$(15,568)	\$336,043
Purchase of treasury stock	—	—	—	—	—	—	67	(2,604)	(2,604)
Issuance of restricted stock awards	66	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(6)	—	—	—	—	—	—	—	—
Exercise of stock options	6	—	144	—	—	—	—	—	144
Stock-based compensation	—	—	3,076	876	—	—	—	—	3,952
Dividend payable to stockholders	—	—	—	—	—	(8,970)	—	—	(8,970)
Dividend paid to stockholders	—	—	—	—	—	(8,969)	—	—	(8,969)
Change in fair value of interest rate swaps	—	—	—	—	(23)	—	—	—	(23)
Net income	—	—	—	—	—	49,060	—	—	49,060
Translation adjustment	—	—	—	—	(396)	—	—	—	(396)
Comprehensive income									48,641
Balance at May 31, 2011	30,691	\$3	\$382,588	\$5,366	\$(17,091)	\$15,543	794	\$(18,172)	\$368,237
Balance at August 31, 2011	30,696	\$3	\$383,549	\$5,242	\$(22,915)	\$28,238	796	\$(18,279)	\$375,838
Purchase of treasury stock	—	—	—	—	—	—	44	(3,013)	(3,013)
Issuance of treasury stock	(197)	—	(4,953)	—	—	—	(197)	4,953	—
Issuance of restricted stock awards	345	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(2)	—	—	—	—	—	—	—	—



Edgar Filing: PRICESMART INC - Form 10-Q

Exercise of stock options	6	—	89	—	—	—	—	—	89
Stock-based compensation	—	—	3,885	737	—	—	—	—	4,622
Dividend payable to stockholders	—	—	—	—	—	(9,063	)	—	(9,063 )
Dividend paid to stockholders	—	—	—	—	—	(9,060	)	—	(9,060 )
Change in fair value of interest rate swaps, net of tax	—	—	—	—	(33	)	—	—	(33 )
Amortization of prior service costs on defined benefit plan, net of tax	—	—	—	—	12	—	—	—	12
Net income	—	—	—	—	—	49,915	—	—	49,915
Translation adjustment to record merger of subsidiaries and correction to translation of Property and Equipment, net	—	—	—	—	(8,881	)	—	—	(8,881 )
Translation adjustment	—	—	—	—	(304	)	—	—	(304 )
Comprehensive income									40,709
Balance at May 31, 2012	30,848	\$3	\$382,570	\$ 5,979	\$ (32,121	)	\$60,030	643	\$(16,339) \$400,122

See accompanying notes.

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

	Nine Months Ended	
	May 31, 2012	May 31, 2011
Operating Activities:		
Net income	\$49,915	\$49,060
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17,610	13,675
Allowance for doubtful accounts	(1	) (2
(Gain) loss on sale of property and equipment	239	299
Gain on sale of excess real estate in Panama	—	(1,249
Deferred income taxes	1,728	2,907
Discontinued operations	6	161
Excess tax deficiency (benefit) on stock-based compensation	(737	) (876
Equity in gains/(losses) of unconsolidated affiliates	9	45
Stock-based compensation	3,885	3,076
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	4,625	(5,280
Merchandise inventories	(3,031	) (36,497
Accounts payable	1,326	13,355
Net cash provided by (used in) continuing operating activities	75,574	38,674
Net cash provided by (used in) discontinued operating activities	407	108
Net cash provided by (used in) operating activities	75,981	38,782
Investing Activities:		
Additions to property and equipment	(35,769	) (34,810
Proceeds from disposal of property and equipment	86	37
Proceeds on sale of excess real estate in Panama	—	7,406
Net cash flows provided by (used in) investing activities	(35,683	) (27,367
Financing Activities:		
Proceeds from bank borrowings	75,924	40,066
Repayment of bank borrowings	(63,397	) (32,176
Release of (addition to) restricted cash	(14,000	) (14,920
Cash dividend payments	(9,060	) (8,969
Excess tax (deficiency) benefit on stock-based compensation	737	876
Purchase of treasury stock	(3,013	) (2,604
Proceeds from exercise of stock options	89	144
Net cash provided by (used in) financing activities	(12,720	) (17,583
Effect of exchange rate changes on cash and cash equivalents	548	(1,332
Net increase (decrease) in cash and cash equivalents	28,126	(7,500
Cash and cash equivalents at beginning of period	76,817	73,346
Cash and cash equivalents at end of period	\$104,943	\$65,846
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$3,775	\$2,767
Income taxes	\$22,193	\$16,130
Supplemental non-cash item:		

Edgar Filing: PRICESMART INC - Form 10-Q

Cancellation of joint ventures Prico Enterprise loan	\$(473	) \$—
Dividends declared but not paid	\$9,063	\$8,970

5

---

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

May 31, 2012

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 May 31, 2012, the Company had 29 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (five in Costa Rica, four each in Panama and Trinidad, three each in Guatemala and in the Dominican Republic, two each in El Salvador and Honduras and one each in Colombia, 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). The Company opened a new warehouse club in Santo Domingo, Dominican Republic ("Arroyo Hondo") on November 5, 2010 and a new membership warehouse club in Barranquilla, Colombia on August 19, 2011. The Company also acquired land in south Cali, Colombia on December 14, 2011 upon which it currently anticipates opening a new warehouse club in October 2012. Additionally, on January 9, 2012 the Company entered into an agreement to acquire property located in La Union, Cartago, Costa Rica, upon which the Company anticipates constructing its sixth membership warehouse club in Costa Rica with an anticipated opening in the summer of calendar year 2013. Finally, on March 15, 2012 the Company acquired land in north Cali, Colombia upon which it anticipates opening a new warehouse club in the spring of calendar year 2013. The initial warehouse sales and membership results experienced with the opening of the Barranquilla warehouse club has reinforced the Company's belief that Colombia could be a market for multiple PriceSmart warehouse clubs. The Company continues to explore other potential sites for future warehouse clubs in other major cities in Colombia as well as in its other markets.

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 Amendment No. 1 to Annual Report on Form 10-K/A for the fiscal year ended August 31, 2011 (the "2011 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.

In accordance with the Financial Accounting Standards Board's ("FASB") revised guidance establishing general accounting standards and disclosure of subsequent events, the Company has evaluated subsequent events through the date and time these financial statements were issued.

During fiscal year 2007 and during the first quarter of fiscal year 2012, the Company merged in each period a wholly owned subsidiary formed to purchase, develop and serve as a holding company for the land and buildings used by certain operating warehouse clubs (each, a "Landco") with one of the wholly owned subsidiaries formed to operate these warehouse clubs (each, an "Opco"). Each of the Landco entities involved in these mergers had a functional and reporting currency in U.S. dollars, and each of the related Opco entities that they were merged into had a foreign currency as a functional currency and U.S. dollars as a reporting currency. In each of these mergers, the Opco was the surviving entity, with the assets, liabilities and equity accounts of the Landco being transferred to the Opco and the Landco subsidiary ceasing to exist. Since the Landco entity ceased to exist, and all relevant economic activities previously performed by the Landco no longer exist, a significant change in economic facts and circumstances has been determined to have taken place, indicating that the functional currency has changed as the assets were transferred to the Opco. Upon this transfer, the Company is required to remeasure the non-monetary balance sheet items at

historical exchange rates in order to produce the same result in terms of the functional currency that would have occurred if those items had been initially recorded in the foreign functional currency. As a result of the 2012 merger, and the resulting translation adjustments, the Company recorded in the first quarter of fiscal year 2012 a charge to comprehensive income for approximately \$5.6 million relating to the fiscal year 2012 merger, with a corresponding reduction to Property and equipment, net for the same amount.

During the first quarter of fiscal year 2012, the Company identified errors in the consolidated financial statements for the fiscal year ended August 31, 2011 and for fiscal years previous to 2009. The errors relate to incorrect (i) accounting for the 2007 merger described above which impacted the translation of Property and equipment, net from foreign currencies to U.S. dollars and the related offset to Accumulated other comprehensive loss; and (ii) the translation of Property and equipment, net from foreign currencies to U.S. dollars and the related offset to Accumulated other comprehensive loss. The correction of these errors would have decreased comprehensive income by \$6.4 million and increased comprehensive income by \$3.1 million in fiscal year 2007 and 2011, respectively. The total of these corrections, which was recorded in the first quarter of fiscal 2012 as a charge to

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

comprehensive income was approximately \$3.3 million and decreased Property and equipment, net and increased Accumulated other comprehensive loss by the same amount.

The Company has analyzed the impact of these items and concluded that neither error would be material to any individual period, taking into account the requirements of the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements in the Current Year Financial Statements (“SAB 108”). In accordance with the relevant guidance, management evaluated the materiality of errors from a quantitative and qualitative perspective. Based on such evaluation, the Company concluded that correcting the cumulative errors, which decreased comprehensive income by approximately \$3.3 million for the three month period ended November 30, 2011, would be immaterial to the expected full year results for fiscal 2012 and financial position as presented on the consolidated balance sheet. Correcting the error would not have had a material impact on any individual prior period presented in the 2011 Form 10-K or affect the trend of financial results. As provided by SAB 108, the error correction did not require the restatement of the consolidated financial statements for prior periods.

As a result of recording (i) the fiscal year 2012 merger and the resulting translation adjustment, (ii) the correction of the accounting for the 2007 merger, and (iii) the correction of an error in translation of Property and equipment, net from foreign currencies to U.S. dollars, the Company recorded an increase to Accumulated other comprehensive loss for \$8.9 million within the first quarter of fiscal year 2012.

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, have been reclassified from Cost of goods sold to Other income (expense) in the Consolidated Statements of Income for the fiscal year and interim periods reported for 2011. The Company’s management believes that these foreign currency transactions are not directly matched to the recognition of cost of goods sold but are more closely linked to financing activities of the Company. These activities include the use of the extension of U.S dollar payables as a funding tool to meet the Company’s subsidiary cash requirements and direct bank financing for U.S. dollar loans that constitute financing vehicles for expansion or development of subsidiaries, where once the cash is deposited into that subsidiary, it is fungible and can be used for any cash requirement of the entity such as capital, inter-company payments, working capital requirements, dividend payments and increases in restricted cash balances to comply with financing requirements. The Company believes that these reclassifications will allow for better comparability to other comparable companies with similar business models. The following table summarizes the amounts reclassified to conform with fiscal year 2012 presentation (in thousands):

	Three Months Ended				Total fiscal year 2011
	November 30, 2010	February 28, 2011	May 31, 2011	August 31, 2011	
Other income (expense) – (net previously reported) <sup>(1)</sup>	\$ (46 )	\$ (260 )	\$ 1,838	\$ 8	\$ 1,540
Foreign exchange transaction gains reclassified from Cost of goods sold to Other income (expenses), net	378	454	529	963	2,324
Other income (expense), net – (currently reported) <sup>(2)</sup>	\$ 332	\$ 194	\$ 2,367	\$ 971	\$ 3,864
	Three Months Ended				
	November 30, 2010	February 28, 2011	May 31, 2011	August 31, 2011	Total fiscal year 2011

(1 )

Composition of beginning balance					
Other income (expense) –					
(previously reported):					
Gain/(loss) on sale	(53	) (176	) 1,179	(187	) 763
Currency gain/(loss)	7	(84	) 659	195	777
Composition of ending balance					
<sup>(2)</sup> Other income (expense) – (as now					
reported):					
Gain/(loss) on sale	(53	) (176	) 1,179	(187	) 763
Currency gain/(loss)	385	370	1,188	1,158	3,101

7

---

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In addition, within the Consolidated Balance Sheets for the period ended August 31, 2011, the Company reclassified the fair value of derivative instruments in the amount of \$884,000 from Other accrued expenses to Other long-term liabilities.

#### NOTE 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. All significant inter-company accounts and transactions have been eliminated in consolidation. The interim consolidated financial statements have been prepared by the Company without audit, 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 interim periods presented. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") 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.

**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 and Price Plaza Alajuela 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.

**Restricted Cash** – As of May 31, 2012, the Company had short-term restricted cash of approximately \$1.3 million. This primarily consisted of the current portion of a certificate of deposit maintained by the Company's Honduras subsidiary with Banco Del Pais related to a loan agreement entered into by the subsidiary with Banco del Pais for approximately \$1.2 million and approximately \$88,000 in short-term restricted cash held with banking institutions for local regulatory agencies. The Company had long-term restricted cash as of May 31, 2012 of approximately \$36.7 million. This consisted primarily of certificates of deposit held for \$8.0 million with Citibank and \$24.0 million held with Scotiabank related to loans in Colombia. In addition, the Company has a certificate of deposit for approximately \$3.7 million with Banco del Pais, related to loans in Honduras. The Company has deposits of approximately \$945,000 made directly with federal regulatory agencies and with banking institutions in compliance with federal regulatory requirements in Costa Rica and Panama.

**Merchandise Inventories** – The Company records its inventory at the lower of cost (average cost) or market. The Company provides for estimated inventory losses between physical inventory counts on the basis of a percentage of sales. The provision is adjusted monthly to reflect the trend of actual physical inventory cycle count results, with full physical inventories occurring primarily in the second and fourth fiscal quarters. In addition, the Company monitors slow-moving inventory to determine if provisions should be taken for expected markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise. The uncertainties associated with these methods, assumptions and estimates with regard to the Company's reported inventory, including the estimated provisions, has



not had and is not expected to have a material impact on the financial condition and operating performance of the Company or on the comparability of the reported information for the periods presented, as historically the actual results have not differed materially from the estimates. The likelihood of any material changes in inventory losses or markdowns is dependent on customer demand or new product introductions by the Company or its competitors that vary from current expectations.

**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 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

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 recorded costs 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 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.

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 May 31, 2012 and August 31, 2011 is as follows (in thousands):

	May 31, 2012		August 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	\$80,583	\$82,785	\$68,222	\$70,982

Derivatives- 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.

Cash Flow Instruments. The Company is a party to receive floating-rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain 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 interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive fixed-rate, pay fixed-rate cross-currency interest rate swaps to hedge the 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. 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 May 31, 2012 and August 31, 2011.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. 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.

The Company seeks to manage counterparty risk associated 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. The contracts 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 May 31, 2012 and August 31, 2011.

The following table summarizes financial assets and liabilities measured and recorded at fair value on a recurring basis in the Company's consolidated balance sheet as of May 31, 2012 and August 31, 2011 (in thousands):

Assets and Liabilities as of May 31, 2012:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other non-current assets - (Cross-currency interest rate swaps)	\$—	\$78	\$—	\$78
Other long-term liabilities – (Interest rate swaps)	—	(286	) —	(286 )
Other long-term liabilities – (Cross-currency interest rate swaps)	—	(628	) —	(628 )
Total	\$—	\$(836	) \$—	\$(836 )
Liabilities as of August 31, 2011:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Other long-term liabilities – (Interest rate swaps)	\$—	\$(544	) \$—	\$(544 )
Other long-term liabilities – (Cross-currency interest rate swaps)	—	(340	) —	(340 )
Total	\$—	\$(884	) \$—	\$(884 )

The amounts recorded for the fair value of the current liability on forward foreign exchange contracts were nominal for the nine months ended May 31, 2012. The Company did not have any forward foreign exchange contracts for the year ended August 31, 2011. The fair value of derivatives is disclosed in further detail in Note 9 - Derivative Instruments and Hedging Activities.

As of May 31, 2012 and August 31, 2011, the Company had no significant measurements of financial assets or liabilities at fair value on a nonrecurring basis.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**Goodwill** – Goodwill resulting from certain business combinations totaled \$37.1 million as of May 31, 2012 and \$37.4 million as of August 31, 2011. Foreign exchange translation losses related to goodwill of approximately \$257,000 for the nine months ended May 31, 2012 resulted in the decrease of goodwill. The Company reviews previously reported goodwill at the entity level for impairment if there has been a significant change in the reporting unit’s assets and liabilities since the most recent evaluation, if the reporting unit’s most recent fair value determination resulted in an amount that exceeded its carrying amount by a substantial margin or if the likelihood that a current fair value determination would be more likely than not to show that the current fair value of the unit is less than the carrying amount of the reporting unit.

**Treasury Stock** – Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders’ equity in the Company’s Consolidated Balance Sheets. The Company may reissue these treasury shares. When treasury shares are reissued, the Company uses 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.

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

**Foreign Currency** – 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 repatriation of funds, have been reclassified from Cost of goods sold to Other income (expense) in the Consolidated Statements of Income for the fiscal year and interim periods reported for fiscal year 2011 and are included as part of Other income (expense) in the consolidated statements of income for fiscal year 2012. The Company’s management believes that these foreign currency transactions are not directly matched to the recognition of cost of goods sold but are more closely linked to financing activities of the Company (see Note 1 – Company Overview and Basis of Presentation). For the first nine months of fiscal years 2012 and 2011, the Company recorded approximately \$735,000 and \$1.9 million in foreign exchange gains/(losses), respectively.

**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 file tax returns. As part of these reviews, a taxing authority may disagree with 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 accounts for uncertain income tax positions by accruing for the estimated additional income tax liability, including interest and penalties, for uncertain tax positions when the uncertain tax position does not meet the more likely than not standard for sustaining the position. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Company's

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained.

The reconciliation of income tax computed at the Federal statutory tax rate to the provision for income taxes is as follows (in percentages):

	Nine Months Ended May 31,			
	2012	2011		
Federal tax provision at statutory rates	35.00	% 35.00		%
State taxes, net of federal benefit	0.74	0.73		%
Differences in foreign tax rates	(4.17	) (4.25	)	)%
Permanent items and other adjustments	1.81	(0.75		)%
Increase (decrease) in Foreign valuation	0.74	0.23		%
Provision for income taxes	34.12	% 30.96		%

For the nine months ended May 31, 2012, the 3% increase in the effective tax rate versus the prior year was primarily attributable to the following factors: (1) a 0.7% increase primarily due to changes in applicable foreign statutory tax rates; (2) prior period credit card processing fees for which the Company did not recognize a tax benefit of 0.3%; and (3) an increase in the taxable loss of the Company's new Colombia entity for which it did not recognize a tax benefit of 0.8%. A full valuation allowance was recorded against the future tax benefit of losses generated by Colombia operations. The valuation allowance was necessary because the Colombia operations have not established an earnings history to support recognition of a tax benefit. In addition, the Company recorded a benefit of 0.6% due to an increase in the U.S. statutory tax rate from 34% to 35% which increased the value of U.S. deferred tax assets in the fiscal year 2011.

#### Recent Accounting Pronouncements

##### FASB ASC 350

In September 2011, the FASB issued guidance regarding assessing whether it is necessary to perform goodwill impairment tests on a recurring basis. The guidance permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair market value of a reporting unit is less than its carrying amounts as a basis for determining whether it is necessary to perform the goodwill impairment test. The amended guidance is effective for annual and interim periods beginning after December 15, 2011, with early adoption permitted, including annual and interim goodwill impairment tests performed as of dates before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company adopted this guidance as of August 31, 2011. Adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

##### FASB ASC 220

In June 2011, the FASB issued guidance to amend the presentation of comprehensive income to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with



total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amended guidance is effective for annual and interim periods within those years beginning after December 15, 2011, and is to be applied retrospectively. The Company will adopt this guidance at the beginning of its fiscal year 2013. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

#### FASB ASC 820

In May 2011, the FASB issued guidance to amend the requirements related to fair value measurement which changes the wording used to describe many requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

requirements. The amended guidance is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The company adopted the guidance in the third quarter of fiscal year 2012. The adoption did not have a material impact on the company's consolidated financial statements.

## FASB ASC 350

In December 2010, the FASB issued amended guidance concerning testing for impairment of goodwill where an entity has one or more reporting units whose carrying value is zero or negative. The amended guidance requires the entity to perform a test to measure the amount, if any, of impairment to goodwill by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The Company is required to adopt this amended guidance for fiscal years or interim periods within those years after December 15, 2011. The Company will adopt this guidance at the beginning of its fiscal year 2013. The Company does not expect that adoption of the amended guidance will have an impact on the Company's consolidated financial statements or disclosures to those financial statements.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are stated at historical 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 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):

	May 31, 2012	August 31, 2011
Land	\$90,087	\$84,912
Building and improvements	198,167	192,245
Fixtures and equipment	99,427	89,239
Construction in progress	13,872	18,655
Total property and equipment, recorded at historical cost	401,553	385,051
Less: accumulated depreciation	(111,853	) (103,940
Property and equipment, net	\$289,700	\$281,111

As a result of the merger of wholly owned subsidiaries under the common control of the Company and the correction of translation errors, the Company recorded during the first quarter of fiscal year 2012 a decrease in Property and equipment, net of approximately \$8.9 million (see Note 1 - Company Overview and Basis of Presentation).

The Company capitalized during the first nine months of fiscal years 2012 and 2011 approximately \$101,000 and \$574,000, respectively, in interest expense. The total net interest capitalized and recorded within the consolidated

balance sheets as of May 31, 2012 and August 31, 2011 was \$4.7 million and \$4.3 million, respectively.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## NOTE 4 – EARNINGS PER SHARE

The Company presents basic and diluted Earnings Per Share (“EPS”) 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 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 and restricted stock units authorized within the Company’s 1998, 2001 and 2002 Equity Participation Plans. In addition, the Company determines the diluted income per share by excluding the basic weighted average of stock options outstanding from the shares used in the per share computation.

The following table sets forth the computation of net income per share for the three and nine months ended May 31, 2012 and 2011 (in thousands, except per share amounts):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Net income from continuing operations	\$ 15,706	\$ 16,365	\$ 49,915	\$ 49,221
Less: Earnings and dividends allocated to unvested stockholders	(354	) (243	) (941	) (764
Dividend distribution to common stockholders	—	—	(17,745	) (17,691
Basic undistributed net earnings available to common stockholders from continuing operations	15,352	16,122	31,229	30,766
Add: Net undistributed earnings allocated and reallocated to unvested stockholders (two-class method) and dividend distribution	\$—	\$—	\$ 17,745	\$ 17,691
Net earnings available to common stockholders from continuing operations	\$ 15,352	\$ 16,122	\$ 48,974	\$ 48,457
Net earnings (loss) available to common stockholders from discontinued operations	(2	) (75	) (6	) (161
Basic weighted average shares outstanding	29,584	29,493	29,543	29,422
Add dilutive effect of stock options (two-class method)	11	9	12	8
Diluted average shares outstanding	29,595	29,502	29,555	29,430
Basic income per share from continuing operations	\$ 0.52	\$ 0.55	\$ 1.66	\$ 1.65
Diluted income per share from continuing operations	\$ 0.52	\$ 0.55	\$ 1.66	\$ 1.65
Basic income (loss) per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Diluted income (loss) per share from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net Income attributable to PriceSmart:				
Income from continuing operations	15,708	16,365	49,921	49,221
Income (loss) from discontinued operations, net of tax	(2	) (75	) (6	) (161
	15,706	16,290	49,915	49,060



PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## NOTE 5 – STOCKHOLDERS' EQUITY

Dividends

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2012 and 2011.

Declared	Amount	First Payment		Second Payment			Record Date	Payable as of May 31, 2012	Amount
		Record Date	Date Paid	Amount	Date Paid	Amount			
1/25/2012	\$0.60	2/15/2011	2/29/2012	\$0.30	—	\$—	8/15/2012	8/31/2012	\$0.30
1/19/2011	0.60	2/15/2011	2/28/2011	0.30	8/31/2011	0.30	8/15/2011	N/A	N/A

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

Translation adjustment losses from the Company's subsidiaries and investment in affiliates that use a functional currency other than the U.S. dollar, resulting from the translation of the assets and liabilities of these companies into U.S. dollars, were approximately \$9.2 million and \$396,000 for the first nine months ended on May 31, 2012 and 2011, respectively. The translation adjustment loss during the first nine months ended May 31, 2012 resulted primarily from a \$5.6 million charge related to the merger of wholly owned subsidiaries of the Company and a \$3.3 million net charge relating to the correction of prior period translation errors affecting Property and equipment, net (see Note 1 - Company Overview and Basis of Presentation). In addition, losses for approximately \$304,000 were recorded during the first nine months of fiscal year 2012 related to weaker foreign currencies. The \$396,000 loss recorded for the first nine months of fiscal year 2011 was mainly due to weaker foreign currencies. Weaker foreign currencies create other comprehensive losses as financial statement translation losses are recorded to other comprehensive income.

The following table presents the components of accumulated other comprehensive loss reported on the Company's consolidated balance sheets:

	May 31, 2012	August 31, 2011
Accumulated Other Comprehensive Loss:		
Change in fair value of interest rate and cross currency interest rate swaps, net of tax	\$(781)	\$(748)
Prior Service Cost Accrual (including amortization) on Defined Benefit Plan, net of tax	(261)	(273)
Foreign-currency translation adjustment	(31,079)	(21,894)
Balance at May 31, 2012 and August 31, 2011	\$(32,121)	\$(22,915)

Retained Earnings Not Available for Distribution

As of May 31, 2012 and August 31, 2011, retained earnings included retained earnings designated as legal reserves of various subsidiaries of approximately \$5.2 million and \$4.4 million, respectively, which cannot be distributed as dividends to PriceSmart, Inc. according to applicable statutory regulations.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## NOTE 6 – STOCK BASED COMPENSATION

The three types of equity awards offered by the Company are stock options (“options”), restricted stock awards (“RSA’s”) and restricted stock units (“RSU’s”). Compensation related to options is accounted for by applying the valuation technique based on the Black-Scholes model. Compensation related to RSA’s and RSU’s 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 as additional paid-in capital the tax savings resulting from tax deductions in excess of expense for stock-based compensation or a reduction in paid-in capital from the tax deficiency resulting from stock-based compensation in excess of the related tax deduction, 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.

RSA’s 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. RSU’s are not issued nor outstanding until vested and do not have the cash dividend and voting rights of common stock. However, the Company has paid dividend equivalents to the employees with unvested RSU’s equal to the dividend they would have received had the shares of common stock underlying the RSU’s been actually issued and outstanding. The providing of dividend equivalents on RSU’s is subject to the annual review and final determination by the board of directors at its discretion. Payments of dividend equivalents to employees are recorded as compensation expense.

The Company has adopted three stock option and equity participation plans for the benefit of its eligible employees, consultants and non-employee directors, that contain shares available to grant. The 1998, 2001 and 2002 Equity Participation Plans of PriceSmart, Inc., as amended, authorize 2,350,000 shares of the Company’s common stock for issuance. Options granted under these plans typically vest over five years and expire in six years. These plans also allow restricted stock awards and restricted stock units which typically vest between five to ten years. As of May 31, 2012 and August 31, 2011, an aggregate of 210,811 and 553,042 shares, respectively, were available for future grants under these plans.

The following table summarizes the components of the stock-based compensation expense for the first nine months of fiscal years 2012 and 2011 (in thousands), which are included in general and administrative expense and warehouse club operations in the consolidated statements of income:

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2012	2011	2012	2011
Options granted to directors	\$33	\$18	\$74	\$38
Restricted stock awards	1,365	1,030	3,494	2,915
Restricted stock units	135	63	317	123
Stock-based compensation expense	\$1,533	\$1,111	\$3,885	\$3,076

The following table summarizes other information related to stock-based compensation as of and for the following periods:



Edgar Filing: PRICESMART INC - Form 10-Q

	Nine Months Ended May 31,	
	2012	2011
Remaining unrecognized compensation cost (in thousands)	\$26,367	\$8,969
Weighted average period of time over which this cost will be recognized (years)	8.1	3.3
Excess tax benefit (deficiency) on stock-based compensation (in thousands)	\$737	\$876

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 generally vest between five to ten years 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 nine months ended May 31, 2012 and year ended August 31, 2011 was as follows:

	Nine Months Ended May 31, 2012	Year Ended August 31, 2011
Grants outstanding at beginning of period	436,611	558,821
Granted	381,110	95,700
Forfeited	(5,230)	(8,231)
Vested	(122,123)	(209,679)
Grants outstanding at end of period	690,368	436,611

The following table summarizes the weighted average grant date fair value for restricted stock awards and units for first nine months of fiscal years 2012 and 2011:

	Nine Months Ended May 31,	
	2012	2011
Weighted Average Grant Date Fair Value		
Restricted stock awards and units granted	\$68.35	\$40.40
Restricted stock awards and units vested	\$23.25	\$16.50
Restricted stock awards and units forfeited	\$29.30	\$22.80

The total fair market value of restricted stock awards and units vested during the nine months ended May 31, 2012 and 2011 was approximately \$8.3 million and \$7.8 million, respectively.

At the vesting dates, 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 related to the vesting of restricted stock awards. During the nine months ended May 31, 2012 and 2011, the Company repurchased 44,328 and 67,436 shares, respectively, of common stock from employees for approximately \$3.0 million and \$2.6 million, respectively, based on the stock repurchase price to cover the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock awards. The Company expects to continue this practice going forward.

The Company has reissued treasury shares as part of its stock-based compensation programs. During the nine months ended May 31, 2012 the Company reissued 196,850 treasury shares. No treasury shares were reissued during the nine-month period ended May 31, 2011.

As of May 31, 2012 and August 31, 2011, the Company had 36,000 and 30,800 stock options outstanding under its stock plans, respectively. Stock-based compensation for options represented 2.2% and 1.4% of the total stock-based compensation for the nine months ended May 31, 2012 and for fiscal year 2011, respectively. 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.

#### NOTE 7 – 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.

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,

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 May 31, 2012 and August 31, 2011, the Company had recorded within other accrued expenses a total of \$2.8 million, respectively, 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.

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 for the period less than one year and for one to four years are \$125,000 and \$197,000, approximately.

During fiscal year 2010, the Company was made aware of a potential permitting issue involving the Alajuela warehouse club, located in Costa Rica. The construction of that club and its related facilities included the construction of a water retention basin ("WRB") on property owned by Hacienda Santa Anita(1) ("HSA"). This WRB is used to slow the flow of water runoff from property owned by the Company (the Alajuela warehouse club), property owned by the joint venture Plaza Price Alajuela ("PPA"), and property owned by HSA, as it is discharged into the municipal drainage system. After certain administrative and court proceedings related to the original construction permit for the club and its facilities, the Company was advised by the Municipality of Alajuela ("MA") that the MA required the construction and proper operation of a set of complementary improvements to the WRB. These improvements consisted of digging a network of dirt canals on HSA property to capture and conduct surface waters from these properties to the WRB. The Company has performed this work. However, prior to the Company beginning this work, HSA required the Company to sign an indemnification agreement pursuant to which the Company agreed that it will purchase at fair market value the land held by HSA in the event HSA is not allowed to develop that land due to the construction of the canals. The Company has estimated the current fair value of the land to be approximately \$4.1 million.

The Company has obtained all the necessary permits allowing the WRB to remain open under the current development conditions in the adjacent properties. To support additional development on the PPA property, certain additional improvements to the WRB were required, according to professionals retained by the Company. The Company has secured the necessary permits to perform these improvements and completed construction in early May 2012. The Company has not recorded a liability for any of these matters as of May 31, 2012 or August 31, 2011.

Hacienda Santa Anita is a locally based business related to J.B. Enterprises (a Panamanian business entity). On September 29, 2008, the Company entered into a joint venture, known as Plaza Price Alajuela with J.B. Enterprises, to jointly own and operate a commercial retail center adjacent to the Alajuela warehouse club, with each owning a 50% interest in the joint venture.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 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		Facilities Available	Weighted average interest rate	
		Short-term Borrowings	Letters of Credit			
May 31, 2012	\$37,029	\$2,169	\$309	\$34,551	12.5	%
August 31, 2011	\$28,033	\$2,259	\$453	\$25,321	9.5	%

Each of the facilities expires annually and is normally renewed.

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

Year Ended May 31,	Amount
2013	\$7,266
2014	15,669
2015	17,587
2016	24,486
2017	10,045
Thereafter	5,530
Total	\$80,583

## 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's subsidiaries have entered 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 the 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 cross-currency interest rate swaps that convert its non-functional currency denominated variable interest payments to functional currency fixed interest payments during the life of the hedging instruments. 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 currency 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. 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. 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-

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 May 31, 2012 and August 31, 2011, all of the Company's interest rate swap and cross-currency interest rate swaps derivative financial instruments are designated and qualify as cash flow hedges. The cross-currency interest rate swap agreements convert the Company's foreign currency United States dollar denominated floating interest payments on long-term debt 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 currency exchange movements. The Company's Trinidad and Barbados subsidiaries entered into interest rate swap agreements that fix the interest rate over the life of the underlying loans.

The following table summarizes these agreements:

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 Reset Date	Effective Period
Colombia	21-Feb-12	Bank of Nova Scotia	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	17-Nov-11	Bank of Nova Scotia	Cross currency interest rate swap	\$8,000,000	Citibank, N.A.	Variable rate 6-month Eurodollar Libor plus 2.4%	5.85%	May 3, 2012 and semi-annually thereafter	November 3, 2011 - November 3, 2013
Colombia	21-Oct-11	Bank of Nova Scotia	Cross currency interest rate swap	\$2,000,000	Bank of Nova Scotia	Variable rate 3-month Libor plus 0.7%	5.30%	January, April, July and October, beginning on October 29, 2011	July 29, 2011 - April 1, 2016
Colombia	21-Oct-11	Bank of Nova Scotia	Cross currency interest rate swap	\$6,000,000	Bank of Nova Scotia	Variable rate 3-month Libor plus 0.7%	5.45%	March, June, September and December, beginning on October 29, 2011	September 29, 2011 - April 1, 2016
Colombia	5-May-11	Bank of Nova Scotia	Cross currency	\$8,000,000	Bank of Nova Scotia	Variable rate 3-month Libor	6.09%	January, April, July and	April 1, 2011 -



Edgar Filing: PRICESMART INC - Form 10-Q

			interest rate swap		Scotia plus 0.7%		October, beginning on July 5, 2011	April 1, 2016	
Trinidad	20-Nov-08	Royal Bank of Trinidad & Tobago	Interest rate swaps	\$8,900,000	Royal Bank of Trinidad & Tobago	Variable rate 1-year Libor plus 2.75%	7.05%	Annually on August 26	September 25, 2008 - September 26, 2013
Barbados	13-Feb-08	Citibank, N.A.	Interest rate swaps	\$4,500,000	Citibank, N.A.	Variable rate 9-month Libor plus 1.5%	5.22%	Semi-annually on November 15 and May 15	November 15, 2007 - November 14, 2012

For the three and nine month periods ended May 31, 2012 and 2011, the Company included the gain or loss on the interest rate and cross-currency interest rate hedged items (that is, variable-rate borrowings) within the interest expense line item. The breakdown of gain or loss on the related interest rate swaps and interest expense on borrowings is summarized in the table below (in thousands):

Income Statement Classification	Interest expense on Borrowings	Loss on Swaps	Interest expense
Interest expense for the three months ended May 31, 2012	\$216	\$401	\$617
Interest expense for the three months ended May 31, 2011	\$106	\$138	\$244
Interest expense for the nine months ended May 31, 2012	\$555	\$957	\$1,512
Interest expense for the nine months ended May 31, 2011	\$299	\$278	\$577

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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)	Notional Balance as of May 31, 2012	Notional Balance as of August 31, 2011
RBTT	\$5,625	\$6,300
Scotiabank	32,000	8,000
Citibank N.A.	2,475	2,925
Total	\$40,100	\$17,225

The following table summarizes the fair value of interest rate swaps and cross-currency interest rate swaps derivative instruments (in thousands, except footnote data):

	Derivatives May 31, 2012		August 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedging instruments				
Cross currency interest rate swaps <sup>(2)</sup>	Other non-current assets	\$78	Other non-current assets	\$—
Interest rate swaps <sup>(1)</sup>	Other long-term liabilities	\$(286)	Other long-term liabilities	\$(544)
Cross currency interest rate swaps <sup>(2)</sup>	Other long-term liabilities	(628)	Other long-term liabilities	(340)
Net fair value of derivatives designated as hedging instruments - assets (liability) <sup>(3)</sup>		\$(836)		\$(884)

(1) The effective portion of the interest rate swaps was recorded as a loss to Accumulated other comprehensive loss for \$205,000 and \$408,000 net of tax, as of May 31, 2012 and August 31, 2011, respectively. The Company has recorded a deferred tax asset amount of \$81,000 and \$136,000 as of May 31, 2012 and August 31, 2011, respectively.

(2) The effective portion of the cross currency interest rate swaps was recorded to Accumulated other comprehensive loss for \$576,000 and \$340,000 as of May 31, 2012 and August 31, 2011, respectively. The Company has recorded a deferred tax liability amount of \$(26,000) as of May 31, 2012 and a valuation allowance on the related deferred tax asset.

(3) 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's Colombia subsidiary entered into the following forward foreign exchange contracts.

The following table summarizes these agreements as of May 31, 2012:

Subsidiary	Effective Period
------------	------------------

Edgar Filing: PRICESMART INC - Form 10-Q

	Date entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Notional Amount (in thousands)	Settlement Date	
Colombia	23-May-12	Bank of Nova Scotia	Forward foreign exchange contracts	\$1,000	August 22, 2012	May 23, 2012 - August 22, 2012
Colombia	31-May-12	Bank of Nova Scotia	Forward foreign exchange contracts	\$1,000	August 29, 2012	May 31, 2012 - August 29, 2012

The amount of these forward foreign exchange contracts fair value and transaction gains or losses recognized in interest income and other were nominal for the three and nine months ended May 31, 2012. The Company did not have any forward foreign exchange contracts for the nine months ended May 31, 2011 nor as of August 31, 2011.

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. Due to the continued commitments for additional financing for the joint ventures described below and other characteristics at the time of formation, 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 September 24, 2008, the Company entered into an agreement with an entity controlled by local Panamanian businessmen, Fundacion Tempus Fugit S.A. (“FIDAU”), to jointly own and operate a commercial retail center adjacent to its new PriceSmart warehouse club, with the Company and FIDAU each owning a 50% interest in the entity, GolfPark Plaza, S.A. The Company purchased a 50% interest in GolfPark Plaza for approximately \$4.6 million. On September 24, 2008, GolfPark Plaza acquired 412,594 square feet of real estate for the construction of a retail center.

On September 29, 2008, the Company entered into an agreement with an entity controlled by local Costa Rican businessmen, JB Enterprises (“JBE”), to jointly own and operate a commercial retail center adjacent to the anticipated new PriceSmart warehouse club in Alajuela, Costa Rica, with the Company and JBE each owning a 50% interest in the joint venture, Price Plaza Alajuela, S.A. (“PPA”). Also, on September 29, 2008, PPA acquired 232,244 square feet of real estate for the construction of a retail center. The Company recorded an initial investment in PPA of approximately \$2.2 million.

On September 29, 2008, the Company entered into a second agreement with an entity controlled by local Costa Rican businessmen, Prico Enterprises (“Prico”), to jointly own property adjacent to the anticipated new PriceSmart warehouse club in Alajuela and the retail center to be owned and operated by PPA, with the Company and Prico each owning a 50% interest in the joint venture, Newco2. Also, on September 29, 2008, 53,777 square feet of real estate were acquired by this entity. The Company recorded an initial investment in this joint venture of approximately \$424,000. The Company obtained a three-year, zero interest loan from Prico to finance the acquisition of its noncontrolling interest for approximately \$473,000. The Company recorded the discounted present value of this loan of approximately \$409,000 as part of its original investment in the joint venture. The deemed interest on the loan was amortized monthly, with the interest charged to interest expense and the resulting liability credited to the loan payable balance. The Company reflected this amount as long-term debt, current portion within its consolidated balance sheet as of August 31, 2011. As a result of the loan, the shares of the Company were held within a trust, established as part of the loan agreement with Prico. On September 29, 2011, the Company exercised its option to

cancel its participation in Newco2. As a result of the Company's exercising its option to cancel its participation in Newco2, the Company recorded the cancellation of the loan payable for approximately \$473,000 on September 29, 2011 by releasing to Prico Enterprises the shares of Newco2 held within the trust established as part of the original loan agreement. As a result of this exercise, the Company no longer has any interest in the joint venture Newco2.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes the Company's interest in the VIEs and the Company's maximum exposure to loss as a result of its involvement with the VIEs as of May 31, 2012 (in thousands):

Entity	Initial Investment	Additional Contributions	Net Loss Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Contributions <sup>(1)</sup>	Company's Maximum Exposure to Loss in Entity <sup>(2)</sup>
GolfPark Plaza, S.A.	\$4,616	\$483	\$(63 )	\$5,036	\$2,017	\$7,053
Price Plaza Alajuela, S.A.	2,193	376	(40 )	2,529	1,645	4,174
Total	\$6,809	\$859	\$(103 )	\$7,565	\$3,662	\$11,227

The parties intend to seek alternate financing for the additional contribution commitments, which could reduce the amount of additional capital 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 capital each party is required to contribute.

<sup>(2)</sup> 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.

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

	May 31, 2012	August 31, 2011
Current assets	\$766	\$1,294
Noncurrent assets	5,747	6,662
Current liabilities	555	1,003
Noncurrent liabilities	—	—

  

	Three Months Ended May 31		Nine Months Ended May 31	
	2012	2011	2012	2011
Net loss	\$(38 )	\$(6 )	\$(18 )	\$(90 )

#### NOTE 11 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international 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, 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.



## PRICESMART, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	United States Operations	Latin American Operations	Caribbean Operations	Reconciling Items <sup>(1)</sup>	Total
Nine Month Period Ended May 31, 2012					
Revenue from external customers	\$8,476	\$1,003,517	\$523,298		\$1,535,291
Intersegment revenues	564,713	40	3,546	(568,299)	—
Depreciation and amortization	1,299	8,677	7,634		17,610
Operating income	19,940	46,718	13,348		80,006
Net income	14,308	28,173	7,434		49,915
Capital expenditures, net	1,200	27,610	6,959		35,769
Long-lived assets (other than deferred tax assets)	38,494	223,065	114,967	—	376,526
Goodwill	—	31,939	5,165	—	37,104
Identifiable assets	86,745	427,142	202,053	—	715,940
Nine Month Period Ended May 31, 2011					
Revenue from external customers	\$5,218	\$796,193	\$465,426	\$—	\$1,266,837
Intersegment revenues	475,286	—	3,400	(478,686)	—
Depreciation and amortization	728	7,075	5,872	—	13,675
Operating income	30,487	32,930	7,394	—	70,811
Net income	26,537	19,985	2,538	—	49,060
Capital expenditures, net	4,229	20,655	9,926	—	34,810
Long-lived assets (other than deferred tax assets)	38,472	189,902	123,260	—	351,634
Goodwill	—	32,247	5,218	—	37,465
Identifiable assets	55,193	366,295	216,203	—	637,691
As of August 31, 2011					
Long-lived assets (other than deferred tax assets)	38,601	192,594	123,356	—	354,551
Goodwill	—	32,152	5,209	—	37,361
Identifiable assets	63,154	388,325	212,849	—	664,328

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

## NOTE 12 – SUBSEQUENT EVENTS

On June 5, 2012, the Company's Colombia subsidiary entered into a non-deliverable forward foreign-exchange contract for approximately \$500,000. The maturity date on this agreement is October 18, 2012. On June 14, 2012, the Company entered into a non-deliverable forward foreign-exchange contract for approximately \$500,000. The maturity date on this agreement is November 15, 2012. Non-deliverable forward foreign-exchange contracts are intended to offset changes in cash flow attributable to currency exchange movements.



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 the Company's anticipated future revenues and earnings, adequacy of future cash flow 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: the Company's financial performance is dependent on international operations which exposes the Company to various risks; any failure by the Company to manage its widely dispersed operations could adversely affect its business; the Company faces significant competition; the Company faces difficulties in the shipment of, and risks inherent in the acquisition and importation of, merchandise to its warehouse clubs; the Company is exposed to weather and other natural disaster risks; general economic conditions could adversely impact the Company's business in various respects; a few of the Company's stockholders own nearly 31.1% of the Company's voting stock, which may make it difficult to complete some corporate transactions without their support and may impede a change in control; the loss of key personnel could harm the Company's business; the Company is subject to volatility in foreign currency exchange rates; the Company faces the risk of exposure to product liability claims, a product recall and adverse publicity; a determination that the Company's long-lived or intangible assets have been impaired could adversely affect the Company's future results of operations and financial position; although the Company takes steps to continuously review, enhance, and implement improvements to its internal controls, there may be material weaknesses or significant deficiencies that the Company has not yet identified; 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/A filed for the fiscal year ended August 31, 2011 filed on January 9, 2012 pursuant to the Securities Exchange Act of 1934. See "Part II – Item 1A – Risk Factors."

The following discussion and analysis compares the results of operations for the three and nine month periods ended May 31, 2012 (fiscal year 2012) and May 31, 2011 (fiscal year 2011), and should be read in conjunction with the consolidated financial statements and the accompanying notes included herein.

PriceSmart's mission is to efficiently operate U.S.-style membership warehouse clubs in Latin America and the Caribbean that sell high quality goods and services to its retail and wholesale members at low prices, while providing good wages and benefits to PriceSmart employees and a fair return to PriceSmart stockholders. The Company sells U.S. brand-name, private label, locally sourced and imported products to its small business and consumer members in a warehouse club format, providing high value to its members. By focusing on providing high value on quality merchandise in a low-cost operating environment, the Company seeks to grow sales volume and membership, which in turn will allow for further efficiencies and price reductions and ultimately improved value to its members.

PriceSmart's business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. The number of warehouse clubs in operation as of May 31, 2012 and May 31, 2011, the Company's ownership percentages and basis of presentation for financial reporting purposes by each country or territory are as follows:

Edgar Filing: PRICESMART INC - Form 10-Q

Country/Territory	Number of Warehouse Clubs in Operation as of May 31, 2012	Number of Warehouse Clubs in Operation as of May 31, 2011	Anticipated warehouse club openings in fiscal year 2013	Ownership as of May 31, 2012	Basis of Presentation
Colombia	1	—	2	100	% Consolidated
Panama	4	4	—	100	% Consolidated
Costa Rica	5	5	1	100	% Consolidated
Dominican Republic	3	3	—	100	% Consolidated
Guatemala	3	3	—	100	% Consolidated
El Salvador	2	2	—	100	% Consolidated
Honduras	2	2	—	100	% Consolidated
Trinidad	4	4	—	100	% Consolidated
Aruba	1	1	—	100	% Consolidated
Barbados	1	1	—	100	% Consolidated
U.S. Virgin Islands	1	1	—	100	% Consolidated
Jamaica	1	1	—	100	% Consolidated
Nicaragua	1	1	—	100	% Consolidated
Totals	29	28	3		

The Company opened a new warehouse club in Santo Domingo, Dominican Republic (“Arroyo Hondo”) on November 5, 2010. The Company also opened a new membership warehouse club in Barranquilla, Colombia on August 19, 2011. As of May 31, 2012, the total number of warehouse clubs in operation was 29 operating in 12 countries and one U.S. territory, in comparison to 28 warehouse clubs operating in 11 countries and one U.S. territory as of May 31, 2011. The average age of the 29 warehouse clubs in operation was 116 months as of May 31, 2012, and the average age of the 28 warehouse clubs in operation was 107 months as of May 31, 2011.

In addition to the warehouse clubs operated directly by the Company, during fiscal year 2011, there was one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people, from which the Company earned a small royalty fee. This agreement was terminated on August 9, 2011 in connection with the Company's termination of its lease of its former warehouse club located in Guam. As a result, the Company no longer receives royalty fees and now has no third party licensing agreements.

In general, the Company's earnings improve, and cash flows from operations increase, as sales increase. Although the Company's cost of goods sold is largely variable with sales, a portion of the Company's selling, general and administrative expenses rise relatively slowly in relation to sales increases. Therefore, the Company prioritizes initiatives that it expects will have the greatest impact on increasing sales. Looking forward to the next several quarters, the following items are likely to have an impact on business and the results of operations.

#### General Economic Factors

While the U.S. economy is providing signals that a modest recovery is taking hold, the Company continues to watch for signs as to what effect if any this may have in its markets. There has been no specific indication of a change in the moderate economic growth of the past two years within most of the Company's markets, particularly the Latin American segment. However, world economic events, such as the concerns over European debt, can have an impact on financial markets, which in turn can affect exchange rates of currencies compared to the U.S. dollar in the Company's markets and also the interest rates paid by the Company on some of its long-term debt.

In the countries in which the Company operates, the Company does not currently face direct competition from U.S. membership warehouse club operators. However, it does face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, and specialty stores, including those within Latin America that are owned and operated by a large U.S. based retailer. The Company has competed effectively in these markets in the past and expects to continue to do so in the future due to the unique nature of the membership warehouse club format. The Company has noted that certain retailers are making investments in upgrading their locations within the Company's markets. In addition, the local Costa Rican press has reported that

Sam's Club plans to build and operate its first warehouse club within the Costa Rican market, but there has been no announcement by Wal-Mart. These actions may result in increased competition within the Company's markets. Further, it is possible that additional U.S. warehouse club operators may decide to enter the Company's markets and compete more directly with PriceSmart in a similar warehouse club format.

Many PriceSmart markets are susceptible to foreign currency exchange rate volatility. Currency exchange rate changes either increase or decrease the cost of imported products that the Company purchases in U.S. dollars and prices in local currency. Price changes can impact the demand for those products in the market. Currency exchange rates also affect the reported sales of the consolidated company when local currency-denominated sales are translated to U.S. dollars. In addition, the Company revalues all U.S. dollar denominated assets and liabilities within those markets that do not use the U.S. dollar as their functional currency. These 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 acquisition and the construction of warehouse clubs, and the value of items shipped from the U.S. to the Company's foreign markets that are U.S. dollar denominated. Approximately 49.0% of the Company's net warehouse sales are comprised of products imported into the markets where PriceSmart warehouse clubs are located. Products imported for sale in PriceSmart markets are purchased in U.S. dollars, but approximately 79.0% of the Company's net warehouse sales are in foreign currencies. The Company seeks to manage its foreign exchange risk by (1) adjusting prices on U.S. dollar goods on a periodic basis to maintain its target margins after taking into account changes in exchange rates; (2) by 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; and (4) by entering into interest rate swaps, cross currency interest rate swaps and forward currency derivatives. The Company has local currency-denominated long-term loans in Honduras and Guatemala; has interest rate swaps in Trinidad and Barbados; and has cross-currency interest rate swaps and forward currency derivatives in Colombia. Turbulence in the currency markets in the first quarter of fiscal year 2012 related to concerns over European sovereign debt had a negative impact on some of the foreign currencies of the countries in which the Company operates. For example, the Colombian peso devalued 9.3% against the U.S. dollar during the first quarter of fiscal year 2012, resulting in the Company's Colombian subsidiary recording approximately \$1.5 million in currency losses upon the translation of U.S. dollar denominated liabilities. Future volatility and uncertainties regarding the currencies in the Company's countries could have a material impact on the Company's operations in future periods. However, there is no way to accurately forecast how currencies may trade in the future and, as a result the Company cannot accurately project the impact of the change in rates on the Company's future demand for imported products, reported sales, or financial results.

## Business Strategy

The long-standing business strategy of the Company is to pass to its members the benefits of the Company's improved buying and operating efficiencies through lower prices. Lower prices, in turn, drive sales volume, which then provides opportunities to further reduce expenses and allow for more competitive pricing.

The Company's earnings improve and cash flows from operations increase as sales increase. As sales volumes increase and the Company increases its purchases of products, the Company can obtain better pricing from its suppliers. Higher volumes also provide increased operating efficiencies in the distribution operation as fixed costs are spread over this increased volume, with a resulting reduction in per unit distribution costs. Further, with increased sales, the Company can leverage its selling, general and administrative expenses which rise relatively slowly in relation to sales increases. All of this, in turn, allows the Company to reduce prices to drive further increases in sales, greater gross profit margin dollars and increased operating income, even as gross profit margin percentage remains flat or decreases. Reduced pricing also enhances the value of the PriceSmart membership which generates more membership income as new memberships are sold and current members are retained. Therefore, the Company

prioritizes initiatives that it expects will have the greatest impact on increasing sales. Sales growth in our existing locations (comparable warehouse club sales) creates the highest degree of cost leverage due to the operating efficiencies within our warehouse club format. However, the Company also seeks to add additional warehouse clubs where we believe it is financially accretive to our business. In this regard, actions that the Company has taken, or is taking, to positively impact warehouse club sales growth, and the results of operations include the following:

#### Current and Future Management Actions

The Company opened a new warehouse club in Santo Domingo, Dominican Republic (“Arroyo Hondo”) on November 5, 2010 and a new membership warehouse club in Barranquilla, Colombia on August 19, 2011. The Company also acquired land in south Cali, Colombia, on December 14, 2011 upon which it currently anticipates opening a new warehouse club in October 2012. Additionally, on January 9, 2012 the Company entered into an agreement to acquire property located in La Union, Cartago, Costa Rica, upon which the Company anticipates constructing its sixth membership warehouse club in Costa Rica. The Company currently anticipates opening this club in the fall of calendar year 2013. Finally, on March 15, 2012 the Company acquired land

in north Cali, Colombia upon which it anticipates opening a new warehouse club in the spring of calendar year 2013. The initial warehouse sales and membership results experienced with the opening of the Barranquilla warehouse club has reinforced the Company's belief that Colombia could be a market for multiple PriceSmart warehouse clubs. The Company continues to explore other potential sites for future warehouse clubs in other major cities in Colombia as well as in its other markets.

In several existing warehouse clubs, the Company has already undertaken expansions and related improvements, and the Company is planning several additional expansions, reconfigurations, and/or fixture upgrades, all of which are designed to provide additional merchandise selling space and increase the capacity of our clubs to service our members and increase sales. During the first nine months of fiscal year 2012, the Company invested approximately \$13.9 million in a number of warehouse clubs for these expansions and improvements.

Effective June 1, 2012, the Company 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 enables PriceSmart to offer its high quality merchandise at low prices providing value to its members. With this membership fee increase, PriceSmart will be able to offer continued excellent value to its members in their future purchases.

The Company has now consolidated its dry and cold distribution facilities, thus increasing the capacity and efficiency of its distribution operations. This consolidation also has allowed the Company to more efficiently service the PriceSmart warehouse club locations.

The Company seeks to enhance its long-term business performance by buying rather than leasing real estate. However, the Company has leased sites in the past and may do so again 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 PriceSmart buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. In the course of acquiring sites, the Company sometimes has to purchase more land than is actually needed for the warehouse club operation. As an example, when the Company acquired the Alajuela site in Costa Rica, it purchased land for the PriceSmart warehouse club and entered into a joint venture with the seller on the balance of the property. PriceSmart entered into a similar real estate transaction with respect to its Brisas site in Panama City. To the extent that the Company acquires property in excess of what is needed for a particular warehouse club, the Company generally plans to either sell or develop the excess property. The excess land at Alajuela and Brisas is being held for development by the joint ventures, which commenced in fiscal year 2011. A similar development strategy is being employed for the Company's excess land at the new San Fernando, Trinidad and Arroyo Hondo, Dominican Republic locations where the properties are fully owned by PriceSmart. In this respect, the Company recently began developing and has obtained tenants on part of the excess land in San Fernando, Trinidad. The profitable sale or development of real estate is highly dependent on real estate market conditions.

Financial highlights for the third quarter of fiscal year 2012 included:

Net warehouse club sales increased 17.4% over the prior year. The Company had one additional warehouse club in the quarter (Barranquilla, Colombia which opened on August 19, 2011) compared to the fiscal 2011 quarter. 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 ending June 3, 2012 grew 12.9%.

Membership income for the third quarter of fiscal year 2012 increased 19.2% to \$6.9 million on a 19.6% increase in membership accounts from May 31, 2011 to May 31, 2012 due in part to strong sign-ups in Barranquilla and overall twelve-month renewal rates of 89%.

Warehouse sales gross profits (net warehouse club sales less associated cost of goods sold) increased 17.3% over the prior year period and remained approximately the same as a percent of net warehouse sales as the same period last

year.

Selling, general and administrative expenses increased 9 basis points as a percentage of sales (0.09% of sales) compared to the same quarter last year and included a \$777,000 charge related to a credit card processor having undercharged the Company for certain debit card transaction fees from prior periods.

Operating income for the third quarter of fiscal year 2012 was \$25.4 million, an increase of \$3.5 million over the third quarter of fiscal year 2011.

- The Company recorded a net loss from currency exchange transactions in the current quarter of \$449,000 (0.09% of sales). In the same period last year, the Company had a \$1.2 million (0.28% of sales) gain from currency exchange transactions.

Net income for the third quarter of fiscal year 2012 was \$15.7 million, or \$0.52 per diluted share, compared to \$16.3 million, or \$0.55 per diluted share, in the year earlier quarter which included a \$1.2 million gain (approximately \$0.04 per share) for the sale of properties in Panama.

## COMPARISON OF THE THREE AND NINE MONTHS ENDED ENDED MAY 31, 2012 AND 2011

Certain percentages presented are calculated using actual results prior to rounding. The Company's fiscal third quarter ends on May 31. Unless otherwise noted, all tables present U.S. dollar amounts in thousands.

## Net Warehouse Club Sales

	Three months ended May 31, 2012		2011
	Amount	% Change	Amount
Net Warehouse club sales	\$494,898	17.4	% \$421,637
	Nine months ended May 31, 2012		2011
	Amount	% Change	Amount
Net Warehouse club sales	\$1,501,043	21.1	% \$1,239,232

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

The Company had an additional warehouse club in operation (Barranquilla, Colombia) for the third quarter of fiscal year 2012 compared to the third quarter of fiscal year 2011. Transactions grew 17.0% in the quarter from the same period last year, accounting for nearly all of the 17.4% overall sales growth. While all merchandise categories recorded double digit sales increases, the food merchandise category had the highest growth, driven by strong sales in grocery, fresh and bakery. The overall mix of imported products remained at 49%, equal to last year.

The Company had an additional warehouse club in operation (Barranquilla, Colombia) for the entire nine months of fiscal year 2012 compared to the first nine months of fiscal year 2011. In addition, the Company had one warehouse club that was open for the full nine months of fiscal year 2012 (Arroyo Hondo, Dominican Republic) which was open for only seven months in the first nine months of fiscal year 2011. Transaction growth for the nine month period of fiscal year 2012 was 19.0% and the average transaction increased 1.8% as compared to the same nine month period of fiscal year 2011.

## Comparable Sales

The Company reports 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 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 the Company experiences 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 new warehouse club opened in Barranquilla, Colombia on August 19, 2011 will not be used in the calculation of comparable warehouse club sales until November 2012.

Comparable warehouse club sales, which are for warehouse clubs open at least 13 1/2 full months, increased 12.9% for the 13-week period ended June 3, 2012, compared to the same 13-week period last year.

Comparable warehouse club sales for the 39-week period ended June 3, 2012 increased 16.1%.



Net Warehouse Club Sales by Segments

The following tables indicate the net warehouse club sales and the percentage growth in net warehouse club sales during the three and nine months ended May 31, 2012 and May 31, 2011 in the segments in which the Company operates.

	Three months ended May 31, 2012				2011			
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales		
Latin America	\$327,466	66.2	% \$58,507	21.8	% \$268,959	63.8	%	
Caribbean	167,432	33.8	% 14,754	9.7	% 152,678	36.2	%	
Net warehouse club sales	\$494,898	100.0	% \$73,261	17.4	% \$421,637	100.0	%	
	Nine months ended May 31, 2012				2011			
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales		
Latin America	\$985,050	65.6	% \$204,620	26.2	% \$780,430	63.0	%	
Caribbean	515,993	34.4	% 57,191	12.5	% 458,802	37.0	%	
Net warehouse Club Sales	\$1,501,043	100.0	% \$261,811	21.1	% \$1,239,232	100.0	%	

Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the three and nine months ended May 31, 2012, the higher net warehouse club sales growth in Latin America compared to the Caribbean reflects improved economic conditions in those more diversified and larger markets, plus the addition of the warehouse club sales in Barranquilla in the current periods compared to prior periods.

Export Sales

	Three months ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Export sales	\$2,768	878	46.5	% \$1,890	
	Nine months ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Export sales	\$8,476	3,306	63.9	% \$5,170	

The increase in export sales was due to direct sales to a single institutional customer (retailer) in the Philippines for which the Company achieves an approximate 5% gross profit margin.

## Membership Income

	Three Months Ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Membership Income	\$6,944	\$1,120	19.2	% \$5,824	
Membership income % to net warehouse club sales	1.4	%		1.4	%
Number of total accounts	949,575	155,698	19.6	% 793,877	
	Nine Months Ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Membership Income	\$19,668	\$2,843	16.9	% \$16,825	
Membership income % to net warehouse club sales	1.3	%		1.4	%
Number of total accounts	949,575	155,698	19.6	% 793,877	

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the three months ended May 31, 2012, the increase in membership income primarily reflects a 19.6% increase in the number of membership accounts. Of the 155,698 accounts added over the past 12 months, 117,076 were added in the first nine months of the current fiscal year. There was no appreciable change in the average fee collected per membership account in the three or nine month period compared to the similar periods of last year. During the second quarter of fiscal year 2012, the Company recorded a one-time reduction to membership income of approximately \$323,000 related to recognition of revenue net of tax in prior periods. This reduction did not affect revenue recognized in the current quarter, nor is it expected to affect future quarters. The membership renewal rate for the 12-month periods ended May 31, 2012 and May 31, 2011 was 89% and 88%, respectively.

## Other Income

Other income consists of commission revenue, rental income, advertising revenue, construction revenue, fees for in-store product demonstrations, and fees earned from licensees.

	Three months ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Other income	\$2,163	\$366	20.4	% \$1,797	

	Nine months ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Other income	\$6,104	\$494	8.8	% \$5,610	

## Comparison of Three and Nine Months Ended May 31, 2012 and 2011

For the three months ended May 31, 2012, the year-over-year increase was largely due to increased product demonstration fees. Rental income increased 6.8% from the prior period as rental income from new tenants in the Company's San Fernando, Trinidad location offset the loss of income associated with the former warehouse club in Los Pueblos, Panama which was sold in March 2011 but for which the Company had received some rental income in the third quarter of last year.

For the nine months ended May 31, 2012, the year-over-year increase resulted from higher income for product demonstrations, and the leasing of retail space in the Company's San Fernando, Trinidad location offset by the sale in the third quarter of fiscal year 2011 of the former warehouse club in Los Pueblos, Panama for which the Company received rental income of \$280,914 in the first nine months of fiscal year 2011.

## Gross Margin

## Warehouse Sales Gross Profit Margin

	Three Months Ended May 31, 2012			2011		
	Amount	Increase from prior year	% to sales	Amount	% to sales	
Warehouse club sales	\$494,898	\$73,261	100.0	% \$421,637	100.0	%
Less associated cost of goods	421,512	62,448	85.2	% 359,064	85.2	%
Warehouse gross profit margin	\$73,386	\$10,813	14.8	% \$62,573	14.8	%

  

	Nine Months Ended May 31, 2012			2011		
	Amount	Increase from prior year	% to sales	Amount	% to sales	
Warehouse club sales	\$1,501,043	\$261,811	100.0	% \$1,239,232	100.0	%
Less associated cost of goods	1,281,306	229,027	85.4	% 1,052,279	84.9	%
Warehouse gross profit margin	\$219,737	\$32,784	14.6	% \$186,953	15.1	%



## Comparison of Three and Nine months ended May 31, 2012 to May 31, 2011

Beginning with the first quarter of fiscal 2012, the Company no longer includes the effect of currency movements in cost of goods sold as it was determined that a significant portion of these costs did not relate to the cost of current period merchandise. These amounts are now presented in other income (expense). Prior periods have been reclassified to conform with the current reporting treatment (see Note 1 of the Consolidated Financial Statements – Company Overview and Basis of Presentation).

For the three months ended May 31, 2012, warehouse gross profit margins as a percent of sales were approximately equal to the third quarter of fiscal year 2011. End-cap income, vendor promotions, distribution efficiencies and few mark downs offset ongoing price reductions. Changes in merchandise mix also contributed a small positive impact on gross profit margin in the period. Compared to the first and second quarters of the current fiscal year, warehouse gross profit margin has increased in part due to improved importation costs into Colombia. In the first and second quarters of fiscal 2012, the Company had indicated that incremental importation costs for the new warehouse club in Colombia resulted in a reduction of net warehouse margins by 14 basis points and 6 basis points, respectively. These importation costs in Colombia have now reverted to a normal run rate.

For the nine months ended May 31, 2012, price reductions across most merchandise categories and geographies and higher importation costs on the initial investment in merchandise to supply the new Barranquilla warehouse club during the first six months of operation combined to account for the 45 basis point (0.45% of sales) reduction in warehouse gross profit margin.

## Export Sales Gross Profit Margin

	Three Months Ended May 31, 2012			2011		
	Amount	Increase from prior year	% to sales	Amount	% to sales	
Export sales	\$2,768	\$878	100.0	% \$1,890	100.0	%
Less associated cost of goods sold	2,622	818	94.7	% 1,804	95.4	%
Export sales gross profit margin	\$146	\$60	5.3	% \$86	4.6	%
	Nine Months Ended May 31, 2012			2011		
	Amount	Increase from prior year	% to sales	Amount	% to sales	
Export sales	\$8,476	\$3,306	100.0	% \$5,170	100.0	%
Less associated cost of goods sold	8,075	3,169	95.3	% 4,906	94.9	%
Export sales gross profit margin	\$401	\$137	4.7	% \$264	5.1	%

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the three months ended May 31, 2012, the increase in export sales gross margin dollars in fiscal year 2012 was due to an increase in direct sales to an institutional customer (retailer) in the Philippines for which the Company generally earns lower margins than those obtained through its warehouse club sales.

For the nine months ended May 31, 2012, the increase in export sales gross margin dollars in fiscal year 2012 was due to an increase in direct sales to an institutional customer (retailer) in the Philippines for which the Company generally

earns lower margins than those obtained through its warehouse club sales.

## Selling, General and Administrative Expenses

## Warehouse Club Operations

	Three months ended May 31, 2012				2011			
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales		
Warehouse club operations expense	\$46,197	9.3	% \$7,378	19.0	% \$38,819	9.2	%	
	Nine months ended May 31, 2012				2011			
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales		
Warehouse club operations expense	\$135,090	9.0	% \$23,898	21.5	% \$111,192	9.0	%	

## Comparison of Three and Nine Months Ended May 31, 2012 and 2011

Warehouse club operations expense increased 12 basis points as a percent of net warehouse sales in the third quarter of fiscal year 2012, compared to the third quarter of fiscal year 2011. The infrastructure investment in Colombia and the higher cost of operations associated with operating only one warehouse club in Colombia contributed 1 basis point of increase. Higher increased payroll related costs added 8 basis points. Higher credit card costs added 19 basis points, largely resulting from increased transaction fees for certain debit cards in some countries, including a \$777,000 expense for past debit card transaction fees that were erroneously not previously charged to the Company by the Company's Central America third party processor during a period of approximately 4 years. The processor has been correctly charging the Company for these debit card transactions since December 2011. All other operating expenses experienced positive leverage relative to sales, contributing 16 basis points of improvement.

On a nine month basis, warehouse club operations expenses increased 3 basis point as a percentage of net warehouse sales. The infrastructure investment in Colombia and the cost of operations associated with operating only one warehouse club in Colombia contributed an increase of 4 basis points during the nine-month period as a percent of sales. Credit card expenses added 8 basis points, largely related to the increased transaction fees for certain debit cards in some countries, including a \$777,000 expense for past debit card transaction fees that were erroneously not previously charged to the Company by the Company's Central America third party processor during a period of approximately 4 years. The processor has been correctly charging the Company for these debit card transactions since December 2011. Non-income tax related tax contingencies added another 3 basis points. All other operating expenses experienced positive leverage relative to the sales, contributing 12 basis points of improvement.

## General and Administrative Expenses

	Three months ended May 31, 2012				2011			
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales		
	\$10,940	2.2	% \$1,647	17.7	% \$9,293	2.2	%	



General and  
Administrative Expenses

	Nine months ended May 31, 2012				2011		
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales	
General and administrative expenses	\$30,559	2.0	% \$3,582	13.3	% \$26,977	2.2	%

## Comparison of Three and Nine Months Ended May 31, 2012 and 2011

Increased salaries and benefits for the Company's corporate and U.S. buying operations, including stock compensation expense resulting from restricted stock granted in January, accounted for most of the increase in general and administrative expenses for the three and nine months ended May 31, 2012 compared to the same periods in fiscal year 2011.

## Pre-Opening Expenses

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

	Three months ended May 31, 2012			2011	
	Amount	Increase/ (decrease) from prior year	% Change	Amount	
Pre-opening expenses	\$94	\$(190)	) (66.9	)%	\$284
	Nine months ended May 31, 2012			2011	
	Amount	Increase/ (decrease) from prior year	% Change	Amount	
Pre-opening expenses	\$255	\$(417)	) (62.1	)%	\$672

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

The Company recorded pre-opening expenses during the third quarter of fiscal year 2012 related to the activities of the Cañas Gordas (Cali South), Colombia warehouse club. For the current nine month period, the pre-opening expenses related to opening of Barranquilla, Colombia in August 2011 and the Cañas Gordas (Cali South), Colombia warehouse clubs. In the year ago nine month period, pre-opening expenses were incurred for the Arroyo Hondo warehouse club which opened in the Dominican Republic on November 5, 2010.

## Operating Income

	Three months ended May 31, 2012			2011		
	Amount	% to warehouse club sales	Increase/(decrease) from prior year	% Change	Amount	% to warehouse club sales
Operating income	\$25,408	5.1	% \$ 3,524	16.1	% \$21,884	5.2
	Nine months ended May 31, 2012			2011		
	Amount	% to warehouse club sales	Increase/(decrease) from prior year	% Change	Amount	% to warehouse club sales
Operating income	\$80,006	5.3	% \$ 9,195	13.0	% \$70,811	5.7



## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the three months ended May 31, 2012, operating income improved \$3.5 million compared to the prior year period, due primarily to higher sales and membership income. As a percentage of sales, operating income increased 10 basis points as SG&A and warehouse margins improved as a percentage of sales when compared with the prior year period, and the current quarter had less pre-opening expense.

For the nine months ended May 31, 2012, operating income improved \$9.2 million compared to the prior year period, resulting from higher sales and membership income, the leveraging of SG&A costs and reduced pre-opening expenses, offset by lower warehouse margins.

## Interest Income

	Three months ended May 31,		
	2012		2011
	Amount	Increase/(decrease) from prior year	Amount
Interest income	\$ 279	\$ (21 )	\$ 300
	Nine months ended May 31,		
	2012		2011
	Amount	Increase/(decrease) from prior year	Amount
Interest income	\$ 668	\$ 1	\$ 667

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

Interest income reflects earnings on cash and cash equivalent balances and restricted cash deposits.

For the three months ended May 31, 2012, the decrease in interest income was primarily due to a decrease in interest payments received on deposits the Company holds. Restricted cash deposits for this period were comprised of certificates of deposit with an average aggregate balance over the period of approximately \$25.3 million with various banking institutions held as part of the Company's loan agreements with those banks. For the three months ended May 31, 2011, restricted cash deposits were comprised of certificates of deposit with an average aggregate balance over the period of approximately \$21.8 million held with various banking institutions as part of the Company's loan agreements with those banks. Interest income was lower for the three months ended May 31, 2012, when compared to the three months ended May 31, 2011 despite the increase in average aggregate balances due to lower interest rates in fiscal year 2012.

For the nine months ended May 31, 2012, the increase in interest income was primarily due to an increase in interest payments received on deposits the Company holds. Restricted cash deposits for this period were comprised of certificates of deposit with an average aggregate balance over the period of approximately \$29.2 million with various banking institutions held as part of the Company's loan agreements with those banks. In the first nine months of fiscal year 2011, restricted cash deposits were comprised of certificates of deposit with an average balance over the period of approximately \$15.4 million held with various banking institutions as part of the Company's loan agreements with those banks.



## Interest Expense

	Three Months Ended May 31,			2011 Amount
	2012 Amount	Increase/(decrease) from prior year		
Interest expense on loans	\$ (1,413	) \$ (211	)	\$ (1,202
Capitalized interest	69	(149	)	218
Net interest expense	\$ (1,344	) \$ (360	)	\$ (984
	Nine Months Ended May 31,			
	2012 Amount	Increase/(decrease) from prior year		2011 Amount
Interest expense on loans	\$ (4,016	) \$ (430	)	\$ (3,586
Capitalized interest	101	(473	)	574
Net interest expense	\$ (3,915	) \$ (903	)	\$ (3,012

## Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

Interest expense reflects borrowings by the Company's 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.

The increases in interest expense for the three months ended May 31, 2012 is due to an increase in debt incurred by the Company, primarily to finance its initial investment in Colombia, including the cost of land and warehouse club construction. For the three months ended May 31, 2012, the capitalized interest is related to the commencement of construction activities for the Cañas Gordas, Colombia warehouse club. For the same period in fiscal year 2011, the capitalized interest is related to the final construction activities for the Arroyo Hondo, Dominican Republic warehouse club and the commencement of construction for the Barranquilla, Colombia warehouse club.

The increase in interest expense for the nine months ended May 31, 2012 is due to an increase in debt incurred by the Company, primarily to finance its initial investment in Colombia, including the cost of land and warehouse club construction. For the nine months ended May 31, 2012, the capitalized interest is related to the final construction activities for the Barranquilla, Colombia warehouse club, the build out of the excess land in San Fernando, Trinidad and the commencement of construction activities for the Cañas Gordas, Colombia warehouse club. For the same period in fiscal year 2011, the capitalized interest is related to the final construction activities for the Arroyo Hondo, Dominican Republic warehouse club and the commencement of construction for the Barranquilla, Colombia warehouse club.

## Other Income (Expense), net

Other income consists of gain or loss on sale of assets and currency gain or loss.

	Three Months Ended May 31,			2011 Amount
	2012 Amount	Increase from prior year	% Change	
Gain or (Loss) on sale of assets	\$ (89	) \$ (1,268	) (107.5	)% \$ 1,179

Edgar Filing: PRICESMART INC - Form 10-Q

Currency Gain or (Loss)	(449	) (1,637	) (137.8	)% 1,188
Total other income (expense)	\$(538	) \$(2,905	) (122.7	)% \$2,367

37

---

	Nine Months Ended May 31, 2012			2011	
	Amount	Increase from prior year	% Change	Amount	
Gain or (Loss) on sale of assets	\$(240	) \$(1,190	) (125.3	)%	\$950
Currency Gain or (Loss)	(735	) (2,678	) (137.8	)%	1,943
Total other income (expense)	\$(975	) \$(3,868	) (133.7	)%	\$2,893

#### Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the third quarter of fiscal year 2012, the Company recorded a net currency loss of \$449,000 resulting from the revaluation of non-functional currency monetary assets and liabilities of the Company's various subsidiaries. In Costa Rica, the Company maintains large US dollar deposits as collateral for loans in Colombia. The strengthening of the Costa Rican colone in the period resulted in a \$514,000 revaluation and currency loss. In addition, the Colombian peso devalued in the period. Although the Company has greatly reduced its US dollar liabilities and subsequent exposure to movements of the Colombian peso, the Company incurred a \$167,000 currency loss in Colombia. Other countries generally recorded net currency gains in the period. In the third quarter of fiscal year 2011, the Company realized a currency gain of \$1.2 million, approximately half of which was related to Colombia.

For the first nine months of fiscal year 2012, the Company's currency loss of \$735,000 resulted primarily from the \$1.5 million currency loss recorded for the Colombia subsidiary in the first quarter. For the first nine months fiscal year 2011, currency gains of \$1.9 million were recorded as a result of the revaluation of non-functional currency monetary assets and liabilities of the Company's various subsidiaries.

The following table summarizes the asset disposals recorded for the nine months ended May 31, 2011 (in thousands):

	Historical Cost	Accumulated Depreciation	Impairment and Other Costs	Proceeds from disposal	Gain/(Loss) recorded
Sale of Property in Panama	\$(8,717	) \$2,748	\$(188	) \$7,406	\$1,249
Disposal of assets no longer in use	(4,365	) 3,892	137	37	(299
	\$(13,082	) \$6,640	\$(51	) \$7,443	\$950

#### Provision for Income Taxes

	Three Months Ended May 31, 2012		2011	
	Amount	Change from prior year	Amount	%
Current tax expense	\$8,407	\$2,253	\$6,154	
Net deferred tax provision (benefit)	(329	) (1,374	) 1,045	
Provision for income taxes	\$8,078	\$879	\$7,199	
Effective tax rate	33.94	%	30.55	%



	Nine Months Ended May 31,		2011	
	2012	Change from		
	Amount	prior year		
Current tax expense	\$24,911	\$5,501		\$19,410
Net deferred tax provision (benefit)	943	(1,740)	)	2,683
Provision for income taxes	\$25,854	\$3,761		\$22,093
Effective tax rate	34.12	%		30.96 %

#### Comparison of Three and Nine Months Ended May 31, 2012 to May 31, 2011

For the three-month period ended on May 31, 2012, the 3.4% increase in the effective tax rate versus the same period in the prior year was primarily attributable to the following factors: (1) a 2.4% increase primarily due to changes in applicable foreign statutory tax rates; and (2) prior period credit card processing fees for which the Company did not recognize a tax benefit of 1.0%.

For the nine months ended on May 31, 2012, the 3.0% increase in the effective tax rate versus the same period in the prior year was primarily attributable to the following factors: (1) a 0.7% increase primarily due to changes in applicable foreign statutory tax rates; (2) prior period credit card processing fees for which the Company did not recognize a tax benefit of 0.3%; and (3) an increase in the taxable loss of the Company's new Colombia entity for which the Company did not recognize a tax benefit of 0.8%. A full valuation allowance was recorded against the future tax benefit of losses generated by Colombia operations. The valuation allowance was necessary because the Colombia operations have not established an earnings history to support recognition of a tax benefit. In addition, the Company recorded a benefit of 0.6% due to an increase in the U.S. statutory tax rate from 34% to 35%, which increased the value of U.S. deferred tax assets in the fiscal year 2011.

#### Income from Continuing Operations Attributable to PriceSmart

	Three Months Ended May 31,			2011
	2012	Increase/(decrease)	% Change	
	Amount	from prior year		Amount
Income from Continuing Operations	\$15,708	\$ (657)	(4.0)	)% \$16,365

  

	Nine Months Ended May 31,			2011
	2012	Increase/(decrease)	% Change	
	Amount	from prior year		Amount
Income from Continuing Operations	\$49,921	\$ 700	1.4	% \$49,221

## LIQUIDITY AND CAPITAL RESOURCES

## Financial Position and Cash Flow

The Company requires cash to fund its 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, and the purchase of treasury stock upon the vesting of restricted stock awards and payment of dividends to stockholders. The Company's primary sources for funding these requirements are cash and cash equivalents on hand, cash generated from operations, short-term borrowings and long-term debt. The Company evaluates on a regular basis if it may need to borrow additional funds if the Company is unable to generate sufficient cash from operations to meet its operating or capital requirements. As such, the Company evaluates and may enter into or obtain additional loans and/or credit facilities to provide additional liquidity.

Total cash and cash equivalents at the end of the periods reported were as follows (in thousands):

	Nine months ended May 31,	
	2012	2011
Cash and cash equivalents	\$104,943	\$65,846

The Company's cash flows are summarized as follows (in thousands):

	Nine months ended May 31,	
	2012	2011
Net cash provided by (used in) continuing operating activities	\$75,574	\$38,674
Net cash provided by (used in) discontinued operations	407	108
Net cash provided by (used in) investing activities	(35,683	) (27,367
Net cash provided by (used in) financing activities	(12,720	) (17,583
Effect of exchange rates	548	(1,332
Net increase (decrease) in cash and cash equivalents	\$28,126	\$(7,500

The Company's operating activities provided cash for all periods presented as summarized below.

Edgar Filing: PRICESMART INC - Form 10-Q

	Nine months ended May 31,		Increase/ (Decrease)
	2012	2011	2012 to 2011
Net Income	\$49,915	49,060	\$855
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	17,610	13,675	3,935
(Gain) loss on sale of property and equipment	239	299	(60)
Gain on sale of excess real estate in Panama	—	(1,249)	1,249
Deferred income taxes	1,728	2,907	(1,179)
Stock-based compensation expenses	3,148	2,200	948
Other non-cash operating activities	14	204	(190)
Net non-cash related expenses	22,739	18,036	4,703
Net Income from Operating Activities reconciled for non-cash operating activities	72,654	67,096	5,558
Changes in operating assets and liabilities not including merchandise inventories	5,951	8,075	(2,124)
Changes in merchandise inventories	(3,031)	(36,497)	33,466
Net cash provided by discontinued operating activities	407	108	299
Net cash provided by (used in) operating activities	\$75,981	38,782	\$37,199

Net Income from Operating Activities in the current nine month period increased over the same period in fiscal year 2011 primarily as a result of higher sales. Higher depreciation expense associated with capital additions resulted in net non-cash related expenses increasing \$4.7 million. The increase in inventory during the current nine month period was \$33.5 million less than the year ago period. The Company began the current fiscal year with higher inventory levels in anticipation of the strong holiday sales compared to the prior year when the pre-holiday inventory build-up occurred during the first fiscal quarter including the inventory acquisition for the new Dominican Republic club which opened in November 2010. The year-over-year change in the net operating assets and liabilities primarily relates to the change in the trade payables associated with the change in inventory levels between the two periods.

The Company's use of cash in investing activities for the period is summarized below:

	Nine months ended May 31,		Increase/ (Decrease)
	2012	2011	2012 to 2011
Cash used for additions of property and equipment:			
Land acquisitions	\$(10,942)	\$(7,325)	\$(3,617)
Warehouse club expansion, construction, and land improvements	(5,706)	(18,067)	12,361
Acquisition of fixtures and equipment	(19,121)	(9,418)	(9,703)
Proceeds on sale of excess real estate in Panama	—	7,406	(7,406)
Proceeds from disposals of property and equipment	86	37	49
Net cash flows provided by (used) in investing activities	\$(35,683)	\$(27,367)	\$(8,316)

Net cash used in investing activities increased in fiscal year 2012 compared to fiscal year 2011 by approximately \$8.3 million primarily due to an increase in cash expended for land acquisitions and the acquisition of fixtures and equipment during the first nine months of fiscal year 2012 that were largely offset by decreases in construction and warehouse expansion. In addition during fiscal year 2011, the net cash flows used in investing activities decreased approximately \$7.4 million due to the sale of property in Panama.



Cash used in investing activities for the first nine months of fiscal year 2011 consisted primarily of the Company's acquisition of approximately 210,000 square feet of land in Barranquilla, Colombia, upon which the Company constructed and opened a warehouse club on August 9, 2011, the continuing development of new warehouse club sites and the expansion of existing warehouse clubs in Latin America and the Caribbean, the Company's expansion of the Miami warehouse and its continuing acquisition of fixtures and equipment for new warehouse club sites, the expansion of existing warehouse clubs and corporate offices within its Latin America, the Caribbean and the United States segments.

Net cash used by financing activities for the period presented is summarized below:

	Nine months ended May 31,		Increase/ (Decrease)
	2012	2011	2012 to 2011
New bank loans offset by establishment of certificates of deposit held against loans, and payments on existing bank loans	\$(1,473	) \$(7,030	) \$5,557
Cash dividend payments	(9,060	) (8,969	) (91
Proceeds from exercise of stock options and the tax benefit related to stock options	826	1,020	(194
Purchase of treasury stock related to vesting of restricted stock	(3,013	) (2,604	) (409
Net cash provided (used) in financing activities	\$(12,720	) \$(17,583	) \$4,863

Net cash used in financing activities from loan activities decreased in the first nine months of fiscal year 2012 over the same period in 2011, primarily due to increases in long-term loans for approximately \$7.2 million and the decrease in funds used for the establishment of certificates of deposit held against loans for approximately \$920,000 during fiscal year 2012, offset by the increase in the use of cash for the pay down of long-term loans of approximately \$1.5 million and the increase in the pay down of short term loans of approximately \$1.1 million in fiscal year 2012. Net cash used by financing activities for the first nine months of fiscal year 2011 was primarily the result of normally scheduled loan payments, the payment of a loan balances for approximately \$3.3 million and the payment of short term loans.

#### Financing Activities

On January 13, 2012 the Company's Guatemala subsidiary paid off its local currency loan to Banco Industrial, S.A., for approximately \$5.2 million.

On December 22, 2011, the Company's Guatemala subsidiary entered into a loan agreement based in Quetzales with Banco Industrial, S.A., for the equivalent amount of \$8.9 million to be paid over ten years. The loan has a variable interest rate, which will be fixed for the first three years to an interest rate of 8% per year. Thereafter, the interest rate will be negotiable according to market conditions.

On March 14, 2011, the Company's Colombia subsidiary entered into a loan agreement with Scotiabank & Trust (Cayman) Ltd. The agreement establishes a credit facility for \$16.0 million to be disbursed in several tranches. The interest rate is set at the three-month LIBOR rate plus 0.7%. The loan term is five years with interest only payments and a balloon payment at maturity. This loan is secured by a time deposit of \$16.0 million pledged by the Company's Costa Rican subsidiary. The deposit will earn an interest rate of three-month LIBOR. The first tranche of \$8.0 million was funded on April 1, 2011, and the Company secured this portion of the loan with an \$8.0 million secured time deposit. The second tranche of \$2.0 million was funded on July 28, 2011, and the Company secured this portion of the loan with a \$2.0 million secured time deposit. The Company drew down the third and final tranche of \$6.0 million on September 30, 2011, and the Company secured this portion of the loan with a \$6.0 million secured time deposit. On January 31, 2012 the Company's Colombia subsidiary and Scotiabank & Trust (Cayman) Ltd., amended

and restated the March 14, 2011 loan agreement. The amendment increased the credit facility by \$16.0 million; as a result the total credit facility with Scotiabank & Trust (Cayman) Ltd. is for \$32.0 million. The interest rate on the incremental amount of the facility as the tranches are drawn is three-month LIBOR rate plus 0.6%. The loan term continues to be five years with interest only payments and a balloon payment at maturity. The deposit will earn an interest rate of three-month LIBOR. The first tranche of \$8.0 million was funded on February 21, 2012 and the Company secured this portion of the loan with an \$8.0 million secured time deposit.

On November 25, 2010, the Company's Barbados subsidiary paid off its Barbados local currency loan to Citicorp Merchant Bank Limited for approximately \$3.3 million.

On November 1, 2010, the Company's Colombia subsidiary entered into a loan agreement with Citibank, N.A. in New York. The agreement establishes a credit facility of \$16.0 million to be disbursed in two tranches of \$8.0 million each. The interest rate is set at the six-month LIBOR rate plus 2.4%. The loan term is five years with interest only payments and a balloon payment at maturity. The credit facility is renewable for an additional five-year period at the option of the Company's Colombia subsidiary. This loan is secured by a time deposit pledged by the Company equal to the amount outstanding on the loan. The deposit will earn interest at a rate of six month LIBOR plus 1.6%. The Company received the first of the two tranches of \$8.0 million and made a restricted deposit of \$8.0 million during November 2010.

#### Derivatives

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.

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 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. The forward currency hedges are not effective cash flow hedges since 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 the Company records 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 a cash flow hedge, 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.

The Company, through its subsidiaries, has entered into the following cross-currency interest rate swaps an interest rate swaps:

The following table summarizes these agreements:

Subsidiary	Date entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Initial US Notional Amount	Bank US loan Held with	Effective Period
Colombia	21-Feb-12	Bank of Nova Scotia	Cross currency interest rate swap	\$8,000,000	Bank of Nova Scotia	February 21, 2012 - February 21, 2017
Colombia	17-Nov-11	Bank of Nova Scotia	Cross currency interest rate swap	\$8,000,000	Citibank, N.A.	November 3, 2011 - November 3, 2013
Colombia	21-Oct-11	Bank of Nova Scotia	Cross currency interest rate swap	\$2,000,000	Bank of Nova Scotia	July 29, 2011 - April 1, 2016
Colombia	21-Oct-11	Bank of Nova Scotia	Cross currency interest rate swap	\$6,000,000	Bank of Nova Scotia	September 29, 2011 - April 1, 2016
Colombia	5-May-11	Bank of Nova Scotia	Cross currency interest rate swap	\$8,000,000	Bank of Nova Scotia	April 1, 2011 - April 1, 2016
Trinidad	20-Nov-08	Royal Bank of Trinidad & Tobago	Interest rate swaps	\$8,900,000	Royal Bank of Trinidad & Tobago	September 25, 2008 - September 26, 2013
Barbados	13-Feb-08	Citibank, N.A.	Interest rate swaps	\$4,500,000	Citibank, N.A.	November 15, 2007 - November 14, 2012

The Company measures 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 or on a nonrecurring basis during the reporting period. The Company has designated the interest rate swaps and cross-currency interest rate swap agreements as hedging instruments and has accounted for them under hedge accounting rules. The following table summarizes the effect of the fair valuation of derivative instruments designated as hedging instruments (in thousands):

Derivatives designated as cash flow hedging instruments	Derivatives May 31, 2012		August 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cross currency interest rate swap <sup>(2)</sup>	Other non-current assets	\$78	Other non-current assets	\$—
Interest rate swaps <sup>(1)</sup>	Other long-term liabilities	\$(286)	Other long-term liabilities	\$(544)
Cross currency interest rate swap <sup>(2)</sup>	Other long-term liabilities	(628)	Other long-term liabilities	(340)
Net fair value of derivatives designated as hedging instruments - asset (liability) <sup>(3)</sup>		\$(836)		\$(884)

The effective portion of the interest rate swaps was recorded as a loss to Accumulated other comprehensive loss for (1) \$205,000 and \$408,000 net of tax, as of May 31, 2012 and August 31, 2011, respectively. The Company has recorded a deferred tax asset amount of \$81,000 and \$136,000 as of May 31, 2012 and August 31, 2011, respectively.



- The effective portion of the cross currency interest rate swaps was recorded to Accumulated other comprehensive loss for \$576,000 and \$340,000 as of May 31, 2012 and August 31, 2011, respectively. The Company has recorded a deferred tax liability amount of \$(26,000) as of May 31, 2012 and a valuation allowance on the related deferred tax asset.
- (2)
- (3) Derivatives listed on the above table were designated as cash flow hedging instruments.

The Company, through its subsidiaries, has entered into the following forward currency agreements:

Subsidiary	Date entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Notional Amount (in thousands)	Settlement Date	Effective Period
Colombia	23-May-12	Bank of Nova Scotia	Forward foreign exchange contracts	\$1,000	August 22, 2012	May 23, 2012 - August 22, 2012
Colombia	31-May-12	Bank of Nova Scotia	Forward foreign exchange contracts	\$1,000	August 29, 2012	May 31, 2012 - August 29, 2012

The amount of these forward foreign exchange contracts fair value and transaction gains or losses recognized in interest income and other income (expense) were nominal for the nine months ended May 31, 2012. The Company did not have any forward foreign exchange contracts as of August 31, 2012.

#### Short-Term Borrowings and Long-Term Debt

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

	Total Amount of Facilities	Facilities Used			Facilities Available	Weighted average interest rate	
		Short-term Borrowings	Letters of Credit				
May 31, 2012	\$37,029	\$2,169	\$309	\$34,551	12.5	%	
August 31, 2011	\$28,033	\$2,259	\$453	\$25,321	9.5	%	

As of May 31, 2012, the Company had approximately \$25.0 million, of short-term borrowings in the U.S. that require the Company to comply with certain quarterly financial covenants, which include debt service and leverage ratios. As of May 31, 2012, the Company was in compliance with respect to these covenants. As of August 31, 2011, the Company was not required to comply with this covenant.

As of May 31, 2012 and August 31, 2011, the Company, together with its majority or wholly owned subsidiaries, had \$80.6 million and \$68.2 million, respectively, outstanding in long-term borrowings. The increase during the current period primarily relates to the addition of long-term loans of approximately \$23.0 million, offset by normally scheduled payments of principal of approximately \$10.4 million. Additionally, the Company exercised its option to cancel its participation in the joint venture Newco2 and recorded the cancellation of the loan payable for approximately \$473,000. Translation adjustment losses also lowered long-term debt, primarily due to cross-currency hedging of U.S. dollar denominated debt of a subsidiary whose functional currency is not the U.S. dollar for approximately \$206,000. The carrying amount of the non-cash assets assigned as collateral for long-term debt was \$61.5 million and \$70.9 million as of May 31, 2012 and August 31, 2011, respectively. The carrying amount of the cash assets assigned as collateral for long-term debt was \$35.3 million and \$22.2 million as of May 31, 2012 and August 31, 2011, respectively.

As of May 31, 2012 and August 31, 2011, the Company had approximately \$58.9 million and \$47.5 million, respectively, of long-term loans in Trinidad, Barbados, 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 May 31, 2012 and August 31, 2011, the Company was in compliance with respect to these 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.

45

---

## Repurchase of Equity Securities and Reissuance of Treasury Shares

At the vesting dates, 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 related to the vesting of restricted stock awards. The Company does not have a stock repurchase program.

Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders' equity in the Company's Consolidated Balance Sheets. The Company may reissue these treasury shares. When treasury shares are reissued, the Company uses 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.

During the nine months ended May 31, 2012 and 2011, the Company repurchased 44,328 and 67,436 shares, respectively, of common stock from employees for approximately \$3.0 million and \$2.6 million, respectively, to cover the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock awards. The Company expects to continue this practice going forward. The Company reissued treasury shares as part of its stock-based compensation programs. During the nine-months ended May 31, 2012, the Company reissued 196,850 treasury shares. No treasury shares were reissued for the nine-month period ended May 31, 2011.

## Critical Accounting Estimates

The preparation of the Company's 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 the Company's 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, deferred taxes, merchandise inventories, and long-lived assets. The Company bases its 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 the Company's financial condition and results of operations.

**Contingencies and Litigation:** In the ordinary course of business, the Company is periodically named as a defendant in various lawsuits, claims and pending actions and is exposed to tax risks (other than income tax). The principal risks that the Company insures 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, the Company records the estimated liability based on circumstances and assumptions existing at the time. The estimates affecting the Company's 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 the Company believes 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, 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. While the Company believes the recorded liabilities are adequate, there are inherent limitations in the estimation process whereby actual losses may exceed estimated losses.

Income Taxes: A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. As of May 31, 2012, the Company evaluated its deferred tax assets and liabilities and determined that a valuation allowance is 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, and the determination that certain net operating loss carry-forward periods are not sufficient to realize the related deferred tax assets. The Company factored into its analysis the inherent risk of forecasting revenue and expenses over an extended period of time and also considered the potential risks associated with its business.

The Company had federal and state tax net operating loss carry-forwards, or NOLs, at May 31, 2012 of approximately \$26.0 million and \$4.8 million, respectively. In calculating the tax provision, and assessing the likelihood that the Company will be able to utilize the deferred tax assets, the Company considered and weighed all of the evidence, both positive and negative, and both objective and subjective. The Company factored in the inherent risk of forecasting revenue and expenses over an extended

period of time and considered the potential risks associated with its business. Because of the Company's U.S. income from continuing operations and based on projections of future taxable income in the United States, the Company was able to determine that there was sufficient positive evidence to support the conclusion that it was more likely than not that the Company would be able to realize substantially all of its U.S. NOLs by generating taxable income during the carry-forward period. However, if the Company does not achieve its projections of future taxable income in the United States, the Company could be required to take a charge to earnings related to the recoverability of these deferred tax assets. Due to the deemed change of ownership (as defined in Section 382 of the Internal Revenue Code) in October 2004, there are annual limitations in the amount of U.S. income that may be offset by NOLs. The NOLs generated prior to the deemed ownership change date, as well as a significant portion of the losses generated as a result of the PSMT Philippines disposal in August 2005, are limited on an annual basis. The Company does not believe this will impact the recoverability of these NOLs.

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 and associated penalties and interest.

Long-lived Assets: The Company periodically evaluates its 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

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 2012.

#### Recent Accounting Pronouncements

##### FASB ASC 350

In September 2011, the FASB issued guidance regarding assessing whether it is necessary to perform goodwill impairment tests on a recurring basis. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair market value of a reporting unit is less than its carrying amounts as a basis for determining whether it is necessary to perform the goodwill impairment test. The amended guidance is effective for annual and interim periods beginning after December 15, 2011, with early adoption permitted, including annual and interim goodwill impairment tests performed as of dates before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company adopted this guidance as of August 31, 2011. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 220

In June 2011, the FASB issued guidance to amend the presentation of comprehensive income to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amended guidance is effective for annual and interim periods within those years beginning after December 15, 2011, and is to be applied retrospectively. The Company will adopt this guidance at the beginning of its fiscal year 2013. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

#### FASB ASC 820

In May 2011, the FASB issued guidance to amend the requirements related to fair value measurement which changes the wording used to describe many requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. The amended guidance is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The company adopted the guidance in the third quarter of fiscal year 2012. The adoption did not have a material impact on the company's consolidated financial statements.

#### FASB ASC 350

In December 2010, the FASB issued amended guidance concerning testing for impairment of goodwill where an entity has one or more reporting units whose carrying value is zero or negative. The amended guidance requires the entity to perform a test to measure the amount, if any, of impairment to goodwill by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The Company is required to adopt this amended guidance for fiscal years or interim periods within those years after December 15, 2011. The Company will adopt this guidance at the beginning of its fiscal year 2013. The Company does not expect that adoption of the amended guidance will have an impact on the Company's consolidated financial statements or disclosures to those financial statements.

#### Seasonality

Historically, the Company's merchandising businesses have experienced holiday retail seasonality in their markets. In addition to seasonal fluctuations, the Company's operating results fluctuate quarter-to-quarter as a result of economic and political events in markets served by the Company, 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 the Company's future results will be consistent with past results or the projections of securities analysts.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, through wholly owned subsidiaries, conducts operations primarily in Latin America and the Caribbean, and as such is subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of May 31, 2012, the Company had a total of 29 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 22 of which operate under currencies other than the U.S. dollar. For the first nine months of fiscal year 2012, approximately 79.0% of the Company's net warehouse club sales were in foreign currencies. The Company may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net warehouse sales denominated in foreign currencies.

Foreign currencies in most of the countries where the Company operates have historically devalued against the U.S. dollar and are expected to continue to devalue. For the nine months ended May 31, 2012, the currencies in Guatemala and Costa Rica experienced a strengthening of 0.05% and 1.88%, respectively, but the currencies in Dominican Republic, Honduras, Trinidad, Jamaica, Nicaragua and Colombia experienced 2.42%, 2.8%, 0.02%, 2.25%, 3.72% and 2.48% devaluations, respectively. For the nine months ended May 31, 2011, the currencies in Guatemala, Costa



Rica and Colombia experienced 3.35%, 0.71% and 0.35% strengthening of their currencies, respectively, but the currencies in Dominican Republic, Trinidad, Jamaica and Nicaragua experienced a 2.77%, 1.35%, 0.27% and 3.72% devaluations, respectively.

Foreign currency exchange transaction gains (losses), including repatriation of funds, which are included as part of other income (expense) in the consolidated statements of income. These foreign exchange transaction gains (losses), including repatriation of funds, have been reclassified from Cost of goods sold to Other income (expense) in the Consolidated Statements of Income for the fiscal year and interim periods reported for 2011 and are included as part of Other income (expense) in the consolidated statements of income for fiscal year 2012. The Company's management believes that these foreign currency transactions are not directly matched to the recognition of cost of goods sold but are more closely linked to financing activities of the Company. These activities include the use of the extension of U.S dollar payables as a funding tool to meet the Company's subsidiary cash requirements and direct bank financing for U.S. dollar loans that constitute financing vehicles for expansion or development of subsidiaries, where once the cash is deposited into that subsidiary, it is fungible and can be used for any cash requirement of the entity such as capital, intercompany payments, working capital requirements, dividend payments and increases in restricted cash balances to comply with financing requirements. The Company believes that these reclassifications will allow for better comparability to other comparable companies with similar business models. The following table summarizes the amounts

reclassified to conform with fiscal year 2012 presentation (in thousands):

	Three Months Ended				Total fiscal year 2011
	November 30, 2010	February 28, 2011	May 31, 2011	August 31, 2011	
Other income (expenses), net previously reported	\$(46 )	\$(260 )	\$1,838 <sup>(1)</sup>	\$8	\$1,540
Foreign exchange transaction gains (losses) reclassified from Cost of goods sold to Other income (expenses), net	378	454	529	963	2,324
Other income (expenses), net as currently reported	\$332	\$194	\$2,367	\$971	\$3,864

<sup>(1)</sup> Includes \$1,179 gain on sale of assets and \$659 currency gain.

These foreign currency exchange fluctuations can increase the Company's cost of sales, operating, selling, general and administrative expenses, and otherwise adversely affect the Company's operating results. There can be no assurance that the Company will not experience any other materially adverse effects on the Company's business, financial condition, operating results, cash flow or liquidity, from currency devaluations in other countries.

Translation adjustment losses from the Company's subsidiaries and investment in affiliates that use a functional currency other than the U.S. dollar, resulting from the translation of the assets and liabilities of these companies into U.S. dollars, were approximately \$9.2 million and \$396,000 for the first nine months ended on May 31, 2012 and 2011, respectively. The translation adjustment loss during the first nine months ended May 31, 2012 resulted primarily from a \$5.6 million charge related to the merger of wholly owned subsidiaries of the Company and a \$3.3 million net charge relating to the correction of prior period translation errors affecting Property and equipment, net (see Note 1 - Company Overview and Basis of Presentation). In addition, losses for approximately \$304,000 were recorded during the first nine months of fiscal year 2012 related to weaker foreign currencies. The \$396,000 loss recorded for the first nine months of fiscal year 2011 was mainly due to weaker foreign currencies. Weaker foreign currencies create other comprehensive losses as financial statements translation losses are recorded to other comprehensive income.

As of May 31, 2012 and 2011, gains/(losses) on the fair value of interest rate swaps designated as effective hedges recorded in accumulated other comprehensive income/(loss) were approximately \$(781,000) and \$(23,000), net of tax, respectively. The loss related to hedges was mainly due to the change in the fair value of the interest rate swaps and cross currency interest rate swaps from the end of fiscal year 2011 to May 31, 2012.

As of May 31, 2012, prior service costs recorded in accumulated other comprehensive income/(loss), related to the defined benefit plan in Trinidad entered into by the Company on January 21, 2011, resulting from the unamortized prior service costs first recorded in fiscal year 2011, were approximately \$261,000 (net of tax).

The following is a listing of the countries or territories where the Company currently operates and their respective currencies, as of May 31, 2012:

Country/Territory	Number of Warehouse Clubs In Operation		Currency
Colombia	1	(1)	Colombian Peso
Panama	4		U.S. Dollar
Costa Rica	5		Costa Rican Colon
Dominican Republic	3	(2)	Dominican Republic Peso
Guatemala	3		Guatemalan Quetzal
El Salvador	2		U.S. Dollar
Honduras	2		Honduran Lempira
Trinidad	4		Trinidad Dollar
Aruba	1		Aruba Florin
Barbados	1		Barbados Dollar
U.S. Virgin Islands	1		U.S. Dollar
Jamaica	1		Jamaican Dollar
Nicaragua	1		Nicaragua Cordoba Oro
Totals	29		

(1) This warehouse club opened on August 19, 2011, fiscal year 2011.

(2) The Arroyo Hondo warehouse club opened on November 5, 2010, fiscal year 2011.

#### 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.

For the period ended May 31, 2012, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company carried out an evaluation as of the end of the period covered by the Quarterly Report on Form 10-Q, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). These disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in its periodic reports with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that the information is accumulated and communicated to the Company's management, including the principal executive officer and principal

financial officer, as appropriate to allow timely decisions regarding required disclosure. The design of any disclosure controls and procedures also is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q because the Company has not yet completed its remediation of the two material weaknesses previously identified and disclosed in the Company's Amendment No. 1 to Annual Report on Form 10-K/A for the year ended August 31, 2011:

inadequate review of system configuration with respect to the translation from foreign currencies to U.S dollars of fixed assets and depreciation could result in material errors in calculating depreciation; and inadequate review of the reconciliation of net deferred tax assets related to net operating and capital loss carry-forwards to tax returns could result in material errors in calculating tax expense.

A material weakness is a control deficiency that could result in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. The Company is in the process of remediating these material weaknesses, and further time and testing is required to conclude that the material weaknesses have been fully remediated.

Despite the existence of these material weaknesses, the Company believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles.

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, 2011. 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, 2011.

#### Available Information

The PriceSmart, Inc. website or internet address is [www.pricessmart.com](http://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](http://www.sec.gov). The Company made available its annual report on Form 10-K and its annual Proxy Statement for the fiscal year 2011 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) Purchase of Equity Securities by the Issuer and Affiliated Purchasers.

The Company granted shares of restricted common stock that allow statutory tax withholding obligations incurred upon vesting of those shares to be satisfied by selling a portion of those shares to the Company. The following table shows the shares acquired by the Company upon purchase of restricted shares during the quarter ended May 31, 2012.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Program
March 1, 2012 – March 31, 2012	2,418	\$71.80	—	\$—
April 1, 2012 – April 30, 2012	—	—	—	—
May 1, 2012 – May 31, 2012	—	—	—	—
Total	2,418	\$71.80	—	\$—

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits:

- 31.1(1) Amended and Restated Certificate of Incorporation of the Company.
  - 32.2(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-First Amendment to Employment Agreement between the Company and John Hildebrandt, dated March 1, 2012.
  - 10.2\* Twenty-Second Amendment to Employment Agreement between the Company and Brud Drachman, dated March 1, 2012.
  - 10.3\* Twenty-Fourth Amendment to Employment Agreement between the Company and Thomas Martin, dated March 1, 2012
  - 10.4\* Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement.
  - 10.5\* Third Amendment to the 2001 Equity Participation Plan of PriceSmart, Inc., dated April 17, 2012.
  - 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: July 9, 2012

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

Date: July 9, 2012

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