PRICESMART INC
Form 10-Q
January 08, 2010

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

FORM 10-Q

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

For the quarterly period ended November 30, 2009

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	33-0628530
(State or other jurisdiction of incorporation or organization)	(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 þ 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 þ 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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer þ	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 þ

The registrant had 29,761,856 shares of its common stock, par value $0.0001 per share, outstanding at December 31, 2009.

PRICESMART, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.'s ("PriceSmart" or the "Company") unaudited consolidated balance sheet as of November 30, 2009, the consolidated balance sheet as of August 31, 2009, the unaudited consolidated statements of income for the three months ended November 30, 2009 and 2008, the unaudited consolidated statements of equity for the three months ended November 30, 2009 and 2008, and the unaudited consolidated statements of cash flows for the three months ended November 30, 2009 and 2008, are included elsewhere herein. Also included herein are the unaudited notes to the unaudited consolidated financial statements.

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

	N November 30, 2009	August 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,039	$ 44,193
Short-term restricted cash	—	10
Receivables, net of allowance for doubtful accounts of $8 and $10 in November and August of 2009, respectively	2,399	2,187
Merchandise inventories	147,390	115,841
Deferred tax assets – current	2,940	2,618
Prepaid expenses and other current assets	18,010	19,033
Assets of discontinued operations	947	900
Total current assets	210,725	184,782
Long-term restricted cash	765	732
Property and equipment, net	236,857	231,798
Goodwill	37,415	37,538
Deferred tax assets – long term	19,849	20,938
Other assets	3,885	3,927
Investment in unconsolidated affiliates	7,761	7,658
Total Assets	$ 517,257	$ 487,373
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	$ 2,951	$ 2,303
Accounts payable	113,280	101,412
Accrued salaries and benefits	7,715	8,831
Deferred membership income	8,977	8,340
Income taxes payable	5,937	5,942
Other accrued expenses	9,481	10,022
Long-term debt, current portion	5,386	4,590
Deferred tax liability – current	198	189
Liabilities of discontinued operations	121	299
Total current liabilities	154,046	141,928
Deferred tax liability – long-term	1,224	1,026
Long-term portion of deferred rent	2,793	2,673
Long-term income taxes payable, net of current portion	3,562	3,458
Long-term debt, net of current portion	42,795	37,120
Total liabilities	204,420	186,205
Equity:		
Common stock, $0.0001 par value, 45,000,000 shares authorized; 30,402,285 and 30,337,109 shares issued and 29,746,173 and 29,681,031 shares outstanding (net of treasury shares), respectively	3	3
Additional paid-in capital	378,326	377,210

Tax benefit from stock-based compensation	4,609	4,547
Accumulated other comprehensive loss	(17,149)	(17,230)
Accumulated deficit	(39,621)	(49,998)
Less: treasury stock at cost; 656,112 shares as of November 30, 2009 and 656,078 as of August 31, 2009.	(14,135)	(14,134)
Total PriceSmart stockholders' equity	312,033	300,398
Noncontrolling interest	804	770
Total equity	312,837	301,168
Total Liabilities and Equity	$ 517,257	$ 487,373

See accompanying notes.

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PRICESMART, INC.

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

	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008
Revenues:		
Net warehouse club sales	$ 308,653	$ 298,518
Export sales	587	836
Membership income	4,649	4,325
Other income	1,530	1,529
Total revenues	315,419	305,208
Operating expenses:		
Cost of goods sold:		
Net warehouse club	261,717	254,426
Export	554	800
Selling, general and administrative:		
Warehouse club operations	29,234	27,280
General and administrative	7,568	7,544
Pre-opening expenses	111	—
Asset impairment and closure costs	—	248
Total operating expenses	299,184	290,298
Operating income	16,235	14,910
Other income (expense):		
Interest income	215	126
Interest expense	(630)	(581)
Other income (expense), net	4	(20)
Total other expense	(411)	(475)
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	15,824	14,435
Provision for income taxes	(5,401)	(3,647)
Loss of unconsolidated affiliates	(2)	(5)
Income from continuing operations	10,421	10,783
Income (loss) from discontinued operations, net of tax	9	(19)
Net income	10,430	10,764
Net income attributable to noncontrolling interest	(53)	(66)
Net income attributable to PriceSmart	$ 10,377	$ 10,698
Net income attributable to PriceSmart:		
Income from continuing operations	$ 10,368	$ 10,717
Income (loss) from discontinued operations, net of tax	9	(19)
	$ 10,377	$ 10,698
Net income per share attributable to PriceSmart and available for distribution:		
Basic net income per share from continuing operations	$ 0.35	$ 0.36
Basic net income per share from discontinued operations, net of tax	$ —	$ —
Basic net income per share	$ 0.35	$ 0.36

Diluted net income per share from continuing operations	$	0.35	$	0.36
Diluted net income per share from discontinued operations, net of tax	$	—	$	—
Diluted net income per share	$	0.35	$	0.36
Shares used in per share computations:				
Basic		29,105		28,860
Diluted		29,163		28,964
Dividends per share	$	—	$	—

See accompanying notes.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Tax Benefit From Stock-based Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total PriceSmart Stockholder's Equity	Non-Controlling Interest	Total Equity
Balance at August 31, 2008	30,196	$3	$373,192	$4,563	$(12,897)	$(77,510)	580	$(12,845)	$274,506	$480	$274,986
Stock-based compensation	—	—	773	2	—	—	—	—	775	—	775
Common stock subject to put agreement	—	—	161	—	—	—	—	—	161	—	161
Purchase of treasury stock for PSC settlement	—	—	—	—	—	—	7	(161)	(161)	—	(161)
Dividend payable to stockholders	—	—	—	—	—	4,744	—	—	4,744	—	4,744
Dividend paid to stockholders	—	—	—	—	—	(4,744)	—	—	(4,744)	—	(4,744)
Change in fair value of interest rate swaps	—	—	—	—	(578)	—	—	—	(578)	—	(578)
Net income	—	—	—	—	—	10,698	—	—	10,698	66	10,764
Translation adjustment	—	—	—	—	(1,538)	—	—	—	(1,538)	4	(1,534)
Comprehensive income									8,582	70	8,652
Balance at November 30, 2008	30,196	$3	$374,126	$4,565	$(15,013)	$(66,812)	587	$(13,006)	$283,863	$550	$284,413
Balance at August 31, 2009	30,337	$3	$377,210	$4,547	$(17,230)	$(49,998)	656	$(14,134)	$300,398	$770	$301,168
Stock-based compensation	—	—	770	62	—	—	—	—	832	—	832
	—	—	—	—	—	—	—	(1)	(1)	—	(1)

Purchase of treasury stock											
Issuance of restricted stock awards	15	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(3)	—	—	—	—	—	—	—	—	—	—
Exercise of stock options	53	—	346	—	—	—	—	—	346	—	346
Change in fair value of interest rate swaps, net of tax	—	—	—	—	(71)	—	—	—	(71)	—	(71)
Net income	—	—	—	—	—	10,377	—	—	10,377	53	10,430
Translation adjustment	—	—	—	—	152	—	—	—	152	(19)	133
Comprehensive income									10,458	34	10,492
Balance at November 30, 2009	30,402	$3	$378,326	$4,609	$(17,149)	$(39,621)	656	$(14,135)	$312,033	$804	$312,837

See accompanying notes.

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

	Three Months Ended November 30, 2009	Three Months Ended November 30, 2008
Operating Activities:		
Income from continuing operations	$ 10,421	$ 10,783
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,636	2,972
Allowance for doubtful accounts	(2)	(2)
Asset impairment and closure costs	—	175
(Gain) Loss on sale of property and equipment	(4)	8
Deferred income taxes	1,036	(107)
Equity in losses of unconsolidated affiliates	2	5
Excess tax benefit on stock-based compensation	(62)	(2)
Stock-based compensation	770	773
Change in operating assets and liabilities:		
Change in accounts receivable, prepaid expenses and other current assets, accrued salaries and benefits, deferred membership income and other accrued expenses	102	(3,678)
Merchandise inventories	(31,549)	(20,410)
Accounts payable	11,868	11,847
Net cash (used in) provided by continuing operating activities	(3,782)	2,364
Net cash provided by (used in) discontinued operating activities	140	(144)
Net cash (used in) provided by operating activities	(3,642)	2,220
Investing Activities:		
Additions to property and equipment	(8,625)	(14,174)
Proceeds from disposal of property and equipment	60	4
Purchase of interest in Costa Rica joint ventures	—	(2,241)
Purchase of interest in Panama joint venture	—	(4,616)
Capital contribution to Panama joint venture	(100)	—
Net cash used in continuing investing activities	(8,665)	(21,027)
Net cash provided by discontinued investing activities	—	51
Net cash used in investing activities	(8,665)	(20,976)
Financing Activities:		
Proceeds from bank borrowings	13,582	7,260
Repayment of bank borrowings	(6,427)	(7,063)
Cash dividend payments	—	(4,744)
Excess tax benefit on stock-based compensation	62	2
Purchase of treasury stock for PSC settlement	—	(161)
Purchase of treasury stock - excluding PSC Settlement	(1)	—
Proceeds from exercise of stock options	346	—
Net cash provided by (used in) financing activities	7,562	(4,706)

Effect of exchange rate changes on cash and cash equivalents		(409)		33
Net decrease in cash and cash equivalents		(5,154)		(23,429)
Cash and cash equivalents at beginning of period		44,193		48,121
Cash and cash equivalents at end of period	$	39,039	$	24,692

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

	Three Months Ended November 30,	
	2009	2008
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$698	$112
Income taxes	$4,197	$4,093

PRICESMART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
November 30, 2009

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart" or the "Company") business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of November 30, 2009, the Company had 26 consolidated warehouse clubs in operation in 11 countries and one U.S. territory (five in Costa Rica, four in Panama, three each in Guatemala and Trinidad, two each in Dominican Republic, El Salvador, and Honduras and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which the Company owns substantially all of the corresponding legal entities (see Note 2-Summary of Significant Accounting Policies). In addition to the warehouse clubs operated directly by the Company (or through a joint venture in the case of Trinidad), there is one facility in operation in Saipan, Micronesia licensed to and operated by local business people, from which the Company earns a royalty fee. The Company primarily operates in three segments based on geographic area.

Basis of Presentation - The consolidated interim 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 consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual report filed on Form 10-K for the fiscal year ended August 31, 2009. The consolidated interim financial statements include the accounts of PriceSmart, Inc., a Delaware corporation, and its subsidiaries. Intercompany transactions between the Company and its subsidiaries have been eliminated in consolidation.

In May 2009 the Financial Accounting Standards Board ("FASB") issued guidance establishing general accounting standards and disclosure of subsequent events. The Company, in accordance with this guidance, evaluated subsequent events through the date and time these financial statements were issued on January 8, 2010.

Reclassifications - As a result of the application of a new accounting pronouncement for noncontrolling interests in consolidated entities, as discussed below in Recently Adopted Accounting Pronouncements, the Company:

- Reclassified to noncontrolling interest, a component of total equity, $770,000 at August 31, 2009, which was previously reported as minority interest on the consolidated balance sheet. A new subtotal, "total PriceSmart stockholders' equity", refers to the equity attributable to stockholders of PriceSmart;

- Reported as separate captions within the consolidated statements of income: "Net income attributable to noncontrolling interest" and "Net income attributable to PriceSmart;" and

- Utilized income from continuing operations as the starting point on the consolidated statements of cash flows in order to reconcile net income to cash flows from operating activities.

These reclassifications did not have a material impact on the Company's previously reported results of operations, financial position or cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated interim financial statements of the Company included herein include the assets, liabilities and results of operations of the Company’s majority and wholly owned subsidiaries as listed below. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated interim financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the 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.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below indicates the Company's percentage ownership of and basis of presentation for each subsidiary as of November 30, 2009:

Subsidiary	Countries	Ownership	Basis of Presentation
PriceSmart, Aruba	Aruba	100.0%	Consolidated
PriceSmart, Barbados	Barbados	100.0%	Consolidated
PSMT Caribe, Inc.:			
Costa Rica	Costa Rica	100.0%	Consolidated
Dominican Republic	Dominican Republic	100.0%	Consolidated
El Salvador	El Salvador	100.0%	Consolidated
Honduras	Honduras	100.0%	Consolidated
PriceSmart, Guam	Guam	100.0%	Consolidated (1)
PriceSmart, Guatemala	Guatemala	100.0%	Consolidated
PriceSmart, Jamaica	Jamaica	100.0%	Consolidated
PriceSmart, Nicaragua	Nicaragua	100.0%	Consolidated
PriceSmart, Panama	Panama	100.0%	Consolidated
PriceSmart, Trinidad	Trinidad	95.0%	Consolidated
PriceSmart, U.S. Virgin Islands	U.S. Virgin Islands	100.0%	Consolidated
GolfPark Plaza, S.A.	Panama	50.0%	Equity (2)
Price Plaza Alajuela PPA, S.A.	Costa Rica	50.0%	Equity (2)
Newco2	Costa Rica	50.0%	Equity (2)

(1) Entity is treated as discontinued operations in the consolidated financial statements.
(2) Purchases of joint venture interests during the first quarter of fiscal year 2009 recorded as investment in unconsolidated affiliates on the consolidated balance sheets.

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

Variable Interest Entities – The Company reviews and determines annually whether any of its investments in joint ventures are Variable Interest Entities ("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, Price Plaza Alajuela and Newco2 are VIEs. The Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method.

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

Restricted Cash – As of November 30, 2009 the Company had no short-term restricted cash. Long-term restricted cash represents deposits directly with federal regulatory agencies and within banking institutions in compliance with federal regulatory requirements in Costa Rica and Panama for approximately $765,000.

Merchandise Inventories – Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or market. The Company provides for estimated inventory losses and obsolescence between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically to reflect the trend of actual physical inventory count results, with physical inventories occurring primarily in the second and fourth fiscal quarters. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Allowance for Doubtful Accounts – The Company generally does not extend credit to its members, but may do so for specific wholesale, government, other large volume members and for subtenants. The Company maintains an allowance for doubtful accounts based on assessments as to the probability of collection of specific customer accounts, the aging of accounts receivable, and general economic conditions.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment – Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The useful life of fixtures and equipment ranges from three to 15 years and that of buildings from ten to 25 years. Leasehold improvements are amortized over the shorter of the life of the improvement or the expected term of the lease. In some locations, leasehold improvements are amortized over a period longer than the initial lease term as management believes it is reasonably assured that the renewal option in the underlying lease will be exercised 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.

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

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 financial statements on a recurring basis or on a nonrecurring basis during the reporting period. The Company measures fair value for interest rate swaps on a recurring basis. As of the balance sheet dates, there were no other financial assets for which the Company measures fair value. As of the balance sheet dates, there were no nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements measured on a recurring basis. The Company measures at fair value nonfinancial assets and liabilities recognized or disclosed in the consolidated financial statements on a nonrecurring basis, such as goodwill and long-lived assets, that require measurement at fair value after taking into account impairment charges if any are deemed necessary. Also included as nonfinancial assets and liabilities measured on a nonrecurring basis are those initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods.

The Company has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company was not required to revalue any assets or liabilities utilizing Level 1 or Level 3 inputs at the balance sheet dates. The Company's Level 2 assets and liabilities at the balance sheet dates primarily included cash flow hedges (interest rate swaps) and pricing of assets in connection with business acquisitions prior to fiscal year 2010.

Valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company’s consolidated balance sheets were not changed from previous practice during the reporting period. The Company discloses the valuation techniques and any change in method of such within the body of each footnote.

Goodwill – Goodwill resulting from certain business combinations totaled $37.4 million at November 30, 2009 and $37.5 million at August 31, 2009. The decrease in goodwill was due to foreign exchange translation losses. The Company reviews previously reported goodwill at the entity reporting level for impairment on an annual basis or more frequently if circumstances dictate. No impairment of goodwill has been recorded to date.

Derivative Instruments and Hedging Activities – Derivative instruments and hedging activities primarily consist of interest rate swaps. Interest rate swaps are accounted for as cash flow hedges. Under cash flow hedging, the effective portion of the fair value of the derivative, calculated as the net present value of the future cash flows, is deferred on the consolidated balance sheets in accumulated other comprehensive loss. If any portion of an interest rate swap were determined to be an ineffective hedge, the gains or losses from changes in market value would be recorded directly in the consolidated statements of income. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. (See Note 12—Interest Rate Swaps.)

Components of Equity Attributable to PriceSmart and Noncontrolling Interests – The Company reports its noncontrolling interests in consolidated subsidiaries as a component of equity separate from the Company's equity. The accumulated other comprehensive loss consists of foreign currency translation adjustments and unrealized gains and losses on investments and their related tax effects.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revenue Recognition – The Company recognizes merchandise sales revenue when title passes to the customer. Membership income represents annual membership fees paid by the Company’s warehouse club members, which are recognized ratably over the 12-month term of the membership. The historical membership fee refunds have been minimal and, accordingly, no reserve has been established for membership refunds for the periods presented. The Company recognizes and presents revenue-producing transactions on a net of tax basis. The Company recognizes gift certificates sales revenue when the certificates are redeemed. The outstanding gift certificates are reflected as other accrued expenses in the consolidated balance sheets. Operating leases, where the Company is the lessor, with lease payments that have fixed and determinable rent increases are recognized as revenue on a straight-line basis over the lease term. The Company also accounts in its straight-line computation for the effect of any "rental holidays." Contingent rental revenue is recognized as the contingent rent becomes due per the individual lease agreements.

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

Vendor consideration consists primarily of volume rebates, time limited product promotions and prompt payment discounts. Volume rebates are generally linked to pre-established purchase levels and are recorded as a reduction of cost of goods sold when the achievement of these levels is confirmed by the vendor in writing or upon receipt of funds, whichever is earlier. On a quarterly basis, the Company calculates the amount of rebates recorded in cost of goods sold that relates to inventory on hand and this amount is recorded as a reduction to inventory, if significant. Product promotions are generally linked to coupons that provide for reimbursement to the Company from vendor rebates for the product being promoted. The Company records the reduction in cost of goods sold on a transactional basis for these programs. Prompt payment discounts are taken in substantially all cases and, therefore, are applied directly to reduce the acquisition cost of the related inventory, with the resulting impact to cost of goods sold when the inventory is sold.

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

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

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

Closure Costs – The Company records the costs of closing warehouse clubs as follows: severance costs that are determined to be an arrangement for one-time employee termination benefits are accrued at the date the plan of termination has received management authority and approval, the plan identifies the numbers, job classification, functions, locations and expected completion dates, the plan establishes the terms of the severance, and management has deemed it unlikely that significant changes to the plan will be made. In addition the plan must have been communicated to employees (referred to as the communication date). Lease obligations are accrued at the cease use date by calculating the net present value of the minimum lease payments net of the fair market value of rental income that is expected to be received for these properties from third parties. Gain or loss on the sale of property, buildings and equipment is recognized based on the cash or net present value of future cash to be received as compensation upon consummation of the sale. All other costs are expensed as incurred.

Contingencies and Litigation – The Company accounts and reports for loss contingencies if (a) information available prior to issuance of the consolidated financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can be reasonably estimated.

Common Stock Put Agreement – The Company recorded in fiscal year 2008 a liability for a common stock put agreement (see Note 13—PSC Settlement). The Company utilized the Black-Scholes method to determine the fair value of the put agreement, taking the fair market value of the common stock, time to expiration of the put agreement, volatility of the common stock and the risk-free interest rate over the term of the put agreement as part of the fair market valuation. The Company recorded in fiscal year 2008 an expense for the fair value of the put agreement granted as part of the legal settlement with the PSC Parties. On September 9, 2008 (fiscal year 2009), the Company recorded the final settlement of the related liability.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign Currency Translation – The assets and liabilities of the Company's foreign operations are primarily translated to U.S. dollars when the functional currency in our international subsidiaries is the local currency, which in many cases is not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to 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 in currencies other than the functional currency of the respective entity are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including repatriation of funds, which are included as a part of costs of goods sold in the consolidated statements of income, for the first three months of fiscal years 2010 and 2009 were approximately $383,000 and ($541,000), respectively.

Stock-Based Compensation – As of November 30, 2009, the Company had four stock-based employee compensation plans which it accounts for by applying the valuation technique based on the Black-Scholes model. As part of the valuation, the Company estimates forfeitures in calculating the expense relating to stock-based compensation as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur. The Company records as additional paid-in capital the tax savings resulting from tax deductions in excess of expense, based on the Tax Law Ordering method. In addition, the Company reflects the tax savings resulting from tax deductions in excess of expense as a financing cash flow in its consolidated statement of cash flows, rather than as an operating cash flow.

Income Taxes – The Company is 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 international 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 income tax positions taken by the Company ("uncertain tax positions") and, therefore, require the Company to pay additional taxes. As required under applicable accounting rules, the Company accrues an amount for its estimate of additional income tax liability, including interest and penalties, which the Company could incur as a result of the ultimate or effective resolution of the uncertain tax positions. The Company reviews and updates the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events.

The Company accounts for uncertain income tax positions by accruing for the estimated additional amount of taxes for the uncertain tax positions when the uncertain tax position does not meet the more likely than not standard for sustaining the position.

As of November 30, 2009 and August 31, 2009, the Company had $13.6 million and $13.9 million, respectively, of aggregate accruals for uncertain tax positions ("gross unrecognized tax benefits"). Of these totals, $2.1 million and $2.0 million, respectively, represent the amount of net unrecognized tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period.

The Company records the aggregate accrual for uncertain tax positions as a component of current or long-term income taxes payable and the offsetting amounts as a component of the Company's net deferred tax assets and liabilities. These liabilities are generally classified as long-term even if the underlying statute of limitation will expire in the following twelve months. The Company classifies these liabilities as current if it expects to settle them in cash in the next twelve months. As of November 30, 2009 and August 31, 2009, the Company did not expect to make cash payments for these liabilities in the respective following 12 months.

The Company expects changes in the amount of unrecognized tax benefits in the next twelve months as the result of a lapse in various statutes of limitations. For the quarter ended November 30, 2009, the Company reduced the long-term income tax payable and recorded a reduction in the income tax expense as the result of a lapse in the underlying statute of limitations totaling $49,000. The lapse of statutes of limitations in the twelve-month period ending November 30, 2010 would result in a reduction to long-term income taxes payable totaling $954,000.

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense in the long-term income tax payable caption on the consolidated balance sheets. As of November 30, 2009 and August 31, 2009, the Company had accrued $1.5 million and $1.4 million, respectively, for the payment of interest and penalties.

The Company has various audits and appeals pending in foreign jurisdictions. The Company does not anticipate that any adjustments from these audits and appeals would result in a significant change to the results of operations, financial conditions or liquidity.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Tax expense for the first quarter of fiscal year 2010 was $5.4 million on pre-tax income of $15.8 million, as compared to $3.6 million of tax expense on pre-tax income of $14.4 million for the first quarter of fiscal year 2009. The effective tax rate for the first quarter of fiscal year 2010 is 34.1% as compared to 25.3% for the first quarter of fiscal year 2009. The increase in the effective tax rate is primarily attributable to the following factors: (i) during the first quarter of fiscal year 2010, as compared to the first quarter of fiscal year 2009, there was a significant increase in U.S. pre-tax income relative to non-U.S. pre-tax income, which is taxed at a statutory rate that is generally 4% to 9% higher than the foreign statutory tax rates; and (ii) the Company reversed approximately $49,000 of previously accrued income tax liability for uncertain tax positions due to a lapse in various statues of limitations in the first quarter of fiscal year 2010, as compared to a reversal of approximately $1.0 million in the first quarter of fiscal year 2009.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities in its major jurisdictions except for the fiscal years subject to audit as set forth in the table below:

Tax Jurisdiction	Fiscal Years Subject to Audit
U.S. federal	1995 through 1998, 2000 through 2001, and 2005 through 2009
California (U.S.)	2000 through 2001 and 2005 to the present
Florida(U.S.)	2000 through 2001 and 2005 to the present
Aruba	2002 to the present
Barbados	2000 to the present
Costa Rica	2006 to the present
Dominican Republic	2006 to the present
El Salvador	2006 to the present
Guatemala	2005 to the present
Honduras	2005 to the present
Jamaica	2003 to the present
Mexico	2006 to the present
Nicaragua	2006 to the present
Panama	2006 to the present
Trinidad	2003 to the present
U.S. Virgin Islands	2001 to the present

Recent Accounting Pronouncements –

FASB ASC 105

In June 2009, the FASB established the FASB Accounting Standards Codification ("ASC" or the "Codification"). The Codification supersedes all existing accounting standard documents and will become the single source of authoritative non-governmental U.S. GAAP. All other accounting literature not included within the Codification will be considered non-authoritative. The Company adopted the Codification effective September 1, 2009. The adoption of the Codification did not have a material effect on the Company's financial position or results of operations.

FASB ASC 810

In June 2009, the FASB issued guidance that amends and replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity and requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. It also requires the elimination of the quantitative approach for determining the primary beneficiary of a variable interest entity and amends certain guidance for determining whether an entity is a variable interest entity requiring enhanced disclosure that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. The Company is required to adopt this guidance as of the beginning of its first annual reporting period that begins on September 1, 2010 (fiscal year 2011) and for all subsequent interim and annual periods. The adoption of the standard is not expected to have a material impact on its consolidated financial statements.

FASB ASC 855

In May 2009, the FASB issued guidance which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this guidance as of August 31, 2009. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

FASB ASC 820

In April 2009, the FASB amended guidance on determining the fair value of assets and liabilities when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. In addition, the FASB set the effective date of guidance for FASB ASC 820 for the recognition and presentation of other than temporary impairments and interim disclosure about fair value of financial instruments. The Company adopted the guidance in the fourth quarter of fiscal year 2009. The adoption of this guidance did not have a material impact on the Company's consolidated financial condition and results of operations.

FASB ASC 825

In April 2009, the FASB amended guidance on interim disclosures related to the fair value of financial instruments, which the Company adopted on a prospective basis beginning June 30, 2009. This guidance extends the disclosure requirements to interim financial statements of publicly traded companies, and requires the inclusion of those disclosures in summarized financial information at interim reporting periods. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

FASB ASC 323

In October 2008, the FASB amended guidance on Equity Method Investment Accounting Considerations. The objective of this guidance is to clarify how to account for certain transactions involving equity method investments. These transactions are the initial investment, decrease in investment value and change in ownership or degree of influence. The Company was required to adopt this amended guidance on a prospective basis beginning on September 1, 2009. Because this guidance relates specifically to transactions for which the Company accounted for the transactions as required by the guidance or for transactions that were not applicable to the Company, there was no impact on the Company's consolidated financial statements as a result of the adoption of this guidance.

FASB ASC 260

In June 2008, the FASB issued guidance on determining whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method. The two-class method of computing EPS is an earnings allocation formula that determines EPS 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. The terms of the Company's restricted stock awards and restrictive stock units provide a non-forfeitable right to receive dividend equivalent payments on unvested awards, whether paid, or unpaid. As such, these awards are considered participating securities under the new guidance. Effective September 1, 2009, the Company adopted this guidance and applied such guidance retrospectively to all periods presented (see Note 5 - Earnings Per Share).

FASB ASC 815

In March 2008, the FASB issued guidance requiring enhanced disclosures regarding derivative instruments and hedging activities. This guidance requires enhanced disclosures about an entity's derivative and hedging activities including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. The Company adopted this guidance beginning December 1, 2008. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

FASB ASC 805

In December 2007, the FASB changed the requirements for an acquirer's recognition and measurement of the assets acquired and liabilities assumed in a business combination, including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. The Company adopted this guidance prospectively effective September 1, 2009. The Company has not entered into any business combinations subsequent to adoption.

FASB ASC 810

In December 2007, the FASB amended existing guidance requiring that noncontrolling ("minority") interests be reported as a component of equity, that net income attributable to the parent and to the noncontrolling interest be separately identified in the income statement, that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and that any retained noncontrolling equity investment be initially measured at fair value upon the deconsolidation of a subsidiary. The Company adopted these new requirements retrospectively to prior periods at the beginning of its first quarter of fiscal year 2010.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 3 – DISCONTINUED OPERATIONS

In accordance with FASB guidance on accounting for the impairment or disposal of long-lived assets the accompanying consolidated financial statements reflect the results of operations and financial position of the Company's activities in the Philippines and Guam as discontinued operations. As a result of the closure of the Guam operations in December 2003, the Company included the results of operations from Guam in the asset impairment and closure costs line of the consolidated statements of income through May 2005. Since the sale of the Philippine operations in August 2005, the results of the Philippine and Guam activities have been consolidated in the discontinued operations line of the consolidated statements of income. Management views these activities as one activity managed under a shared management structure. Cash flow activities related to the Guam discontinued operations' leased property will terminate in August 2011, which is the end date of the lease term.

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

	November 30, 2009	August 31, 2009
Cash and cash equivalents	$ 143	$ 28
Accounts receivable, net	223	223
Prepaid expenses and other current assets	43	46
Other assets	538	603
Assets of discontinued operations	$ 947	$ 900
Other accrued expenses	$ 121	$ 299
Liabilities of discontinued operations	$ 121	$ 299

The Company's former Guam operation has a deferred tax asset of $2.6 million, primarily generated from NOLs. This deferred tax asset has a 100% valuation allowance, as the Company currently has no plans that would allow it to utilize these losses. Additionally, a significant portion of these losses are limited as to future use due to the Company's Section 382 change of ownership in October 2004.

The following table sets forth the income (loss) from discontinued operations for each period presented (in thousands):

	Three Months Ended November 30, 2009	2008
Net warehouse club sales	$ —	$ —
Pre-tax income (loss) from operations	9	(19)
Income tax (provision) benefit	—	—
Net income (loss)	$ 9	$ (19)

The net income (loss) from discontinued operations for the three months ended November 30, 2009 and 2008 of approximately $9,000 and $(19,000), respectively, is the net result of the subleasing activity in Guam.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 4 – PROPERTY AND EQUIPMENT

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

	November 30, 2009	August 31, 2009
Land	$74,564	$74,506
Building and improvements	141,977	139,639
Fixtures and equipment	83,672	80,680
Construction in progress	19,745	16,253
Total property and equipment, historical cost	319,958	311,078
Less: accumulated depreciation	(83,101)	(79,280)
Property and equipment, net	$236,857	$231,798

Building and improvements includes net capitalized interest of approximately $1.4 million as of both November 30, 2009 and August 31, 2009. Construction in progress includes capitalized interest of $931,000 and $595,000 for the fiscal periods ended November 30, 2009 and August 31, 2009, respectively. For the three month period ended November 30, 2009 and the twelve month period ended August 31, 2009, the Company recorded approximately $126,000 and $2.9 million, respectively, in translation adjustments that reduced the carrying value of the total property and equipment.

The Company continued with the development of new warehouse club sites and the expansion of existing warehouse clubs in Central America and the Caribbean. Construction costs within these two segments for the three months ended November 30, 2009 were approximately $1.8 million and $3.4 million, respectively. In addition, the Company continued to acquire fixtures and equipment for new warehouse club sites, the expansion of existing warehouse clubs and corporate offices in Central America, the Caribbean and the United States. The Company acquired fixtures and equipment for approximately $1.5 million, $1.4 million and $34,000, respectively, in these segments for the three months ended November 30, 2009. The Company acquired approximately $574,000 of software and computer hardware during the three months ended November 30, 2009.

The Company continued with the development of new warehouse club sites, the expansion of existing warehouse clubs and warehouse distribution center expansions in Central America, the Caribbean and the United States. Construction costs and additions of fixtures and equipment within these segments for the three months ended November 30, 2008 were approximately $4.2 million, $2.2 million and $1.2 million, respectively.

On September 24, 2008, PriceSmart acquired 13,162 square meters of real estate in Panama City, Panama, upon which the Company plans to construct and relocate an existing PriceSmart warehouse club. Typically, PriceSmart land requirements are approximately 20,000 square meters; however, the new Panama City location will be constructed on two levels, with parking at grade level and the building on the second level. The existing PriceSmart warehouse club in Panama City, Panama (known as the Los Pueblos Club) will be relocated to this new site, and the Company will thereby continue to operate four warehouse clubs in Panama. It is currently anticipated that the new PriceSmart warehouse club will open in the spring of 2010. Additionally, on September 29, 2008 PriceSmart acquired 21,576 square meters of real estate in Alajuela, Costa Rica (near San Jose), upon which the Company constructed a new PriceSmart warehouse club, which is the Company's fifth in Costa Rica. The new PriceSmart warehouse club opened in April of fiscal year 2009. These acquisitions were recorded as property within the following countries (in thousands):

Land Costa Rica	$	3,724
Land Panama		2,856
Total land acquired	$	6,580

Depreciation expense for the first three months of fiscal years 2010 and 2009 was approximately $3.6 million and $3.0 million, respectively.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 5 – EARNINGS PER SHARE

Basic net income per share is computed by dividing the net income attributable to PriceSmart for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to PriceSmart for the period by the weighted average number of common and common equivalent shares outstanding during the period. The Company excludes stock options from the calculation of diluted net income per share when the combined exercise price, average unamortized fair values and assumed tax benefits upon exercise are greater than the average market price for the Company's common stock because their effect is anti-dilutive.

Effective September 1, 2009, the Company adopted FASB guidance which addresses whether instruments granted in share-based payment transactions are participating securities and, therefore, have a potential dilutive effect on earnings per share ("EPS"). This guidance was applied retrospectively to all periods presented. The following table sets forth the computation of net income per share for the three months ended November 30, 2009 and 2008 (in thousands, except per share amounts):

	Three Months Ended					
	November 30, 2009			November 30, 2008		
	Income	Weighted Average Shares Outstanding	Per Share Amount	Income	Weighted Average Shares Outstanding	Per Share Amount
Net income from continuing operations attributable to PriceSmart	$10,368			$10,717		
Less:						
Earnings allocated to unvested stockholders	(218)			(271)		
Basic EPS						
Distributable Income available to stockholders	10,150	29,105	$0.35	10,446	28,860	$0.36
Effect of Dilutive Securities						
Add Back:						
Undistributed earnings allocated to unvested stockholders (two-class method)	218			271		
Stock Options		58			104	
Less:						
Undistributed earnings reallocated to unvested stockholders (two-class method)	(218)			(270)		
Diluted EPS – common shares	$10,150	29,163	$0.35	10,447	28,964	$0.36

Basic and fully diluted EPS from discontinued operations attributable to PriceSmart for the periods November 30, 2009 and 2008 was $0.00 per share.

In previously reported periods, diluted net income (loss) per share was computed using the treasury stock method to calculate the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. This method resulted in diluted income per share of $0.37 for the period ended November 30, 2008, compared to $0.36 currently being reported for the same period under the new methodology.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 6 – EQUITY

Dividends

On January 29, 2009, the Company's Board of Directors declared a cash dividend in the total amount of $0.50 per share, of which $0.25 per share was paid on February 27, 2009 to stockholders of record as of the close of business on February 13, 2009 and $0.25 per share was paid on August 31, 2009 to stockholders of record as of the close of business on August 14, 2009.

On January 24, 2008, the Company's Board of Directors declared a cash dividend in the total amount of $0.32 per share, of which $0.16 per share was paid on April 30, 2008 to stockholders of record as of the close of business on April 15, 2008 and $0.16 per share was paid on October 31, 2008 to stockholders of record as of the close of business on October 15, 2008.

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.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss reported on the Company's consolidated balance sheets consists of foreign currency translation adjustments of approximately $16.6 million and approximately $16.8 million and unrealized losses on interest rate swaps (net of tax) of approximately $535,000 and $464,000 as of November 30, 2009 and August 31, 2009, respectively. The favorable translation adjustments during the three months ended November 30, 2009 were primarily due to a weaker U.S. dollar. The unfavorable translation adjustments during the twelve months ended August 31, 2009 were primarily due to weaker foreign currencies.

Retained Earnings Not Available for Distribution

As of November 30, 2009 and August 31, 2009, retained earnings include legal reserves of approximately $2.4 million and $2.2 million, respectively, at various subsidiaries, which cannot be distributed as dividends to PriceSmart, Inc. according to applicable statutory regulations.

NOTE 7 – STOCK OPTION AND EQUITY PARTICIPATION PLANS

In August 1997, the Company adopted the 1997 Stock Option Plan of PriceSmart, Inc. (the "1997 Plan") for the benefit of its eligible employees, consultants and independent directors. Under the 1997 Plan, 700,000 shares of the Company's common stock are authorized for issuance.

The Compensation Committee of the Board of Directors administers the 1997 Plan with respect to options granted to employees or consultants of the Company, and the full Board of Directors administers the Plan with respect to director options. Options issued under the 1997 Plan typically vest over five years and expire in six years.

In July 1998, the Company adopted the 1998 Equity Participation Plan of PriceSmart, Inc. (the "1998 Plan") for the benefit of its eligible employees, consultants and independent directors. The 1998 Plan authorizes 700,000 shares of the Company's common stock for issuance. Options issued under the 1998 Plan typically vest over five years and expire in six years. The 1998 plan also allows restricted stock awards, which typically vest over five years.

In November 2001, the Company adopted the 2001 Equity Participation Plan of PriceSmart, Inc. (the “2001 Plan”) for the benefit of its eligible employees, consultants and independent directors. The 2001 Plan initially authorized 350,000 shares of the Company’s common stock for issuance. On April 17, 2008 the Board of Directors approved an amendment to the 2001 Plan to authorize the award of restricted stock units to independent directors, subject to approval of the amendment by the Company’s stockholders at the next annual meeting of stockholders. The Board also awarded restricted stock units to the independent directors which vest at the rate of 20% per year commencing on March 29, 2008, subject to stockholder approval of the amendment. On January 28, 2009, the stockholders of the Company approved an amendment to the 2001 equity participation plan expanding the eligibility provisions under the plan to permit the award of restricted stock units to non-employee directors and authorizing an increase to the number of shares of common stock reserved for issuance from 350,000 to 400,000. Options issued under the 2001 Plan typically vest over five years and expire in six years. The 2001 plan also allows restricted stock awards, which typically vest over five years.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In November 2002, the Company adopted the 2002 Equity Participation Plan of PriceSmart, Inc. (the "2002 Plan") for the benefit of its eligible employees, consultants and independent directors. The 2002 Plan initially authorized 250,000 shares of the Company's common stock for issuance. At the 2006 Annual Meeting, the stockholders of the Company approved a proposal to amend the 2002 Equity Participation Plan of PriceSmart, Inc. to increase the number of shares of Common Stock reserved for issuance under the 2002 Plan from 250,000 to 750,000 (the "Amendment"). On January 28, 2009, the stockholders of the Company approved an amendment to the 2002 equity participation plan increasing the number of shares of common stock reserved for issuance from 750,000 to 1,250,000. Options issued under the 2002 Plan typically vest over five years and expire in six years. The 2002 plan also allows restricted stock awards, which typically vest over five years.

The following table summarizes the components of the stock-based compensation expense for the three months ended November 30, 2009 and 2008 (in thousands), which are included in general and administrative expenses and warehouse expenses in the consolidated statements of income:

	Three Months Ended November 30,	
	2009	2008
Options granted to employees and directors	$ 10	$ 27
Restricted stock grants	744	746
Restricted stock units	16	—
Stock-based compensation expense	$ 770	$ 773

The following table summarizes stock options outstanding as of November 30, 2009, as well as the activity during the first quarter then ended:

	Shares	Weighted Average Exercise Price
Shares subject to outstanding options at August 31, 2009	$ 179,998	$ 10.02
Granted	—	—
Exercised	(59,150)	6.20
Forfeited or expired	—	—
Shares subject to outstanding options at November 30, 2009	$ 120,848	$ 11.89

As of November 30, 2009, options to purchase 120,848 shares were outstanding and 625,772 shares were available for future grants. The following table summarizes information about stock options outstanding and options exercisable as of November 30, 2009:

Range of Exercise Prices	Outstanding as of November 30, 2009	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price on Options Outstanding	Options Exercisable as of November 30, 2009	Weighted-Average Exercise Price on Options Exercisable as of November 30, 2009
$ 6.13 – $8.90	85,848	0.53	$ 6.40	83,848	$ 6.36
	13,000	3.86	16.15	3,800	16.14

	8.91 – 20.00						
	20.01 – 39.00	22,000	2.08		30.77	15,600	33.70
$	6.13 – $39.00	120,848	1.17	$	11.89	103,248	$ 10.86

The aggregate intrinsic value and weighted average remaining contractual term of options exercisable at November 30, 2009 was approximately $1.1 million and 0.69 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of options outstanding at November 30, 2009 was approximately $1.1 million and 1.2 years, respectively.

The Company began issuing restricted stock grants in fiscal year 2006 and restricted stock units in fiscal year 2008. The restricted stock grants and units vest over a five year period and are forfeited if the employee or non-employee Director leaves the Company before the vesting period is completed. Restricted stock grants and units activity for the three months ended November 30, 2009 and 2008 was as follows:

	Three Months Ended November 30,	
	2009	2008
Grants outstanding at August 31,	618,250	748,860
Granted	14,800	—
Cancelled	(3,274)	(1,150)
Vested	(112)	—
Grants outstanding at November 30,	629,664	747,710

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The remaining unrecognized compensation cost related to unvested options, restricted stock grants and restricted stock units at November 30, 2009 and 2008 was approximately $7.2 million and $9.1 million, respectively, and the weighted-average period of time over which this cost will be recognized is 3.0 years and 3.7 years, respectively. The excess tax benefit on stock-based compensation related to options, restricted stock grants and restricted stock units for the three months ended November 30, 2009 and 2008 was approximately $62,000 and $2,000, respectively.

Cash proceeds from stock options exercised and the intrinsic value related to total stock options exercised during the three months ended November 30, 2009 and 2008 are summarized in the following table (in thousands):

	Three Months Ended November 30,		
		2009	2008
Proceeds from stock options exercised	$	346	—
Intrinsic value of stock options exercised	$	768	—

During the three months ended November 30, 2009, the Company repurchased 34 shares of common stock from employees for approximately $1,000, based on the stock price at the date of repurchase to cover the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock grants. The Company expects to continue this practice going forward. The Company did not repurchase shares of common stock from employees during the three months ended November 30, 2008.

NOTE 8 – ASSET IMPAIRMENT AND CLOSURE COSTS FOR CONTINUING OPERATIONS

During fiscal year 2003, the Company closed two warehouse clubs, one each in the East Side Santo Domingo, Dominican Republic and Guatemala Plaza, Guatemala. The decision to close the warehouse clubs resulted from the determination that the locations were not conducive to the successful operation of a PriceSmart warehouse club. In fiscal year 2007, the Company sold the East Side Santo Domingo, Dominican Republic location for the approximate book value of $2.5 million. As part of the sale, the Company assumed notes receivable for a total of approximately $2.2 million. During fiscal year 2009, the Company finalized an agreement on June 3, 2009 to transfer all rights and obligations as landlord for the property where the former Guatemala Plaza warehouse club was located. The lease liability as of May 31, 2009 was approximately $3.8 million. Cash paid for lease buy out was $3.1 million and gain on the lease buy out was recorded for approximately $651,000. The Company also recorded during fiscal year 2009 approximately $144,000 in interest income and the receipt of payment on the note issued for the sale of the East Side Santo Domingo, Dominican Republic location. The total gain on closure costs recorded in fiscal year 2009 for the two closed warehouse clubs was $418,000. With the transfer of the sublease and the payment of the note receivable, the Company will not record any closure costs related to these two closed locations in fiscal year 2010. Accordingly, the Company recorded no closure cost during the first three months of fiscal year 2010. The Company recorded approximately $253,000 in closure costs during the first three months of fiscal year 2009. These were related to the Guatemala Plaza lease and other costs associated with the closure of the Guatemala and Dominican Republic club warehouse locations. For the first three months of fiscal year 2009, the Company recorded a credit for impairment charges of approximately ($5,000) due to the sale of previously impaired bulk packaging equipment. The Company did not record any impairment charges for the first three months of fiscal year 2010.

NOTE 9 – LEASES

The Company is committed under non-cancelable operating leases for rental of facilities and land. These leases expire or become subject to renewal between February 28, 2011 and July 5, 2031.

As of November 30, 2009, the Company's warehouse clubs occupied a total of approximately 1,672,370 square feet of which 420,647 square feet were on leased property. The following is a summary of the warehouse clubs and Company facilities located on leased property:

Location (1)	Facility Type	Date Opened	Approximate Square Footage	Current Lease Expiration Date	Remaining Option(s) to Extend
Via Brazil, Panama	Warehouse Club	December 4, 1997	68,696	October 31, 2026	10 years
Miraflores, Guatemala	Warehouse Club	April 8, 1999	66,059	December 31, 2020	5 years
Pradera, Guatemala	Warehouse Club	May 29, 2001	48,438	May 28, 2021	none
Tegucigalpa, Honduras	Warehouse Club	May 31, 2000	64,735	May 30, 2020	none
Oranjestad, Aruba	Warehouse Club	March 23, 2001	64,627	March 23, 2021	10 years
Port of Spain, Trinidad	Warehouse Club	December 5, 2001	54,046	July 5, 2031	none
St. Thomas, U.S.V.I.	Warehouse Club	May 4, 2001	54,046	February 28, 2020	10 years
Barbados	Storage Facility	May 5, 2006	4,800	May 31, 2011	1 year
Chaguanas, Trinidad	Employee Parking	May 1, 2009	4,944	April 30, 2024	none
San Diego, CA	Corporate Headquarters	April 1, 2004	35,000	March 31, 2011	5 years
Miami, FL	Distribution Facility	March 1, 2008	200,709	August 31, 2018	10 years
Miami, FL	Distribution Facility	September 1, 2001	36,575	February 28, 2011	none

(1) The former club located in Guam is not included; this warehouse club was closed in fiscal year 2004. The land and building are currently subleased to a third-party.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the components of rental expense charged for operating leases of open locations for each of the three months ended November 30, 2009 and 2008 (in thousands):

	Three Months Ended November 30,	
	2009	2008
Minimum rental payments	$1,695	$1,631
Deferred rent accruals	110	133
Total straight line rent expense	1,805	1,764
Contingent rental payments	356	328
Rental expense	$2,161	$2,092

Future minimum lease commitments for facilities under these leases with an initial term in excess of one year are as follows (in thousands):

Periods Ended November 30,	Open Locations (1)
2010	$6,569
2011	5,674
2012	5,539
2013	5,626
2014	5,674
Thereafter	49,326
Total (2)	$78,408

(1) Operating lease obligations have been reduced by approximately $648,000 to reflect sub-lease income.

(2) The total excludes payments for the discontinued operations in Guam. The projected minimum payments excluded for Guam are approximately $1.6 million; however, sublease income for this location is projected to be approximately $2.1 million, yielding no net projected obligation.

Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

The following table summarizes the components of rental income recorded for operating leases for the first three months of fiscal years 2010 and 2009 (in thousands):

	Three Months Ended November 30,	
	2009	2008
Minimum rental income	$ 604	$ 647
Deferred rent income	16	297 (1)
Total straight line rent income	620	944
Contingent rental income	25	