PRICESMART INC
Form 10-K
October 30, 2014

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

FORM 10-K
(Mark One)
xANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2014

OR

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

Commission File Number: 000-22793

PRICESMART, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	33-0628530
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9740 SCRANTON RD, SAN DIEGO, CA 92121
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (858) 404-8800

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.0001 Par Value

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes þ   No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.   Yes ¨   No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant as of the last day of the Registrant's most recently completed second fiscal quarter was $2,135,822,367 based on the last reported sale price of $101.73 per share on the NASDAQ Global Select Market on February 28, 2014.

As of October 17, 2014, 30,209,917 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report for the fiscal year ended August 31, 2014 are incorporated by reference into Part II of this Form 10-K.

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 3, 2015 are incorporated by reference into Part III of this Form 10-K.

PRICESMART, INC.

ANNUAL REPORT ON FORM 10-K FOR
THE FISCAL YEAR ENDED AUGUST 31, 2014

TABLE OF CONTENTS

PART I

Item 1. Business

General

This Form 10-K contains forward-looking statements concerning PriceSmart, Inc.'s (“PriceSmart”,"we", or the “Company”) anticipated future revenues and earnings, adequacy of future cash flow, projected warehouse club openings, the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words “expect,” “believe,” “will,” “may,” “should,” “project,” “estima “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 from the statements, including foreign exchange risks, political or economic instability of host countries, and competition, as well as those risks described in the Company's U.S. Securities and Exchange Commission reports, including the risk factors referenced in this Form 10-K. See Part I, Item 1A “Risk Factors.”

Our Company

PriceSmart owns and operates U.S.-style membership shopping warehouse clubs in Latin America and the Caribbean that offer high quality brand name and private label consumer goods at low prices to individuals and businesses. Our typical no-frills warehouse club-type buildings range in size from 48,000 to 100,000 square feet and are located primarily in and around the major cities in our markets to take advantage of dense populations and relatively higher levels of disposable income. During fiscal year 2014, average net sales per warehouse club were approximately $74.1 million. By offering our members high quality merchandise at competitive prices, we seek to reinforce the value of a PriceSmart membership. We also seek to provide above market and fair wages and benefits to all of our employees as well as a fair return to our stockholders.

Our warehouse clubs operate in developing markets that generally have had higher growth rates and lower warehouse club market penetration than in the U.S. market. In the countries in which we operate we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers, specialty stores and traditional wholesale distribution.

The numbers of warehouse clubs in operation as of August 31, 2014 for each country or territory were as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2014	Number of Warehouse Clubs in Operation as of August 31, 2013	Anticipated warehouse club openings in fiscal year 2015
Colombia	3	3	3
Panama	4	4	1
Costa Rica	6	5	—
Dominican Republic	3	3	—
Guatemala	3	3	—
El Salvador	2	2	—
Honduras	3	2	—
Trinidad	4	4	—
Aruba	1	1	—

Barbados	1	1	—
U.S. Virgin Islands	1	1	—
Jamaica	1	1	—
Nicaragua	1	1	—
Totals	33	31	4

1

During October of fiscal year 2014, we opened our sixth membership warehouse club in Costa Rica in La Union, Cartago, and in May of fiscal year 2014, we opened our third warehouse club in Honduras in Tegucigalpa, our second in the capital city of Tegucigalpa. In January of fiscal year 2014, we acquired land in the southern area of Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. We are building new warehouse clubs at these three sites, and opened the Bogota location on October 29, 2014 and plan to open the other two sites in November 2014. In September 2014, we acquired land in Chorrera ("Costa Verde"), west of Panama City, Panama, on which our fifth Panama PriceSmart warehouse club is scheduled to open in the summer of 2015.

Our Competitive Strengths

We attribute our success in large part to the following competitive strengths:

High Quality, Differentiated Merchandise. The average sales across all of our warehouse clubs are comprised of approximately 52% U.S. and other internationally sourced merchandise and approximately 48% locally sourced merchandise. The high proportion of products that we import into our markets, particularly the brand-name products, differentiates us from most local retailers. In addition, the merchandise we carry, imported or locally sourced, branded or private label, is high quality and value priced.

Focus on membership. As of August 31, 2014, we had approximately 1.2 million member accounts and 2.3 million card holders. Membership fees enable us to operate our business on lower margins than conventional retail and wholesalers. Membership also reinforces customer loyalty. In turn, we enhance the value of a PriceSmart membership by selling unique and exciting merchandise at low prices along with other valuable services such as our co-branded credit card, on-line shopping, and at our food courts, high quality meals at a low cost. In the last twelve months, we have had an 84% renewal rate of our members, similar to that experienced by the major U.S. warehouse club operators.

Scalable operations and efficient distribution network. Our logistics and distribution operations are an important factor that contributes to our low cost of operations. Our primary distribution center is a 275,000 square foot warehouse located in Miami, Florida, strategically situated to service our markets. Products are shipped from suppliers throughout the world to our Miami distribution center. These products are then sorted and cross docked to containers for shipment to PriceSmart locations. More recently, we have opened distribution centers in certain of our high volume markets to improve in stocks on high volume products. In fiscal year 2014, we shipped over $1.0 billion of merchandise from the U.S. to twelve countries and one U.S. territory. Our existing infrastructure, including our management systems and distribution network, are scalable which allows us to support future sales growth and the addition of warehouse clubs in the Latin America and Caribbean markets, particularly the Colombia market.

Experienced management team with proven track record. We believe that our senior management team’s extensive experience in the warehouse club industry, which in some cases goes back to the Price Club, provides us with a competitive advantage. All of our executive officers have been with us since at least 2004, providing operational stability across the organization. The combined warehouse experience of our seven executive officers is over 185 years.

Our Growth Strategy

We are pursuing several strategies to continue our growth, including:

Increase sales and continue to leverage operating costs. Our operating efficiencies, earnings and cash flow from operations improve as sales increase. Increased sales provide greater purchasing power and often result in lower product prices from our suppliers. We are focused on increasing sales and profits in our existing warehouse clubs by attracting new members and increasing sales to existing members by stocking high quality and exciting merchandise. We are also making improvements in buildings and equipment to increase the capacity of our warehouse clubs to handle more merchandise and transactions and to enhance the shopping experience of our members. Increased sales also allows us to leverage our selling and general and administrative expenses, which allows us to further reduce prices of our merchandise to our members. During fiscal year 2014, we invested approximately $35.6 million in improvements to existing clubs.

Add new warehouse clubs. We continue to look for opportunities to open additional PriceSmart warehouse club locations in our Latin America and Caribbean markets. We believe that the Colombia market offers expansion opportunities in addition to the six PriceSmart warehouse clubs that will be in operation by the end of calendar 2015. In our Central America and Caribbean countries, where we have been operating for at least eleven years, we plan to open new warehouse clubs as the those economies grow. For example, during fiscal year 2014, we opened our third warehouse club in Honduras and our sixth membership warehouse club in Costa Rica. In September 2014, we acquired land for a fifth warehouse club in Panama.

Although we have entered into real estate leases in the past and will likely do so in the future, our preference is to own rather than lease real estate. Real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. In order to secure warehouse club locations, we occasionally have to purchase more land than is actually needed for the warehouse club facility. To the extent that we acquire property in excess of what is needed for a particular warehouse club, we generally plan to either sell or develop the excess property.

Our Membership Policy

We offer three types of memberships: Business, Diamond (individual), and in Costa Rica Platinum (individual) memberships. Businesses qualify for Business membership. We promote Business membership through our marketing programs and by offering certain merchandise targeted primarily to businesses such as restaurants, hotels, convenience stores, offices and institutions. Business members pay an annual membership fee of approximately the equivalent of $30 for a primary and secondary membership card and approximately $10 for additional add-on membership cards.

The Diamond membership is targeted at individuals and families. The annual fee for a Diamond membership in most markets is approximately $35 (entitling members to two cards). We increased the fee in June 2012 from approximately $30.

In October 2012, we launched the Platinum membership account in Costa Rica. Platinum members pay an annual membership fee of approximately $75.00 for a primary membership card for which they receive an annual 2% rebate of their purchases on most items, up to a maximum annual rebate of $500.00. We are currently evaluating the Platinum membership program to determine if we should offer the Platinum membership in our other markets.

We recognize membership income over the 12-month term of the membership. Deferred membership income is presented separately on the consolidated balance sheet and totaled $17.9 million and $16.5 million as of August 31, 2014 and August 31, 2013, respectively. Our membership agreements provide that our members may cancel their membership and may receive a refund of the prorated share of their remaining membership fee if they so request.

Our Intellectual Property Rights

It is our policy to obtain appropriate proprietary rights protection for trademarks by filing applications for registration of eligible trademarks with the U.S. Patent and Trademark Office and in certain foreign countries. We rely on copyright and trade secret laws to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through agreements with our employees, consultants and suppliers and other similar measures. There can be no assurance, however, that we will be successful in protecting our proprietary rights. While management believes that our trademarks, copyrights and other proprietary know-how have significant value, changing technology and the competitive marketplace make our future success dependent principally upon our employees’ technical competence and creative skills for continuing innovation.

3

In August 1999, we entered into an agreement with Associated Wholesale Grocers, Inc. ("AWG") regarding the trademark "PriceSmart" and related marks containing the name "PriceSmart." We agreed not to use the "PriceSmart" mark or any related marks containing the name "PriceSmart" in connection with the sale or offer for sale of any goods or services within AWG's territory of operations, including the following ten states: Kansas, Missouri, Arkansas, Oklahoma, Nebraska, Iowa, Texas, Illinois, Tennessee and Kentucky. We, however, may use the mark "PriceSmart" or any mark containing the name "PriceSmart" on the internet or any other global computer network whether within or outside such territory, and in any national advertising campaign that cannot reasonably exclude the territory, and we may use the mark in connection with various travel services. AWG has agreed not to oppose any trademark applications filed by us for registration of the mark "PriceSmart" or related marks containing the name "PriceSmart," and AWG has further agreed not to bring any action for trademark infringement against us based upon our use outside the territory (or with respect to the permitted uses inside the territory) of the mark "PriceSmart" or related marks containing the name "PriceSmart."

Our Competition

Our international merchandising business competes with a wide range of international, regional, national and local retailers, and traditional wholesale distributors. Our industry is highly competitive, based on factors such as price, merchandise quality and selection, warehouse location and member service. Some of our competitors may have greater resources, buying power and name recognition. In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do 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. We have competed effectively in these markets in the past and expect to continue to do so in the future due to the unique nature of the membership warehouse club format. We have noted that certain retailers are making investments in upgrading their locations within our markets. These actions may result in increased competition within our markets. Further, it is possible that additional U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format.

Our Employees

As of August 31, 2014, we had a total of 6,772 employees. Approximately 95% of our employees were employed outside of the United States, and approximately 1,825 employees are represented by Unions. All remaining employees are non-union. We consider our employee relations to be very good.

Seasonality

Historically, our merchandising businesses have experienced holiday retail seasonality in our markets. In addition to seasonal fluctuations, our operating results fluctuate quarter-to-quarter as a result of economic and political events in our markets, the timing of holidays, weather, the timing of shipments, product mix, and currency effects on the cost of U.S.-sourced products which may make these products more or less expensive in local currencies and therefore more or less affordable. Because of such fluctuations, the results of operations of any quarter are not indicative of the results that may be achieved for a full fiscal year or any future quarter. In addition, there can be no assurance that our future results will be consistent with past results or the projections of securities analysts.

Working Capital Practices

Information about our working capital practices is incorporated herein by reference to Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Financial Information about Segments and Geographic Areas

Financial information about segments and geographic areas is incorporated herein by reference to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations--Net Warehouse Club Sales by Segments” and Part II, Item 8 “Financial Statements and Supplementary Data Segment: Notes to Financial Statements, Note 15-Segments.”

Other Information

PriceSmart, Inc. was incorporated in the State of Delaware in 1994. Our principal executive offices are located at 9740 Scranton Road, San Diego, California 92121. Our telephone number is (858) 404-8800. Our website home page on the Internet is www.pricesmart.com. We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

Available Information

The PriceSmart, Inc. website or internet address is www.pricesmart.com. On this website we make available, free of charge, our 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 stockholders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website under “SEC Filings.” All of our 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. We will make available our annual report on Form 10-K and our annual Proxy Statement for the fiscal year 2014 at the internet address http://materials.proxyvote.com/741511 as soon as reasonably practicable after electronically filing such material with or furnishing it to the SEC.

Item 1A. Risk Factors

In evaluating the Company’s business, you should consider the following discussion of risk factors, in addition to other information contained in this report and in the Company’s other public filings with the U.S. Securities and Exchange Commission. Any such risks could materially and adversely affect our business, financial condition, results of operations, cash flow and prospects. However, the risks described below or incorporated by reference herein are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition, results of operations, cash flow and prospects.

Our financial performance is dependent on international operations, which exposes us to various risks.

Our international operations account for nearly all of our total revenues. Our financial performance is subject to risks inherent in operating and expanding our international membership warehouse club business, which include:

- changes in, and inconsistent enforcement of laws and regulations, including those related to tariffs and taxes;
- the imposition of foreign and domestic governmental controls, including expropriation risks;
- trade restrictions;
- difficulty and costs associated with international sales and the administration of an international merchandising business;
- greater levels of crime and security concerns than in the U.S.;
- product registration, permitting and regulatory compliance;
- volatility in foreign currency exchange rates;
- and general political as well as economic and business conditions.

Circumstances relating to these risks may arise, which may then result in disruption to our sales, banking transactions, operations, merchandise shipments, and currency exchange rates, any of which could have a material adverse effect on our business and results of operations.

Any failure by us to manage our widely dispersed operations could adversely affect our business.

As of August 31, 2014, the Company had in operation 33 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (six in Costa Rica; four each in Panama and Trinidad; three each in Guatemala, Honduras, Colombia and in the Dominican Republic; two in El Salvador; and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands). We will need to continually evaluate the adequacy of our existing infrastructure, systems and procedures, financial controls, inventory controls and safety controls and make upgrades from time to time. Moreover, we will be required to continually analyze the sufficiency of our inventory distribution channels and systems and may require additional or expanded facilities in order to support our operations. We may not adequately anticipate all the changing demands that will be imposed on these systems. Any inability or to effectively update our internal systems or procedures as required could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition.

Our international warehouse club business competes with exporters, importers, wholesalers, local retailers and trading companies in various international markets. Some of our competitors have greater resources, buying power and name recognition than we have. In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers and specialty stores, including those within Latin America that are owned and operated by a large U.S.-based retailer. We have noted that certain retailers are making investments in upgrading their locations which may result in increased competition. Further, it is possible that current U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format. We may be required to implement price reductions to remain competitive if any of our competitors reduce prices in any of our markets. Moreover, our ability to operate profitably in our markets, particularly small markets, may be adversely affected by the existence or entry of competing warehouse clubs or discount retailers. During fiscal year 2013, a regional competitor entered into our Barbados market. We responded to that entry by implementing price reductions during the past year to maintain our competitive position thereby reducing our margins and overall profitability within this market. We expect to maintain these price reductions into fiscal year 2015. In addition, Wal-Mart announced that it intends to invest $1.1 billion in its Mexico and Central America markets, which could adversely impact our ability to compete within the Central America market.

Future sales growth depends, in part, on our ability to successfully open new warehouse clubs.

Sales growth at the existing warehouse clubs can be impacted by, among other things, the physical limitations of the warehouse clubs, which restrict the amount of merchandise that can be safely stored and displayed in the warehouse clubs and the number of members that can be accommodated during business hours. As a result, sales growth will depend, in part, upon our acquiring suitable sites for additional warehouse clubs. Land for purchase or lease, or buildings to be leased, in the size and locations in those markets that would be suitable for new PriceSmart warehouse clubs may be limited in number or not be available or financially feasible. In this regard, we compete with other retailers and businesses for suitable locations. Additionally, local land use and other regulations restricting the construction and operation of our warehouse clubs and environmental regulations may impact our ability to find suitable locations, and increase the cost of constructing, leasing and operating our warehouse clubs. We have experienced these limitations in Colombia and in some of our existing markets, which has negatively affected our growth rates in those markets. Limitations on the availability of appropriate sites for new warehouse clubs in the areas targeted by us could have a material adverse effect on the future growth of PriceSmart.

In some cases, we have more than one warehouse club in a single metropolitan area, and we may open new warehouse clubs in certain areas where we already have warehouse clubs. A new warehouse club in an area already served by existing warehouse clubs may draw members away from existing warehouse clubs and adversely affect comparable warehouse club sales performance. We experienced this adverse effect on comparable sales for existing warehouse clubs recently within our Costa Rica and Honduras markets when we opened one new warehouse club in each of these markets in areas that already had an existing warehouse club.

We also intend to open warehouse clubs in new markets. The risks associated with entering a new market include potential difficulties in attracting members due to a lack of familiarity with us and our lack of familiarity with local member preferences. In addition, entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence. As a result, our new warehouse clubs might not be successful in new markets.

We might not identify in a timely manner or effectively respond to changes in consumer preferences for merchandise, which could adversely affect our relationship with members, demand for our products and market share.

Our success depends, in part, on our ability to identify and respond to trends in demographics and changes in consumer preferences for merchandise. It is difficult to consistently and successfully predict the products and services our members will demand. Failure to timely identify or respond effectively to changing consumer tastes, preferences or spending patterns could adversely affect our relationship with our members, the demand for our products and our market share. If we are not successful at predicting sales trends and adjusting purchases accordingly, we might experience a reduction in sales and/or have excess inventory resulting in additional markdowns, which could have an adverse effect on margins (net sales less merchandise costs) and operating income.

Although we have begun to offer limited online shopping to our members, our sales could be adversely affected if one or more major international online retailers were to enter our markets or if other competitors were to offer a superior online experience.

Online sales currently represent a small fraction of the total sales in our markets of the types of merchandise we offer, but online shopping may become more prevalent in our markets as we and our competitors begin to offer more opportunities for online shopping and as delivery systems in our markets improve. While major international online retailers have not established a significant presence in any of our markets, it is possible that they or smaller regional companies will offer online shopping in our markets. In most markets, our members can order products from our website that are shipped from the U.S. to the members local warehouse club for pickup. In Colombia, members in certain markets can order items for delivery to them from our warehouse clubs. We continue to invest in our websites and systems with the long-term objective of offering our members a seamless multichannel experience. If we do not successfully develop and maintain a relevant multichannel experience for our members, our ability to compete and our results of operations could be adversely affected.

We face difficulties in the shipment of and inherent risks in the importation of, merchandise to our warehouse clubs.

Our warehouse clubs typically import nearly half or more of the merchandise that they sell. This merchandise originates from various countries and is transported over long distances, typically over water, which results in:

- substantial lead times needed between the procurement and delivery of product, thus complicating merchandising and inventory control methods;
- the possible loss of product due to theft or potential damage to, or destruction of, ships or containers delivering goods;
- product markdowns as a result of its being cost prohibitive to return merchandise upon importation;
- product registration, tariffs, customs and shipping regulation issues in the locations we ship to and from; and
- ocean freight and duty costs.

Moreover, each country in which we operate has different governmental rules and regulations regarding the importation of foreign products. Changes to the rules and regulations governing the importation of merchandise may result in additional delays, costs or barriers in our deliveries of products to our warehouse clubs or may affect the type of products we select to import. In addition, only a limited number of transportation companies service our regions. The inability or failure of one or more key transportation companies to provide transportation services to us, any collusion among the transportation companies regarding shipping prices or terms, changes in the regulations that govern shipping tariffs or the importation of products, or any other disruption to our ability to transport our merchandise could have a material adverse effect on our business and results of operations.

We are exposed to weather and other natural disaster risks.

Our operations are subject to volatile weather conditions and natural disasters, such as earthquakes and hurricanes, which are encountered in the regions in which our warehouse clubs are located and which could result in significant damage to, destruction of, or temporary closure of, our warehouse clubs. Warehouse club closures associated with heavy rains, local flooding and government advisories to stay off the roads during a natural disaster, such as a hurricane, could result in many days of lost sales. Similar risks could negatively affect our business if they were to arise in other points on our international merchandise distribution chain, in particular our distribution centers or ports of origin or destination. Losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on our business, financial condition and results of operations.

General economic conditions could adversely impact our business in various respects.

A slowdown in the economies of one or more of the countries in which we operate or adverse changes in economic conditions affecting discretionary consumer spending, such as employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, interest rates, tax rates and consumer spending patterns in each of our foreign markets, may adversely affect our business by reducing overall consumer purchasing power and could negatively impact our growth, sales and profitability. In addition, a significant decline in the economies of the countries in which our warehouse clubs are located may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States. Factors such as declining expatriate remittances, reduced tourism, and less foreign investment could negatively impact the economies of Latin America and the Caribbean. The potential for economic instability, the impact of a global recession and its duration, the potential for failures or realignments of financial institutions and the related impact on available consumer credit could have a material adverse effect on our financial condition and results of operations. We have experienced recent economic slowdowns within our Costa Rica, Barbados, Jamaica and Honduras markets. These slowdowns have affected our business by reducing the purchasing power of our members within these markets, impacting our growth of sales and profitability within these markets.

We are subject to risks associated with possible changes in our relationships with third parties with which we do business, as well as the performance of such third parties.

We have important ongoing relationships with various third-party suppliers of services and merchandise. These include, but are not limited to, local and regional merchandise suppliers, information technology suppliers, warehouse facilities and equipment suppliers, financial institutions, credit card issuers and processors, and lessors. Significant changes in the relationships or the agreements that govern the terms through which business is conducted could adversely affect our ability to purchase merchandise in sufficient quantities and at competitive prices, which could have a material adverse effect on our business, financial condition and results of operation. In this regard, the manner in which we acquire merchandise, either directly from the parent company or through a local subsidiary or distributor, is subject to change from time to time based on changes initiated by the supplier and for reasons beyond our control. Significant changes or disruptions in how we acquire merchandise from these suppliers could negatively affect our access to such merchandise, as well as the cost of merchandise to us and hence our members, which could have a material adverse effect on our business and results of operations.

Additionally, our suppliers are subject to risks, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, regulatory compliance with local and international agencies and general economic and political conditions that could limit their ability to timely provide us with acceptable merchandise, which could adversely affect our business. Furthermore, one or more of our suppliers might fail to comply with appropriate production, labor, environmental and other practices, as well as quality control, legal or regulatory standards. We might not identify any such deficiencies, which could lead to litigation and recalls, damage our reputation and our brands, increase our costs, and otherwise adversely impact our business.

We rely extensively on computer systems to process transactions, summarize results and manage our business. Failure to adequately maintain our systems and disruptions in our systems could harm our business and adversely affect our results of operations.

Given the number of individual transactions we have each year, we seek to maintain uninterrupted operation of our business-critical computer systems. Our computer systems, including back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, catastrophic events such as fires, earthquakes, tornadoes and hurricanes, and errors by our employees. If our computer systems and back-up systems are damaged or cease to function properly, we may have to make significant investments to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer systems could have a material adverse effect on our business or results of operations.

We could be subject to additional tax liabilities.

We are 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 us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which affects the amount of tax paid by us. We, in consultation with our tax advisors, base our tax returns on interpretations that we believe 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 we file our returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations we used to calculate our tax liability and therefore require us pay additional taxes. In addition, we compute our income tax provision based on enacted tax rates in the countries in which we operates. As the tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operates could result in an unfavorable change in our overall tax provision. Reviews, interpretations and changes in earnings within jurisdictions could have a material adverse effect on our financial condition and results of operations.

Examples of unresolved tax disputes are as follows:

- The Company has unresolved tax disputes, as of August 31, 2014, for which the Company has accrued a net liability of $4.1M for tax matters, $3.1M of which relates to various non-income tax related contingencies, and $1.0M relates to potential net liability for income taxes associated with uncertain tax benefits reduced by timing adjustments which are recorded as deferred income taxes.
- Prepayments for tax assessments in two countries that the Company is appealing were recorded for approximately $4.2 million.
- Subsequent to the fiscal year ended August 31, 2014, one of the Company's subsidiaries received provisional assessments for $2.5 million of taxes, penalties and interest related to withholding taxes on certain charges for services rendered by the Company. This subsidiary also received a provisional assessments totaling $5.2 million for lack of deductibility of the underlying service charges, due to the lack of withholding. Based on our interpretation of local law, rulings and

8

jurisprudence (including Supreme Court precedence with respect to the deductibility assessment) we expect to prevail in both instances and accordingly did not record a provision for these assessments.

A few of our stockholders own approximately 28.1% of our voting stock as of August 31, 2014,which may make it difficult to complete some corporate transactions without their support and may impede a change in control.

Robert E. Price, the Company's Chairman of the Board, and affiliates of Mr. Price, including Price Charities, The Price Group, LLC and various trusts, collectively beneficially own approximately 28.1% of our outstanding shares of common stock. As a result of their beneficial ownership, these stockholders have the ability to significantly affect the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

Our inability to develop and retain existing key personnel or to attract highly qualified employees could adversely impact our business, financial condition and results of operations.

Our success depends to a significant degree on the continued contributions of members of our senior management and other key operations, merchandising and administrative personnel, and the loss of any such person(s) could have a material adverse effect on our business. We must develop and retain a growing number of qualified employees, while controlling related labor costs and maintaining our core values. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to adequately develop, retain and attract highly qualified employees in the future, which could have a material adverse effect on our business, financial condition and results of operations. We do not maintain key man insurance.

We are subject to volatility in foreign currency exchange rates.

As of August 31, 2014, we had a total of 33 warehouse clubs operating in 12 foreign countries and one U.S. territory, 26 of which operate under currencies other than the U.S. dollar. For fiscal year 2014, approximately 79% of our net warehouse club sales were in foreign currencies. We 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. We therefore are subject to both economic and political instabilities that can cause volatility in foreign currency exchange rates or weak economic conditions. Devaluing local currencies compared to the U.S. dollar could negatively impact the purchasing power of our members in those countries. For example, in February 2014, the Costa Rican Colone devalued approximately 10% compared to the U.S. dollar, which negatively affected sales in that market. Volatility and uncertainties regarding the currencies and economic conditions in the countries where we operate could have a material impact on our operations in future periods.

We face the risk of exposure to product liability claims, a product recall and adverse publicity.

We market and distribute products purchased from third-party suppliers and products prepared by us for resale, including meat, dairy and other food products, which exposes us to the risk of product liability claims, a product recall and adverse publicity. We may inadvertently redistribute food products or prepare food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the food service or consumer level. We generally seek contractual indemnification and proof of insurance from our major suppliers and carry product liability insurance for all products sold to our members by us. However, if we do not have adequate insurance or contractual indemnification available, product liability claims relating to products that are contaminated or otherwise harmful could have a material adverse effect on our ability to successfully market our products and on our financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding a product recall or any assertion that our products caused illness or injury could have a material adverse effect on our reputation with existing and potential customers and on our business, financial condition and results of operations.

If we do not maintain the privacy and security of confidential information, we could damage our reputation, incur substantial additional costs and become subject to litigation.

Misappropriation and misuse of confidential information we gather and retain, including certain information about our members, our vendors, our employees and our company, could have a material adverse effect on our business, financial condition and results of operations.

We receive and retain much of this confidential information on our computer systems, and we may at times electronically transmit portions of this confidential information to third parties, who will then store it on their systems or at their facilities. Because the techniques used to obtain unauthorized access to computer systems change frequently and may not immediately produce signs of intrusion, we and these third parties may be unable to anticipate such techniques or timely cause adequate preventative measures to be implemented, and as a result the security of our systems, and those of such third parties, may be compromised. A compromise of systems that contain confidential information about our members, our vendors, our employees or our company, which results in confidential information being wrongfully utilized by unauthorized persons, could adversely affect our reputation with our members and others, as well as our operations, results of operations, financial condition and liquidity. Litigation against us and the imposition of penalties may also result from such misappropriation of personal and business information. In addition, a security breach or compromise of these systems could require that we expend significant additional resources on and modifications of security protocols of our computer systems, which in turn could result in a disruption of our operations, and adversely affect our business.

Additionally, the use of individually identifiable data is regulated in the United States and in our operating countries. Privacy and information security laws and regulations change, and compliance with them may result in cost increases due to necessary systems changes and the development of new administrative processes. Further, if we, or those with whom we share or store information, fail to comply with these laws and regulations our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal or financial risk as a result of non-compliance.

We are subject to payment related risks.

We rely on third parties to provide payment transaction processing services, including the processing of credit and debit cards and the processing of payments to vendors. Our business could be disrupted if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association rules and network operating rules, including data security rules, certification requirements and rules governing electronic funds transfers, which could change over time. If we fail to comply with these rules or transaction processing requirements, we may not be able to accept certain payment methods. In addition, if our internal systems are breached or compromised, we may be liable for banks' compromised card re-issuance costs, subject to fines and higher transaction fees and lose our ability to accept credit and/or debit card payments from our members, and our business and operating results could be adversely affected.

Changes in accounting standards and assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business are highly complex and involve many subjective assumptions, estimates and judgments by our management. These include, but are not limited to, revenue recognition, impairment of long-lived assets, goodwill, merchandise inventories, vendor rebates and other vendor consideration, income taxes, unclaimed property laws and litigation, and other contingent liabilities. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

We face increased public company compliance risks and compliance risks related to our international operations.

In the United States and within the international markets where we operate, there are multiple laws and regulations that relate to our business and operations. These laws and regulations are subject to change, and any failure by us to effectively manage our operations and reporting obligations as required by the various laws and regulations can result in our incurring significant legal costs and fines as well as disruptions to our business and operations. Such failure could also result in investors' loss of confidence in us, which could have a material adverse effect on our stock price. We previously reported that during the third quarter of fiscal year 2014, in the course of voluntary enhancements to our policies and procedures relating to compliance with U.S. sanctions laws, we had determined that 77 of the Company's approximately 2.2 million members were Cuban nationals, had suspended the shopping privileges of these members, and had reported the results of our investigation to the U.S. Office of Foreign Assets Control, or OFAC. The majority of these were Cuban ambassadors, diplomats and others working in Cuban embassies or other diplomatic missions in the countries where we operate warehouse clubs. In May 2014, OFAC approved an application filed by us and granted a license expressly authorizing us to make sales to Cuban national diplomats or consular officials and their dependents who are stationed outside Cuba. We also reported that we had begun screening our membership list against OFAC's list of Specially Designated Nationals (SDNs). We incurred costs to identify and then develop the screening of our membership in order to ensure compliance with OFAC's list.

We face increased compliance risks associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Section 404 requires management of public companies to evaluate, and the independent auditors to attest to, the effectiveness of internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures are being made only in accordance with appropriate authorizations; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Any failure to effectively implement necessary or appropriate new or improved internal controls, to resolve difficulties encountered in their implementation or remediate identified material weaknesses could harm our operating results, cause us to fail to meet reporting obligations, result in management being required to give a qualified assessment of our internal controls over financial reporting or the our independent auditors providing an adverse opinion regarding their attestation of the effectiveness of our internal controls over financial reporting. Any such result could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

If remediation costs or hazardous substance contamination levels at certain properties for which we maintain financial responsibility exceed management’s current expectations, our financial condition and results of operations could be adversely impacted.

In connection with our spin-off from Price Enterprises, Inc., or PEI, in 1997, we agreed to indemnify PEI for all of PEI's liabilities (including indemnification obligations for environmental liabilities) arising out of PEI's prior ownership of certain properties. Our ownership of real properties and our agreement to indemnify PEI could subject us to certain environmental liabilities. Certain of these properties are located in areas of current or former industrial activity, where environmental contamination may have occurred. We monitor the soil and groundwater at these locations as may be required by law. If we were to incur costs for remediating contamination at these sites which exceed management’s current expectations, our financial condition and results of operations could be adversely impacted.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At August 31, 2014, PriceSmart operated 33 membership warehouse clubs, as detailed below:

Location	Own land and building	Lease land and/or building
LATIN AMERICA SEGMENT		
Colombia[(1)]	3	—
Panama[(2)]	3	1
Guatemala	1	2
Costa Rica	6	—
El Salvador	2	—
Honduras	2	1
Nicaragua	1	—
CARIBBEAN SEGMENT		
Dominican Republic	3	—
Aruba	—	1
Barbados	1	—
Trinidad	3	1
U.S. Virgin Islands	—	1
Jamaica	1	—
Total	26	7

(1) In January of fiscal year 2014, we acquired land in the southern area of Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. We are building new warehouse clubs at these three sites, and opened the Bogota location on October 29, 2014 and plan to open the other two sites in November 2014. Together with the three warehouse clubs currently operating in Colombia (one in Barranquilla and two in Cali), these three new clubs will bring the number of PriceSmart warehouse clubs operating in Colombia to six. The Company continues to explore other potential sites for future warehouse clubs in other major cities in Colombia.

(2) In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama. We plan to construct a warehouse club on this site, and expect to open it in the summer of 2015. This will bring the number of PriceSmart warehouse clubs operating in Panama to five.

As of August 31, 2014, the Company's warehouse club buildings occupied a total of approximately 2,294,820 square feet, of which 420,647 square feet were on leased property.

The following is a summary of other leased facilities as of August 31, 2014:

Location	Facility Type	Lease land and/or building
LATIN AMERICA SEGMENT		
Bogota, Colombia	Central Offices	1
Panama	Central Offices	1
Panama	Storage and Distribution Facility	1
Costa Rica	Storage and Distribution Facility	1
CARIBBEAN SEGMENT		
Barbados	Storage Facility	1
Chaguanas, Trinidad	Employee Parking	1
Chaguanas, Trinidad	Container Parking	1
Trinidad	Storage and Distribution Facility	1
Jamaica	Storage Facility	1
Santo Domingo, Dominican Republic	Central Offices	1
U.S. SEGMENT		
San Diego, CA	Corporate Headquarters	1
Miami, FL	Distribution Facility	1
Total		12

The following is a summary of the warehouse clubs and Company facilities located on leased property as of August 31, 2014:

Approximate
Square