PRICESMART INC
Form 10-Q
July 09, 2015

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

FORM 10-Q

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

For the quarterly period ended May 31, 2015

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 ý 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 ý No ¨

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

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

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

Yes ¨ No ý

The registrant had 30,182,249 shares of its common stock, par value $0.0001 per share, outstanding at June 30, 2015.

PRICESMART, INC.

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.’s (“PriceSmart,” "we" or the “Company”) unaudited consolidated balance sheet as of May 31, 2015 and the consolidated balance sheet as of August 31, 2014, the unaudited consolidated statements of income for the three and nine months ended May 31, 2015 and 2014, the unaudited consolidated statements of comprehensive income for the three and nine months ended May 31, 2015 and 2014, the unaudited consolidated statements of equity for the nine months ended May 31, 2015 and 2014, and the unaudited consolidated statements of cash flows for the nine months ended May 31, 2015 and 2014, are included herein. Also included herein are the notes to the unaudited consolidated financial statements.

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

| | May 31, 2015 (Unaudited) | August 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $145,593 | $137,098 |
| Short-term restricted cash | 16,249 | 2,353 |
| Receivables, net of allowance for doubtful accounts of $2 and $0 as of May 31, 2015 and August 31, 2014, respectively | 8,261 | 7,910 |
| Merchandise inventories | 266,184 | 226,383 |
| Deferred tax assets – current | 7,520 | 6,177 |
| Prepaid expenses and other current assets (includes $4,425 and $495 as of May 31, 2015 and August 31, 2014, respectively, for the fair value of derivative instruments) | 31,055 | 17,260 |
| Total current assets | 474,862 | 397,181 |
| Long-term restricted cash | 9,489 | 27,013 |
| Property and equipment, net | 442,723 | 426,325 |
| Goodwill | 35,965 | 36,108 |
| Deferred tax assets – long term | 7,178 | 11,825 |
| Other non-current assets (includes $3,736 and $1,095 as of May 31, 2015 and August 31, 2014, respectively, for the fair value of derivative instruments) | 35,651 | 30,755 |
| Investment in unconsolidated affiliates | 10,315 | 8,863 |
| Total Assets | $1,016,183 | $938,070 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | 240,426 | 223,559 |
| Accrued salaries and benefits | 18,767 | 17,799 |
| Deferred membership income | 21,244 | 17,932 |
| Income taxes payable | 8,769 | 7,718 |
| Other accrued expenses (includes $0 and $14 as of May 31, 2015 and August 31, 2014, respectively, for the fair value of foreign currency forward contracts) | 27,916 | 21,030 |
| Dividends payable | 10,564 | — |
| Long-term debt, current portion | 26,956 | 11,848 |
| Deferred tax liability – current | 130 | 157 |
| Total current liabilities | 354,772 | 300,043 |
| Deferred tax liability – long-term | 2,458 | 2,290 |
| Long-term portion of deferred rent | 6,374 | 5,591 |
| Long-term income taxes payable, net of current portion | 1,406 | 1,918 |
| Long-term debt, net of current portion | 74,852 | 79,591 |
| Other long-term liabilities (includes $1,497 and $0 for the fair value of derivative instruments and $389 and $372 for the defined benefit plan as of May 31, 2015 and August 31, 2014, respectively) | 1,886 | 372 |
| Total liabilities | 441,748 | 389,805 |
| Equity: | | |
| Common stock, $0.0001 par value, 45,000,000 shares authorized; 30,969,402 and 30,950,701 shares issued and 30,177,979 and 30,209,917 shares outstanding (net of | 3 | 3 |

| | | |
|---|---|---|
| treasury shares) as of May 31, 2015 and August 31, 2014, respectively | | |
| Preferred stock $0.0001 par value; 2,000,000 shares authorized; no shares issued and outstanding as of May 31, 2015 and August 31, 2014 | — | — |
| Additional paid-in capital | 401,821 | 397,150 |
| Tax benefit from stock-based compensation | 10,725 | 9,505 |
| Accumulated other comprehensive loss | (70,056) | (49,286) |
| Retained earnings | 261,162 | 215,613 |
| Less: treasury stock at cost; 791,423 and 740,784 shares as of May 31, 2015 and August 31, 2014, respectively | (29,220) | (24,720) |
| Total equity | 574,435 | 548,265 |
| Total Liabilities and Equity | $1,016,183 | $938,070 |

See accompanying notes.

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

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Net warehouse club sales | $675,314 | $597,885 | $2,043,849 | $1,844,746 |
| Export sales | 9,465 | 6,577 | 24,126 | 19,062 |
| Membership income | 11,189 | 9,552 | 32,202 | 28,301 |
| Other income | 1,135 | 1,023 | 3,244 | 2,903 |
| Total revenues | 697,103 | 615,037 | 2,103,421 | 1,895,012 |
| Operating expenses: | | | | |
| Cost of goods sold: | | | | |
| Net warehouse club | 578,868 | 509,684 | 1,743,772 | 1,575,623 |
| Export | 8,992 | 6,246 | 22,953 | 18,110 |
| Selling, general and administrative: | | | | |
| Warehouse club operations | 60,754 | 53,617 | 179,006 | 158,592 |
| General and administrative | 14,214 | 12,604 | 41,681 | 37,065 |
| Pre-opening expenses | 33 | 1,125 | 3,411 | 1,939 |
| Loss/(gain) on disposal of assets | 724 | 558 | 1,087 | 746 |
| Total operating expenses | 663,585 | 583,834 | 1,991,910 | 1,792,075 |
| Operating income | 33,518 | 31,203 | 111,511 | 102,937 |
| Other income (expense): | | | | |
| Interest income | 283 | 202 | 813 | 576 |
| Interest expense | (1,615) | (1,043) | (4,759) | (2,967) |
| Other income (expense), net | (311) | 489 | (4,602) | 1,512 |
| Total other income (expense) | (1,643) | (352) | (8,548) | (879) |
| Income before provision for income taxes and income (loss) of unconsolidated affiliates | 31,875 | 30,851 | 102,963 | 102,058 |
| Provision for income taxes | (10,750) | (9,534) | (36,378) | (31,035) |
| Income (loss) of unconsolidated affiliates | 70 | 3 | 92 | 7 |
| Net income | 21,195 | $21,320 | $66,677 | 71,030 |
| Net income per share available for distribution: | | | | |
| Basic net income per share | $0.70 | $0.70 | $2.20 | $2.35 |
| Diluted net income per share | $0.70 | $0.70 | $2.20 | $2.34 |
| Shares used in per share computations: | | | | |
| Basic | 29,883 | 29,784 | 29,834 | 29,733 |
| Diluted | 29,888 | 29,792 | 29,841 | 29,743 |
| Dividends per share | $— | $— | $0.70 | $0.70 |

See accompanying notes.

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

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $21,195 | $21,320 | $66,677 | $71,030 |
| Other Comprehensive Income, net of tax: | | | | |
| Foreign currency translation adjustments [1] | $(1,684) | $3,929 | $(24,241) | $(8,443) |
| Defined benefit pension plan: | | | | |
| Net gain (loss) arising during period | (11) | 5 | (35) | 16 |
| Total defined benefit pension plan | (11) | 5 | (35) | 16 |
| Unrealized gains/(losses) on change in fair value of interest rate swaps[2] | 38 | (1,343) | 3,506 | (421) |
| Other comprehensive income (loss) | (1,657) | 2,591 | (20,770) | (8,848) |
| Comprehensive income | $19,538 | $23,911 | $45,907 | $62,182 |

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

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

See accompanying notes.

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Tax Benefit From Stock Based Compen-sation | Accumulated Other Compre-hensive Income(Loss) | Retained Earnings | Treasury Stock Shares | Treasury Stock Amount | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at August 31, 2013 | 30,924 | $ 3 | $ 390,581 | $ 8,016 | $ (41,475 ) | $ 143,871 | 690 | $ (19,947 ) | $ 481,049 |
| Purchase of treasury stock | — | — | — | — | — | — | 49 | (4,601 ) | (4,601 ) |
| Issuance of restricted stock award | 20 | — | — | — | — | — | — | — | — |
| Forfeiture of restricted stock awards | (1 ) | — | — | — | — | — | — | — | — |
| Exercise of stock options | 5 | — | 118 | — | — | — | — | — | 118 |
| Stock-based compensation | — | — | 4,870 | 1,473 | — | — | — | — | 6,343 |
| Dividend paid to stockholders | — | — | — | — | — | (10,570 ) | — | — | (10,570 ) |
| Dividend payable to stockholders | — | — | — | — | — | (10,593 ) | — | — | (10,593 ) |
| Net income | — | — | — | — | — | 71,030 | — | — | 71,030 |
| Other comprehensive income (loss) | — | — | — | — | (8,848 ) | — | — | — | (8,848 ) |
| Balance at May 31, 2014 | 30,948 | $ 3 | $ 395,569 | $ 9,489 | $ (50,323 ) | $ 193,738 | 739 | $ (24,548 ) | $ 523,928 |
| | | | | | | | | | |
| Balance at August 31, 2014 | 30,951 | $ 3 | $ 397,150 | $ 9,505 | $ (49,286 ) | $ 215,613 | 741 | $ (24,720 ) | $ 548,265 |
| Purchase of treasury stock | — | — | — | — | — | — | 50 | (4,500 ) | (4,500 ) |
| Issuance of restricted stock award | 25 | — | — | — | — | — | — | — | — |
| Forfeiture of restricted stock awards | (9 ) | — | — | — | — | — | — | — | — |
| Exercise of stock options | 3 | — | 49 | — | — | — | — | — | 49 |
| Stock-based compensation | — | — | 4,622 | 1,220 | — | — | — | — | 5,842 |
| Dividend paid to stockholders | — | — | — | — | — | (10,564 ) | — | — | (10,564 ) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dividend payable to stockholders | — | — | — | — | — | (10,564 ) | — | — | (10,564 ) |
| Net income | — | — | — | — | — | 66,677 | — | — | 66,677 |
| Other comprehensive income (loss) | — | — | — | — | (20,770 ) | — | — | — | (20,770 ) |
| Balance at May 31, 2015 | 30,970 | $ 3 | $ 401,821 | $ 10,725 | $ (70,056 ) | $ 261,162 | 791 | $ (29,220) | $ 574,435 |

See accompanying notes.

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

| | Nine Months Ended May 31, 2015 | 2014 |
|---|---|---|
| Operating Activities: | | |
| Net income | $66,677 | $71,030 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 25,173 | 20,932 |
| Allowance for doubtful accounts | 2 | 6 |
| (Gain)/loss on sale of property and equipment | 1,087 | 746 |
| Deferred income taxes | 3,388 | 1,869 |
| Excess tax benefit on stock-based compensation | (1,220) | (1,473) |
| Equity in (gains) of unconsolidated affiliates | (92) | (7) |
| Stock-based compensation | 4,622 | 4,870 |
| Change in operating assets and liabilities: | | |
| Change in receivables, prepaid expenses and other current assets, accrued salaries and benefits, deferred membership income and other accruals | (9,101) | (11,246) |
| Merchandise inventories | (39,801) | (13,280) |
| Accounts payable | 15,003 | 2,746 |
| Net cash provided by (used in) operating activities | 65,738 | 76,193 |
| Investing Activities: | | |
| Additions to property and equipment | (63,041) | (82,774) |
| Deposits for land purchase option agreements | 903 | (850) |
| Proceeds from disposal of property and equipment | 67 | 78 |
| Investment in joint ventures | (1,360) | (750) |
| Net cash provided by (used in) investing activities | (63,431) | (84,296) |
| Financing Activities: | | |
| Proceeds from bank borrowings | 45,477 | 37,734 |
| Repayment of bank borrowings | (27,783) | (17,390) |
| Cash dividend payments | (10,564) | (10,570) |
| Release of restricted cash | 2,920 | 8,000 |
| Excess tax benefit on stock-based compensation | 1,220 | 1,473 |
| Purchase of treasury stock | (4,500) | (4,601) |
| Proceeds from exercise of stock options | 49 | 118 |
| Net cash provided by (used in) financing activities | 6,819 | 14,764 |
| Effect of exchange rate changes on cash and cash equivalents | (631) | (4,776) |
| Net increase (decrease) in cash and cash equivalents | 8,495 | 1,885 |
| Cash and cash equivalents at beginning of period | 137,098 | 121,874 |
| Cash and cash equivalents at end of period | $145,593 | $123,759 |

| | | |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest, net of amounts capitalized | $4,391 | $2,508 |
| Income taxes | $33,583 | $33,308 |
| Supplemental non-cash item: | | |
| Dividends declared but not paid | $10,564 | $10,593 |

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
May 31, 2015

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart" or the "Company") business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of May 31, 2015, the Company had 36 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (six in Costa Rica and Colombia; four in Panama and Trinidad; three in Guatemala, Honduras and the Dominican Republic; two in El Salvador; and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). During October 2013, the Company opened its sixth membership warehouse club in Costa Rica in La Union, Cartago, and in May 2014, the Company opened its third warehouse club in Honduras in Tegucigalpa, the Company's second in the capital city. In January 2014, the Company acquired land in Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. The Company built new warehouse clubs at these three sites, and opened the Bogota location in October 2014 and opened the other two sites in November 2014. Together with the three warehouse clubs that were operating prior to these openings in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of PriceSmart warehouse clubs operating in Colombia to six. In September 2014, the Company acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which the Company opened its fifth PriceSmart warehouse club in Panama in June 2015. In April 2015, the Company acquired land in Managua, Nicaragua on which the Company's second warehouse club in Nicaragua is scheduled to open late in 2015. The Company continues to explore other potential sites for future warehouse clubs in Central America, the Caribbean and Colombia. The warehouse club sales and membership sign-ups experienced with the opening of the warehouse clubs in Colombia have reinforced the Company's belief that there could be a market for additional PriceSmart warehouse clubs in other Colombian cities.

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

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

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

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

| | | | |
|---|---|---|---|
| Income taxes payable | (7,664) | (54) | (7,718) |
| Net amount of reclassifications | | $— | |

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

2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The interim consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company’s wholly owned subsidiaries and the Company's investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation. The interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of the results for the full year. As of May 31, 2015, all of the Company's subsidiaries were wholly owned. Additionally, the Company's ownership interest in real estate development joint ventures as of May 31, 2015 is listed below:

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

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

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

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

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

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

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Short-term restricted cash: | | |
| Restricted cash for Honduras loan | $— | $1,200 |
| Restricted cash for land purchase option agreements | 192 | 1,095 |
| Restricted cash for Colombia bank loans | 16,000 | — |
| Other short-term restricted cash [1] | 57 | 58 |
| Total short-term restricted cash | $16,249 | $2,353 |
| | | |
| Long-term restricted cash: | | |
| Restricted cash for Honduras loan | $— | $1,720 |
| Restricted cash for Colombia bank loans | 8,000 | 24,000 |
| Other long-term restricted cash [1] | 1,489 | 1,293 |
| Total long-term restricted cash | $9,489 | $27,013 |
| | | |
| Total restricted cash | $25,738 | $29,366 |

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

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

In most countries where the Company operates, the tax refund process is defined and structured with regular refunds or offsets. However, in two countries the governments have alleged that there is no defined process in the law to allow them to refund VAT receivables. The Company, together with its tax and legal advisers, is currently appealing these interpretations in court and expects to prevail. In one of these countries, where there is recent favorable jurisprudence, the government recently performed an audit to verify the amount of the respective VAT receivables as a required precursor to any refund. The balance of the VAT receivable in these countries was $6.3 million and $5.7 million as of May 31, 2015 and August 31, 2014, respectively. In another country in which we have warehouse clubs, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires the Company to pay taxes based on a factor of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The current rules (which the Company has appealed) do not allow the Company to obtain a refund or offset this excess income tax against other taxes. As of May 31, 2015, the Company currently has an outstanding income tax receivable of $509,000 in this country; and there were deferred tax assets of approximately $1.4 million outstanding as of that date. The Company has not placed any type of allowance on the recoverability of these tax receivables or deferred income taxes, because the Company believes that it has a more likely than not chance to succeed in its appeal on the matter.

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

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

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

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

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Prepaid expenses and other current assets | $5,632 | $3,565 |
| Other non-current assets | 18,494 | 17,115 |
| Total amount of VAT receivable reported | $24,126 | $20,680 |

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Prepaid expenses and other current assets | $3,339 | $1,916 |
| Other non-current assets | 8,819 | 7,218 |
| Total amount of income tax receivable reported | $12,158 | $9,134 |

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

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

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

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

Long-term debt: The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments. These inputs are not quoted prices in active markets but they are either directly or indirectly observable; therefore, they are classified as Level 2 inputs. The carrying value and fair value of the Company’s debt as of May 31, 2015 and August 31, 2014 is as follows (in thousands):

| | May 31, 2015 | | August 31, 2014 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt, including current portion | $101,808 | $103,047 | $91,439 | $92,893 |

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

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

Cash Flow Instruments. The Company is a party to receive floating interest rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain U.S. dollar denominated debt within its international subsidiaries. The swaps are designated as cash flow hedges of interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive variable interest rate, pay fixed interest rate cross-currency interest rate swaps to hedge the interest rate and currency exposure associated with the expected payments of principal and interest of U.S. denominated debt within its international subsidiaries whose functional currency is other than the U.S dollar. The swaps are designated as cash flow hedges of the currency risk related to payments on the U.S. denominated debt. These instruments are also considered to be effective hedges and are recorded using hedge accounting. Under cash flow hedging, the effective portion of the fair value of the derivative, calculated as the net present value of the future cash flows, is deferred on the consolidated balance sheets in accumulated other comprehensive loss. If any portion of an interest rate swap is determined to be an ineffective hedge, the gains or losses from changes in fair value would be recorded directly in the consolidated statements of income. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. See Note 9 - Derivative Instruments and Hedging Activities for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of May 31, 2015 and August 31, 2014.

Fair Value Instruments. The Company is exposed to foreign-currency exchange rate fluctuations in the normal course of business. The Company is also exposed to foreign-currency exchange rate fluctuations on U.S. dollar denominated liabilities within its international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flow attributable to currency exchange movements. The contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. Currently, these contracts are treated for accounting purposes as fair value instruments and do not qualify for derivative hedge accounting, and as such the Company does not apply derivative hedge accounting to record these transactions. As a result, these contracts are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. The Company seeks to mitigate foreign-currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features and are limited to less than one year in duration. See Note 9 - Derivative Instruments and Hedging Activities for information on the fair value of open, unsettled forward foreign-exchange contracts as of May 31, 2015 and August 31, 2014.

The following tables summarize financial assets and liabilities measured and recorded at fair value on a recurring basis in the Company's consolidated balance sheet as of May 31, 2015 and August 31, 2014 (in thousands) for derivatives that qualify for hedge accounting:

| Assets and Liabilities as of May 31, 2015 | Quoted Prices in Active Markets for Identical | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|

| | Assets (Level 1) | | | |
|---|---|---|---|---|
| Prepaid expenses and other current assets (Cross-currency interest rate swaps) | $— | $4,425 | $— | $4,425 |
| Other non-current assets - (Cross-currency interest rate swaps) | — | 3,736 | — | 3,736 |
| Other long-term liabilities – (Interest rate swaps) | — | (419 ) | — | (419 ) |
| Other long-term liabilities – (Cross-currency interest rate swaps) | — | (1,078 ) | — | (1,078 ) |
| Total | $— | $6,664 | $— | $6,664 |

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

The following tables summarize financial assets and liabilities measured and recorded at fair value on a recurring basis in the Company's consolidated balance sheet as of May 31, 2015 and August 31, 2014 (in thousands) for derivatives that do not qualify for hedge accounting:

| Assets and Liabilities as of May 31, 2015 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Prepaid expenses and other current assets (Foreign currency forward contracts) | $— | $— | $— | $— |
| Other accrued expenses (Foreign currency forward contracts) | — | — | — | — |
| Net fair value of derivatives designated as hedging instruments that do not qualify for hedge accounting | $— | $— | $— | $— |

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

Goodwill – The table below presents goodwill resulting from certain business combinations as of May 31, 2015 and August 31, 2014 (in thousands). The change in goodwill is a result of foreign exchange translation losses.

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

| | May 31, 2015 | August 31, 2014 | Change |
|---|---|---|---|
| Goodwill | $ 35,965 | $ 36,108 | $ (143) |

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

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

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

Insurance Reimbursements- Receipts from insurance reimbursements up to the amount of the losses recognized are considered recoveries. These recoveries are accounted for when they are probable of receipt. Insurance recoveries are not recognized prior to the recognition of the related cost.  Anticipated proceeds in excess of the amount of loss recognized are considered a gains and are subject to gain contingency guidance. Anticipated proceeds in excess of a loss recognized in the financial statements are not be recognized until all contingencies related to the insurance claim are resolved.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

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

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

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

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

The following table summarizes the amounts recorded for the three and nine month periods ending May 31, 2015 and 2014 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 31, 2015 | May 31, 2014 | May 31, 2015 | May 31, 2014 |
| Currency gain (loss) | $(311) | $489 | $(4,602) | $1,512 |

Income Taxes –The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the

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financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

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

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate. There were no material changes in the Company's uncertain income tax positions for the periods ended on May 31, 2015 and August 31, 2014. However, during the fiscal year 2014, the Company was required to make payments of $4.2 million to the governments in two countries with respect to income tax cases that it is currently appealing and believes it will eventually prevail. These amounts have been recorded in the balance sheet as Other non-current assets, as the Company considers this a payment on account and expects to get a refund thereof upon eventually prevailing on these cases, but is unsure of the timing thereof. Furthermore, during the first quarter of fiscal year 2015, one of the Company’s subsidiaries received provisional assessments claiming $2.5 million of taxes, penalties and interest related to withholding taxes on certain charges for services rendered by the Company. In addition, this subsidiary received provisional assessments totaling $5.2 million for lack of deductibility of the underlying service charges due to the lack of withholding. Based on the Company's interpretation of local law, rulings and jurisprudence (including Supreme Court precedents with respect to the deductibility assessment), the Company expects to prevail in both instances and has not recorded a provision for these assessments. Also, in another country, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires the Company to pay taxes based on a factor of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those we would expect to pay based on taxable income. The current rules (which the Company has appealed) do not allow the Company to obtain a refund or offset this excess income tax against other taxes. As of May 31, 2015, the Company currently has an outstanding income tax receivable of $509,000 in this country; and there were deferred tax assets of approximately $1.4 million outstanding as of that date. The Company has not placed any type of allowance on the recoverability of these tax receivables or deferred income taxes, because the Company believes that it has a more likely than not chance to succeed in its appeal on the matter.

The Company has not provided for U.S. deferred taxes on cumulative non-U.S. undistributed earnings as such earnings are deemed by the Company to be indefinitely reinvested. It is not practicable to determine the U.S. federal income tax liability that would be associated with such earnings because of the complexity of the computation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 31, 2015 | May 31, 2014 | May 31, 2015 | May 31, 2014 |
| Federal tax provision at statutory rates | 35.0 % | 35.0 % | 35.0 % | 35.0 % |
| State taxes, net of federal benefit | 0.3 | 0.3 | 0.4 | 0.3 |
| Differences in foreign tax rates | (5.3 ) | (7.1 ) | (5.0 ) | (5.5 ) |
| Permanent items and other adjustments | 2.2 | 4.5 | 3.1 | 1.2 |
| Increase (decrease) in foreign valuation allowance | 1.5 | (1.8 ) | 1.8 | (0.6 ) |
| Provision for income taxes | 33.7 % | 30.9 % | 35.3 % | 30.4 % |

The variance in the effective tax rate for the three-month period ended on May 31, 2015 compared to the same period of the prior year was primarily attributable to the following factors: (i) the unfavorable impact of 3.8% resulting from an increased taxable loss incurred in the Company’s Colombia subsidiary for which no tax benefit was recognized, net of adjustment to valuation allowance; (ii) the unfavorable impact of 1.0% due to the relative increase in U.S. taxable income at a higher statutory tax rate compared to tax rates in foreign jurisdictions; (iii) the favorable impact of 1.2% resulting from reversals of income tax liability for uncertain tax positions; and (iv) the non-recurrence of the favorable impact of 0.6% in the prior period from the tax effect of changes in foreign currency value.

The variance in the effective tax rate for the nine-month period ended May 31, 2015 compared to the prior year was primarily attributable to the unfavorable impact of 4.2% resulting from an increased taxable loss incurred in the Company’s Colombia subsidiary for which no tax benefit was recognized, net of adjustment to valuation allowance, and the non-recurrence of a favorable impact of 0.6% in the prior period from the tax effect of changes in foreign currency value.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued amended guidance on contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The guidance requires an entity to recognize revenue on contracts with customers relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires that an entity depict the consideration by applying the following steps:

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

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

FASB ASC 350 ASU 2015-05 - Customers accounting for fees paid in a cloud computing arrangement

In April 2015, the FASB issued amended guidance on about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license

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element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts.

The amendments in this ASU are effective for public entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

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

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Land | $135,044 | $124,082 |
| Building and improvements | 279,245 | 244,485 |
| Fixtures and equipment | 163,629 | 148,143 |
| Construction in progress | 29,055 | 55,664 |
| Total property and equipment, historical cost | 606,973 | 572,374 |
| Less: accumulated depreciation | (164,250) | (146,049) |
| Property and equipment, net | $442,723 | $426,325 |

Depreciation and amortization expense (in thousands):

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Depreciation and amortization expense | $8,740 | $7,139 | $25,173 | $20,932 |

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

period. The capitalization rates are based on the interest rates applicable to borrowings outstanding during the period.
Total interest capitalized (in thousands):

| | As of May 31, 2015 | As of August 31, 2014 |
|---|---|---|
| Total interest capitalized | $ 7,064 | $ 6,542 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Total interest capitalized (in thousands):

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Interest capitalized | $148 | $452 | $911 | $945 |

The Company also purchased land in Chia, a city north of Bogota, Colombia for which it recorded other accrued expenses of approximately $8.6 million in May 2015. Payment for this land purchase was made on June 2, 2015. The Company made this land acquisition per the terms of an expiring purchase agreement. The Company has not yet received all permits necessary to begin construction and to operate a warehouse club. As such, the Company does not have a definitive date for when it could construct or open a warehouse club on that site.

The Company also recorded within accounts payable and other accrued expenses approximately $700,000 and $9.8 million, respectively, as of May 31, 2015 and $2.9 million and $1.2 million, respectively, as of August 31, 2014 of liabilities related to the acquisition and/or construction of property and equipment.

NOTE 4 – EARNINGS PER SHARE

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

The following table sets forth the computation of net income per share for the three and nine months ended May 31, 2015 and 2014 (in thousands, except per share amounts):

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $21,195 | $21,320 | $66,677 | $71,030 |
| Less: Allocation of income to unvested stockholders | (257) | (348) | (856) | (1,296) |
| Net earnings available to common stockholders | $20,938 | $20,972 | $65,821 | $69,734 |
| Basic weighted average shares outstanding | 29,883 | 29,784 | 29,834 | 29,733 |
| Add dilutive effect of stock options (two-class method) | 5 | 8 | 7 | 10 |

| | | | | |
|---|---|---|---|---|
| Diluted average shares outstanding | 29,888 | 29,792 | 29,841 | 29,743 |
| Basic net income per share | $0.70 | $0.70 | $2.20 | $2.35 |
| Diluted net income per share | $0.70 | $0.70 | $2.20 | $2.34 |

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

NOTE 5 – STOCKHOLDERS' EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal year 2015 and 2014.

| | | First Payment | | | | Second Payment | | | |
|---|---|---|---|---|---|---|---|---|---|
| Declared | Amount | Record Date | Date Paid | Date Payable | Amount | Record Date | Date Paid | Date Payable | Amount |
| 2/4/15 | $0.70 | 2/13/15 | 2/27/15 | N/A | $0.35 | 8/14/15 | N/A | 8/31/15 | $0.35 |
| 1/23/14 | $0.70 | 2/14/14 | 2/28/14 | N/A | $0.35 | 8/15/14 | 8/29/14 | N/A | $0.35 |

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

Comprehensive Income and Accumulated Other Comprehensive Loss

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

| | Nine Months Ended May 31, 2015 | | | |
|---|---|---|---|---|
| | Foreign currency translation adjustments | Defined benefit pension plans | Derivative Instruments | Total |
| Beginning balance, September 1, 2014 | $(50,410) | $113 | $1,011 | $(49,286) |
| Other comprehensive income (loss) | (24,241) | (35) | 3,506 | (20,770) |
| Ending balance, May 31, 2015 | $(74,651) | $78 | $4,517 | $(70,056) |

| | Nine Months Ended May 31, 2014 | | | |
|---|---|---|---|---|
| | Foreign currency translation adjustments | Defined benefit pension plans | Derivative Instruments | Total |
| Beginning balance, September 1, 2013 | $(42,321) | $(152) | $998 | $(41,475) |
| Other comprehensive income (loss) | (8,443) | 16 | (421) | (8,848) |
| Ending balance, May 31, 2014 | $(50,764) | $(136) | $577 | $(50,323) |

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

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

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

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

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

Retained Earnings Not Available for Distribution

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Retained earnings not available for distribution | $4,917 | $4,556 |

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

NOTE 6 – STOCK BASED COMPENSATION

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

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

The Company adopted the 2013 Equity Incentive Award Plan (the "2013 Plan") for the benefit of its eligible employees, consultants and non-employee directors on January 22, 2013. The 2013 Plan provides for awards covering up to (1) 600,000 shares of common stock plus (2) the number of shares that remained available for issuance as of January 22, 2013 under three equity participation plans previously maintained by the Company. The number of shares reserved for issuance under the 2013 Plan increases during the term of the plan by the number of shares relating to awards outstanding under the 2013 Plan or any of the prior plans that expire, or are forfeited, terminated, canceled or repurchased, or are settled in cash in lieu of shares and decreases due to award releases or option exercises. No more than an aggregate of 1,332,540 shares of the Company’s common stock will be issued under the 2013 Plan. The following table summarizes the shares authorized and shares available for future grants:

| | | Shares available to grant | |
|---|---|---|---|
| | Shares authorized for issuance as of October 31, 2014 (including shares originally authorized for issuance under the prior plans) | May 31, 2015 | August 31, 2014 |
| 2013 Plan | 888,353 | 853,774 | 821,124 |

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

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Options granted to directors | $ 25 | $ 27 | $ 61 | $ 64 |
| Restricted stock awards | 929 | 1,276 | 3,633 | 4,059 |

| | | | | |
|---|---|---|---|---|
| Restricted stock units | 328 | 246 | 928 | 747 |
| Stock-based compensation expense | $ 1,282 | $ 1,549 | $ 4,622 | $ 4,870 |

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

The following tables summarize other information related to stock-based compensation:

| | As of May 31 | |
|---|---|---|
| | 2015 | 2014 |
| Remaining unrecognized compensation cost (in thousands) | $ 19,005 | $ 26,199 |
| Weighted average period of time over which this cost will be recognized (years) | 5 | 6 |

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2015 | 2014 |
| Excess tax benefit (deficiency) on stock-based compensation (in thousands) | 1,220 | 1,473 |

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

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2015 | 2014 |
| Grants outstanding at beginning of period | 488,416 | 623,424 |
| Granted | 27,607 | 12,325 |
| Forfeited | (9,618) | (2,048) |
| Vested | (142,370) | (140,182) |
| Grants outstanding at end of period | 364,035 | 493,519 |

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

| | Nine Months Ended May 31, | |
|---|---|---|
| Weighted Average Grant Date Fair Value | 2015 | 2014 |
| Restricted stock awards and units granted | $ 89.64 | $ 109.18 |
| Restricted stock awards and units vested | $ 44.42 | $ 39.47 |
| Restricted stock awards and units forfeited | $ 64.13 | $ 49.37 |

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

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2015 | 2014 |
| Total fair market value of restricted stock awards and units vested | $ 12,624 | $ 13,222 |

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

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

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2015 | 2014 |
| Shares repurchased | 50,639 | 48,808 |
| Cost of repurchase of shares (in thousands) | $4,500 | $4,601 |

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

| | Nine Months Ended May 31, | |
|---|---|---|
| | 2015 | 2014 |
| Reissued treasury shares | — | — |

The following table summarizes the stock options outstanding:

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Stock options outstanding | 20,000 | 23,000 |

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

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

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

Taxes

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

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

In evaluating the exposure associated with various non-income tax filing positions, the Company accrues for probable and estimable exposures for non-income tax related tax contingencies. As of May 31, 2015 and August 31, 2014, the Company had recorded within other accrued expenses a total of $3.1 million for various non-income tax related tax contingencies.

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

During fiscal year 2014, the Company was required to make tax payments with respect to various income tax cases that it is currently appealing, and during the first quarter of fiscal year 2015, the Company received provisional tax assessments with respect to deductibility and withholdings. These payments and assessments are discussed in further detail within Note 2, Income Taxes.

Other Commitments

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

| Years ended May 31, | Open Locations[1] |
|---|---|
| 2016 | $7,175 |
| 2017 | 10,296 |
| 2018 | 10,333 |
| 2019 | 10,234 |

| | |
|---|---|
| 2020 | 10,117 |
| Thereafter | 100,902 |
| Total | $149,057 |

(1) Operating lease obligations have been reduced by approximately $340,000 to reflect sub-lease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

The Company is also committed to non-cancelable construction services obligations for various warehouse club developments and expansions. As of May 31, 2015 the Company has approximately $14.4 million in contractual obligations for construction services not yet rendered.

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

The Company has entered into a land purchase option agreement that has not been recorded as a commitment, for which the Company has recorded within the balance sheet approximately $200,000 in restricted cash deposits and prepaid expenses.  The land purchase option agreement can be canceled at the sole option of the Company.  The Company does not have a time table of when or if it will exercise this land purchase option, due to the uncertainty related to the completion of the Company's due diligence review. The Company's due diligence review includes evaluations of the legal status of the property, the zoning and permitting issues related to acquiring approval for the construction and operation of a warehouse club and any other issues related to the property itself that could render the property unsuitable or limit the property's economic viability as a warehouse club site. If the purchase option agreement is exercised, the cash use would be approximately $8.1 million.

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

The Company contracts for distribution center services in Mexico.  The contract for this distribution center's services was renewed on December 31, 2014 for an additional three years, with the applicable fees and rates to be reviewed at the beginning of each calendar year. Future minimum service commitments related to this contract through the end of the contract term is approximately $373,000.

NOTE 8 – DEBT

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

| | Total Amount of Facilities | Facilities Used Short-term Borrowings | Letters of Credit | Facilities Available | Weighted average interest rate |
|---|---|---|---|---|---|
| May 31, 2015 | $59,237 | $— | $363 | $58,874 | N/A |
| August 31, 2014 | $61,869 | $— | $436 | $61,433 | N/A |

As of May 31, 2015, the Company had approximately $40.0 million of short-term facilities in the U.S. that require compliance with certain quarterly financial covenants, which include debt service and leverage ratios. As of May 31, 2015 and August 31, 2014, the Company was in compliance with respect to these covenants. Each of the facilities expires annually and is normally renewed.

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

The following table provides the changes in long-term debt for the nine months ended May 31, 2015:

| (Amounts in millions) | Current Portion of Long-term debt | Long-term debt | Total | |
|---|---|---|---|---|
| Balances as of August 31, 2014 | $11,848 | $79,591 | $91,439 | (1) |
| Proceeds from long-term debt incurred during the period: | | | | |
| Panama subsidiary | 1,000 | 9,000 | 10,000 | |
| Honduras subsidiary | 2,450 | 14,400 | 16,850 | (2) |
| Colombia subsidiary | 1,500 | 13,500 | 15,000 | |
| Trinidad subsidiary | 907 | 2,720 | 3,627 | |
| Repayments of long-term debt: | | | | |
| Repayment of loan by Honduras subsidiary, originally entered into on January 12, 2012 with Scotiabank El Salvador, S.A. | (3,200) | — | (3,200) | |
| Partial repayment of loan by Honduras subsidiary, originally entered into on March 7, 2014 with Banco de America Central Honduras, S.A. | — | (5,000) | (5,000) | |
| Repayment of loan by Honduras subsidiary, originally entered into on March 7, 2014 with Banco de America Central Honduras, S.A. | — | (8,195) | (8,195) | |
| Repayment of loan by Honduras subsidiary, originally entered into on March 6, 2010 with Banco del Pais, S.A. | (87) | — | (87) | |
| Repayment of loan by Trinidad subsidiary, originally entered into on August 26, 2008 with Royal Bank of Trinidad and Tobago, Ltd. | (900) | (2,325) | (3,225) | |
| Regularly scheduled loan payments | (816) | (7,260) | (8,076) | |
| Reclassifications of long-term debt | 15,135 | (15,135) | — | |
| Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar (3) | (881) | (6,444) | (7,325) | |
| Balances as of May 31, 2015 | $26,956 | $74,852 | $101,808 | (4) |

(1) The carrying amount cash assets assigned as collateral for this total was $24.6 million and the carrying amount on non-cash assets assigned as collateral for this total was $84.2 million.
(2) Proceeds from the loans consist of three loans for approximately $3.4 million, $5.0 million and $8.5 million.
(3) These foreign currency translation adjustments are recorded within Other comprehensive income.
(4) The carrying amount cash assets assigned as collateral for this total was $24.0 million and the carrying amount on non-cash assets assigned as collateral for this total was $100.6 million.

As of May 31, 2015, the Company had approximately $75.8 million of long-term loans in Trinidad, Panama, El Salvador, Honduras and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of May 31, 2015, the Company was in compliance with all covenants or amended covenants.

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

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

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

| Twelve months ended May 31, | Amount |
|---|---|
| 2016 | $26,956 |
| 2017 | 17,439 |
| 2018 | 11,587 |
| 2019 | 22,936 |
| 2020 | 21,368 |
| Thereafter | 1,522 |
| Total | $101,808 |

NOTE 9 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

Cash Flow Hedges

The Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting. As of May 31, 2015, all of the Company's interest rate swap and cross-currency interest rate swap derivative financial instruments are designated and qualify as cash flow hedges. The cross-currency interest rate swap agreements convert the Company's subsidiary's foreign currency United States dollar denominated floating interest payments on long-term debt to the functional currency fixed interest payments during the life of the hedging instrument. As changes in foreign exchange and interest rates impact the future cash flow of interest payments, the hedge is intended to offset changes in cash flows attributable to interest rate and foreign currency exchange movements. Various subsidiaries entered into interest rate swap agreements that fix the interest rate over the life of the underlying loans. These derivative financial instruments were also designated and qualified as cash flow hedges.

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

The following table summarizes agreements for which the Company has recorded cash flow hedge accounting transactions during the nine months ended May 31, 2015:

| Subsidiary | Date Entered into | Derivative Financial Counter-party | Derivative Financial Instruments | Initial US$ Notional Amount | Bank US$ loan Held with | Floating Leg (swap counter-party) | Fixed Rate for PSMT Subsidiary | Settlement Dates | Effective Period of swap |
|---|---|---|---|---|---|---|---|---|---|
| Honduras | 24-Mar-15 | Citibank, N.A. ("Citi") | Cross currency interest rate swap | $8,500,000 | Citibank, N.A. | Variable rate 3-month Libor plus 3.25% | 10.75% | 24th day of March, June, September, and December beginning on June 24, 2015 | March 24,2015 - March 20, 2020 |
| El Salvador | 16-Dec-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | $4,000,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.78 % | 29th day of each month beginning on December 29, 2014 | December 01, 2014 - August 29, 2019 |
| Colombia | 10-Dec-14 | Citibank, N.A. ("Citi") | Cross currency interest rate swap | $15,000,000 | Citibank, N.A. | Variable rate 3-month Libor plus 2.8% | 8.25 % | 4th day of March, June, Sept, Dec. beginning on March 4, 2015 | December 4, 2014 - December 3, 2019 |
| Panama | 9-Dec-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | $10,000,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 5.159% | 28th day of each month beginning December 29, 2014 | November 28, 2014 - November 29, 2019 |
| Honduras | 23-Oct-14 | Citibank, N.A. ("Citi") | Cross currency interest rate swap | $5,000,000 | Citibank, N.A. | Variable rate 3-month Libor plus 3.5% | 11.6 % | 22nd day of January, April, July, and October beginning on January 22, 2015 | October 22, 2014 - October 22, 2017 |
| Panama | 1-Aug-14 | Bank of Nova Scotia | Interest rate swap | $5,000,000 | Bank of Nova | Variable rate 30-day Libor | 4.89 % | 21st day of each month | August 21, 2014 - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | ("Scotiabank") | | | Scotia | plus 3.5% | | | beginning on September 22, 2014 | August 21, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | $19,800,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98 | % | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Panama | 22-May-14 | Bank of Nova Scotia ("Scotiabank") | Interest rate swap | $3,970,000 | Bank of Nova Scotia | Variable rate 30-day Libor plus 3.5% | 4.98 | % | 4th day of each month beginning on June 4, 2014 | May 5, 2014 - April 4, 2019 |
| Colombia | 11-Dec-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | $8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 4.79 | % | March, June, September and December, beginning on March 5, 2013 | December 5, 2012 - December 5, 2014 |
| Colombia | 21-Feb-12 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | $8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.6% | 6.02 | % | February, May, August and November beginning on May 22, 2012 | February 21, 2012 - February 21, 2017 |
| Colombia | 21-Oct-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | $2,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 5.30 | % | January, April, July and October, beginning on October 29, 2011 | July 29, 2011 - April 1, 2016 |
| Colombia | 21-Oct-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | $6,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 5.45 | % | March, June, September and December, beginning on December 29, 2011 | September 29, 2011 - April 1, 2016 |
| Colombia | 5-May-11 | Bank of Nova Scotia ("Scotiabank") | Cross currency interest rate swap | $8,000,000 | Bank of Nova Scotia | Variable rate 3-month Libor plus 0.7% | 6.09 | % | January, April, July and October, beginning on July 5, | April 1, 2011 - April 1, 2016 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the three and nine-month period ended May 31, 2015 and 2014, the Company included the gain or loss on the hedged items (that is, variable-rate borrowings) in the same line item—interest expense—as the offsetting gain or loss on the related interest rate swaps as follows (in thousands):

| Income Statement Classification | Interest expense on borrowings[1] | Cost of swaps [2] | Total |
|---|---|---|---|
| Interest expense for the three months ended May 31, 2015 | $644 | $837 | $1,481 |
| Interest expense for the three months ended May 31, 2014 | $137 | $405 | $542 |
| Interest expense for the nine months ended May 31, 2015 | $1,577 | $2,063 | $3,640 |
| Interest expense for the nine months ended May 31, 2014 | $377 | $1,169 | $1,546 |

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

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

| Floating Rate Payer (Swap Counterparty) | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Scotiabank | $62,758 | $60,200 |
| Citibank N.A. | 27,625 | — |
| Total | $90,383 | $60,200 |

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

| | May 31, 2015 | | August 31, 2014 | |
|---|---|---|---|---|
| Derivatives designated as cash flow hedging instruments | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Cross-currency interest rate swaps[1] | Prepaid expenses and current assets | $4,425 | Prepaid expenses and current assets | $495 |
| Cross-currency interest rate swaps[1] | Other non-current assets | 3,736 | Other non-current assets | 970 |
| Interest rate swaps[2] | Other non-current assets | — | Other non-current assets | 125 |
| Interest rate swaps[2] | Other long-term liabilities | (419) | Other long-term liabilities | — |
| Cross-currency interest rate swaps[3] | Other long-term liabilities | (1,078) | Other long-term liabilities | — |
| Net fair value of derivatives designated as hedging instruments - assets (liability)[4] | | $6,664 | | $1,590 |

(1) The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for $(5.6) million and $(917,000) net of tax as of May 31, 2015 and August 31, 2014, respectively. The Company has recorded a deferred tax liability amount with an offset to other

comprehensive income - tax of $(2.6) million and $(548,000) as of May 31, 2015 and August 31, 2014, respectively, related to asset positions of cross-currency interest rate swaps. However, the equity effect of this deferred tax liability is offset by the full valuation allowance provided for the net deferred tax asset recorded for this subsidiary.

(2) The effective portion of the interest rate swaps was recorded to Accumulated other comprehensive loss / (income) for $313,000 and $(94,000) net of tax as of May 31, 2015 and August 31, 2014, respectively. The Company has recorded a deferred tax

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

asset / (liability) amount with an offset to other comprehensive income - tax of $106,000 and $(31,000) as of May 31, 2015 and August 31, 2014, respectively.

(3) The effective portion of the cross-currency interest rate swaps for this subsidiary was recorded to Accumulated other comprehensive (income)/loss for $753,000 and $0 net of tax as of May 31, 2015 and August 31, 2014, respectively. The Company has recorded a deferred tax asset amount with an offset to other comprehensive income - tax of $325,000 and $0 as of May 31, 2015 and August 31, 2014, respectively.

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

Fair Value Instruments

The Company has entered into non-deliverable forward foreign-exchange contracts. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The use of non-deliverable forward foreign-exchange contracts is intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically hedge exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. The Company entered into non-deliverable forward foreign exchange contracts during the nine months ended May 31, 2015. However, there are no open contracts as of May 31, 2015.

For the three and nine-month periods ended May 31, 2015 and 2014, the Company included in its consolidated statements of income the forward derivative gain or (loss) on the non-deliverable forward foreign-exchange contracts as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Income Statement Classification | May 31, 2015 | May 31, 2014 | May 31, 2015 | May 31, 2014 |
| Other income (expense), net | $465 | $(632) | $6,599 | $(447) |

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

| | May 31, 2015 | | August 31, 2014 | |
|---|---|---|---|---|
| Derivatives designated as fair value hedging instruments | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign currency forward contracts | Other accrued expenses | — | Other accrued expenses | (14) |
| Net fair value of derivatives designated as hedging instruments that do not qualify for hedge accounting | | $— | | $(14) |

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

NOTE 10 – UNCONSOLIDATED AFFILIATES

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

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

On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company constructed its central offices in Panama. Construction of the offices was completed in October 2014. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. For the three and nine months ended May 31, 2015, the Company recognized rent expense of $26,400 and $79,200, respectively, for this lease.

The table below summarizes the Company’s interest in these VIEs and the Company’s maximum exposure to loss as a result of its involvement with these VIEs as of May 31, 2015 (in thousands):

| Entity | % Ownership | Initial Investment | Additional Investments | Net Loss Inception to Date | Company’s Variable Interest in Entity | Commitment to Future Additional Investments [1] | Company’s Maximum Exposure to Loss in Entity[2] |
|---|---|---|---|---|---|---|---|
| GolfPark Plaza, S.A. | 50 % | $4,616 | $2,283 | $(16) | $6,883 | $217 | $7,100 |
| Price Plaza Alajuela, S.A. | 50 % | 2,193 | 1,236 | 3 | 3,432 | 785 | 4,217 |
| Total | | $6,809 | $3,519 | $(13) | $10,315 | $1,002 | $11,317 |

(1) The parties intend to seek alternate financing for the project, which could reduce the amount of investments each party would be required to provide. The parties may mutually agree on changes to the project, which could increase or decrease the amount of contributions each party is required to provide.

(2) The maximum exposure is determined by adding the Company's variable interest in the entity and any explicit or implicit arrangements that could require the Company to provide additional financial support.

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

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

| | May 31, 2015 | August 31, 2014 |
|---|---|---|
| Current assets | $665 | $803 |
| Noncurrent assets | $12,005 | $8,900 |
| Current liabilities | $1,207 | $1,126 |
| Noncurrent liabilities | $11 | $13 |

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income (loss) | $63 | $6 | $90 | $14 |

NOTE 11 – SEGMENTS

The Company and its subsidiaries are principally engaged in the operation of membership shopping warehouse clubs in 13 countries/territories that are located in Latin America and the Caribbean. In addition, the Company operates distribution centers and corporate offices in the United States. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, which are used by management in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance.

During the second quarter of fiscal year 2015, the Company created a new operating segment comprised of its Colombia Operations and separated the Colombia Operations from the Latin America Operations, renaming that segment Central America Operations. The Company has made this change as a result of the information that the Company's senior operating management regularly reviews for purposes of allocating resources and assessing performance and the growing level of investment and sales activity in Colombia. Therefore, beginning in the second quarter of fiscal year 2015, the Company has reported its financial performance based on these new segments and has retrospectively adopted this change for the disclosure of financial information presented by segment. The Company's operating segments are the United States, Central America, the Caribbean and Colombia. Additionally, certain inter-company charges are no longer allocated to the segments within this presentation and now appear as reconciling items to reflect the amount eliminated on consolidation of intersegment transactions. This presentation more closely reflects the information reviewed by the Company's chief operating decision maker. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues and operating costs included in the United States segment have not been allocated, in order to reflect the information reviewed by the Company's chief operating decision maker or it is impractical to do so.

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

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

| | United States Operations | Central American Operations | Caribbean Operations | Colombia Operations | Total |
|---|---|---|---|---|---|
| As of May 31, 2014 | | | | | |
| Long-lived assets (other than deferred tax assets) as previously reported | $ 14,272 | $ 260,362 | $ 114,268 | $ 105,541 | $ 494,443 |
| Reclassifications to long-lived assets | 96 | 1,441 | — | 760 | 2,297 |
| Long-lived assets (other than deferred tax assets) as currently reported | $ 14,368 | $ 261,803 | $ 114,268 | $ 106,301 | $ 496,740 |
| | | | | | |
| Total assets as previously reported | $ 77,648 | $ 449,575 | $ 218,438 | $ 152,790 | $ 898,451 |
| Reclassifications to total assets | — | 71 | — | — | 71 |
| Total assets as currently reported | $ 77,648 | $ 449,646 | $ 218,438 | $ 152,790 | $ 898,522 |
| | | | | | |
| As of August 31, 2014 | | | | | |
| Long-lived assets (other than deferred tax assets) as previously reported | $ 16,488 | $ 265,950 | $ 113,134 | $ 130,330 | $ 525,902 |
| Reclassifications to long-lived assets | 96 | 2,096 | — | 970 | 3,162 |
| Long-lived assets (other than deferred tax assets) as currently reported | $ 16,584 | $ 268,046 | $ 113,134 | $ 131,300 | $ 529,064 |
| | | | | | |
| Total assets as previously reported | $ 91,190 | $ 457,325 | $ 223,251 | $ 168,452 | $ 940,218 |
| Reclassifications to total assets | (15 ) | 70 | — | (2,203 ) | (2,148 ) |
| Total assets as currently reported | $ 91,175 | $ 457,395 | $ 223,251 | $ 166,249 | $ 938,070 |

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

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

| | United States Operations | Central American Operations | Caribbean Operations | Colombia Operations | Reconciling Items[1] | Total |
|---|---|---|---|---|---|---|
| Three Months Ended May 31, 2015 | | | | | | |
| Revenue from external customers | $9,483 | $403,070 | $201,101 | $83,449 | $— | $697,103 |
| Intersegment revenues | 248,634 | — | 1,516 | — | (250,150) | — |
| Depreciation and amortization | 527 | 3,791 | 2,407 | 2,015 | — | 8,740 |
| Operating income | 4,257 | 31,931 | 11,929 | 18 | (14,617) | 33,518 |
| Net income | 1,013 | 25,403 | 9,975 | (579) | (14,617) | 21,195 |
| Capital expenditures, net | 701 | 16,613 | 2,503 | 9,865 | | 29,682 |
| | | | | | | |
| Nine Months Ended May 31, 2015 | | | | | | |
| Revenue from external customers | $24,149 | $1,212,461 | $619,717 | $247,094 | $— | $2,103,421 |
| Intersegment revenues | 846,574 | — | 4,406 | — | (850,980) | — |
| Depreciation and amortization | 1,614 | 11,133 | 7,146 | 5,280 | — | 25,173 |
| Operating income | 19,971 | 100,185 | 37,506 | (1,763) | (44,388) | 111,511 |
| Net income | 7,994 | 78,577 | 31,808 | (7,314) | (44,388) | 66,677 |
| Capital expenditures, net | (740)[2] | 39,844 | 7,365 | 27,083 | — | 73,552 |
| Long-lived assets (other than deferred tax assets) | 14,166 | 281,667 | 112,110 | 126,200 | — | 534,143 |
| Goodwill | — | 31,284 | 4,681 | — | — | 35,965 |
| Total assets | 86,224 | 501,021 | 222,928 | 206,010 | — | 1,016,183 |
| | | | | | | |
| Three Months Ended May 31, 2014 | | | | | | |
| Revenue from external customers | $6,577 | $369,773 | $191,213 | 47,474 | $— | $615,037 |
| Intersegment revenues | 223,885 | — | 1,411 | — | (225,296) | — |
| Depreciation and amortization | 546 | 3,283 | 2,282 | 1,028 | — | 7,139 |
| Operating income | 3,475 | 28,102 | 11,269 | 1,030 | (12,673) | 31,203 |
| Net income | 782 | 22,404 | 9,367 | 1,440 | (12,673) | 21,320 |
| Capital expenditures, net | 1,730 | 7,165 | 1,560 | 14,223 | — | 24,678 |
| | | | | | | |
| Nine Months Ended May 31, 2014 | | | | | | |
| Revenue from external customers | $19,062 | $1,132,395 | $595,639 | $147,916 | $— | $1,895,012 |
| Intersegment revenues | 738,579 | — | 4,030 | — | (742,609) | — |
| Depreciation and amortization | 1,701 | 9,390 | 6,765 | 3,076 | — | 20,932 |
| Operating income | 16,328 | 89,265 | 33,666 | 4,503 | (40,825) | 102,937 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income | 6,299 | 73,214 | 28,707 | 3,635 | (40,825 ) | 71,030 |
| Capital expenditures, net | 4,869 | 30,087 | 7,223 | 40,595 | — | 82,774 |
| Long-lived assets (other than deferred tax assets) | 14,368 | 261,803 | 114,268 | 106,301 | — | 496,740 |
| Goodwill | — | 31,430 | 4,749 | — | — | 36,179 |
| Total assets | 77,648 | 449,646 | 218,438 | 152,790 | — | 898,522 |
| | | | | | | |
| As of August 31, 2014 | | | | | | |
| Long-lived assets (other than deferred tax assets) | $16,584 | $268,046 | $113,134 | $131,300 | $ — | $529,064 |
| Goodwill | — | 31,383 | 4,725 | — | — | 36,108 |
| Total assets | 91,175 | 457,395 | 223,251 | 166,249 | — | 938,070 |

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

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

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

NOTE 12 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of May 31, 2015 through the date of issuance of these consolidated financial statements and have determined that, except as set forth below, there are no subsequent events that require disclosure.

Guatemala, Pradera warehouse club fire

The Company's Guatemala Pradera warehouse club experienced a fire located within its merchandise receiving department during the early morning hours of Thursday, June 4, 2015. No members or employees were in the warehouse club at the time. The fire was extinguished but caused considerable smoke and some fire damage. The warehouse club was closed for 16 days and reopened on June 20, 2015. As of July 9, 2015, the Company has estimated it will record between $3.0 million and $3.3 million in expenses associated with the write off of inventory, equipment disposal, building repairs and other associated costs recognized related to the fire during the quarter ending August 31, 2015. The Company is insured for these costs and is reviewing whether insurance reimbursement for these costs is probable. If reimbursement is determined to be probable, the Company will recognize proceeds from insurance up to the amount of the losses recognized within the period that determination is made. The Company's insurance policy also addresses coverage for the current replacement costs for assets lost in the fire and for business interruption losses related to the fire. Insurance proceeds in excess of net book value for assets and reimbursements related to business interruptions are considered gain contingencies and will not be recognized in the financial statements until the period in which all contingencies are resolved and the gain is realized.

PRICESMART, INC.

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

This Quarterly Report on Form 10-Q contains forward-looking statements concerning PriceSmart Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flow, proposed warehouse club openings, the Company's performance relative to competitors, the outcome of tax proceedings and related matters. These forward-looking statements include, but are not limited to, statements containing the words “expect,” “believe,” “will,” “may,” “should,” “project,” “estimate,” “anticipated,” “scheduled,” and like expressions, and the negative the
These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the following risks: our financial performance is dependent on international operations, which exposes us to various risks; any failure by us to manage our widely dispersed operations could adversely affect our business; we face significant competition; future sales growth depends, in part, on our ability to successfully open new warehouse clubs; we might not identify in a timely manner or effectively respond to changes in consumer preferences for merchandise, which could adversely affect our relationship with members, demand for our products and market share; although we have begun to offer limited online shopping to our members, our sales could be adversely affected if one or more major international online retailers were to enter our markets or if other competitors were to offer a superior online experience; we face difficulties in the shipment of, and inherent risks in the importation of, merchandise to our warehouse clubs; we are exposed to weather and other natural disaster risks; general economic conditions could adversely impact our business in various respects; we are subject to risks associated with possible changes in our relationships with third parties with which we do business, as well as the performance of such third parties; we rely extensively on computer systems to process transactions, summarize results and manage our business, and failure to adequately maintain our systems or disruptions in our systems could harm our business and adversely affect our results of operations; we could be subject to additional tax liabilities; a few of our stockholders own approximately 28.1% of our voting stock as of May 31, 2015, which may make it difficult to complete some corporate transactions without their support and may impede a change in control; our inability to develop and retain existing key personnel or to attract highly qualified employees could adversely impact our business, financial condition and results of operations; we are subject to volatility in foreign currency exchange rates; we face the risk of exposure to product liability claims, a product recall and adverse publicity; if we do not maintain the privacy and security of confidential information, we could damage our reputation, incur substantial additional costs and become subject to litigation; we are subject to payment related risks; changes in accounting standards and assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations; we face increased public company compliance risks and compliance risks related to our international operations; we face increased compliance risks associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; and if remediation costs or hazardous substance contamination levels at certain properties for which we maintain financial responsibility exceed management's current expectations, our financial condition and results of operations could be adversely impacted. The risks described above as well as the other risks detailed in the Company's U.S. Securities and Exchange Commission (“SEC”) reports, including the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2014 on October 30, 2014 pursuant to the Securities Exchange Act of 1934, as amended, could materially and adversely affect our business, financial condition and results of operations. These risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

The following discussion and analysis compares the results of operations for the three- and nine-month periods ended May 31, 2015 and 2014 and should be read in conjunction with the consolidated financial statements and the accompanying notes included therein.

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Our business consists primarily of operating international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. We operate in 13 countries/territories that are located in Latin America and the Caribbean. Our ownership in all operating subsidiaries as of May 31, 2015 is 100%, and they are presented on a consolidated basis. The number of warehouse clubs in operation as of May 31, 2015 for each country or territory are as follows:

| Country/Territory | Number of Warehouse Clubs in Operation as of May 31, 2015 | Number of Warehouse Clubs in Operation as of May 31, 2014 | Anticipated warehouse club openings within the next 12 months |
|---|---|---|---|
| Colombia | 6 | 3 | — |
| Costa Rica | 6 | 6 | — |
| Panama | 4 | 4 | 1 |
| Trinidad | 4 | 4 | — |
| Dominican Republic | 3 | 3 | — |
| Guatemala | 3 | 3 | — |
| El Salvador | 2 | 2 | — |
| Honduras | 3 | 3 | — |
| Aruba | 1 | 1 | — |
| Barbados | 1 | 1 | — |
| U.S. Virgin Islands | 1 | 1 | — |
| Jamaica | 1 | 1 | — |
| Nicaragua | 1 | 1 | 1 |
| Totals | 36 | 33 | 2 |

During the second quarter of fiscal year 2015, we created a new operating segment comprised of our Colombia Operations and separated the Colombia Operations from the Latin America Operations, renaming that segment Central America Operations. We made this change as a result of the information that our senior operating management regularly reviews for purposes of allocating resources and assessing performance and the growing level of investment and sales activity in Colombia. Therefore, beginning in the second quarter of fiscal year 2015, we have reported our financial performance based on these new segments and have retrospectively adopted this change for the disclosure of financial information presented by segment. Our operating segments are the United States, Central America, the Caribbean and Colombia.

During October 2013, we opened our sixth membership warehouse club in Costa Rica in La Union, Cartago, and in May 2014, we opened our third warehouse club in Honduras in Tegucigalpa, our second in the capital city. In January 2014, we acquired land in Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. We built new warehouse clubs at these three sites, and opened the Bogota location in October 2014 and opened the other two Colombian sites in November 2014. Together with the three warehouse clubs that were operating prior to these openings in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of PriceSmart warehouse clubs operating in Colombia to six. In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which we opened our fifth PriceSmart warehouse club in Panama in June 2015.

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

General Economic Factors

Market conditions in the third fiscal quarter continued to be challenging in some of our markets and may have a dampening effect on overall sales growth in the next several fiscal quarters. In some PriceSmart markets, sales were negatively affected by various economic and social factors including lower prices for exported oil, crime and violence and generally weaker economies. Especially significant, the Colombian peso ("COP") has devalued versus the U.S. dollar by approximately 31% from the beginning of the fiscal year (September 2014) until the end of the third fiscal quarter (May 31, 2015), although it has stabilized over the past few months. This devaluation required us to raise prices in COP on U.S. imports, which account for approximately 57% of

PriceSmart sales in Colombia, thereby reducing demand for those imported products. In addition, the decline in the value of the COP negatively impacts warehouse sales and membership income priced in COP when converted to and reported in U.S. dollars. On the other hand, operating expenses within Colombia are lower when converted to U.S. dollars. Costa Rica also experienced an approximate 10% devaluation of the Costa Rican colon ("CRC") during January and February 2014, which had a negative effect on consumer activity and impacted the year-on-year sales comparisons in the first fiscal quarter and first two months of the second fiscal quarter of fiscal year 2014. The CRC has strengthened somewhat from that initial devaluation and is now at a level consistent with a year ago, which has improved the economic conditions in that market and consumer purchasing behavior. Costa Rica and Colombia are two of our largest markets and therefore macro-economic issues in these countries can have a measurable impact on our consolidated financial performance.

Managing Currency Fluctuations

Currency exchange rate fluctuations can impact net income as we revalue all U.S. dollar-denominated monetary assets and liabilities within our markets that do not use the U.S. dollar as their functional currency. These monetary assets and liabilities include, but are not limited to, excess cash permanently reinvested offshore, U.S. dollar-denominated long-term debt used to finance land acquisitions and the construction of warehouse clubs, and U.S. dollar-denominated accounts payable related to the purchase of merchandise. Approximately 42% of our net warehouse sales are derived from merchandise purchased in U.S. dollars and sold in non-U.S. dollar currencies.

We seek to minimize the impact of negative foreign exchange fluctuations on the Company's results by utilizing from time to time one or more of the following strategies: (1) adjusting prices on goods acquired in U.S. dollars on a periodic basis to maintain our target margins after taking into account changes in exchange rates and our competition; (2) obtaining local currency loans from banks within certain markets where it is economical to do so and where management believes the risk of devaluation and the level of U.S. dollar denominated liabilities warrants this action; (3) reducing the time between the acquisition of product in U.S. dollars and the settlement of that purchase in local currency; (4) maintaining a balance between assets held in local currency and in U.S. dollars; and (5) entering into cross-currency interest rate swaps and forward currency derivatives. We have local-currency-denominated long-term loans in Honduras and Guatemala and have cross-currency interest rate swaps and forward currency derivatives in Colombia. We report the gains or losses associated with the revaluation of these monetary assets and liabilities on our Consolidated Statements of Income under the heading “Other income (expense), net.” Future volatility regarding currencies could have a material impact on our operations in future periods; however, there is no way to accurately forecast the impact of the change in rates on our future demand for imported products, reported sales or financial results.

Competition

We do not currently face direct competition from U.S. branded membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers and specialty stores, including those within Central America that are owned and operated by a large U.S.-based retailer. We have competed effectively in these markets in the past and expect to continue to do so in the future due to the unique nature of the membership warehouse club format and overall value provided to the member. However, new retail competitors may enter our markets, existing retailers continue to invest and expand, and it is possible that U.S. warehouse club operators could enter our markets and compete more directly with us in a similar warehouse club format, although we have no current indication that such an event is imminent.

Business Strategy

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

Current and Future Management Actions

Generally, our operating efficiencies, earnings and cash flow from operations improve as sales increase. Higher sales provide greater purchasing power and often result in lower product prices from our suppliers and cost efficiencies in our distribution operation. Further, increased sales permit us to leverage our selling, general and administrative expenses. It is our business strategy to pass along to our members the savings we receive from better purchasing and more efficient operations through lower merchandise prices, increasing the value our members receive, which then further drives sales and increases volume. Therefore, we prioritize initiatives that we expect will have the greatest impact on increasing sales, particularly within our existing locations. Looking forward to the next several quarters, the following actions are likely to have an impact on our business and the results of operations.

We seek to increase sales by increasing transaction size and frequency with existing members in our warehouse clubs, by attracting new members to our clubs, by improving our buildings and equipment to more effectively serve our members, and by adding new warehouse clubs. Our continued focus on initiatives to increase comparable warehouse club sales within existing warehouse clubs locations resulted in a 4.1% increase in comparable warehouse club sales for the 13-week period ended May 31, 2015 compared to the same 13-week period the prior year. In addition, we have added four new warehouse clubs over the past year, one in Honduras and three in Colombia. While these new clubs have negatively impacted reported comparable warehouse sales somewhat as warehouse sales transferred from existing clubs to these new clubs in the short run, the addition of these clubs had an overall positive impact on warehouse sales and membership.

Membership is a unique and critical feature of the warehouse club business model. The annual fee for a Diamond membership in most of our markets is approximately $35.00 (entitling members to two cards). A membership fee helps us offer high quality merchandise at low prices, providing value to our members. In October 2012, we launched the Platinum membership account in Costa Rica. Platinum members pay an annual membership fee of approximately $75.00 for a primary membership card for which they receive an annual 2% rebate of their purchases on most items, up to a maximum annual rebate of $500.00. Platinum members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. We have not made a decision whether to offer the Platinum membership in any of our other markets at this time.

Logistics and distribution operations are an important part of what allows us to deliver high quality merchandise at low prices to our members. We continue to explore ways to improve efficiency, reduce costs and ensure a good flow of merchandise to our warehouse clubs. We have added local and regional distribution centers in several of our markets to improve merchandise flow and in-stock conditions and reduce operating costs, the benefit of which can be passed on to our members in the form of lower merchandise prices, and we expect to add more in the future as merchandise volumes increase. These locations are generally leased, and the addition of new locations or expansion of current capacity will not require significant investment.

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

Purchasing land and constructing warehouse clubs is our single largest capital investment. Securing land for warehouse club locations is c9 ;border-bottom:1pt none #D9D9D9 ;color:#000000;font-family:Times New Roman;font-size: 10pt;">

Income tax expense based on the Company's income before income taxes was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands, excluding percentages) | | (In thousands, excluding percentages) | |
| Income tax expense | $ 12,629 | $ 4,397 | $ 29,837 | $ 18,185 |
| Effective tax rate | 36.8 % | 36.7 % | 36.8 % | 37.4 % |

The effective tax rate for the quarter ended September 30, 2015 is consistent with that of the same period in 2014. The slight decrease in the effective tax rate during the nine months ended September 30, 2015 when compared to the same period in 2014, is attributable to the change in the mix of earnings across jurisdictions.

The Company assesses deferred tax asset valuation allowances at the end of each reporting period. The determination of whether a valuation allowance for deferred tax assets is needed is subject to considerable judgment and requires an evaluation of all available positive and negative evidence. Based on the assessment at September 30, 2015 and the weight of all available evidence, the Company concluded that maintaining the deferred tax asset valuation allowance for certain of its entities in the U.K., Mexico, and Poland was appropriate, as the Company currently believes that it is more likely than not that these tax assets will not be realized. However, with increased recent profitability and increasing visibility into continued projected profitability in the U.K., the Company believes it is possible that the valuation allowance associated with certain U.K. entities could be reduced or removed in future periods.

The deferred taxes associated with the Company’s unrealized gains and losses on derivative instruments have been reflected within the Accumulated other comprehensive loss balance in the accompanying Consolidated Balance Sheets.

(15) Segment Information

As of September 30, 2015, the Company's operations consisted of its North America and Europe segments. The Company's operations in the U.S., Canada, Mexico, and Puerto Rico are included in its North America segment. The

Company’s operations in the U.K., Germany, and Poland are included in its Europe segment. In 2015, the Company reorganized and created a North America Business Group under common management. During the three months ended March 31, 2015, the Company revised its operating segments to merge the Company’s U.S. and Other International segments into a single North America segment. Previously, the Other International segment was comprised of the Company’s operations in Mexico and Canada. While both of the reporting segments provide similar kiosk-based and/or ATM-related services, each segment is currently managed separately as they require different marketing and business strategies. Segment information presented for prior periods was restated to reflect this change in operating segments.

Management uses Adjusted EBITDA and Adjusted EBITA along with U.S. GAAP-based measures, to assess the operating results and effectiveness of its segments. Management believes Adjusted EBITDA and Adjusted EBITA are useful measures because they allow management to more effectively evaluate operating performance and compare its results of operations from period to period without regard to financing method or capital structure. Additionally, Adjusted EBITDA and Adjusted EBITA do not reflect acquisition and divestiture-related costs and the Company's obligations for the payment of income taxes, loss on disposal of assets, interest expense, certain other non-operating and nonrecurring items or other obligations such as capital expenditures. Additionally, Adjusted EBITDA excludes depreciation and accretion expense.

Adjusted EBITDA and Adjusted EBITA, as defined by the Company, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. In evaluating the Company's performance as measured by Adjusted EBITDA and Adjusted EBITA, management recognizes and considers the limitations of these measurements. Accordingly, Adjusted EBITDA and Adjusted EBITA are only two of the measurements that management utilizes. Therefore, Adjusted EBITDA and Adjusted EBITA should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating, investing, and financing activities or other income or cash flow statement data prepared in accordance with U.S. GAAP.

Below is a reconciliation of Adjusted EBITDA and Adjusted EBITA to net income attributable to controlling interests:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | (In thousands) | |
| Adjusted EBITA | $ 59,719 | $ 47,968 | $ 159,419 | $ 132,454 |
| Add back: | | | | |
| Depreciation and accretion expense (1) | 22,014 | 18,622 | 63,767 | 55,869 |
| Adjusted EBITDA | $ 81,733 | $ 66,590 | $ 223,186 | $ 188,323 |
| Less: | | | | |
| (Gain) loss on disposal of assets | (12,139) | 1,078 | (12,425) | 1,662 |
| Other expense (income) | 1,067 | 1,665 | 2,882 | (3,565) |
| Noncontrolling interests (2) | (336) | (428) | (1,047) | (1,192) |
| Stock-based compensation expense (1) | 5,147 | 4,561 | 14,360 | 11,464 |
| Acquisition and divestiture-related expenses (3) | 13,289 | 2,299 | 21,207 | 13,028 |
| EBITDA | $ 74,705 | $ 57,415 | $ 198,209 | $ 166,926 |
| Less: | | | | |
| Interest expense, net, including amortization of deferred financing costs and note discount, and redemption costs for early extinguishment of debt | 7,892 | 18,040 | 22,951 | 35,584 |
| Income tax expense | 12,629 | 4,397 | 29,837 | 18,185 |
| Depreciation and accretion expense | 22,127 | 18,949 | 64,142 | 56,892 |
| Amortization of intangible assets | 10,048 | 7,965 | 29,040 | 24,647 |
| Net income attributable to controlling interests and available to common stockholders | $ 22,009 | $ 8,064 | $ 52,239 | $ 31,618 |

(1) Amounts exclude 49.0% of the expense incurred by Cardtronics Mexico as such amounts are allocable to the noncontrolling interest stockholders.

(2) Noncontrolling interest adjustment made such that Adjusted EBITDA includes only the Company's 51.0% ownership interest in the Adjusted EBITDA of its Mexico subsidiary.

(3) Acquisition and divestiture-related expenses include nonrecurring costs incurred for professional and legal fees and certain transition and integration-related costs, including contract termination and facility exit costs, employee-related severance costs, and related to our recent divestitures, excess operating costs associated with facilities that are in the process of being shut down or transitioned as a result of recent divestitures.

The following tables reflect certain financial information for each of the Company's reporting segments for the three and nine months ended September 30, 2015 and 2014

| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations/ Adjustments | Total |
| | (In thousands) | | | |
| Revenue from external customers | $ 214,082 | $ 97,268 | $ — | $ 311,350 |
| Intersegment revenues | 2,522 | — | (2,522) | — |
| Cost of revenues | 137,128 | 64,428 | (2,522) | 199,034 |
| Selling, general, and administrative expenses | 28,233 | 7,526 | — | 35,759 |
| Acquisition and divestiture-related expenses | 1,215 | 12,074 | — | 13,289 |
| Loss (gain) on disposal of assets | 570 | (12,709) | — | (12,139) |
| Adjusted EBITDA | 56,425 | 25,308 | — | 81,733 |
| Depreciation and accretion expense | 13,380 | 8,747 | — | 22,127 |
| Adjusted EBITA | 43,158 | 16,561 | — | 59,719 |
| Amortization of intangible assets | 7,838 | 2,210 | — | 10,048 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 7,548 | 344 | — | 7,892 |
| Income tax expense | 10,001 | 2,628 | — | 12,629 |
| Capital expenditures (1) | $ 37,205 | $ 10,253 | $ — | $ 47,458 |

| | Three Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations/ Adjustments | Total |
| | (In thousands) | | | |
| Revenue from external customers | $ 193,470 | $ 72,377 | $ — | $ 265,847 |
| Intersegment revenues | 1,663 | — | (1,663) | — |
| Cost of revenues | 128,084 | 49,757 | (1,663) | 176,178 |
| Selling, general, and administrative expenses | 22,935 | 4,748 | — | 27,683 |
| Acquisition and divestiture-related expenses | 922 | 1,377 | — | 2,299 |
| Loss on disposal of assets | 1,016 | 62 | — | 1,078 |
| Adjusted EBITDA | 48,717 | 17,873 | — | 66,590 |
| Depreciation and accretion expense | 12,102 | 6,847 | — | 18,949 |
| Adjusted EBITA | 36,943 | 11,025 | — | 47,968 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets | 5,501 | 2,464 | — | 7,965 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 9,993 | 325 | — | 10,318 |
| Redemption costs for early extinguishment of debt | 7,722 | — | — | 7,722 |
| Income tax expense | 3,914 | 483 | — | 4,397 |
| Capital expenditures (1) | $ 12,410 | $ 10,915 | $ — | $ 23,325 |

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations/ Adjustments | Total |
| | (In thousands) | | | |
| Revenue from external customers | $ 616,729 | $ 280,268 | $ — | $ 896,997 |
| Intersegment revenues | 6,787 | — | (6,787) | — |
| Cost of revenues | 398,368 | 195,795 | (6,787) | 587,376 |
| Selling, general, and administrative expenses | 78,423 | 22,406 | — | 100,829 |
| Acquisition and divestiture-related expenses | 4,409 | 16,798 | — | 21,207 |
| Loss (gain) on disposal of assets | 1,852 | (14,277) | — | (12,425) |
| Adjusted EBITDA | 161,116 | 62,070 | — | 223,186 |
| Depreciation and accretion expense | 38,529 | 25,613 | — | 64,142 |
| Adjusted EBITA | 122,961 | 36,458 | — | 159,419 |
| Amortization of intangible assets | 22,339 | 6,701 | — | 29,040 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 21,299 | 1,652 | — | 22,951 |
| Income tax expense | 25,613 | 4,224 | — | 29,837 |
| Capital expenditures (1) | $ 68,584 | $ 35,293 | $ — | $ 103,877 |

| | Nine Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations/ Adjustments | Total |
| | (In thousands) | | | |
| Revenue from external customers | $ 565,832 | $ 205,116 | $ — | $ 770,948 |
| Intersegment revenues | 4,447 | — | (4,447) | — |
| Cost of revenues | 372,371 | 145,957 | (4,447) | 513,881 |
| Selling, general, and administrative expenses | 66,706 | 13,430 | — | 80,136 |
| Acquisition and divestiture-related expenses | 1,733 | 11,295 | — | 13,028 |
| Loss on disposal of assets | 1,587 | 75 | — | 1,662 |
| Adjusted EBITDA | 142,606 | 45,717 | — | 188,323 |
| Depreciation and accretion expense | 35,776 | 21,116 | — | 56,892 |
| Adjusted EBITA | 107,863 | 24,591 | — | 132,454 |
| Amortization of intangible assets | 17,225 | 7,422 | — | 24,647 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 25,199 | 1,310 | — | 26,509 |
| Redemption costs for early extinguishment of debt | 9,075 | — | — | 9,075 |
| Income tax expense (benefit) | 18,243 | (58) | — | 18,185 |

| | | | | |
|---|---|---|---|---|
| Capital expenditures (1) | $ 35,316 | $ 29,762 | $ — | $ 65,078 |

(1) Capital expenditure amounts include payments made for exclusive license agreements, site acquisition costs, and other intangible assets. Additionally, capital expenditure amounts for Mexico (included in the North America segment) are reflected gross of any noncontrolling interest amounts.

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Identifiable Assets:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| North America | $ 1,144,446 | $ 1,028,047 |
| Europe | 382,160 | 398,602 |
| Eliminations | (169,211) | (170,859) |
| Total | $ 1,357,395 | $ 1,255,790 |

(16) Supplemental Guarantor Financial Information

The 2022 Notes are fully and unconditionally guaranteed, subject to certain customary release provisions, on a joint and several basis by certain wholly owned domestic subsidiaries. The guarantees of the 2022 Notes by any Guarantor are subject to automatic and customary releases upon: (i) the sale or disposition of all or substantially all of the assets of the Guarantor; (ii) the disposition of sufficient capital stock of the Guarantor so that it no longer qualifies under the Indenture as a restricted subsidiary of the Company; (iii) the designation of the Guarantor as unrestricted in accordance with the Indenture; (iv) the legal or covenant defeasance of the notes or the satisfaction and discharge of the Indenture; (v) the liquidation or dissolution of the Guarantor; or (vi) provided the Guarantor is not wholly owned by the Company, its ceasing to guarantee other debt of the Company or another Guarantor. A Guarantor may not sell or otherwise dispose of all or substantially all of its properties or assets to, or consolidate with or merge with or into, another company (other than the Company or another Guarantor), unless no default under the Indenture exists and either the successor to the Guarantor assumes its guarantee of the 2022 Notes or the disposition, consolidation, or merger complies with the "Asset Sales" covenant in the Indenture.

The following information sets forth the condensed consolidating statements of operations and cash flows for the three and nine months ended September 30, 2015 and 2014 and the condensed consolidating balance sheets as of September 30, 2015 and December 31, 2014 of (i) Cardtronics, Inc., the parent company and issuer of the 2022 Notes ("Parent"); (ii) the Guarantors; and (iii) the Non-Guarantors:

Condensed Consolidating Statements of Comprehensive Income

| | Three Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Revenues | $ — | $ 199,811 | $ 115,084 | $ (3,545) | $ 311,350 |
| Operating costs and expenses | 4,862 | 167,631 | 99,170 | (3,545) | 268,118 |
| Operating (loss) income | (4,862) | 32,180 | 15,914 | — | 43,232 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 6,042 | 1,437 | 413 | — | 7,892 |
| Equity in (earnings) losses of subsidiaries | (31,273) | (9,755) | — | 41,028 | — |
| Other (income) expense, net | (1,235) | (1,002) | 3,292 | 12 | 1,067 |
| Income before income taxes | 21,604 | 41,500 | 12,209 | (41,040) | 34,273 |
| Income tax (benefit) expense | (52) | 9,891 | 2,790 | — | 12,629 |
| Net income | 21,656 | 31,609 | 9,419 | (41,040) | 21,644 |
| Net loss attributable to noncontrolling interests | — | — | — | (365) | (365) |
| Net income attributable to controlling interests and available to common stockholders | 21,656 | 31,609 | 9,419 | (40,675) | 22,009 |
| Other comprehensive loss attributable to controlling interests | (1,716) | (7,158) | (13,680) | — | (22,554) |
| Comprehensive income (loss) attributable to controlling interests | $ 19,940 | $ 24,451 | $ (4,261) | $ (40,675) | $ (545) |

| | Three Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Revenues | $ — | $ 185,217 | $ 85,334 | $ (4,704) | $ 265,847 |
| Operating costs and expenses | 4,891 | 155,918 | 77,787 | (4,444) | 234,152 |
| Operating (loss) income | (4,891) | 29,299 | 7,547 | (260) | 31,695 |
| Interest expense, net, including amortization of deferred financing costs | 7,571 | 2,367 | 380 | — | 10,318 |
| Redemption costs for early extinguishment of debt | 7,722 | — | — | — | 7,722 |
| Equity in (earnings) losses of subsidiaries | (27,718) | (1,520) | — | 29,238 | — |
| Other (income) expense, net | (3,293) | (359) | 5,294 | 23 | 1,665 |
| Income before income taxes | 10,827 | 28,811 | 1,873 | (29,521) | 11,990 |
| Income tax expense | 2,952 | 727 | 718 | — | 4,397 |
| Net income | 7,875 | 28,084 | 1,155 | (29,521) | 7,593 |
| Net loss attributable to noncontrolling interests | — | — | — | (471) | (471) |
| Net income attributable to controlling interests and available to common stockholders | 7,875 | 28,084 | 1,155 | (29,050) | 8,064 |
| Other comprehensive income (loss) attributable to controlling interests | 5,178 | (12,016) | 6,475 | (98) | (461) |
| Comprehensive income attributable to controlling interests | $ 13,053 | $ 16,068 | $ 7,630 | $ (29,148) | $ 7,603 |

| | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Revenues | $ — | $ 587,142 | $ 317,665 | $ (7,810) | $ 896,997 |
| Operating costs and expenses | 14,062 | 494,259 | 289,658 | (7,810) | 790,169 |
| Operating (loss) income | (14,062) | 92,883 | 28,007 | — | 106,828 |
| Interest expense, net, including amortization of deferred financing costs and note discount | 16,327 | 4,830 | 1,794 | — | 22,951 |
| Equity in (earnings) losses of subsidiaries | (71,050) | (16,614) | — | 87,664 | — |
| Other (income) expense, net | (313) | (2,633) | 5,815 | 13 | 2,882 |
| Income before income taxes | 40,974 | 107,300 | 20,398 | (87,677) | 80,995 |
| Income tax (benefit) expense | (12,403) | 37,706 | 4,534 | — | 29,837 |
| Net income | 53,377 | 69,594 | 15,864 | (87,677) | 51,158 |

| | | | | | |
|---|---|---|---|---|---|
| Net loss attributable to noncontrolling interests | — | — | — | (1,081) | (1,081) |
| Net income attributable to controlling interests and available to common stockholders | 53,377 | 69,594 | 15,864 | (86,596) | 52,239 |
| Other comprehensive (loss) income attributable to controlling interests | (8,813) | 1,300 | (2,425) | 874 | (9,064) |
| Comprehensive income attributable to controlling interests | $ 44,564 | $ 70,894 | $ 13,439 | $ (85,722) | $ 43,175 |

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| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Revenues | $ — | $ 540,153 | $ 238,283 | $ (7,488) | $ 770,948 |
| Operating costs and expenses | 11,864 | 452,694 | 232,916 | (7,228) | 690,246 |
| Operating (loss) income | (11,864) | 87,459 | 5,367 | (260) | 80,702 |
| Interest expense, net, including amortization of deferred financing costs | 16,463 | 8,546 | 1,500 | — | 26,509 |
| Redemption costs for early extinguishment of debt | 9,075 | — | — | — | 9,075 |
| Equity in (earnings) losses of subsidiaries | (81,468) | (2,849) | — | 84,317 | — |
| Other (income) expense, net | (951) | (5,122) | 2,890 | (382) | (3,565) |
| Income before income taxes | 45,017 | 86,884 | 977 | (84,195) | 48,683 |
| Income tax expense | 14,652 | 3,356 | 177 | — | 18,185 |
| Net income | 30,365 | 83,528 | 800 | (84,195) | 30,498 |
| Net loss attributable to noncontrolling interests | — | — | — | (1,120) | (1,120) |
| Net income attributable to controlling interests and available to common stockholders | 30,365 | 83,528 | 800 | (83,075) | 31,618 |
| Other comprehensive income (loss) attributable to controlling interests | 5,576 | (12,243) | 10,094 | (84) | 3,343 |
| Comprehensive income attributable to controlling interests | $ 35,941 | $ 71,285 | $ 10,894 | $ (83,159) | $ 34,961 |

Condensed Consolidating Balance Sheets

| | As of September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | $ 6 | $ 1,811 | $ 16,666 | $ — | $ 18,483 |
| Accounts and notes receivable, net | — | 46,948 | 44,888 | — | 91,836 |
| Current portion of deferred tax asset, net | — | 17,411 | 3,124 | — | 20,535 |
| Other current assets | 476 | 19,536 | 77,502 | — | 97,514 |
| Total current assets | 482 | 85,706 | 142,180 | — | 228,368 |
| Property and equipment, net | — | 227,147 | 148,623 | — | 375,770 |
| Intangible assets, net | 9,021 | 88,645 | 70,380 | — | 168,046 |
| Goodwill | — | 396,939 | 155,116 | — | 552,055 |
| Investments in and advances to subsidiaries | 606,053 | 359,273 | — | (965,326) | — |
| Intercompany receivable | 476,915 | 157,895 | 496,096 | (1,130,906) | — |
| Deferred tax asset, net | — | — | 12,607 | — | 12,607 |
| Prepaid expenses, deferred costs, and other noncurrent assets | 137 | 6,908 | 13,504 | — | 20,549 |
| Total assets | $ 1,092,608 | $ 1,322,513 | $ 1,038,506 | $ (2,096,232) | $ 1,357,395 |
| Liabilities and Stockholders' Equity: | | | | | |
| Current portion of other long-term liabilities | — | 31,631 | 4,694 | — | 36,325 |
| Accounts payable and accrued liabilities | 7,196 | 99,832 | 121,690 | — | 228,718 |
| Total current liabilities | 7,196 | 131,463 | 126,384 | — | 265,043 |
| Long-term debt | 608,220 | — | 27,750 | — | 635,970 |
| Intercompany payable | 134,545 | 399,454 | 596,907 | (1,130,906) | — |
| Asset retirement obligations | — | 28,400 | 26,580 | — | 54,980 |
| Deferred tax liability, net | — | 10,613 | 2,103 | — | 12,716 |
| Other long-term liabilities | 137 | 42,218 | 3,821 | — | 46,176 |
| Total liabilities | 750,098 | 612,148 | 783,545 | (1,130,906) | 1,014,885 |
| Stockholders' equity | 342,510 | 710,365 | 254,961 | (965,326) | 342,510 |
| Total liabilities and stockholders' equity | $ 1,092,608 | $ 1,322,513 | $ 1,038,506 | $ (2,096,232) | $ 1,357,395 |

| | As of December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | | | Eliminations | |
| | Parent | Guarantors | Non-Guarantors | | Total |
| | (In thousands) | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | $ — | $ 9,391 | $ 22,484 | $ — | $ 31,875 |
| Accounts and notes receivable, net | — | 43,588 | 36,733 | — | 80,321 |
| Current portion of deferred tax asset, net | 16,522 | 2,973 | 4,808 | — | 24,303 |
| Other current assets | 5,299 | 23,260 | 32,347 | — | 60,906 |
| Total current assets | 21,821 | 79,212 | 96,372 | — | 197,405 |
| Property and equipment, net | — | 201,864 | 133,931 | — | 335,795 |
| Intangible assets, net | 10,207 | 109,170 | 58,163 | — | 177,540 |
| Goodwill | 835 | 395,878 | 115,250 | — | 511,963 |
| Investments in and advances to subsidiaries | 538,890 | 297,095 | — | (835,985) | — |
| Intercompany receivable | 354,266 | 101,737 | 466 | (456,469) | — |
| Deferred tax asset, net | — | — | 10,487 | — | 10,487 |
| Prepaid expenses, deferred costs, and other noncurrent assets | — | 4,860 | 17,740 | — | 22,600 |
| Total assets | $ 926,019 | $ 1,189,816 | $ 432,409 | $ (1,292,454) | $ 1,255,790 |
| Liabilities and Stockholders' Equity: | | | | | |
| Current portion of long-term debt | $ — | $ — | $ 35 | $ — | $ 35 |
| Current portion of other long-term liabilities | — | 33,154 | 1,783 | — | 34,937 |
| Accounts payable and accrued liabilities | 13,773 | 104,870 | 97,307 | — | 215,950 |
| Total current liabilities | 13,773 | 138,024 | 99,125 | — | 250,922 |
| Long-term debt | 612,662 | — | — | — | 612,662 |
| Intercompany payable | — | 375,372 | 133,508 | (508,880) | — |
| Asset retirement obligations | — | 27,456 | 24,583 | — | 52,039 |
| Deferred tax liability, net | 13,049 | 185 | 2,682 | — | 15,916 |
| Other long-term liabilities | — | 37,716 | — | — | 37,716 |
| Total liabilities | 639,484 | 578,753 | 259,898 | (508,880) | 969,255 |
| Stockholders' equity | 286,535 | 611,063 | 172,511 | (783,574) | 286,535 |
| Total liabilities and stockholders' equity | $ 926,019 | $ 1,189,816 | $ 432,409 | $ (1,292,454) | $ 1,255,790 |

Condensed Consolidating Statement of Cash Flows

| | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Net cash (used in) provided by operating activities | $ (61,116) | $ 138,086 | $ 68,875 | $ 1,267 | $ 147,112 |
| Additions to property and equipment | — | (60,522) | (39,089) | (376) | (99,987) |
| Payments for exclusive license agreements, site acquisition costs, and other intangible assets | — | (3,890) | — | — | (3,890) |
| Acquisitions, net of cash acquired | — | (80,504) | (23,370) | — | (103,874) |
| Sale of assets and businesses | — | — | 36,661 | — | 36,661 |
| Net cash used in investing activities | — | (144,916) | (25,798) | (376) | (171,090) |
| Proceeds from borrowings under revolving credit facility | 312,500 | — | 27,750 | — | 340,250 |
| Repayments of borrowings under revolving credit facility | (324,186) | — | — | — | (324,186) |
| Repayments of borrowings under bank overdraft facility, net | — | — | (30) | — | (30) |
| Repayments of intercompany notes payable | 75,545 | (750) | (74,795) | — | — |
| Proceeds from exercises of stock options | 586 | — | — | — | 586 |
| Excess tax benefit from stock-based compensation expense | 1,287 | — | — | — | 1,287 |
| Repurchase of capital stock | (4,610) | — | — | — | (4,610) |
| Net cash provided by (used in) financing activities | 61,122 | (750) | (47,075) | — | 13,297 |
| Effect of exchange rate changes on cash | — | — | (1,820) | (891) | (2,711) |
| Net increase (decrease) in cash and cash equivalents | 6 | (7,580) | (5,818) | — | (13,392) |
| Cash and cash equivalents as of beginning of period | — | 9,391 | 22,484 | — | 31,875 |
| Cash and cash equivalents as of end of period | $ 6 | $ 1,811 | $ 16,666 | $ — | $ 18,483 |

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Total |
| | (In thousands) | | | | |
| Net cash (used in) provided by operating activities | $ (28,970) | $ 91,495 | $ 40,555 | $ (20) | $ 103,060 |
| Additions to property and equipment | — | (29,361) | (33,808) | — | (63,169) |
| Payments for exclusive license agreements, site acquisition costs, and other intangible assets | — | — | (1,909) | — | (1,909) |
| Acquisitions, net of cash acquired | — | (8,803) | — | — | (8,803) |
| Net cash used in investing activities | — | (38,164) | (35,717) | — | (73,881) |
| Proceeds from borrowings of long-term debt | 250,000 | | | | 250,000 |
| Repayment of long-term debt | (200,000) | | | | (200,000) |
| Repayments of borrowings under revolving credit facility | (3,401) | (4) | (1,026) | — | (4,431) |
| Repayments of borrowings under bank overdraft facility, net | — | — | (1,402) | — | (1,402) |
| Debt issuance, modification, and redemption costs | (14,750) | — | — | — | (14,750) |
| Payment of contingent consideration | — | (200) | (316) | — | (516) |
| Proceeds from exercises of stock options | 331 | — | — | — | 331 |
| Excess tax benefit from stock-based compensation expense | 3,084 | — | — | — | 3,084 |
| Repurchase of capital stock | (6,684) | — | — | — | (6,684) |
| Net cash provided by (used in) financing activities | 28,580 | (204) | (2,744) | — | 25,632 |
| Effect of exchange rate changes on cash | — | — | (889) | — | (889) |
| Net (decrease) increase in cash and cash equivalents | (390) | 53,128 | 1,205 | (20) | 53,922 |
| Cash and cash equivalents as of beginning of period | 412 | 73,379 | 13,148 | — | 86,939 |
| Cash and cash equivalents as of end of period | $ 22 | $ 126,506 | $ 14,353 | $ (20) | $ 140,861 |

(17) Concentration Risk

Significant Customers. 7-Eleven, Inc. (“7-Eleven”) in the U.S. represents the largest merchant customer in the Company’s portfolio, and comprised approximately 17.5% and 22.0% of the Company’s unaudited pro forma revenues for the years ended December 31, 2014 and 2013, respectively. In July 2015, the Company received notification from 7-Eleven that 7-Eleven does not intend on renewing its ATM placement agreement with Cardtronics upon expiration. The existing agreement between Cardtronics and 7-Eleven remains in effect until mid-2017, and calls for a transition period that, at 7-Eleven’s request, could extend our contract in part for up to six months. See Part II. Other Information, Item 1A. Risk Factors.

(18) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued FASB Accounting Standards Updates ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)"  ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition.

The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-09 was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. However, in July 2015, FASB approved the deferral of the effective date of ASU 2014-09 to interim and annual periods beginning after December 15, 2017. Early application is not permitted. In May 2015 the FASB issued proposed amendments to clarify and simplify accounting for licenses of intellectual property and the identification of performance obligations. The Company is currently monitoring the amendments and evaluating the effect that the adoption of ASU 2014-09 will have on the Company’s financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. ASU 2015-03 requires retrospective application and is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect ASU 2015-03 to have a material effect on the Company's results of operations; however, it will impact future balance sheet presentation and financial statement disclosures related to the Company's debt issuance costs.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 applies to inventory that is measured using either the first-in, first-out or average cost methods and requires entities to measure their inventory at the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual periods beginning after December 15, 2016, and interim periods therein. The Company does not expect ASU 2015-11 to have a material effect on the Company’s results of operations.

In August 2015, the FASB issued ASU No. 2015-15, “Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements-Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting” (“ASU 2015-15”), which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company does not expect ASU 2015-15 to have a material effect on the Company’s results of operations; however, it could impact future balance sheet presentation and financial statement disclosures related to the Company's debt issuance costs.

The Company plans to implement ASU No 2015-03 and 2015-15 for its year commencing on January 1, 2016.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts in the period in which the adjustment amount is determined. The acquirer is also required to record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition the acquirer is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and requires prospective application. The Company does not expect ASU 2015-16 to have a material effect on the Company’s results of operations.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Form 10-Q may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “project,” “believe,” “estimate,” “expect,” “future,” “anticipate,” “intend,” “contemplate,” “foresee,” “would,” “could,” “plan,” and similar expressi intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- our financial outlook and the financial outlook of the ATM industry and the continued usage of cash by consumers at rates near historical patterns;
- our ability to respond to recent and future network and regulatory changes, including forthcoming requirements surrounding Europay, MasterCard, and Visa (“EMV”) security standards;
- our ability to renew our existing customer relationships on comparable economic terms and add new customers;
- our ability to pursue and successfully integrate acquisitions;
- changes in interest rates and foreign currency rates;
- our ability to successfully manage our existing international operations and to continue to expand internationally;
- our ability to manage concentration risks with key customers, vendors and service providers;
- our ability to prevent thefts of cash;
- our ability to manage cybersecurity risks and prevent data breaches;
- our ability to respond to potential reductions in the amount of net interchange fees that we receive from global and regional debit networks for transactions conducted on our ATMs due to pricing changes implemented by those networks as well as changes in how issuers route their ATM transactions over those networks;
- our ability to provide new ATM solutions to retailers and financial institutions including placing additional banks’ brands on ATMs currently deployed;
- our ATM vault cash rental needs, including potential liquidity issues with our vault cash providers and our ability to continue to secure vault cash rental agreements in the future;
- our ability to manage the risks associated with our third-party service providers failing to perform their contractual obligations;
- our ability to successfully implement our corporate strategy;
- our ability to compete successfully with new and existing competitors;
- our ability to meet the service levels required by our service level agreements with our customers;
- the additional risks we are exposed to in our U.K. armored transport business; and
- our ability to retain our key employees and maintain good relations with our employees.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see (i) Part II. Other Information, Item 1A. Risk Factors in this Form 10-Q and (ii) Part I. Item 1A. Risk Factors in the 2014 Form 10 K.

Readers are cautioned not to place undue reliance on forward-looking statements contained in this document, which speak only as of the date of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Cardtronics, Inc. provides convenient automated consumer financial services through its network of automated teller machines ("ATMs") and multi-function financial services kiosks. As of September 30, 2015, we were the world's largest retail ATM owner, providing services to approximately 190,000 devices throughout the United States ("U.S.") (including the U.S. territory of Puerto Rico), the United Kingdom ("U.K."), Germany, Poland, Canada, and Mexico. In the U.S., certain of our devices are multi-function financial services kiosks that, in addition to traditional ATM functions such as cash dispensing and bank account balance inquiries, perform other consumer financial services including bill payments, check cashing, remote deposit capture (which is deposit-taking at ATMs using electronic imaging), and money transfers. Also included in the number of devices in our network as of September 30, 2015 were approximately 112,200 ATMs to which we provided processing services or various forms of managed services solutions. Under a managed services arrangement, retailers, financial institutions, and ATM distributers rely on us to handle some or all of the operational aspects associated with operating and maintaining ATMs, typically in exchange for a monthly service fee or fee per service provided.

We often partner with large, nationally and regionally-known retail merchants under multi-year contracts to place our ATMs and kiosks within their store locations. In doing so, we provide our retail partners with a compelling automated financial services solution that helps attract and retain customers, and in turn, increases the likelihood that our devices will be utilized. We also own and operate electronic funds transfer ("EFT") transaction processing platforms that provide transaction processing services to our network of ATMs and financial services kiosks, as well as to other ATMs owned and operated by third parties.

We also own and operate the Allpoint network ("Allpoint"), the largest surcharge-free ATM network within the U.S. (based on the number of participating ATMs). Allpoint, which has approximately 55,000 participating ATMs globally, provides surcharge-free ATM access to customers of approximately 1,300 participating financial institutions that lack a significant ATM network in exchange for either a fixed monthly fee per cardholder or a set fee per transaction that is paid by the financial institutions who are members of the network. Allpoint includes a majority of our ATMs in the U.S., and a portion of the Company's ATMs in the U.K., Canada, Puerto Rico, and Mexico. Allpoint also works with financial institutions that manage stored-value debit card programs on behalf of corporate entities and governmental agencies, including general purpose, payroll and electronic benefits transfer ("EBT") cards. Under these programs, the issuing financial institutions pay Allpoint a fee per issued stored-value card or per transaction in return for allowing the users of those cards surcharge-free access to Allpoint's participating ATM network.

For additional discussion of our operations and the manner in which we derive revenues, please refer to our 2014 Form 10-K.

Strategic Outlook

Our strategy is to leverage the expertise and scale we have built in our two largest markets, the U.S. and U.K., to continue to expand in those markets, continue to grow in our other markets, and to drive expansion into new international markets to enhance our position as a leading provider of automated consumer financial services. To do so, we will continue to partner with leading financial institutions and retailers to expand our network of conveniently located ATMs and financial services kiosks. Additionally, we will seek to deploy additional products and services that will further incentivize consumers to utilize our network of devices. In order to execute this strategy, we endeavor to:

· Increase our Number of Deployed Devices with Existing and New Merchant Relationships. We believe that there are opportunities to deploy additional ATMs with our existing retail customers in locations that currently do not have ATMs. Furthermore, many of our retail customers continue to expand their number of active store locations, either through acquisitions or through new store openings, thus providing us with additional ATM deployment opportunities. Additionally, we seek opportunities to deploy ATMs with new retailers, including retailers that currently do not have ATMs, as well as those that have existing ATM programs but that are looking for a new ATM provider. We believe our expertise, broad geographic footprint, strong record of customer service, and significant scale positions us to successfully market to and enter into long-term contracts with additional leading merchants. In addition, we believe our existing relationships with leading U.S. and U.K. based retailers positions us to expand into international locations where these partners have operations.

· Expand our Relationships with Leading Financial Institutions. Through our merchant relationships as well as our diverse product and service offerings, we believe we can provide our existing financial institution customers with convenient solutions to fulfill their growing ATM and automated consumer financial services requirements. Further, we believe we can leverage our product offerings to attract additional financial institutions as customers. Services currently offered to financial institutions include branding our ATMs with their logos, on-screen advertising and content management, providing image deposit capture, providing surcharge-free access to their customers, and providing managed services for their ATM portfolios. Our EFT transaction processing capabilities enable us to provide customized control over the content of the information appearing on the screens of our ATMs and ATMs we process for financial institutions, which increases the types of products and services we are able to offer to financial institutions. We also plan to continue growing the number of machines and financial institutions participating in our Allpoint network, which drives higher transaction counts and profitability on our existing ATMs and increases our value to the retailers where our ATMs are located through increased foot traffic.

· Work with Non-Traditional Financial Institutions and Card Issuers to Further Leverage our Extensive ATM and Financial Services Kiosk Network. We believe there are opportunities to develop or expand relationships with non-traditional financial institutions and card issuers, such as reloadable prepaid card issuers and alternative payment networks, which are seeking an extensive and convenient ATM network to complement their card offerings. Additionally, we believe that many of the prepaid debit card issuers in the U.S. can benefit by providing their cardholders with access to our ATM network on a discounted or fee-free basis. For example, through our Allpoint network, we have sold access to our ATM network to issuers of stored-value prepaid debit cards to provide the customers of these issuers with convenient and surcharge-free access to cash.

· Increase Transaction Levels at our Existing Locations. We believe there are opportunities to increase the number of transactions that are occurring today at our existing ATM locations. On average, only a small fraction of the customers that enter our retail customers' locations utilize our ATMs and financial services kiosks. In addition to our existing initiatives that tend to drive additional transaction volumes to our ATMs, such as bank-branding and network-branding, we have developed and are continuing to develop new initiatives to drive incremental transactions to our existing ATM locations. For example, we have developed a data analysis technology that we refer to as SightLine to analyze transaction patterns at our ATMs, which we believe has value to retailers and financial institutions alike by enabling them to better understand their customers' behavior. We are also developing programs to steer cardholders of our existing financial institution partners and members of our Allpoint network to visit our ATMs in convenient retail locations. These programs may include incentives to cardholders such as coupons, rewards, and other offers that tend to provide incentives for customers to visit our ATMs within our existing retail footprint. While we are in various stages of developing and implementing many of these programs, we believe that these programs, when properly structured, can serve to benefit each party (i.e. the retailer, the financial institution, and the cardholder). These various initiatives are intended to drive increased transaction volumes, which would in turn drive increased revenues to us, and would also be beneficial to our retail and financial institution partners.

· Develop and Provide Additional Services at our Existing ATMs. Service offerings by ATMs continue to evolve over time. Certain ATM models are capable of providing numerous automated consumer financial services, including check cashing, image deposit capture, money transfer, bill payment services, and stored-value card reload services.

Certain of our devices are capable of, and currently provide, these types of services. We believe these additional consumer financial services offered by our devices, and other machines that we or others may develop, could provide a compelling and cost-effective solution for financial institutions and stored-value prepaid debit card issuers looking to provide convenient broader financial services to their customers at well-known retail locations. We also allow advertisers to place their messages on our ATMs equipped with advertising software in the U.S., Canada, and the U.K. Offering additional services at our devices, such as advertising, allows us to create new revenue streams from assets that have already been deployed, in addition to providing value to our customers through beneficial offers and convenient services. We plan to develop additional products and services that can be delivered through our existing ATM network.

· Pursue Additional Managed Services Opportunities. Over the last several years, we significantly expanded the number of ATMs that are operated under managed services arrangements. Under these arrangements, retailers and financial institutions generally pay us a fixed management fee per ATM and/or a set fee per transaction in exchange for handling some or all of the operational aspects associated with operating and maintaining their ATM fleets. Surcharge and interchange fees under these arrangements are generally earned by the retailer or the financial institution rather than by us. As a result, in this arrangement type, our revenues are partly protected from fluctuations in transaction levels of these machines and changes in network interchange rates. We plan to continue pursuing additional managed services opportunities with leading merchants and financial institutions in the markets in which we operate.

· Pursue International Growth Opportunities. We have invested significant amounts of capital in our U.K., Canada, and Mexico businesses, and we plan to continue to grow our business in these markets, as well as in the recently entered Germany and Poland markets, applying many of the aforementioned strategies. Additionally, we expect to expand our operations into selected other international markets where we believe we can leverage our operational expertise, EFT transaction processing platform and scale advantages. Our future international expansion, if any, will depend on a number of factors, including the estimated economic opportunity to us, the business and regulatory environment in the international market, our ability to identify suitable business partners in the market and, other factors.

· Pursue Acquisition Opportunities. We have historically generated a large part of our growth through acquisitions, and expect to continue to pursue select acquisition opportunities in the future. Since 2011, we have acquired: (i) eight domestic ATM operators, expanding our fleet in both multi-unit regional retail chains and individual merchant ATM locations in the U.S., (ii) two Canadian ATM operators, which allowed us to enter into and expand our international presence in Canada, (iii) Cardpoint Limited (“Cardpoint”) in August 2013, which further expanded our U.K. ATM operations and also allowed us to enter into the German market, and (iv) Sunwin Services Group (“Sunwin”) in November of 2014, which further expanded our cash-in-transit and maintenance servicing capabilities in the U.K. and allowed us to acquire and operate approximately 2,000 existing high-transacting ATMs located at the Co-operative Group (“Co-op”) Food stores and the opportunity to install and operate new ATMs in stores that do not currently have ATMs.

In addition to ATM acquisitions, we have also made strategic acquisitions including (i) LocatorSearch in August 2011, a domestic leading provider of location search technology deployed by financial institutions to help customers and members find the nearest, most appropriate and convenient ATM location based on the service they seek, (ii) i-design group plc (“i-design”) in March 2013, which is a Scotland-based provider and developer of marketing and advertising software and services for ATM operators, and (iii) Columbus Data Services, L.L.C ("CDS") in July 2015, a leading independent transaction processor for ATM deployers and payment card issuers, providing leading-edge solutions to ATM sales and service organizations and financial institutions.

Recent Events and Trends

Over the last several years, we have grown our business through a combination of organic growth through the strategies described above and with acquisitions. During the nine months ended September 30, 2015, total revenues, on a constant-currency basis, grew by approximately 20.5% over the prior year, reflecting approximately 16.9% growth from acquisitions and 3.6% from organic growth.

Withdrawal Transaction and Revenue Trends – North America. Many banks are reducing the number of branches they operate to reduce their operating costs, giving rise to a desire for automated banking solutions, such as ATMs. Over the last several years, some of the largest banks serving the U.S. market for consumer banking services have begun to aggressively compete for market share, and part of their competitive strategy is to increase their number of customer touch points, including the establishment of an ATM network to provide convenient, surcharge-free access to cash for their customers. As a result, in certain situations, we have faced direct competition from large U.S. banks for ATM placement

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opportunities. While a large ATM network would be a key strategic asset for a bank, we believe it would be uneconomical for all but the largest banks to build and operate an extensive ATM network. Bank-branding of our ATMs and participation in our surcharge-free network allow financial institutions to rapidly increase and maintain a surcharge-free ATM access for their customers at a substantially lower cost than building and maintaining their own ATM network. We also believe there is an opportunity for a large non-bank ATM and financial services kiosk operator such as ourselves, with lower costs and an established operating history, to contract with financial institutions and retailers to manage their ATM networks. Such an outsourcing arrangement could reduce a financial institution’s operating costs while extending its customer service. Furthermore, we believe there are opportunities to provide selected services on an outsourced basis, such as transaction processing services, to other independent owners and operators of ATMs and financial services kiosks. These factors have led to an increase in bank-branding, participation in surcharge-free networks, and managed services arrangements, and we believe that there will be continued growth in such arrangements.

In 2014, we received notice from one of our largest branding partners, JP Morgan Chase & Co. (“Chase”), of their intention not to renew or extend a number of ATM branding contracts with us. While this action is having a moderately negative impact on 2015 results, we do not believe that it will have a long-term adverse impact on our financial results and our ability to continue offering bank-branding solutions to financial institutions. We have already reached agreements with several financial institutions and are in advanced discussions with multiple other financial institutions to replace the branding on a significant number of the ATMs previously branded by Chase.

Excluding locations that were impacted by the Chase debranding activity, the remainder of our U.S. fleet produced same-store withdrawals that were essentially flat for both the three and nine months ended September 30, 2015. Same-store revenues for our U.S. ATMs were up approximately 2% for the three months ended September 30, 2015, and this slightly higher growth rate compared to the near-flat same-store withdrawal transaction growth rate is primarily attributable to an increase in bank and network-branding and surcharge rate increases at certain locations.

Total same-store cash withdrawal transactions conducted on our U.S. ATMs decreased for the three and nine months ended September 30, 2015 by 6.3% and 5.4%, respectively, compared to the prior year, inclusive of the locations previously branded by Chase. The decline was due to a number of our ATMs having the Chase brand removed during the first quarter of 2015. This debranding activity caused a shift in consumer behavior at some of our ATMs, as ATMs that were previously free-to-use to Chase cardholders, now charge convenience fees to those cardholders. Chase may also charge its customers an out of network fee, making the ATM less attractive for Chase cardholders to use them. For the remainder of 2015, we expect to see a decline in same-store withdrawal transactions as a result of the debranding activity mentioned above. Excluding ATM locations that have been debranded during the year, we expect an approximately flat withdrawal transaction growth rate on a same-store basis on our domestic ATMs in the near-term.

In July 2015, we received notification from 7-Eleven, Inc. (“7-Eleven”) that 7-Eleven does not intend on renewing its ATM placement agreement with us upon expiration of the agreement in mid-2017. 7-Eleven announced that it has selected a related entity of 7-Eleven’s parent company as its next ATM provider. 7-Eleven in the U.S. represents the single largest merchant customer in our portfolio, and comprised approximately 17.5% and 22.0% of our unaudited pro forma revenues for the years ended December 31, 2014 and 2013, respectively. The existing agreement between Cardtronics and 7-Eleven remains in effect until mid-2017. At this time, we do not expect a significant change in our revenues and earnings through mid-2017 as a result of this notification. See Part II. Other Information, Item 1A. Risk Factors.

Withdrawal Transaction and Revenue Trends – Europe. In recent periods, we have installed more free-to-use ATMs as opposed to surcharging pay-to-use ATMs in the U.K., which is our largest operation in Europe, due in part to our major corporate customer contract additions that tend to operate mostly in high traffic locations where free-to-use ATMs are more prevalent. Although we earn less revenue per cash withdrawal transaction on a free-to-use machine, the significantly higher volume of transactions conducted on free-to-use machines have generally translated into higher overall revenues. Our same-store withdrawal transactions have been slightly negative (2.0 - 3.0%) in recent periods in the U.K. However, in the current quarter, our overall organic revenue growth rate in Europe was over 10% on a constant-currency basis, driven primarily by success in the U.K., as we have been able to secure several ATM operating agreements with new and existing relationships and we also benefited from a higher interchange rate. Additionally, through our significant operating scale in this market, we have been able to grow our profit margins with the additional revenues from the expanded ATM estate.

Financial Regulatory Reform in the U.K. and the European Union. In March 2013, the U.K. Treasury department (the “Treasury”) issued a formal recommendation to further regulate the U.K. payments industry, including LINK, the nation’s formal ATM scheme. In October 2013, the U.K. government responded by establishing the new Payment Systems Regulator (“PSR”) to oversee any payment system operating in the U.K. and its participants. The PSR went live in April 2015 and to date there has been no significant immediate effect on Cardtronics or its operations. We will continue to monitor and report on any further developments.

In July 2013, the European Commission put forward a new draft directive to regulate payment service providers operating in the European Union (“PSD2”). Broadly, PSD2 sought to harmonize rules for the licensing of payment institutions and introduce certain common rules applicable to all payment service providers (“PSPs”) throughout the European Union. PSD2 set out the rights and obligations of payment service users and PSPs together with transparency and security requirements to facilitate safe, efficient payment transactions. PSD2 was finalized on October 8, 2015, carrying forward the exemption related to independent ATM operators that was present in the prior directive (“PSD1”).

Europay, MasterCard, Visa (“EMV”) Standard in the U.S. The EMV standard provides for the security and processing of information contained on microchips embedded in certain debit and credit cards, known as “chip cards.” This standard has already been adopted in the U.K., Germany, Poland, Mexico, and Canada, and our ATMs in those markets are in compliance. In the U.S., MasterCard has announced plans for a liability shift from the issuers of these cards to the party that has not made the investment in EMV equipment (acquirer) on various dates. MasterCard’s liability shift on International Maestro (MasterCard) transactions occurred in April 2013, and while the majority of our U.S. ATMs are not currently EMV-compliant, to date, we have not experienced and do not expect this liability shift to have a significant impact on our business or results as International Maestro transactions currently comprise less than 1.0% of our U.S. transaction volume. As of the Maestro liability shift date of April 2013, we implemented additional fraud monitoring methods to minimize fraud losses. To date, we have seen minimal fraud losses. MasterCard has also announced that liability shift for its domestic ATM transactions on EMV-issued cards will occur starting in October 2016. In February 2013, Visa announced plans for a liability shift to occur in October 2017 for all transactions types on domestic or international EMV-issued cards. At this time, neither MasterCard nor Visa are requiring mandatory upgrades to ATM equipment; however, all of our recent ATM deployments have been with ATMs that are EMV-ready, and we plan to upgrade the majority of our U.S. fleet in advance of the October 2016 MasterCard liability shift date for domestic transactions. We have commenced our plan to make our U.S. fleet EMV-compliant, and currently estimate that the incremental potential cost to make our entire current Company-owned U.S. ATM fleet, inclusive of recent acquisitions, fully compliant with the EMV standard is approximately $40.0 million to $50.0 million, a portion of which was incurred during 2014 and 2015. With the increased capital investments required as a result of EMV, our depreciation expense will likely increase in the future. Additionally, there is a possibility that we could incur asset write-offs or accelerated depreciation expense on certain ATM units. We may experience a higher rate of unit count attrition for our merchant-owned ATMs as a result of this standard, however, we are currently offering programs to make EMV upgrades attractive to merchants that own their own ATMs. At this time, through a combination of ordinary replacement of equipment, routine scheduled maintenance visits to our ATMs, and evolving technology to meet compliance, we do not expect the U.S. EMV standard, being driven by MasterCard- and Visa-announced liability shifts, to have a major impact on our operating results.

Capital Investments. In the next twelve to eighteen months, we anticipate a moderate increase in the rate of capital investment than our recent run-rate, but we do not expect that this temporary increased level of capital investment will continue past 2016. These expected temporary increases in capital spending levels are being driven by the upcoming EMV requirements discussed above, coupled with many other factors including: (i) our strategic initiatives to enhance the consumer experience at our ATMs and drive transaction growth; (ii) increased demand from merchants and financial institutions for multi-function ATMs; (iii) competition for new merchant and customer contracts and a significant number of long-term renewals of existing merchant contracts; (iv) certain software and hardware enhancements required to facilitate our strategic initiatives, enhance security and to continue running supported versions; and (v) other compliance related matters. As a result of the increased capital investments being planned, we are working to optimize our existing assets, but it is possible that as a result of this activity we could incur some asset write-offs or impairments and increased depreciation expense in the near term. However, we project that the long-term revenue benefits of the investments will drive increased profitability in future periods and allow us to expand our position as the leading ATM operator of non-bank branch locations.

Acquisitions. On July 1, 2015, we completed the acquisition of CDS for a total purchase price of $80.6 million. CDS is a leading independent transaction processor for ATM deployers and payment card issuers, providing leading-edge solutions to ATM sales and service organizations and financial institutions.

Divestitures. On July 1, 2015, we completed the divestiture of our retail cash-in-transit operation in the U.K. This business component, which mainly relates to the collection of cash by couriers at retail locations, was originally acquired through the Sunwin acquisition completed in November 2014. As this component was not deemed to be a core part of our on-going strategy, the business was sold to a third party operator. We expect to receive estimated proceeds of £23.2 million, or approximately $36.0 million on the sale transaction. Of this amount, £18.7 million, or approximately $29.1 million, was received during the third quarter. As of September 30, 2015, the gain recognized on this transaction was $14.7 million, recognized within the (Gain) loss on disposal of assets line item on the accompanying Consolidated Statement of Operations. We also recorded approximately $10.7 million in costs associated with the sale of the assets and costs to close certain facilities in the U.K. that were no longer profitable to operate as a result of the sale of the non-core retail cash-in-transit operation. These costs and other costs, including excess operating costs associated with work that was in transition to other facilities during the period, are recorded within the Acquisition and divestiture-related expense line in the accompanying Consolidated Statement of Operations.

For additional discussion related to the acquisition and divestiture discussions above, see Item 1. Financial Statements, Note 2. Acquisitions and Divestitures.

Factors Impacting Comparability Between Periods

- Foreign Currency Exchange Rates. Our reported financial results are subject to fluctuations in exchange rates. With relatively minor fluctuations in the average rates from 2011 to 2014, our overall results have not been significantly impacted. However, during the second half of 2014, the U.S. dollar began to significantly appreciate in value relative to the currencies we transact business in our foreign operations. During the nine months of 2015, our results were adversely impacted by a strengthened U.S. dollar. We estimate that the year-over-year strengthening in the U.S. dollar relative to the currencies in the foreign markets in which we operated caused our reported revenues to be lower by approximately $32.1 million or 3.6% for the nine months ended September 30, 2015.

- Acquisitions and Divestitures. The results of operations for any acquired entities during a particular year have been included in our consolidated results for that year since the respective dates of acquisition. Similarly, the results of operations for any divested operations have been excluded from our consolidated results since the dates of divestiture.

Results of Operations

The following table sets forth line items from our Consolidated Statements of Operations as a percentage of total revenues for the periods indicated. Percentages may not add due to rounding.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| ATM operating revenues | 95.3 % | 96.6 % | 93.9 % | 96.9 % |
| ATM product sales and other revenues | 4.7 | 3.4 | 6.1 | 3.1 |
| Total revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues: | | | | |
| Cost of ATM operating revenues (excludes depreciation, accretion, and amortization of intangible assets shown separately below) (1) | 59.5 | 62.9 | 59.9 | 63.6 |
| Cost of ATM product sales and other revenues | 4.5 | 3.3 | 5.6 | 3.0 |
| Total cost of revenues | 63.9 | 66.3 | 65.5 | 66.7 |
| Gross profit | 36.1 | 33.7 | 34.5 | 33.3 |
| Operating expenses: | | | | |
| Selling, general, and administrative expenses | 11.5 | 10.4 | 11.2 | 10.4 |
| Acquisition and divestiture-related expenses | 4.3 | 0.9 | 2.4 | 1.7 |
| Depreciation and accretion expense | 7.1 | 7.1 | 7.2 | 7.4 |
| Amortization of intangible assets | 3.2 | 3.0 | 3.2 | 3.2 |
| (Gain) loss on disposal of assets | (3.9) | 0.4 | (1.4) | 0.2 |
| Total operating expenses | 22.2 | 21.8 | 22.6 | 22.9 |
| Income from operations | 13.9 | 11.9 | 11.9 | 10.5 |
| Other expense: | | | | |
| Interest expense, net | 1.6 | 2.0 | 1.6 | 2.1 |
| Amortization of deferred financing costs and note discount | 0.9 | 1.8 | 0.9 | 1.3 |
| Redemption costs for early extinguishment of debt | — | 2.9 | — | 1.2 |
| Other expense (income) | 0.3 | 0.6 | 0.3 | (0.5) |
| Total other expense | 2.9 | 7.4 | 2.9 | 4.2 |
| Income before income taxes | 11.0 | 4.5 | 9.0 | 6.3 |
| Income tax expense | 4.1 | 1.7 | 3.3 | 2.4 |
| Net income | 7.0 | 2.9 | 5.7 | 4.0 |
| Net loss attributable to noncontrolling interests | (0.1) | (0.2) | (0.1) | (0.1) |
| Net income attributable to controlling interests and available to common stockholders | 7.1 % | 3.0 % | 5.8 % | 4.1 % |

(1) Excludes effects of depreciation, accretion, and amortization of intangible assets of $27.2 million and $23.9 million for the three months ended September 30, 2015 and 2014, respectively, and $77.8 million and $72.4 million for the nine months ended September 30, 2015 and 2014, respectively. The inclusion of such amounts in Cost of ATM

operating revenues would have increased our Cost of ATM operating revenues as a percentage of total revenues by 8.7% and 9.0% for the three months ended September 30, 2015 and 2014, respectively, and 8.7% and 9.4% for the nine months ended September 30, 2015 and 2014, respectively.

Key Operating Metrics

We rely on certain key measures to gauge our operating performance, including total transactions, total cash withdrawal transactions, ATM operating revenues per ATM per month and ATM operating gross profit margin. The following table sets forth information regarding certain of these key measures for the periods indicated, excluding the effect of the acquisitions during the periods presented for comparative purposes.

| EXCLUDING ACQUISITIONS: | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Average number of transacting ATMs: | | | | |
| United States: Company-owned | 31,114 | 30,338 | 30,635 | 29,895 |
| United Kingdom | 13,639 | 12,194 | 13,231 | 11,920 |
| Mexico | 1,432 | 2,191 | 1,558 | 2,174 |
| Canada | 1,915 | 1,686 | 1,757 | 1,663 |
| Germany and Poland | 1,048 | 882 | 987 | 871 |
| Subtotal | 49,148 | 47,291 | 48,168 | 46,523 |
| United States: Merchant-owned (1) | 17,542 | 22,002 | 16,911 | 22,152 |
| Average number of transacting ATMs – ATM operations | 66,690 | 69,293 | 65,079 | 68,675 |
| Managed Services and Processing | | | | |
| United States: Managed services – Turnkey | 2,181 | 2,155 | 2,165 | 2,121 |
| United States: Managed services – Processing Plus and Processing operations, net | 15,700 | 12,298 | 14,666 | 11,794 |
| United Kingdom: Managed services | 20 | 21 | 20 | 21 |
| Canada: Managed services | 1,120 | 668 | 1,011 | 426 |
| Average number of transacting ATMs – Managed services and processing | 19,021 | 15,142 | 17,862 | 14,362 |
| Total average number of transacting ATMs | 85,711 | 84,435 | 82,941 | 83,037 |
| Total transactions (in thousands): | | | | |
| ATM operations | 265,950 | 264,494 | 771,682 | 766,860 |
| Managed services and processing, net | 23,764 | 19,958 | 66,810 | 56,071 |
| Total transactions | 289,714 | 284,452 | 838,492 | 822,931 |
| Cash withdrawal transactions (in thousands): | | | | |
| ATM operations | 159,020 | 156,562 | 466,780 | 453,627 |
| Per ATM per month amounts (excludes managed services and processing): | | | | |
| Cash withdrawal transactions | 795 | 753 | 797 | 734 |
| ATM operating revenues | $ 1,239 | $ 1,197 | $ 1,230 | $ 1,174 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost of ATM operating revenues (2) | 779 | | 781 | | 787 | | 771 | |
| ATM operating gross profit (2) (3) | $ 460 | | $ 416 | | $ 443 | | $ 403 | |
| ATM operating gross profit margin (2) (3) | 37.1 | % | 34.8 | % | 36.0 | % | 34.3 | % |

(1) Certain ATMs previously reported in this category are now included in the United States: Managed services – Processing Plus and Processing operations, net category below.

(2) Amounts presented exclude the effect of depreciation, accretion, and amortization of intangible assets, which is presented separately in our Consolidated Statements of Operations.

(3) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in our portfolio. Revenues and expenses relating to managed services and ATM equipment sales and other ATM-related services are not included.

The following table sets forth information regarding certain of these key measures for the periods indicated, including the effect of the acquisitions in the periods presented for comparative purposes.

| INCLUDING ACQUISITIONS: | Three Months Ended September 30, 2015 | 2014 | Nine Months Ended September 30, 2015 | 2014 |
|---|---|---|---|---|
| Average number of transacting ATMs: | | | | |
| United States: Company-owned | 38,510 | 30,338 | 38,310 | 29,895 |
| United Kingdom | 15,582 | 12,194 | 14,762 | 11,920 |
| Mexico | 1,432 | 2,191 | 1,558 | 2,174 |
| Canada | 1,915 | 1,686 | 1,757 | 1,663 |
| Germany and Poland | 1,048 | 882 | 987 | 871 |
| Subtotal | 58,487 | 47,291 | 57,374 | 46,523 |
| United States: Merchant-owned (1) | 19,609 | 22,002 | 20,301 | 22,152 |
| Average number of transacting ATMs – ATM operations | 78,096 | 69,293 | 77,675 | 68,675 |
| | | | | |
| Managed Services and Processing | | | | |
| United States: Managed services – Turnkey | 2,181 | 2,155 | 2,165 | 2,121 |
| United States: Managed services – Processing Plus and Processing operations, net (2) | 107,326 | 12,298 | 61,421 | 11,794 |
| United Kingdom: Managed services | 20 | 21 | 20 | 21 |
| Canada: Managed services | 1,120 | 668 | 1,011 | 426 |
| Average number of transacting ATMs – Managed services and processing | 110,647 | 15,142 | 64,617 | 14,362 |
| | | | | |
| Total average number of transacting ATMs | 188,743 | 84,435 | 142,292 | 83,037 |
| | | | | |
| Total transactions (in thousands): | | | | |
| ATM operations | 327,269 | 264,494 | 926,921 | 766,860 |
| Managed services and processing, net (2) | 170,896 | 19,958 | 239,701 | 56,071 |
| Total transactions | 498,165 | 284,452 | 1,166,622 | 822,931 |
| | | | | |
| Cash withdrawal transactions (in thousands): | | | | |
| ATM operations | 197,365 | 156,562 | 564,072 | 453,627 |
| | | | | |
| Per ATM per month amounts (excludes managed services and processing): | | | | |
| Cash withdrawal transactions | 842 | 753 | 807 | 734 |
| | | | | |
| ATM operating revenues | $ 1,199 | $ 1,197 | $ 1,153 | $ 1,174 |
| Cost of ATM operating revenues (3) | 753 | 781 | 739 | 771 |
| ATM operating gross profit (3) (4) | $ 446 | $ 416 | $ 414 | $ 403 |
| | | | | |
| ATM operating gross profit margin (3) (4) | 37.2 % | 34.8 % | 35.9 % | 34.3 % |

(1) Certain ATMs previously reported in this category are now included in the United States: Managed services – Processing Plus and Processing, net category below.
(2) The notable increase in the United States: Managed services – Processing Plus and Processing operations, net category is mostly attributable to the July 1, 2015 acquisition of CDS and the incremental number of transacting ATMs for which CDS provides processing services.
(3) Amounts presented exclude the effect of depreciation, accretion, and amortization of intangible assets, which is presented separately in our Consolidated Statements of Operations.
(4) ATM operating gross profit and ATM operating gross profit margin are measures of profitability that are calculated based on only the revenues and expenses that relate to operating ATMs in our portfolio. Revenues and expenses relating to managed services, processing, and ATM equipment sales and other ATM-related services are not included.

Revenues

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| ATM operating revenues | | | | | | |
| North America | $ 206,885 | $ 186,667 | 10.8 % | $ 596,198 | $ 547,616 | 8.9 % |
| Europe | 92,473 | 71,775 | 28.8 % | 252,884 | 203,801 | 24.1 % |
| Eliminations | (2,522) | (1,663) | 51.7 % | (6,787) | (4,447) | 52.6 % |
| Total ATM operating revenues | 296,836 | 256,779 | 15.6 % | 842,295 | 746,970 | 12.8 % |
| ATM product sales and other revenues | | | | | | |
| North America | 9,719 | 8,466 | 14.8 % | 27,318 | 22,663 | 20.5 % |
| Europe | 4,795 | 602 | n/m % | 27,384 | 1,315 | n/m % |
| Total ATM product sales and other revenues | 14,514 | 9,068 | 60.1 % | 54,702 | 23,978 | 128.1% |
| Total revenues | $ 311,350 | $ 265,847 | 17.1 % | $ 896,997 | $ 770,948 | 16.3 % |

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

ATM operating revenues. ATM operating revenues generated during the three months ended September 30, 2015 increased $40.1 million, or 15.6%, from the three months ended September 30, 2014. Below is the detail, by segment, of the changes in the various components of ATM operating revenues:

| | Variance: Three Months Ended September 30, 2014 to Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations | Total |
| | Increase (decrease) (In thousands) | | | |
| Surcharge revenues | $ 5,248 | $ (2,104) | $ — | $ 3,144 |
| Interchange revenues | 845 | 22,965 | — | 23,810 |
| Bank-branding and surcharge-free network revenues | 5,474 | — | — | 5,474 |
| Managed services revenues | 2,525 | (4) | — | 2,521 |
| Other revenues | 6,126 | (159) | (859) | 5,108 |
| Total increase in ATM operating revenues | $ 20,218 | $ 20,698 | $ (859) | $ 40,057 |

North America. Our North American operations, which include our operations in the U.S., Canada, Mexico, and Puerto Rico, experienced a $20.2 million, or 10.8%, increase in ATM operating revenues during the three months ended September 30, 2015 when compared to the same period in 2014. The Welch ATM ("Welch") acquisition completed during the fourth quarter of 2014 and the CDS acquisition completed during the third quarter of 2015 accounted for the majority of the increase during the quarter. Our Canadian operations also experienced revenue growth, driven by an increase in the number of transacting ATMs. The growth in our Canada operation was offset by a decline in Mexico.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.S. operations, see Recent Events and Trends - Withdrawal Transaction and Revenue Trends – North America above.

Europe. Our European operations, which include our operations in the U.K., Germany, and Poland, experienced a $20.7 million, or 28.8%, increase in ATM operating revenues during the three months ended September 30, 2015 when compared to the same period in 2014. The acquisition of a new ATM operating agreement with Co-op Food completed during the fourth quarter of 2014 accounted for the majority of the increase. Our core European business also generated organic revenue growth rate of over 10% on a constant-currency basis during the three months ended September 30, 2015, driven mostly by an increase in the number of transacting ATMs, from business with new merchants. Our European results would have been higher by $7.9 million, or an additional 8.6%, absent adverse foreign currency exchange rate movements from the prior year.

For additional information on recent trends that have impacted, and may continue to impact, the revenues generated by our U.K. operations, see Recent Events and Trends - Withdrawal Transaction and Revenue Trends –Europe above.

ATM product sales and other revenues. ATM product sales and other revenues for the three months ended September 30, 2015 totaled $14.5 million, representing an increase of $5.4 million from the same period in 2014. This increase was primarily attributable to higher ATM equipment sales to merchants and distributors in the U.S. and our acquisition of Sunwin in the U.K. during the fourth quarter of 2014, which contributed approximately $3.8 million of the increase.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

ATM operating revenues. ATM operating revenues generated during the nine months ended September 30, 2015 increased $95.3 million, or 12.8%, from the nine months ended September 30, 2014. Below is the detail, by segment, of the changes in the various components of ATM operating revenues:

| | Variance: Nine Months Ended September 30, 2014 to Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations | Total |
| | Increase (decrease) (In thousands) | | | |
| Surcharge revenue | $ 15,000 | $ (8,097) | $ — | $ 6,903 |
| Interchange revenue | 2,180 | 57,413 | — | 59,593 |
| Bank-branding and surcharge-free network revenues | 14,558 | — | — | 14,558 |
| Managed services revenues | 9,046 | (13) | — | 9,033 |
| Other revenues | 7,798 | (220) | (2,340) | 5,238 |
| Total increase in ATM operating revenues | $ 48,582 | $ 49,083 | $ (2,340) | $ 95,325 |

North America. Our North American operations, which include our operations in the U.S., Canada, Mexico, and Puerto Rico, experienced a $48.6 million, or 8.9%, increase in ATM operating revenues during the nine months ended September 30, 2015 when compared to the same period in 2014. The Welch acquisition completed during the fourth quarter of 2014 and the CDS acquisition completed during the third quarter of 2015 accounted for the majority of the increase during the period. Based on the same factors described above in the three months ended September 30, 2015, our Canadian operations experienced revenue growth partially offset by a decline in Mexico.

Europe. Our European operations, which include our operations in the U.K., Germany, and Poland, experienced a $49.1 million, or 24.1%, increase in ATM operating revenues during the nine months ended September 30, 2015 when compared to the same period in 2014. The acquisition of a new ATM operating agreement with Co-op Food completed during the fourth quarter 2014 accounted for the majority of the increase. Our core European business also generated organic revenue growth rate of over 10% on a constant-currency basis during the nine months ended September 30, 2015, driven mostly by an increase in the number of transacting ATMs. Our European results would have been higher by $24.3 million or an additional 9.6%, absent adverse foreign currency exchange rate movements from the prior year.

ATM product sales and other revenues. ATM product sales and other revenues for the nine months ended September 30, 2015 totaled $54.7 million, representing an increase of $30.7 million from the same period in 2014. This increase was primarily attributable to our acquisition of Sunwin in the U.K. during the fourth quarter of 2014, which contributed approximately $24.2 million of the increase

Cost of Revenues

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Cost of ATM operating revenues (1) | | | | | | |
| North America | $ 127,284 | $ 119,419 | 6.6 % | $ 371,226 | $ 349,754 | 6.1 % |
| Europe | 60,380 | 49,550 | 21.9 % | 172,744 | 145,138 | 19.0 % |
| Eliminations | (2,522) | (1,663) | 51.6 % | (6,787) | (4,447) | 52.6 % |
| Total cost of ATM operating revenues | 185,142 | 167,306 | 10.7 % | 537,183 | 490,445 | 9.5 % |
| Cost of ATM product sales and other revenues | | | | | | |
| North America | 9,844 | 8,665 | 13.6 % | 27,142 | 22,617 | 20.0 % |
| Europe | 4,048 | 207 | n/m % | 23,051 | 819 | n/m % |
| Total cost of ATM product sales and other revenues | 13,892 | 8,872 | 56.6 % | 50,193 | 23,436 | 114.2% |
| Total cost of revenues (1) | $ 199,034 | $ 176,178 | 13.0 % | $ 587,376 | $ 513,881 | 14.3 % |

(1) Exclusive of depreciation, accretion, and amortization of intangible assets.

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangibles assets) for the three months ended September 30, 2015 increased $17.8 million, or 10.7%, when compared to the same period in 2014. The following is a detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets):

| | Variance: Three Months Ended September 30, 2014 to Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations | Total |
| | Increase (decrease) | | | |
| | (In thousands) | | | |

| | | | | |
|---|---|---|---|---|
| Merchant commissions | $ 907 | $ 6,538 | $ — | $ 7,445 |
| Vault cash rental | 523 | 1,063 | — | 1,586 |
| Other costs of cash | 1,163 | (5,311) | — | (4,148) |
| Repairs and maintenance | 60 | 2,058 | — | 2,118 |
| Communications | 629 | 841 | — | 1,470 |
| Transaction processing | (53) | 1,135 | (769) | 313 |
| Stock-based compensation | (60) | — | — | (60) |
| Other expenses | 4,696 | 4,506 | (90) | 9,112 |
| Total increase in cost of ATM operating revenues | $ 7,865 | $ 10,830 | $ (859) | $ 17,836 |

North America. During the three months ended September 30, 2015, our North American operations experienced a $7.9 million, or 6.6%, increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets) when compared to the same period in 2014, which was primarily driven by the Welch acquisition completed during the fourth quarter of 2014, and to a lesser degree, the CDS acquisition completed during the third quarter of 2015.

Europe. During the three months ended September 30, 2015, our European operations experienced a $10.8 million, or 21.9%, increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets) when compared to the same period in 2014. The Co-op Food ATM acquisition and our organic revenue growth drove the majority of the increase, which was partially offset by lower operating costs from continued realization of cost improvements, particularly in the area of cost of cash, which was driven by more favorable pricing on our vault cash supply. Additionally, through the Sunwin acquisition completed in 2014, we are now able to service a higher percentage of our ATMs in the U.K. with internal resources for cash delivery services, which drove a reduction in the other costs of cash line in the table above. This cost decrease is partly offset by an increase in the Other expenses category in the table above, as the former Sunwin employee costs and related facility and operating costs are now included in the Other Expenses category. Changes in currency exchange rates also lowered our operating costs by approximately $5.8 million, or an additional 9.5%, compared to the same period last year.

Cost of ATM product sales and other revenues. The increase in cost of ATM product sales and other revenues of $5.0 million for the three months ended September 30, 2015 compared to the same period in 2014 is consistent with the increase in related revenues, as discussed above, and is primarily related to our acquisition of Sunwin during the fourth quarter of 2014.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets). The cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangibles assets) for the nine months ended September 30, 2015 increased $46.7 million, or 9.5%, when compared to the same period in 2014. The following is a detail, by segment, of changes in the various components of the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets):

| | Variance: Nine Months Ended September 30, 2014 to Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | North America | Europe | Eliminations | Total |
| | Increase (decrease) (In thousands) | | | |
| Merchant commissions | $ 3,513 | $ 14,850 | $ — | $ 18,363 |
| Vault cash rental | 2,421 | 3,167 | — | 5,588 |
| Other costs of cash | 3,940 | (13,547) | — | (9,607) |
| Repairs and maintenance | 1,149 | 5,964 | — | 7,113 |
| Communications | 1,866 | 2,193 | — | 4,059 |
| Transaction processing | 809 | 2,290 | (2,168) | 931 |
| Stock-based compensation | (129) | — | — | (129) |
| Other expenses | 7,903 | 12,689 | (172) | 20,420 |
| Total increase in cost of ATM operating revenues | $ 21,472 | $ 27,606 | $ (2,340) | $ 46,738 |

North America. During the nine months ended September 30, 2015, our North American operations experienced a $21.5 million, or 6.1%, increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets) when compared to the same period in 2014, which was primarily driven by the

Welch acquisition completed during the fourth quarter of 2014.

Europe. During the nine months ended September 30, 2015, our European operations experienced a $27.6 million, or 19.0%, increase in the cost of ATM operating revenues (exclusive of depreciation, accretion, and amortization of intangible assets) when compared to the same period in 2014. Similar to the factors described above in the analysis of the three months ended September 30, 2015, the Co-op Food ATM acquisition drove the majority of the increase, which was partially offset by lower operating costs from continued realization of cost improvements and changes in currency exchange rates. Changes in currency exchange rates also lowered our operating costs by $16.7 million, or an additional 9.7%, compared to the same period last year. Additionally, through the Sunwin acquisition completed in 2014, we are now able to service a higher percentage of our ATMs in the U.K. with internal resources for cash delivery services, which drove a reduction in the other costs of cash line in the table above. This cost decrease is partly offset by an increase in the Other expenses category in the table above, as the former Sunwin employee costs and related facility and operating costs are now included in the Other Expenses category. This cost decrease is partly offset by increased in internal labor, facility and other costs included in the other expense category in the table above.

Cost of ATM product sales and other revenues. The cost of ATM product sales and other revenues for the nine months ended September 30, 2015 totaled $50.2 million, representing an increase of  $26.8 million from the same period in 2014.

This increase is consistent with the increase in related revenues, as discussed above, and is primarily related to our acquisition of Sunwin during the fourth quarter of 2014.

Gross Profit Margin

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| ATM operating gross profit margin: | | | | |
| Exclusive of depreciation, accretion, and amortization of intangible assets | 37.6% | 34.8% | 36.2% | 34.3% |
| Inclusive of depreciation, accretion, and amortization of intangible assets | 28.5% | 25.5% | 27.0% | 24.6% |
| ATM product sales and other revenues gross profit margin | 4.3 % | 2.2 % | 8.2 % | 2.3 % |
| Total gross profit margin: | | | | |
| Exclusive of depreciation, accretion, and amortization of intangible assets. | 36.1% | 33.7% | 34.5% | 33.3% |
| Inclusive of depreciation, accretion, and amortization of intangible assets | 27.3% | 24.7% | 25.8% | 23.9% |

ATM operating gross profit margin. For the three and nine months ended September 30, 2015, our ATM operating gross profit margin exclusive of depreciation, accretion, and amortization of intangible assets increased when compared to the same periods in 2014. The increase is primarily a result of our revenue growth and continuation of cost improvements in our U.K. and U.S. operations.

ATM product sales and other revenues gross profit margin. For the three and nine months ended September 30, 2015, our gross profit margin on ATM product sales and other revenues increased primarily as a result of the Sunwin acquisition in November 2014, which generates higher gross profit margins than our U.S. equipment sales business, which comprised the majority of the result in this category during the 2014 period.

Selling, General, and Administrative Expenses

| | Three Months Ended September 30, | | % Change | Nine Months Ended September 30, | | % Change |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | | 2015 | 2014 | |
| | (In thousands) | | | (In thousands) | | |
| Selling, general, and administrative expenses | $ 30,883 | $ 23,452 | 31.7 % | $ 87,341 | $ 69,555 | 25.6 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock-based compensation | 4,876 | 4,231 | 15.2 % | 13,488 | 10,581 | 27.5 % |
| Total selling, general, and administrative expenses | $ 35,759 | $ 27,683 | 29.2 % | $ 100,829 | $ 80,136 | 25.8 % |
| | | | | | | |
| Percentage of total revenues: | | | | | | |
| Selling, general, and administrative expenses | 9.9 % | 8.8 % | | 9.7 % | 9.0 % | |
| Stock-based compensation | 1.6 % | 1.6 % | | 1.5 % | 1.4 % | |
| Total selling, general, and administrative expenses | 11.5 % | 10.4 % | | 11.2 % | 10.4 % | |

Selling, general, and administrative expenses ("SG&A expenses"), excluding stock-based compensation. SG&A expenses, excluding stock-based compensation, increased $7.4 million, or 31.7%, and $17.8 million, or 25.6%, for the three and nine months ended September 30, 2015, respectively, when compared to the same period in 2014. This increase was due to the following: (i) higher payroll-related costs compared to the same periods in 2014 due to increased headcount, including employees added from our acquisitions completed during 2014; (ii) increased office and facilities costs, a portion of which is attributable to our acquisitions completed during 2014; (iii) higher legal and professional expenses; and (iv) increased costs related to strengthening our information technology and product development organizations.

Stock-based compensation. Stock-based compensation increased $0.6 million, or 15.2%, and $2.9 million, or 27.5%, for the three and nine months ended September 30, 2015, respectively, when compared to the same period in 2014. These increases were primarily attributable to an increase in employee headcount, driven by acquisitions and overall growth in the business. For additional details on equity awards, see Item 1. Financial Statements, Note 3. Stock-Based Compensation.

Acquisition and Divestiture-related Expenses

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Acquisition and divestiture-related expenses | $ 13,289 | $ 2,299 | 478.0% | $ 21,207 | $ 13,028 | 62.8 % |
| Percentage of total revenues | 4.3 % | 0.9 % | | 2.4 % | 1.7 % | |

Acquisition and divestiture-related expenses. Acquisition and divestiture-related expenses increased $11.0 million and $8.2 million for the three and nine months ended September 30, 2015, respectively, when compared to the same periods in 2014. The increase is primarily attributable to the 2014 acquisition of Sunwin and the subsequent integration costs, as well as divestiture and closure costs associated with the sale of certain non-core operations that were incurred during the three months ended September 30, 2015. During the three months ended September 30, 2015, we divested the operation of our retail cash-in-transit operation that was not deemed to be a core part of our on-going strategy of operating ATMs in the U.K. This business related to cash delivery and pick-up at retail sites in the U.K. and was not associated with replenishment of cash at ATMs. This business component was originally acquired through the Sunwin acquisition in late 2014. In conjunction with the sale of this business component, we closed six cash depots that were not part of the sale but were no longer necessary or economical to operate based on the remaining work at these facilities. The divestiture-related costs incurred during the third quarter 2015 totaled $10.7 million and relate to employee severance, lease exit costs, operating costs associated with the six depots we closed and other divestiture-related costs. These costs partly offset the net gain we recorded of $14.7 million related to the sale of the retail cash-in-transit operations. See further discussion below in the (Gain) Loss on Disposal of Assets section. For additional details, see Item 1. Financial Statements, Note 2. Acquisitions and Divestitures.

Depreciation and Accretion Expense

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Depreciation expense | $ 21,504 | $ 18,133 | 18.6 % | $ 62,417 | $ 54,382 | 14.8 % |
| Accretion expense | 623 | 816 | (23.7)% | 1,725 | 2,510 | (31.3)% |
| Depreciation and accretion expense | $ 22,127 | $ 18,949 | 16.8 % | $ 64,142 | $ 56,892 | 12.7 % |
| | | | | | | |
| Percentage of total revenues: | | | | | | |
| Depreciation expense | 6.9 % | 6.8 % | | 7.0 % | 7.1 % | |
| Accretion expense | 0.2 % | 0.3 % | | 0.2 % | 0.3 % | |
| Depreciation and accretion expense | 7.1 % | 7.1 % | | 7.2 % | 7.4 % | |

Depreciation expense. For the three and nine months ended September 30, 2015, depreciation expense increased $3.4 million, or 18.6%, and $8.0 million, or 14.8%, respectively, when compared to the same periods in 2014 primarily as a result of the various acquisitions during the last twelve months and the deployment of additional Company-owned ATMs over the past year as a result of our organic ATM unit growth.

Accretion expense. For the three and nine months ended September 30, 2015, accretion expense decreased $0.2 million, or 23.7%, and $0.8 million, or 31.3%, respectively, when compared to the same period in 2014. This decrease is primarily due to a change in accounting estimate regarding our future costs associated with asset retirement obligations. When we install ATMs we estimate the fair value of future retirement obligations associated with those ATMs, including the anticipated costs to deinstall, and in some cases, restore the ATM site at certain merchant locations. Accretion expense represents the increase of this liability from the original discounted net present value to the amount we ultimately expect to incur.

Amortization of Intangible Assets

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Amortization of intangible assets | $ 10,048 | $ 7,965 | 26.2 % | $ 29,040 | $ 24,647 | 17.8 % |
| Percentage of total revenues | 3.2 % | 3.0 % | | 3.2 % | 3.2 % | |

Amortization of intangible assets relates primarily to merchant contracts and relationships recorded in connection with purchase price accounting valuations for completed acquisitions. The increase in amortization of intangible assets of $2.1 million, or 26.2%, and $4.4 million, or 17.8%, for the three and nine months ended September 30, 2015, respectively, when compared to the same period in 2014 was primarily due to the addition of intangible assets from the acquisitions completed during the last twelve months.

(Gain) Loss on Disposal of Assets

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| (Gain) loss on disposal of assets | $ (12,139) | $ 1,078 | n/m % | $ (12,425) | $ 1,662 | n/m % |
| Percentage of total revenues | (3.9) % | 0.4 % | | (1.4) % | 0.2 % | |

(Gain) loss on disposal of assets for nine months ended September 30, 2015 is related to a net $16.4 million gain (of which approximately $14.7 million was recorded during the three months ended September 30, 2015) recognized on the divestiture of our non-core business components in the U.K. completed in February 2015 and July 2015. See the

Acquisition and Divestiture-related Expenses section above for additional information on the costs incurred in association with the sale occurring during the three months ended September 30, 2015. The gains on the sales of the non-core businesses in the U.K. were partly offset by losses on asset disposals in the ordinary course of business. Also, see Item 1. Financial Statements, Note 2. Acquisitions and Divestitures.

Interest Expense, Net

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Interest expense, net | $ 5,033 | $ 5,423 | (7.2) % | $ 14,496 | $ 16,167 | (10.3)% |
| Amortization of deferred financing costs and note discount | 2,859 | 4,895 | (41.6)% | 8,455 | 10,342 | (18.2)% |
| Total interest expense, net | $ 7,892 | $ 10,318 | (23.5)% | $ 22,951 | $ 26,509 | (13.4)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Percentage of total revenues | 2.5% | 3.9% | | 2.6% | 3.4% | |

Interest expense, net. Interest expense, net, decreased $0.4 million, or 7.2%, and $1.7 million, or 10.3%, during the three and nine months ended September 30, 2015 when compared to the same period in 2014. These decreases were primarily the result of the 2014 retirement of our 8.250% senior subordinated notes due 2018 (the “2018 Notes”) and the issuance of lower rate 5.125% senior notes due 2022 (the “2022 Notes”) during the third quarter of 2014. This impact was partially offset by increased borrowings outstanding under our revolving credit facility following the July 1, 2015 acquisition of CDS. For additional details, see Item 1. Financial Statements, Note 8. Long-Term Debt.

Amortization of deferred financing costs and note discount. Amortization of deferred financing costs and note discount decreased approximately $2.0 million during both the three and nine months ended September 30, 2015, compared to the same period in 2014. The amortization expense associated with the deferred financing costs related to the 2022 Notes was lower than the deferred financing costs related to the 2018 Notes.

Redemption Costs for Early Extinguishment of Debt

In connection with the early extinguishment of the 2018 Notes, we recorded a $7.7 million and $9.1 million pre-tax charge during the three and nine months ended September 30, 2014, respectively, related to the premium paid for the redemption, which is included in the 2014 Redemption costs for early extinguishment of debt line item in the accompanying Consolidated Statements of Operations.

Income Tax Expense

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| | (In thousands) | | | (In thousands) | | |
| Income tax expense | $ 12,629 | $ 4,397 | 187.2% | $ 29,837 | $ 18,185 | 64.1 % |
| Effective tax rate | 36.8 % | 36.7 % | | 36.8 % | 37.4 % | |

The effective tax rate for the quarter ended September 30, 2015 is consistent with that of the same period in 2014. The slight decrease in the effective tax rate during the nine month ended September 30, 2015, when compared to the same period in 2014, is attributable to the change in the mix of earnings across jurisdictions.

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Non-GAAP Financial Measures

Included below are certain non-GAAP financial measures that we use to evaluate the performance of our business. We believe that the presentation of these measures and the identification of unusual or certain nonrecurring adjustments and non-cash items enhance an investor's understanding of the underlying trends in our business and provide for better comparability between periods in different years. EBITDA, Adjusted EBITDA, Adjusted EBITA, Adjusted Net Income, and Free Cash Flow are non-GAAP financial measures provided as a complement to results prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and may not be comparable to similarly-titled measures reported by other companies.

Adjusted EBITDA excludes depreciation, accretion, and amortization of intangible assets as these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, and the method by which the assets were acquired. Adjusted EBITDA also excludes stock-based compensation, acquisition and divestiture-related expenses, certain other non-operating and nonrecurring items, gains or losses on disposal of assets, our obligations for the payment of income taxes, interest expense and other obligations such as capital expenditures, and includes an adjustment for noncontrolling interests. Adjusted Net Income represents net income computed in accordance with GAAP, before amortization of intangible assets, gains or losses on disposal of assets, stock-based compensation expense, certain other expense (income) amounts, nonrecurring expenses, and acquisition and divestiture-related expenses, and uses an estimated long-term cash tax rate of 32.0% for the three and nine months ended September 30, 2015 and 2014, with certain adjustments for noncontrolling interests. Adjusted EBITDA % is calculated by taking Adjusted EBITDA over GAAP total revenues. Adjusted Net Income per diluted share is calculated by dividing Adjusted Net Income by weighted average diluted shares outstanding. Free Cash Flow is defined as cash provided by operating activities less payments for capital expenditures, including those financed through direct debt but excluding acquisitions. The Free Cash Flow measure does not take into consideration certain other non-discretionary cash requirements such as, for example, mandatory principal payments on portions of our long-term debt.

The non-GAAP financial measures presented herein should not be considered in isolation or as a substitute for operating income, net income, cash flows from operating, investing, or financing activities, or other income or cash flow measures prepared in accordance with U.S. GAAP.

A reconciliation of EBITDA, Adjusted EBITDA, Adjusted EBITA, and Adjusted Net Income to Net Income Attributable to Controlling Interests, their most comparable U.S. GAAP financial measure, and a reconciliation of Free Cash Flow to cash provided by operating activities, the most comparable U.S. GAAP financial measure, are presented as follows:

Reconciliation of Net Income Attributable to Controlling Interests to EBITDA, Adjusted EBITDA, Adjusted EBITA, and Adjusted Net Income, (In thousands, excluding share and per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income attributable to controlling interests | $ 22,009 | $ 8,064 | $ 52,239 | $ 31,618 |
| Adjustments: | | | | |
| Interest expense, net | 5,033 | 5,423 | 14,496 | 16,167 |
| Amortization of deferred financing costs and note discount | 2,859 | 4,895 | 8,455 | 10,342 |
| Redemption costs for early extinguishment of debt | — | 7,722 | — | 9,075 |
| Income tax expense | 12,629 | 4,397 | 29,837 | 18,185 |
| Depreciation and accretion expense | 22,127 | 18,949 | 64,142 | 56,892 |
| Amortization of intangible assets | 10,048 | 7,965 | 29,040 | 24,647 |
| EBITDA | $ 74,705 | $ 57,415 | $ 198,209 | $ 166,926 |
| | | | | |
| Add back: | | | | |
| (Gain) loss on disposal of assets | (12,139) | 1,078 | (12,425) | 1,662 |
| Other expense (income) | 1,067 | 1,665 | 2,882 | (3,565) |
| Noncontrolling interests (1) | (336) | (428) | (1,047) | (1,192) |
| Stock-based compensation expense (2) | 5,147 | 4,561 | 14,360 | 11,464 |
| Acquisition and divestiture-related expenses (3) | 13,289 | 2,299 | 21,207 | 13,028 |
| Adjusted EBITDA | $ 81,733 | $ 66,590 | $ 223,186 | $ 188,323 |
| Less: | | | | |
| Depreciation and accretion expense (2) | 22,014 | 18,622 | 63,767 | 55,869 |
| Adjusted EBITA | $ 59,719 | $ 47,968 | $ 159,419 | $ 132,454 |
| Less: | | | | |
| Interest expense, net (2) | 5,033 | 5,416 | 14,493 | 16,139 |
| Adjusted pre-tax income | 54,686 | 42,552 | 144,926 | 116,315 |
| Income tax expense (4) | 17,500 | 13,609 | 46,376 | 37,216 |
| Adjusted Net Income | $ 37,186 | $ 28,943 | $ 98,550 | $ 79,099 |
| | | | | |
| Adjusted Net Income per share | $ 0.83 | $ 0.65 | $ 2.20 | $ 1.79 |
| Adjusted Net Income per diluted share | $ 0.82 | $ 0.64 | $ 2.17 | $ 1.76 |
| | | | | |
| Weighted average shares outstanding - basic | 44,833,117 | 44,370,460 | 44,769,661 | 44,304,092 |
| Weighted average shares outstanding - diluted | 45,391,667 | 44,903,657 | 45,323,784 | 44,830,780 |

(1) Noncontrolling interest adjustment made such that Adjusted EBITDA includes only our 51.0% ownership interest in the Adjusted EBITDA of Cardtronics Mexico.

(2) Amounts exclude 49.0% of the expenses incurred by Cardtronics Mexico as such amounts are allocable to the noncontrolling interest stockholders.

(3) Acquisition and divestiture-related expenses include nonrecurring costs incurred for professional and legal fees and certain transition and integration-related costs, including contract termination and facility exit costs, employee-related severance costs, and related to our recent divestitures, excess operating costs associated with facilities that are in the process of being shut down or transitioned as a result of recent divestitures.

(4) Calculated using our estimated long-term, cross-jurisdictional effective cash tax rate of 32.0%.

Reconciliation of Free Cash Flow

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Cash provided by operating activities | $ 60,525 | $ 46,189 | $ 147,112 | $ 103,060 |
| Payments for capital expenditures: | | | | |
| Cash used in investing activities, excluding acquisitions and divestitures | (47,459) | (23,325) | (103,877) | (65,078) |
| Free cash flow | $ 13,066 | $ 22,864 | $ 43,235 | $ 37,982 |

Liquidity and Capital Resources

Overview

As of September 30, 2015, we had $18.5 million in cash and cash equivalents and $636.0 million in outstanding long-term debt.

We have historically funded our operations primarily through cash flows from operations, borrowings under our revolving credit facilities, and the issuance of debt and equity securities. We have historically used a portion of our cash flows to invest in additional ATMs, either through the acquisition of ATM networks or through organically-generated growth. We have also used cash to fund increases in working capital and to pay interest and principal amounts outstanding under our borrowings. Because we collect a sizable portion of our cash from sales on a daily basis but generally pay our merchants and vendors on 30-day terms and are not required to pay certain of our merchants until 20 days after the end of each calendar month, we are able to utilize the excess available cash flow to reduce borrowings made under our revolving credit facility and to fund capital expenditures. Accordingly, it is not uncommon for us to reflect a working capital deficit position on our Consolidated Balance Sheet.

We believe that our cash on hand and our current revolving credit facility will be sufficient to meet our working capital requirements and contractual commitments for the next 12 months. We expect to fund our working capital needs from cash flows generated from our operations and borrowings under our revolving credit facility, to the extent needed. As we expect to continue to generate positive free cash flow during 2015 and during the near term, we expect to repay the amounts outstanding under our revolving credit facility absent any acquisitions. See additional discussion under Financing Facilities below.

Operating Activities

Net cash provided by operating activities totaled $147.1 million for the nine months ended September 30, 2015, as compared to $103.1 million during the same period in 2014. The increase in net cash provided by operating activities is attributable to an increase in net income, excluding the impact of non-cash items and was partially offset by an increase in net working capital.

Investing Activities

Net cash used in investing activities totaled $171.1 million for the nine months ended September 30, 2015, compared to $73.9 million during the same period in 2014. The change in net cash used in investing activities is primarily related to increases in additions to property and equipment and amounts paid for acquisitions, partly offset by proceeds from divestitures.

Anticipated Future Capital Expenditures. We currently anticipate that the majority of our capital expenditures for the foreseeable future will be driven by organic growth projects, including the purchase of ATMs for existing as well as new ATM management agreements and various compliance requirements as discussed in, Recent Events and Trends – Capital Investments. Our capital expenditures for the remainder of 2015 are estimated to total approximately $35.0 million, supporting new business growth, along with technology and compliance upgrades to enhance our existing ATM equipment with additional functionalities. We expect such expenditures to be funded primarily through cash generated from our operations and borrowings under our revolving credit facility.

Acquisitions and divestitures. On July 1, 2015, we completed the acquisition of CDS for a total purchase price of approximately $80.6 million and the divestiture of the retail cash-in-transit operation in the U.K., originally acquired through the Sunwin acquisition in 2014.

We continually evaluate selected acquisition opportunities that complement our existing business. We believe that expansion opportunities continue to exist in all of our current markets, as well as in other international markets, and we will continue to pursue those opportunities as they arise. Such acquisition opportunities, individually or in the aggregate, could be material and may be funded by additional borrowings under our revolving credit facility or other financing sources that may be available to us. We also continually evaluate our business activities and will from time to time divest of assets and businesses that are not aligned with our long-term strategy.

Financing Activities

Net cash provided by financing activities totaled $13.3 million for the nine months ended September 30, 2015, compared to $25.6 million during the same period in 2014. The cash provided by financing activities during the nine months ended September 30, 2015 was primarily due to the net additional borrowings on our revolving credit facility. The net cash provided by financing activities during the nine months ended September 30, 2014 primarily related to the proceeds from the issuance of the 2022 Notes. These cash outflows were mostly offset by the net cash used to retire the 2018 Notes.

Financing Facilities

As of September 30, 2015, we had approximately $636.0 million in outstanding long-term debt, which was primarily comprised of: (i) $287.5 million of the Convertible Notes of which $232.2 million was recorded on our balance sheet net of the unamortized note discount, (ii) $250.0 million of the 2022 Notes, and (iii) $153.8 million in borrowings under our revolving credit facility.

Revolving Credit Facility. As of September 30, 2015, we had a $375.0 million revolving credit facility that was led by a syndicate of banks including JPMorgan Chase, N.A. and Bank of America, N.A. This revolving credit facility provides us with $375.0 million in available borrowings and letters of credit (subject to the covenants contained within the Credit Agreement governing the revolving credit facility) and can be increased up to $500.0 million under certain conditions and subject to additional commitments from the lender group. On May 26, 2015, we entered into a second amendment (the "Second Amendment") to our amended and restated credit agreement (the "Credit Agreement"). Under the Second Amendment, a new $75.0 million tranche (the "European Commitments") was created under which Cardtronics Europe Limited ("Cardtronics Europe"), a subsidiary of Cardtronics, Inc. can borrow directly from the existing lenders in different currencies. The Second Amendment provides for sub-limits under the European Commitments of $15.0 million for swingline loans and $15.0 million for letters of credit. In addition, the Second Amendment reduces the commitments of the lending parties to make loans to us (the "U.S. Commitments") from $375.0 million to $300.0 million and reduced the alternative currency sub-limit to $75.0 million, from $125.0 million under the Credit Agreement. The letter of credit sub-limit and the swingline sub-limit under the U.S. Commitments remain at $30.0 million and $25.0 million, respectively, under the Second Amendment. The Credit Agreement expires in April 2019.

Borrowings (not including swingline loans and alternative currency loans) under the revolving credit facility accrue interest at our option at either the Alternate Base Rate (as defined in the Credit Agreement) or the Adjusted LIBO Rate (as defined in the Credit Agreement) plus a margin depending on the our most recent Total Net Leverage Ratio (as defined in the Credit Agreement). The margin for Alternative Base Rate loans varies between 0% to 1.25% and the margin for Adjusted LIBO Rate loans varies between 1.00% to 2.25%. Swingline loans denominated in U.S. dollars bear interest at the Alternate Base Rate plus a margin as described above and swingline loans denominated in alternative currencies bear interest at the Overnight LIBO Rate (as defined in the credit agreement) plus the applicable margin for the Adjusted LIBO Rate. Substantially all of our domestic assets, including the stock of our wholly-owned domestic subsidiaries and 66.0%

of the stock of our first-tier foreign subsidiaries, are pledged as collateral to secure borrowings made under the revolving credit facility. Furthermore, each of our material wholly-owned domestic subsidiaries has guaranteed the full and punctual payment of the obligations under the revolving credit facility. The European Commitments are also secured by the assets of our foreign subsidiaries, which do not guarantee the obligations of our domestic subsidiaries. There are currently no restrictions on the ability of our subsidiaries to declare and pay dividends to us.

The Credit Agreement contains representations, warranties and covenants that are customary for similar credit arrangements, including, among other things, covenants relating to (i) financial reporting and notification, (ii) payment of obligations, (iii) compliance with applicable laws, and (iv) notification of certain events. Financial covenants in the Credit Agreement require us to maintain: (i) as of the last day of any fiscal quarter, a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no more than 2.25 to 1.00; (ii) as of the last day of any fiscal quarter, a Total Net Leverage Ratio of no more than 4.00 to 1.00; and (iii) as of the last day of any fiscal quarter, a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of no less than 1.50 to 1.0. Additionally, we are limited on the amount of restricted payments, including dividends, which we can make pursuant to the terms of the Credit Agreement; however, we may generally make restricted payments so long as no event of default exists at the time of such payment and our total net leverage ratio is less than 3.0 to 1.0 at the time such restricted payment is made.

As of September 30, 2015, the weighted average interest rate on our outstanding revolving credit facility borrowings was approximately 2.0%. Additionally, as of September 30, 2015, we were in compliance with all the covenants contained within the revolving credit facility.

As of September 30, 2015, our outstanding balance on the revolving credit facility was $153.8 million, of which $126.0 million was outstanding under the U.S. Commitments and $27.8 million was outstanding under the European Commitments. The available borrowing capacity under the revolving credit facility totaled approximately $221.2 million, of which $174.0 million is available to the U.S. and $47.2 million is available to Cardtronics Europe.

$287.5 Million 1.00% Convertible Senior Notes due 2020. In November 2013, we completed a private placement of $287.5 million in Convertible Notes that pay interest semi-annually at a rate of 1.00% per annum and mature on December 1, 2020. There are no restrictive covenants associated with these Convertible Notes. In connection with the Convertible Notes, we also entered into note hedges at a purchase price of $72.6 million, and sold warrants for proceeds of $40.5 million, the net effect of which was to raise the effective conversion price of the Convertible Notes to $73.29. We are required to pay interest semi-annually on June 1st and December 1st, and to make principal payments on the Convertible Notes at maturity or upon conversion. We are permitted to settle any conversion obligation under the Convertible Notes, in excess of the principal balance, in cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. We intend to satisfy any conversion premium by issuing shares of our common stock. For additional details, see Item 1. Financial Statements, Note 8. Long-Term Debt.

$250.0 Million 5.125% Senior Notes due 2022. On July 28, 2014, in a private placement offering, we issued the 2022 Notes pursuant to an indenture dated July 28, 2014 among us, our subsidiary guarantors and Wells Fargo Bank, National Association, as trustee. Interest on the 2022 Notes is payable semi-annually in cash in arrears on February 1 and August 1 of each year, and commenced on February 1, 2015. Pursuant to the associated registration rights agreement, on June 5, 2015, we filed a registration statement with the Securities and Exchange Commission to allow the holders of the 2022 Notes to exchange such notes for registered notes that have substantially identical terms to the 2022 Notes. This exchange offer commenced June 17, 2015, and resulted in all 2022 Notes being exchanged for registered notes in July of 2015.

As of September 30, 2015, we were in compliance with all applicable covenants required under the 2022 Notes.

New Accounting Standards

See Item 1. Financial Statements, Note 18. New Accounting Pronouncements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following market risk disclosures should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in the 2014 Form 10-K.

We are exposed to a variety of market risks, including interest rate risk and foreign currency exchange rate risk. The following quantitative and qualitative information is provided about financial instruments to which we were a party at September 30, 2015, and from which we may incur future gains or losses from changes in market interest rates or foreign currency exchange prices. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in interest rates and foreign currencies chosen for the following estimated sensitivity analysis are considered to be reasonably possible near-term changes generally based on consideration of past fluctuations for each risk category. However, since it is not possible to accurately predict future changes in interest rates and foreign currencies, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

### Interest Rate Risk

Vault cash rental expense. Because our ATM vault cash rental expense is based on market rates of interest, it is sensitive to changes in the general level of interest rates in the respective countries in which we operate. In the U.S., the U.K., and Germany we pay a monthly fee to our vault cash providers on the average amount of vault cash outstanding under a formula based on the respective market’s London Interbank Offered Rates. In Mexico we pay a monthly fee to our vault cash provider under a formula based on the Interbank Equilibrium Interest Rate (commonly referred to as the “TIIE”). In Canada we pay interest to our vault cash providers based on the average amount of vault cash outstanding under a formula based on the Bank of Canada’s bankers’ acceptance rate.

As a result of the significant sensitivity surrounding our vault cash rental expense, we have entered into a number of interest rate swaps to effectively fix the rate we pay on the amounts of our current and anticipated outstanding vault cash balances. During the nine months ended September 30, 2015, we added new forward-starting interest rate swaps in the aggregate notional amount of $600.0 million that begin in 2019 and terminate in 2020 to extend our hedging program related to interest rate exposure on vault cash. The following swaps currently in place serve to fix the rate utilized for our vault cash rental agreements in the U.S. for the following notional amounts and periods:

Term

| Notional Amounts | Weighted Average Fixed Rate | |
|---|---|---|
| (In millions) | | |
| $ 1,300 | 2.84 % | October 1, 2015 – December 31, 2015 |
| $ 1,300 | 2.74 % | January 1, 2016 – December 31, 2016 |
| $ 1,000 | 2.53 % | January 1, 2017 – December 31, 2017 |
| $ 750 | 2.54 % | January 1, 2018 – December 31, 2018 |
| $ 600 | 2.42 % | January 1, 2019 – December 31, 2019 |
| $ 600 | 2.42 % | January 1, 2020 – December 31, 2020 |

As of September 30, 2015, we had a net liability of $62.0 million recorded on our Consolidated Balance Sheet related to our interest rate swaps, which represented the fair value liability of the agreements, as derivative instruments are required to be carried at fair value. Fair value was calculated as the present value of amounts estimated to be received or paid to a marketplace participant in a selling transaction. These swaps are valued using pricing models based on significant other observable inputs (Level 2 inputs under the fair value hierarchy established by U.S. GAAP), while taking into account the nonperformance risk of the party that is in the liability position with respect to each trade. These swaps are accounted for as cash flow hedges; accordingly, the changes in the fair values of the swaps and the resulting unrealized loss (net of estimated taxes) have been reported in Accumulated other comprehensive loss, net in the accompanying Consolidated Balance Sheets.

Summary of interest rate exposure on average vault cash outstanding in North America (in millions):

The following table presents a hypothetical sensitivity analysis of our annual vault cash rental expense in North America based on our average outstanding vault cash balances for the three months ended September 30, 2015 and assuming a 100 basis point increase in interest rates:

| | |
|---|---|
| Average vault cash balance | $ 2,210 |
| Interest rate swap fixed notional amount | (1,300) |
| Residual unhedged vault cash balance | $ 910 |
| | |
| Additional annual interest incurred on 100 basis point increase | $ 9.10 |

We also have terms in certain of our North American contracts with merchants and financial institution partners where we can decrease fees paid to merchants or increase fees paid to us by financial institutions if vault cash rental costs increase. We had such protection in place on approximately $440.0 million of vault cash as of September 30, 2015. Such protection will serve to reduce but not eliminate the exposure calculated above.

Summary of interest rate exposure on average vault cash outstanding in Europe (in millions):

The following table presents a hypothetical sensitivity analysis of our annual vault cash rental expense in Europe based on our average outstanding vault cash balances for the three months ended September 30, 2015 and assuming a 100 basis point increase in interest rates:

| | |
|---|---|
| Average vault cash balance | $ 1,422 |
| Interest rate swap fixed notional amount | — |
| Residual unhedged vault cash balance | $ 1,422 |
| | |
| Additional annual interest incurred on 100 basis point increase | $ 14.22 |

Our sensitivity to changes in interest rates in Europe is somewhat mitigated by the interchange rate setting methodology that impacts the majority of our U.K. interchange revenue. Estimates of interest rates and cash costs are considered for determining the interchange rates. As a result of this structure, should interest rates rise in the U.K., causing our operating expenses to rise, we would expect to see a rise in interchange rates (and our revenues), albeit with a potential lag. We expect some growth in outstanding vault cash balances as a result of expected future business growth in the U.K., and we may seek additional ways to mitigate our exposure to floating interest rates through merchant contract terms and by engaging in derivative instruments in the future.

Interest expense. Our interest expense is also sensitive to changes in interest rates in the U.S., as borrowings under our revolving credit facility accrue interest at floating rates. Based on the $153.8 million outstanding under our revolving credit facility as of September 30, 2015, an increase of 100 basis points in the underlying interest rate would have had a $1.2 million impact on our interest expense in the nine months ended September 30, 2015. Should we increase our borrowings under our revolving credit facility in the future, and/or if interest rates significantly increase, the interest that we would be required to pay would be more significant. We have not entered into interest rate hedging arrangements in the past to hedge our interest rate risk for our floating rate borrowings on our revolving credit facility, and have no plans to do so. Due to fluctuating balances in the amount outstanding under our revolving credit facility, we do not believe such arrangements are cost effective.

Outlook. If we continue to experience low short-term interest rates in the U.S. and the U.K., it will be beneficial to the amount of interest expense we incur under our bank credit facilities and our vault cash rental expense. Although we currently hedge a substantial portion of our vault cash interest rate risk in the U.S., and work to mitigate our interest rate risk via our contracts, we may not be able to enter into similar hedging arrangements for similar amounts in the future, and any significant increase in interest rates in the future could have an adverse impact on our business, financial condition and results of operations by increasing our operating costs and expenses. However, we expect that the impact on our financial statements from a significant increase in interest rates would be partially mitigated by the interest rate swaps that we currently have in place associated with our vault cash balances in the U.S. and contractual rights we have with certain partners. Nonetheless, any net increase in interest rates in any of the markets in which we operate is likely to have an adverse impact on our financial results.

Foreign Currency Exchange Rate Risk

As a result of our operations in the U.K., Germany, Poland, Mexico, and Canada, we are exposed to market risk from changes in foreign currency exchange rates, specifically with respect to changes in the U.S. dollar relative to the British pound, Euro, Polish zloty, Mexican peso, and the Canadian dollar. All of our international subsidiaries are consolidated into our financial results and are subject to risks typical of international businesses including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Furthermore, we are required to translate the financial condition and results of our international operations into U.S. dollars, with any corresponding translation gains or losses being recorded in other comprehensive income in our consolidated financial statements. As of September 30, 2015, this accumulated translation loss totaled approximately $37.5 million compared to approximately $34.7 million as of December 31, 2014.

Our consolidated financial results were impacted by changes in foreign currency exchange rates during the three months ended September 30, 2015 compared to the prior year periods. Our total revenues during the three and nine months ended September 30, 2015 would have been higher by approximately $10.7 million and $32.1 million, respectively, had the currency exchange rates from the three and nine months ended September 30, 2014 remained unchanged. A sensitivity analysis indicates that, if the U.S. dollar uniformly strengthened or weakened 10.0% against the British pound, Euro, Polish zloty, Mexican peso, or Canadian dollar the effect upon our consolidated operating income would have been approximately $1.5 million and $2.8 million, respectively, for the three and nine months ended September 30, 2015.

Certain intercompany balances between our U.S. parent company and our U.K. operations were designated as short-term in nature prior to September 2015. Due to this short-term designation, the changes in these balances related to currency exchange rates were recorded in our Consolidated Statements of Operations and we were exposed to foreign currency exchange risk as it related to these intercompany balances. However, in conjunction with the amendments to our revolving credit facility discussed above that enabled direct borrowings under the revolving credit facility by our European subsidiary, we amended certain terms of the intercompany balances and now do not expect that they will be settled in the foreseeable future. As a result, changes in currency exchange rates will no longer impact the majority of our intercompany borrowings and advances.

We do not hold derivative commodity instruments, and all of our cash and cash equivalents are held in money market and checking funds.

## Item 4. Controls and Procedures

### Management's Quarterly Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2015 at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no changes in our system of internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material pending legal and regulatory proceedings and settlements, see Part I. Financial Information, Item 1. Financial Statements, Note 13. Commitments and Contingencies.

Item 1A. Risk Factors

In addition to the information below and the other information set forth in the Form 10-Q, you should carefully consider the risks discussed in the 2014 Form 10-K under Part I. Item 1A. Risk Factors. These risks could materially affect our business, financial condition or future results. Other than as set forth below, there have been no material changes to our risk factors since the filing of the 2014 Form 10-K.

We derive a substantial portion of our revenue from devices placed with a small number of merchants. The expiration, termination or renegotiation of any of these contracts or if one or more of our top merchants were to cease doing business with us, or substantially reduce its dealings with us, our revenues could decline significantly and our business, financial condition and results of operations could be adversely impacted.

For the year ended December 31, 2014, we derived 31.4% of our pro forma revenues from ATMs and financial services kiosks placed at the locations of our five largest merchant customers. For the year ended December 31, 2014, our top five merchants (based on our total revenues) were 7-Eleven, Inc. ("7-Eleven"), CVS Caremark Corporation, Walgreen Co., Speedway LLC, and The Pantry Inc. Our ATM placement agreement with 7-Eleven in the United States, which is the largest merchant customer in our portfolio, comprised approximately 17.5% of our pro forma revenues, including the effect of acquisitions completed during the applicable period, for the year ended December 31, 2014. The next four largest merchant customers together comprised approximately 13.9% of our pro forma revenues. In July 2015, we were informed by 7-Eleven that it does not intend to renew the ATM operating contract with us when it expires in mid-2017. While the ultimate impact to our business as a result of this decision is not known at this time, if we are unable to replace the revenues generated by that contract, our business, financial condition and results of operations would be adversely impacted. In addition, the non-renewal of the contract could affect us by adversely impacting, among other things, our partner and supplier relationships that are utilized in servicing the 7-Eleven relationship. Additionally, other matters related to the non-renewal of the 7-Eleven contract that could impact our future revenues and earnings include, but are not limited to, service transition discussions with 7-Eleven and its affiliates, the contractual terms and requirements under the contract, risk management and compliance-related matters, including the EMV standard and other factors.

Because a significant percentage of our future revenues and operating income depends upon the successful continuation of our relationship with our top merchants, the loss of any of our largest merchants or a decision by any one of them to reduce the number of our devices placed in their locations would result in a decline in our revenues or otherwise adversely impact our business operations. Furthermore, if their financial conditions were to deteriorate in the future, and as a result, one or more of these merchants was required to close a significant number of their store locations, our revenues would be significantly impacted. Additionally, these merchants may elect not to renew their contracts when they expire. As of September 30, 2015, the contracts we have with our top five merchants, other than 7-Eleven, had a weighted average remaining life of 3.04 years.

Even if other major contracts are extended or renewed, the renewal terms may be less favorable to us than the current contracts. If any of our largest merchants enters bankruptcy proceedings and rejects its contract with us, fails to renew its contract upon expiration, or if the renewal terms with any of them are less favorable to us than under our current contracts, it could result in a decline in our revenues and profits.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended September 30, 2015:

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program | Approximate Dollar Value that may Yet be Purchased Under the Plan or Program (3) |
|---|---|---|---|---|
| July 1 — July 31, 2015 | 913 | $ 33.84 | — | $ — |
| August 1 — August 31, 2015 | 6,510 | $ 35.21 | — | $ — |
| September 1 — September 30, 2015 | 9,517 | $ 33.89 | — | $ — |

(1) Represents shares surrendered to us by participants in our Second Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan") to settle the participants' personal tax liabilities that resulted from the lapsing of restrictions on shares awarded to the participants under the 2007 Plan.

(2) The price paid per share was based on the trading prices of our common stock on the dates on which we repurchased shares from the participants under our 2007 Plan.

(3) In connection with the lapsing of the forfeiture restrictions on restricted shares granted by us under our 2007 Plan, which was adopted in December 2007 and expires in December 2017, we permitted employees to sell a portion of their shares to us in order to satisfy their tax liabilities that arose as a consequence of the lapsing of the forfeiture restrictions. In future periods, we may not permit individuals to sell their shares to us in order to satisfy such tax liabilities. Since the number of restricted shares that will become unrestricted each year is dependent upon the continued employment of the award recipients, we cannot forecast either the total amount of such securities or the approximate dollar value of those securities that we might purchase in future years as the forfeiture restrictions on such shares lapse.

Item 6. Exhibits

The exhibits required to be filed or furnished pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Index to Exhibits accompanying this Form 10-Q, and such Index to Exhibits is incorporated herein by reference.

SIGNATURES

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

| | |
|---|---|
| | CARDTRONICS, INC. |
| October 29, 2015 | /s/ J. Chris Brewster<br>J. Chris Brewster<br>Chief Financial Officer<br>(Duly Authorized Officer and Principal Financial Officer) |
| October 29, 2015 | /s/ E. Brad Conrad<br>E. Brad Conrad<br>Chief Accounting Officer<br>(Duly Authorized Officer and Principal Accounting Officer) |

INDEX TO EXHIBITS

Each exhibit identified below is part of this Form 10-Q.

| Exhibit Number | Description |
|---|---|
| 3.1 | Fourth Amended and Restated Certificate of Incorporation of Cardtronics, Inc. (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed by Cardtronics, Inc. on May 23, 2014, SEC File No. 001-33864). |
| 3.2 | Fourth Amended and Restated Bylaws of Cardtronics, Inc. (incorporated herein by reference to Exhibit 3.2 of the Current Report on Form 8-K filed by Cardtronics, Inc. on May 23, 2014, SEC File No. 001-33864). |
| 31.1* | Certification of the Chief Executive Officer of Cardtronics, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Chief Financial Officer of Cardtronics, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of the Chief Executive Officer and Chief Financial Officer of Cardtronics, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |

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* Filed herewith.

† Management contract or compensatory plan or arrangement.

** Furnished herewith.