

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

FORM 10-K

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

For the fiscal year ended August 31, 2022
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 000-22793

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

9740 Scranton Road, San Diego, CA
(Address of principal executive offices)

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

92121
(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value	PSMT	NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant as of the last day of the Registrant's most recently completed second fiscal quarter was \$1,822,456,943 based on the last reported sale price of \$72.23 per share on the NASDAQ Global Select Market on February 28, 2022.

As of October 25, 2022, 30,904,826 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 3, 2023 are incorporated by reference into Part III of this Form 10-K.

PRICESMART, INC.
ANNUAL REPORT ON FORM 10-K FOR
THE FISCAL YEAR ENDED AUGUST 31, 2022

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	8
<u>Item 1B. Unresolved Staff Comments</u>	20
<u>Item 2. Properties</u>	21
<u>Item 3. Legal Proceedings</u>	21
<u>Item 4. Mine Safety Disclosures</u>	22
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
<u>Item 6. Reserved</u>	24
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 8. Financial Statements and Supplementary Data</u>	46
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	46
<u>Item 9A. Controls and Procedures</u>	46
<u>Item 9B. Other Information</u>	49
<u>Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</u>	49
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	49
<u>Item 11. Executive Compensation</u>	49
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	49
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	49
<u>Item 14. Principal Accounting Fees and Services</u>	49
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	50
<u>Item 16. Form 10-K Summary</u>	52
<u>Signatures</u>	54

Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements concerning PriceSmart, Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flows, omni-channel initiatives, proposed warehouse club openings, the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "anticipated," "scheduled," "intend," and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to the risks detailed in this Annual Report on Form 10-K under the heading Part I. "Item 1A. Risk Factors." Forward-looking statements are only as of the date they are made, and we do not undertake to update these statements, except as required by law. In addition, 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.

PART I

Item 1. Business

General

PriceSmart exists to improve the lives and businesses of our Members, our employees and our communities by reliably and consistently providing quality goods and valuable services at the lowest possible prices. We believe that lower prices on products and services drive sales volume, which increases the Company's buying leverage, which in turn leads to better pricing that we can then offer to our Members, validating the value of the annual membership fee.

PriceSmart began operations in 1996 in San Diego, California, with the intent to bring our U.S. style membership shopping warehouse club concept to emerging and developing countries. We currently operate 50 warehouse clubs in Central America, the Caribbean, and Colombia. In all 13 markets, our Members are able to engage with us on social media and shop on our e-commerce platform, PriceSmart.com.

Member experience is our top priority. We rigorously limit the number of SKU's in order to drive volume and leverage purchasing power for the benefit of our Members. Our curated selection offers a combination of specialty items that are imported and/or unique to our markets, locally and regionally sourced goods, essential goods, direct-from-farm fresh produce and private label consumer products under the brand "*Member's Selection*[®]". Our *Member's Selection*[®] offering allows us to maintain key quality items at lower prices and provides the opportunity to reduce supply chain risks. We also offer prepared foods and fresh-baked goods. Most merchandise is available for online ordering through PriceSmart.com and for delivery or contactless curbside pickup through our Click & Go[™] service. We also offer Wellness programs such as Optical, Pharmacy and Audiology. Our clubs typically feature food courts and tire centers and services. We are also a significant provider of goods to small businesses in our markets that benefit from larger pack sizes and lower pricing. We strive to continually enhance the value of our membership such that the value of the goods and services purchased and received by the Member far exceeds the annual cost of the membership.

Our warehouse clubs range in sales floor size from approximately 30,000 to 60,000 square feet. Our larger clubs are typically located in and around densely populated major cities that include a large penetration of consumers with significant disposable income. Our smaller clubs tend to be in areas with less population density, but where there are significant opportunities to serve the population and supply and support businesses. We also have smaller format clubs in urban areas where it is difficult to secure sufficient real estate at a reasonable cost.

We strategically invest in technology to enhance Member experience and convenience. We believe technology allows us to access valuable data that supports our ability to increase efficiencies and gain important insights about our Members' purchasing habits. We now provide digital membership and auto-renewal for the convenience of our Members.

Our logistics and distribution infrastructure is key to maximizing efficiencies. We continually review and upgrade our logistics and distribution systems in an attempt to capture efficiencies as our business grows in sales volume, in geography and through activity generated by e-commerce. We utilize regional distribution centers in the U.S. and Costa Rica as well as several local distribution centers to distribute merchandise efficiently and to create flexibility to mitigate the risk of supply-chain disruption. We also seek to capture efficiencies by using specialized distribution centers for produce and centralized production for categories such as bakery and meat processing.

[Table of Contents](#)

Purchasing land and constructing warehouse clubs is generally our largest ongoing capital investment. Securing land for warehouse club locations is challenging in several of our markets because suitable sites at economically feasible prices are difficult to find. We believe ownership of our real estate in many of our markets provides several advantages, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and potential increase of value in future years. Although we prefer to own real estate, we sometimes lease our real estate when leasing provides the best available opportunity.

Our warehouse clubs currently operate in emerging markets that historically have had higher growth rates and lower warehouse club market penetration than the U.S. market. In locations where we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various local and international retail formats such as hypermarkets, supermarkets, cash and carry outlets, hard discounters, home improvement centers, electronic retailers, specialty stores, convenience stores, traditional wholesale distribution and online sales.

The number of warehouse clubs in operation for each country or territory were as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2021	Number of Warehouse Clubs in Operation as of August 31, 2022	Anticipated Warehouse Club Openings In Fiscal Year 2023
Colombia	8	9	1
Costa Rica	8	8	—
Panama	7	7	—
Dominican Republic	5	5	—
Guatemala	4	5	—
Trinidad	4	4	—
Honduras	3	3	—
El Salvador	2	2	1
Nicaragua	2	2	—
Jamaica	1	2	—
Aruba	1	1	—
Barbados	1	1	—
U.S. Virgin Islands	1	1	—
Totals	47	50	2

Our warehouse clubs, one regional distribution center and several smaller local distribution centers are located in Latin America and the Caribbean, and our corporate headquarters, U.S. buying operations and our larger regional distribution center are located primarily in the United States. Our operating segments are the United States, Central America, the Caribbean and Colombia.

We are currently constructing a smaller format warehouse club in the Hacienda San Andrés area of San Miguel, El Salvador, approximately 100 miles east of the capital city San Salvador, which is anticipated to open in the spring of 2023. It will be our third club in El Salvador. In addition, we are proceeding with the construction of a smaller format warehouse club in the affluent El Poblado area of Medellín, Colombia. We expect to open this warehouse club, which will be our second club in Medellín and the Company's tenth warehouse club in Colombia, in the summer of 2023. Once these two new clubs are open, we will operate 52 warehouse clubs.

We also export products to a retailer in the Philippines and are exploring expansion of that business in other markets.

Merchandising

Part of our unique value proposition is making available to our Members a curated selection of high quality merchandise sourced from around the world and valuable services, with lower margins than traditional retail stores.

We offer merchandise in the following categories:

- Foods & Sundries consists primarily of our grocery, cleaning supplies, health & beauty and canned foods products and constituted approximately 49% of net merchandise sales for fiscal 2022.
- Fresh Foods consists primarily of our meat, produce, deli, seafood and poultry products and constituted approximately 29% of net merchandise sales for fiscal 2022.
- Hardlines consists primarily of our electronics, appliances, hardware, sporting goods, and toy products and constituted approximately 11% of net merchandise sales for fiscal 2022.
- Softlines consists primarily of apparel, domestics and furniture products and constituted approximately 6% of our net merchandise sales for fiscal 2022.
- Other Business consists primarily of our food service, bakery, wellness (optical, pharmacy, and audiology) and tire center constituted approximately 5% of net merchandise sales for fiscal 2022.

Across various categories, we offer exciting and unique seasonal merchandise and rotational programs that offer unique value throughout the year.

Competitive Strengths

Low Operating Costs. Our format is designed to move merchandise from our suppliers to our Members at a lower expense ratio than our competitors. We strive to achieve efficiencies in product distribution by minimizing the labor required to stock and display merchandise, limiting non-payroll operating expenses and maintaining low occupancy costs. For example, we offer a limited number of stock keeping units (SKUs) with large pack sizes, which allows us to keep shelves stocked with less labor cost than competitors that offer a greater number of SKUs. More recently, we also have opened distribution centers in certain of our high-volume markets to improve efficiency and in-stock rate, reduce lead times on high volume products, and mitigate risks of supply chain disruption. Our focus on driving down operating costs allows us to offer better value and lower prices to our Members, which we believe helps generate Member loyalty and renewals, which in turn leads to increased sales.

Membership. Our membership model in and of itself provides a competitive advantage. Our membership represents a desirable demographic concentration with strong purchasing power in our markets. The data we can access about our membership base not only provides better connectivity with our Members, but also enables us to identify and pursue additional opportunities to provide value for our Members. Membership has been a basic operating characteristic in the warehouse club industry, beginning over 46 years ago at Price Club, the first warehouse club. We believe membership promotes Member loyalty, and membership fees contribute to our ability to operate our business on lower margins than conventional retailers and wholesalers. Membership fees were equal to approximately 1.5% of net merchandise sales and 36.1% of operating income in fiscal year 2022. Our Members can sign up for and renew their memberships online, which gives us another valuable digital touch point with them.

We continue to expand our product and services offerings to our Members. One of our primary initiatives has been the expansion of our Wellness programs, which include our Optical, Pharmacy and Audiology departments. As of August 31, 2022, we had 47 Optical locations open, with eight Pharmacy and five Audiology locations open. We expect to continue our rollout of Audiology to a majority of our clubs and markets in fiscal year 2023. In addition, we plan to increase our Pharmacy locations by expanding this service to all the clubs in our Panama market. We believe that untapped opportunities exist to further enhance the value of our membership in various areas. We continue to explore opportunities to provide our Members with products and services that are particularly attractive to our unique membership base while expanding current programs such as our co-branded credit card.

Business Members. Our product selection, larger pack sizes, and low prices appeal to both business and retail consumers. Our business Members include a broad cross section of businesses such as restaurants, institutions including schools, and other businesses that purchase products for resale or use in their operations. These business Members represent a significant source of sales and profit and provide purchasing volume that gives us better prices from our suppliers.

Table of Contents

Worldwide Sourcing. Approximately 49% of our sales come from merchandise sourced in the U.S., Asia and Europe. One of the primary advantages we have compared to most of our competitors is our United States-based buying team that sources merchandise from suppliers in the U.S. and around the world. Our buyers identify and purchase new and exciting items, including our own Member's Selection private label products. Many of these branded products are available only at PriceSmart in the markets in which we operate.

Innovation. The warehouse club industry has been operating for over forty years, following the founding of Price Club in 1976. The world of merchandising has evolved during this period, particularly with respect to how technology impacts operational efficiencies and how consumers shop. We are leveraging technological innovations we have developed to enhance our worldwide sourcing of products and make them available in our developing and emerging countries in a manner that meets current consumer preferences. We operate effectively in multiple markets, many of which are relatively small, with different legal requirements, local buying opportunities, cultural norms, distribution and logistical challenges and Member preferences that require us to source the correct mix of local versus imported merchandise. We believe that our future success is highly dependent on our capacity to continue to adapt and innovate to meet the needs of our current and future Members. We expect to expand our omni-channel offering to include additional services such as drop-ship and the creation of a digital business-to-business application. We also have developed better inbound and outbound online communication channels, and we are using data analytics to better understand our Members' evolving preferences.

Experienced Management Team. Sherry S. Bahrambeygui is PriceSmart's Chief Executive Officer. She has led several new transformational initiatives that have allowed us to retain the key benefits of our business model, while expanding capabilities that generate new ways of approaching our business, including an omni-channel platform and adoption and application of new technology and data analytics to drive growth. She has been instrumental to the evolution of the Company's governance and other strategic initiatives for the past ten years, first as a member of our Board of Directors and then as CEO and Board member since 2018. Michael L. McCleary is Executive Vice President and Chief Financial Officer. Mr. McCleary joined the Company in 2003 and has over 30 years of international finance, tax and accounting experience. In addition to Ms. Bahrambeygui and Mr. McCleary, many other members of our management team have extensive career experience in the warehouse club business, including some who learned the warehouse club business from their time at Price Club. Their experience and knowledge represent a key strength and competitive advantage for our company. We also have retained key executives from when we acquired Aeropost in March 2018 who are experienced in developing online technology and marketing for e-commerce and who have assisted us in increasing our digital interaction with Members. We continue making investments in talent to support our technology development and other administrative functions. In March 2022, John D. Hildebrandt was appointed Acting Chief Operating Officer, and in May 2022, became the Chief Operating Officer of the Company. He had previously served as the Company's Executive Vice President – Operations since February 2010. Before that office, Mr. Hildebrandt held various management positions with the Company dating back to 1997. He initially worked overseas in the Philippines and Panama as a country manager, then held positions of Vice President and Senior Vice President before becoming an Executive Vice President overseeing the Company's Caribbean and Central American operations. Mr. Hildebrandt was a Senior Operations Manager of Price/Costco from 1994 through 1996 and served in various management roles for The Price Company beginning in 1979.

Growth Strategy

As we look to the future, our Company is focused on three major drivers of growth:

- **Expand Real Estate Footprint with New Clubs and Distribution Facilities**
- **Increase Membership Value**
- **Drive Incremental Sales via PriceSmart.com and Enhanced Online, Digital and Technological Capabilities**

I. Expand Real Estate Footprint with New Clubs and Distribution Facilities. We continue to seek opportunities to expand our geographic footprint for brick-and-mortar warehouse clubs. We plan to open a warehouse club in El Salvador located in the city of San Miguel in the spring of 2023 and another club in Medellín, Colombia in the summer of 2023. We continue to actively pursue club growth in our markets and to evaluate opportunities in new markets. Our growth strategy, as it pertains to real estate, includes physical distribution centers of various types to support the flow of merchandise from the supplier to the Member, be it sales generated from the clubs or through PriceSmart.com. Also, the need for supply chain optionality in today's world has proven essential. Therefore, we plan to make appropriate investments in our distribution network to maximize efficiencies, minimize supply chain disruption, maximize the efficient use of limited space in our warehouse clubs, and to provide optimal support for a growing e-commerce business. In addition to our distribution center in Miami, Florida, we also operate a regional distribution center in Costa Rica and are actively considering others. During fiscal 2022 we doubled our network of Produce Distribution Centers from two to four and are currently developing plans for two more. In some cases, these facilities also provide the opportunity to capture efficiencies by centralizing certain production activities, such as bakery, meat processing, packaging, and labeling.

II. Increase Membership Value. We are seeking to attract more Members and retain our current Members by expanding the benefits of being a Member of PriceSmart through sales, services, and convenience. As benefits grow and the value of being a PriceSmart Member increases, adjustments to the membership fee may be warranted. A larger membership base and higher membership fee contribute to the bottom line of the business. We focus on growth of our membership base, Member renewal rates and spend per Member as part of how we determine how Members see our value. By adding more benefits that Members can only obtain with us, we expect to see growth in the number of Members, which drives Membership income and Merchandise sales. Recent examples of enhancements we have made to the value of membership include: additional services such as the ability for all of our Members to transact on PriceSmart.com; Click & Go™ curbside pickup and delivery service in all of our clubs; and the implementation and expansion of our Well-being initiative, which offers Optical services with free eye exams for the Member and additional members of their families and deeply discounted eyeglass frames; Audiology services with free hearing exams and deeply discounted hearing aids; and Pharmacy, which provides a significant convenience to our Members. Another way we enhance Membership value is through our private label offering, “Member’s Selection®,” a brand which is available only to PriceSmart Members. We believe the Member’s Selection® brand carries goodwill and is recognized in our markets for value. Private label also provides us the opportunity to source quality items locally when appropriate. Select local sourcing has multiple benefits, including support of local communities in which we operate by enhancing business activity and creating direct and indirect jobs, mitigation of foreign currency exchange risk, and reduced supply chain exposure. These initiatives offer additional benefits and services for our Members whether they choose to shop on-line, in-club, or both. In fiscal year 2022, our private label sales penetration grew by 12%, from 22.1% of the total merchandising sales in fiscal year 2021 to 24.7% in fiscal year 2022, and we plan to continue to invest in the development of additional private label products under the “Member’s Selection®” brand.

III. Drive Incremental Sales via PriceSmart.com and Enhanced Online, Digital and Technological Capabilities. We recognize the growing expectation of consumers in our markets for convenience. As a result, we continue to improve the functionality and content of PriceSmart.com and to expand our product offerings available online. We also build and apply technological tools to continue to learn more about and strengthen our relationships with each of our Members. Using data analytics, we believe we have been able to provide our Members with enhancements to the membership experience. PriceSmart.com and these tools provide the opportunity for us to continually strengthen and expand the scope of our relationship with each Member and offer incremental products and services in the future. Our PriceSmart.com offering provides data that informs us regarding the potential viability of new clubs in new areas and offers us options to serve and expand into new markets without the need for a traditional brick & mortar club location. We also invest in technology to capture operational efficiencies and enhance our decision-making for the increasingly dynamic environment we are in.

Distribution Efficiency

Since our inception, we have consistently believed that distribution efficiency is fundamental for success in selling merchandise in our traditional clubs, and in today’s world, this principle holds true for purchases made online. Because PriceSmart sources merchandise from all over the world and especially in the United States, and because we are doing business in countries where infrastructure—roads and ports—is not as developed as in the United States, distribution efficiency is even more significant for us. Our ability to move products efficiently and in a timely manner from the suppliers to our Members is key to the cost structure of our business and, consequentially, to how low we can price our products for our Members.

Historically, our international suppliers and especially our U.S. suppliers have generally shipped their products to our Miami distribution facility where they are received and assigned to various containers for direct shipment to our locations. Regional and in-country suppliers have shipped directly to our locations. As our location sales volumes have grown, we have begun to route more of our products from international, regional and local suppliers to regional and local distribution centers in order to improve in-stocks and reduce inventory weeks of supply and logistics costs and the working capital requirements of the business, all with the goal of giving better prices to our Members.

In addition to our Miami distribution facility, we have a large regional distribution center located in the metropolitan area of San Jose, Costa Rica. This 165,000 square foot building is designed to receive, store and ship dry, refrigerated, and frozen products to clubs in Central America. This regional distribution center has the capacity to ship products such as major appliances and online products directly to our Members or to convenient pick-up locations, including our clubs. We are considering other strategic locations for distribution centers to drive efficiencies and expand omni-channel offerings.

[Table of Contents](#)

Since the start of the COVID-19 pandemic, we have encountered numerous supply-chain challenges, including but not limited to, container shortages, port backlogs, and reduced trucking and shipping availability. Our expanded network of distribution centers has allowed for more alternative routings of shipments, increased throughput, and flexibility to be able to more effectively mitigate these challenges. Refer to Part II. “Item 7. Management’s Discussion & Analysis – Factors Affecting Our Business” for further discussion regarding these challenges and our efforts to mitigate them.

Lastly, as part of our efforts to source additional high quality and healthy fresh products, and expand on our Direct Farm Program, we operate four produce distribution centers. We believe that our Direct Farm Program reduces expenses, waste and prices and allows us to offer higher quality items, while simultaneously supporting local farmers and industry. Our produce distribution centers allow us to get high-quality produce from farm-to-table quicker and more efficiently. We expect to continue to expand this program and are developing plans to build two additional produce distribution centers in more of our markets.

Operating Efficiency

As with distribution efficiency operating efficiency is a key tenet of our business model. We are constantly seeking to improve operating efficiencies, by investing in technology and by centralizing back-office capabilities and facilities for processing and producing products, such as meat and bakery.

Our Membership Policy

We offer three types of memberships: Diamond, Business and Platinum.

The Diamond Membership is targeted at individuals and families. The annual fee for a Diamond Membership (entitling Members to two cards), in most markets is approximately \$35 (excluding sales tax). In Colombia, we raised the Diamond Membership fee to 100,000 COP (excluding sales tax) in January 2022, yielding a current Membership price of approximately \$23.

The Company currently offers the Platinum Membership program in all thirteen of its markets. The annual fee for a Platinum Membership in most markets is approximately \$75 (excluding sales tax). The Platinum Membership provides Members with a 2% rebate on most items, up to an annual maximum of \$500. Platinum Members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. The rebate is issued annually to Platinum Members on March 1 and expires August 31. Any rebate amount not redeemed by August 31 is recognized as breakage revenue.

We promote our Business Membership by offering certain merchandise targeted primarily to businesses such as restaurants, hotels, convenience stores, offices and institutions. In most markets, our Business Members pay an annual membership fee of approximately \$35 for a primary and secondary membership card and approximately \$10 for additional add-on membership cards. Only businesses can qualify for a Business Membership.

Members can now sign-up and renew their memberships as well as opt for auto-renewal online.

We recognize membership income over the 12-month term of the membership. Deferred membership income was \$28.0 million and \$26.0 million as of August 31, 2022 and August 31, 2021, respectively. Our membership agreements provide that if our Members cancel their membership in the first 60 days, they will receive a full refund. After the initial 60 day period, Members may receive a refund for the prorated share of their remaining membership fee if they so request.

Our Intellectual Property Rights

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

Our Competition

Our international merchandising business competes with a wide range of international, regional, national and local retailers, and traditional wholesale distributors. We compete in a variety of ways, including the prices at which we sell our merchandise, merchandise selection and availability, services offered to customers, location, store hours and the shopping convenience and overall shopping experience we offer. We also prioritize above all the safety of our Members and our employees. Some of our competitors may have greater resources, buying power and name recognition. In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, convenience stores, cash and carry outlets, home improvement centers, electronic retailers and specialty stores, including those within Latin America that are owned and operated by large U.S. and international retailers, including Walmart, Inc. in Central America and Grupo Éxito and Cencosud in Colombia. We have competed effectively in our markets in the past and expect to continue to do so in the future due to the unique nature of the membership warehouse club format. We have noted that certain retailers within our markets are making investments in upgrading their locations and/or experimenting with different formats. These actions may result in increased competition within our markets. Further, it is possible that additional U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format. We also face competition from online retailers, such as Amazon.com, Inc. in Colombia, and last-mile delivery services that serve our markets, and we expect that this type of competition will grow and intensify in the future.

Human Capital

As of August 31, 2022, we had approximately 10,600 employees. Approximately 96% of our employees were employed outside of the United States, and about 1,800 employees were represented by labor unions.

Developing a Diverse Workforce Representative of Our Markets

Fundamental to our mission is the ability to attract, retain, and develop a diverse workforce representative of the countries in which we operate. We are proud to hire from the local communities where we operate, which then enhances our understanding of the legislation and operating environment of each country so we can better serve our Members. We provide our employees with competitive wages above minimum wage in each region, as well as comprehensive benefit programs, which generally include life and health insurance and post-employment savings plans. We also seek to identify opportunities to support local businesses and communities, with the goal of improving the quality of life in the countries where we operate.

Talent Development

We believe our investment in the education, training and development of our employees contributes to the overall success of our business. We believe a focus on talent development leads to long-serving, loyal employees, which improves efficiencies in operations, thus resulting in higher quality service to our Members. We provide learning opportunities for our employees through various training courses including instructor-led internal and external programs. We also seek to promote from within, allowing us to develop the leadership strengths of our employees to provide a better overall customer experience for our Members.

Health and Safety

The COVID-19 pandemic brought unprecedented challenges to our business, communities, Members and employees. During the initial period of the pandemic, we prioritized the safety and well-being of our employees and Members by following applicable local and national government regulations at each of our warehouse clubs, offices, and distribution center locations. We implemented enhanced cleaning and sanitizing protocols and provided personal protective equipment to our employees, conducted contact tracing, preventative quarantining and implemented paid leave. We reinforced the education of our employees on safety, best practices of good hygiene, as well the encouraging to our employees to receive vaccinations as they became available. We had reserve teams of employees who did not overlap with each other so that they might step in as needed allowing those who were sick to take time off. We also had provided employee transportation and meals to offer them a safe and reliable means to work. As the pandemic has evolved, we began pulling back on many of these activities. However, we will continue to monitor the evolution of the pandemic and related workforce trends, best practices and government regulations.

[Table of Contents](#)

Seasonality and Quarterly Fluctuations

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

Other Information

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

Available Information

The PriceSmart, Inc. investor relations website or internet address is <https://investors.pricemart.com>. On this website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, and the annual report to the stockholders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website under “SEC Filings.” Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. We will make available our annual report on Form 10-K and our annual Proxy Statement for the fiscal year 2022 at the internet address <http://materials.proxyvote.com/741511> as soon as reasonably practicable after electronically filing such material with or furnishing it to the SEC.

Item 1A. Risk Factors

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

External Factors that Could Adversely Affect Us

The global novel coronavirus COVID-19 pandemic had and may continue to have an adverse effect our business, results of operations, financial condition, and liquidity.

In addition to measures, we took voluntarily, the government authorities in our markets have taken actions to mitigate the spread of COVID-19, including travel restrictions, border closings, restrictions on public gatherings, stay-at-home orders and other quarantine and isolation measures. They also imposed business limitations such as mandatory temporary closures, required reduced operating hours, restrictions on segments of the population permitted to shop on particular days, customer occupancy limits and restrictions on sales of “non-essential” merchandise. Many of these policies and restrictions resulted in limiting access for our Members and adversely impacted our club operations. While all the limitations have been lifted in our markets, they could be re-imposed in the event of a resurgence of infections or if future mutations, variants or related strains of the virus become prevalent.

[Table of Contents](#)

Our business depends heavily on the uninterrupted operation of our distribution facilities located in Miami, Florida and San Jose, Costa Rica, our warehouse clubs located in Colombia, Central America and the Caribbean, and our headquarters and buying operations in San Diego, California. The operation of all of our facilities is highly dependent on our employees who staff these locations, and the coronavirus could directly threaten the health of our employees. Additionally, to protect our employees, we have trained our in-club and distribution center employees about and enforced social distancing. During much of the pandemic, most of our employees who could do so worked remotely. However, we are currently in the process of implementing a return to office plan, whereby employees work part of the week from home and the other part from a Company office. Management believes this hybrid approach allows for the continued safety of our workforce while also having the benefit of maintaining an engaging work environment and work life balance. Managing through this transition back to the office will be important to the continued success of our Company. Finally, we continue to identify alternative distribution channels in the case of closure of one or more of our distribution facilities or upstream and downstream disruption to our supply chain. Events such as these complicate and/or threaten the way we execute and the performance of our business and could have a material adverse effect on our business and operating results.

Operating during the COVID-19 pandemic increased our costs of operations. Among other things, we provided personal protective equipment to our employees, employed additional cleaning and sanitizing procedures at our warehouse clubs and distribution facilities. As the pandemic has evolved and COVID-19 restrictions have decreased, we believe we will still incur some costs depending on future outbreaks or resurgences.

In addition, as a result of COVID-19 and the measures designed to contain the spread of the virus, we faced and may again face delays or difficulty sourcing products, which could negatively affect our business and financial results. Certain of our suppliers had their manufacturing operations disrupted by the coronavirus outbreak, and even where goods have been completed, they had been subject to weeks-long shipping delays. If our third-party suppliers' operations are curtailed, again, or transportation systems are disrupted, we may need to seek alternate sources of supply, which may be more expensive. If the production and distribution closures were to resume for an extended period of time, the impact on our supply chain could have a material adverse effect on our results of operations and cash flows.

Negative economic conditions created or exacerbated by COVID-19, higher interest rates and inflation could adversely impact our business in various respects.

A slowdown in the economies of one or more of the countries in which we operate or adverse changes in economic conditions affecting discretionary consumer spending could adversely affect consumer demand for the products we sell, change the mix of products we sell to a mix with a lower average gross margin, cause a slowdown in discretionary purchases of goods, adversely affect our net sales and result in slower inventory turnover and greater markdowns of inventory, or otherwise materially adversely affect our operating results. Any prolonged outbreak of the coronavirus could result in the imposition of quarantines or closures of retailer locations, office spaces, manufacturing facilities, travel and transportation restrictions and/or import and export restrictions, any of which could contribute to a general slowdown in the global economy and the economies of the markets in which we operate. Increasing interest rates, inflation, higher fuel prices and other factors also could adversely affect the economies of the countries where we operate. A significant decline in the economies of the countries in which our warehouse clubs are located may lead to decreased sales and profitability, increased governmental ownership or regulation of the economy, higher interest rates and increased barriers to entry such as higher tariffs and taxes. The economic factors that affect our operations also may adversely affect the operations of our suppliers, which can result in an increase in the cost to us of the goods we sell to our Members or, in more extreme cases, in certain suppliers not producing goods in the volume typically available for sale to us.

The economic factors that affect our operations may also adversely affect the operations of our suppliers, which can result in an increase in the cost to us of the goods we sell to our customers or, in more extreme cases, in certain suppliers not producing goods in the volume typically available to us for sale.

Employment laws and regulations in the countries in which we operate may limit our ability to effect a reduction in force to reduce our labor expenses in line with declining revenues. In some of the countries in which we operate, before we could effect a reduction in force, we would need to negotiate with labor unions, demonstrate evidence of hardship or force majeure or obtain prior government approval, which may not be given in a timely manner or at all.

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

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

- changes in, and inconsistent enforcement of, laws and regulations, including those related to tariffs and taxes;
- the imposition of foreign and domestic governmental controls, including expropriation risks;
- natural disasters;
- trade restrictions, including import-export quotas and general restrictions on importation;
- difficulty and costs associated with international sales and the administration of an international merchandising business;
- crime and security concerns, which can adversely affect the economies of the countries in which we operate and which require us to incur additional costs to provide additional security at our warehouse clubs;
- political instability, such as the protests and civil unrest in Colombia in 2022 and 2021, in Honduras and Nicaragua in 2019, and a general strike in Costa Rica in 2018;
- product registration, permitting and regulatory compliance;
- volatility in foreign currency exchange rates;
- general economic and business conditions; and
- interruption of our supply chain.

These risks may result in disruption to our sales, banking transactions, operations and merchandise shipments, any of which could have a material adverse effect on our business and results of operations. Political and other factors in each of our markets may have significant effects on our business. For example, the civil unrest in Colombia paralyzed significant portions of the country's infrastructure as roadblocks and riots disrupted normal economic activity during the third quarter of fiscal 2021. Austerity and tax reform measures for Colombia and other Latin American countries with high national debt levels and income disparity pose a risk for political instability. Similar unrest happened in Nicaragua and Honduras in 2019, respectively; Costa Rica also had a general strike against tax reform measures that significantly impeded regular economic activity in 2018. Events of this sort have, and may continue to have, an adverse effect on our business.

We face significant competition.

Our international warehouse club business competes with exporters, importers, wholesalers, local retailers and trading companies in various international markets. Some of our competitors have greater resources, buying power and name recognition than we have. We also face competition from online retailers who serve our markets, and we expect that this type of competition will grow and intensify in the future.

In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry outlets, home improvement centers, electronic retailers and specialty stores, including those within Latin America that are owned and operated by large U.S. and international retailers, including Walmart Inc. in Central America and Grupo Éxito and Cencosud in Colombia. We have noted that certain retailers are making investments in upgrading their locations which may result in increased competition. Further, it is possible that current U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format. Our ability to operate profitably in our markets, particularly small markets, may be adversely affected by the existence or entry of competing warehouse clubs or discount retailers.

We compete in a variety of ways, including the value and prices at which we sell our merchandise, merchandise selection and availability, services offered to Members, location, store hours, safety protocols and the shopping convenience and overall shopping experience we offer. We may be required to implement price reductions to remain competitive if any of our competitors reduce prices in any of our markets. In response to the increasing threat associated with online retailers, we are making technology investments, which may result in increases in the use of cash and reduced profitability in the near term.

Table of Contents

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.

Although online sales are currently a smaller proportion of total sales in our markets for the types of merchandise we offer than in the U.S., online shopping is becoming more prevalent in our markets as we and our competitors begin to offer more opportunities for online shopping and as delivery systems in our markets improve. COVID-19 has accelerated the growth of online sales in our markets due to government-imposed restrictions on shopping and changes in consumer preferences. While major international online retailers have not established a significant penetration in any of our markets yet, Amazon.com, Inc. continues to expand its online marketplace and make additional investments to bolster its presence in the countries where we operate. Also, it is possible that Amazon.com, Inc. or smaller regional companies will increase the penetration of online shopping in our markets, especially given the importance of e-commerce during the COVID-19 pandemic.

We continue to invest in our websites and systems with the long-term objective of offering our Members a seamless omnichannel experience. We currently offer our Click & Go™ online shopping, which includes both curbside pickup and delivery are available in all markets. Operating an e-commerce platform and fulfillment of online orders is a complex undertaking, and there is no guarantee that the resources we have applied to this effort will result in increased revenues or improved operating performance. If we do not maintain a successful and relevant omni-channel experience for our Members, our ability to compete and our results of operations could be adversely affected.

We are exposed to significant weather events and other natural disaster risks that might not be adequately compensated by insurance, and we are susceptible to the long-term impacts of climate change.

Our operations are subject to volatile weather conditions and natural disasters, such as earthquakes, hurricanes and volcanic activity, which are encountered periodically in the regions in which our warehouse clubs and other facilities are located. Natural disasters could result in physical damage to, or the complete loss of, one or more of our properties, the closure of one or more clubs or distribution centers, limitations on store or club operating hours, the lack of an adequate work force in a market, the inability of customers and employees to reach our clubs, the unavailability of our digital platforms to our customers, disruption in the supply of products or increases in the costs of procuring products. For example, in early fiscal year 2018, operations at our USVI warehouse club were adversely affected by Hurricanes Irma and Maria. The warehouse club was closed for nine days, and after re-opening, the warehouse club operated with limited hours for 16 days due to a government-imposed curfew. Damaged and destroyed roads restricted traffic flow, adversely affecting customer access for some time after the hurricane. Future losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, the long-term impacts of climate change, whether involving physical risks (such as extreme weather conditions, drought, or rising sea levels) or transition risks (such as regulatory or technology changes) are expected to be widespread and unpredictable. Physical risks include extreme storms that damage or destroy our buildings and inventory or interrupt our business operations and supply chain and temperature changes that increase the heating and cooling costs at clubs and distribution and fulfillment centers. We also may experience changes in energy and commodity prices driven by climate change as well as new regulatory requirements resulting in higher compliance risk and operational costs.

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

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

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

Civil unrest in certain countries in which we operate may adversely affect the flow of goods through those countries. For example, in April 2021, protestors in Colombia erected roadblocks inside and between major cities and damaged public transport, businesses and state buildings, which disrupted the normal flow of goods and economic activity. In 2019, political and civil unrest in Honduras and Nicaragua resulted in roadblocks in many portions of these countries. Any restriction in the movement of goods through Costa Rica's ports or over Honduras and Nicaragua's highways could impair our ability to supply warehouse clubs not just in those countries, but in countries throughout the region as well.

Table of Contents

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

We are subject to payment related risks, including risks to the security of payment card information.

We accept payments using an increasing variety of methods, including cash, checks, wire transfers, our co-branded credit cards and a variety of other credit and debit cards. Our operations, like those of most retailers, requires the transmission of information associated with cashless payments. As we offer new payment options to our Members, we may be subject to additional rules, regulations and compliance requirements, along with the risk of higher fraud losses. For certain payment methods, we pay interchange and other related card acceptance fees, along with additional transaction processing fees. We rely on third parties to provide secure and reliable payment transaction processing services, including the processing of credit and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association and network operating rules, including data security rules, certification requirements and rules governing electronic funds transfers, which could change over time. If we fail to comply with these rules or transaction processing requirements, we may not be able to accept certain payment methods. In addition, if our internal systems are breached or compromised, we may be liable for banks' compromised card re-issuance costs, we may be subject to fines and higher transaction fees and lose our ability to accept credit and/or debit card payments from our Members, and our business and operating results could be adversely affected. Failures or disruptions in data communication and transfer services also could significantly impact our ability to transact payments to vendors and process credit and debit card transactions. Lastly, we or our customers may experience "spoofing" transactions, particularly with respect to wire transfers, which could cause us to make payments to impostor vendors or result in our not receiving timely payment from customers for merchandise we have sold.

We face the possibility of operational interruptions related to union work stoppages.

We currently have labor unions in three of our subsidiaries (Trinidad, Barbados and Panama). A work stoppage or other limitation on operations from union or other labor-related matters could occur for any number of reasons, including as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiation of new collective bargaining agreements. A lengthy work stoppage or significant limitation on operations could have a substantial adverse effect on our financial condition and results of operation.

Risks Associated with Our Business Strategy and Operations

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

As of August 31, 2022, we had 50 warehouse clubs in operation, located in 12 countries and one U.S. territory (nine in Colombia, eight in Costa Rica and seven in Panama; five in the Dominican Republic and Guatemala, four in Trinidad; three in Honduras; two each in El Salvador, Jamaica and Nicaragua; and one each in Aruba, Barbados, and the United States Virgin Islands). We will need to continually evaluate the adequacy of our existing infrastructure, systems and procedures, financial controls, operating controls, inventory, and safety controls and make upgrades from time to time. Moreover, we will be required to continually analyze the sufficiency of our inventory distribution channels and systems and may require additional or expanded facilities in order to support our operations. We may not adequately anticipate all the changing demands that will be imposed on these systems. Any failure of our systems or our inability to effectively update our internal systems or procedures as required could have a material adverse effect on our business, financial condition and results of operations.

[Table of Contents](#)

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

Our success depends, in part, on our ability to identify and respond to trends in demographics and changes in consumer preferences for merchandise. It is difficult to consistently and successfully predict the products and services our Members will demand. Failure to timely identify or respond effectively to changing consumer tastes, preferences or spending patterns could adversely affect our relationship with our Members, the demand for our products and our market share. If we are not successful at predicting sales trends and adjusting purchases accordingly, we might have too much or too little inventory of certain products. If we buy too much of a product, we might be required to reduce prices or otherwise liquidate the excess inventory, which could have an adverse effect on margins (net sales less merchandise costs) and operating income. If we do not have sufficient quantities of a popular product, we might lose sales and profits we otherwise could have made.

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

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

In some cases, we have more than one warehouse club in a single metropolitan area, and we may open new warehouse clubs in certain areas where we already have warehouse clubs. A new warehouse club in an area already served by existing warehouse clubs may draw Members away from existing warehouse clubs and adversely affect comparable store sales performance. We operate in relatively small markets. Given the growth of our sales over the past few years, market saturation could impact the rate of future sales growth.

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

Failure to grow our e-commerce business through the integration of physical and digital retail channels and the investments we are making to develop a robust e-commerce platform could materially adversely affect our market position, net sales and/or financial performance.

The retail business is quickly evolving, and consumers are increasingly embracing shopping online and through mobile commerce applications. As a result, the portion of total consumer expenditures with all retailers and wholesale clubs occurring online and through mobile commerce applications is increasing and the pace of this increase could accelerate. As demonstrated by our launch of our Click & Go™ curbside pickup and delivery service, and other ongoing investments, we are increasing our investments in e-commerce, technology and other customer initiatives. The success of our e-commerce initiative continues to depend in large measure on our ability to build and deliver a seamless shopping experience across the physical and digital retail channels. If we fail to successfully implement our e-commerce initiative, our market position, net sales and financial performance could be adversely affected. In addition, a greater concentration of e-commerce sales could result in a reduction in the amount of traffic in our warehouse clubs, which would, in turn, reduce the opportunities for cross-club sales of merchandise that such traffic creates and could reduce our sales within our clubs, materially adversely affecting the financial performance of the physical retail side of our operations. In addition, our investments in e-commerce and technology initiatives will adversely impact our short-term financial performance, and our failure to realize the benefits of these investments may adversely impact our financial performance over the longer term.

Our profitability is vulnerable to cost increases.

Future increases in costs, such as the cost of merchandise, wage and benefits costs, shipping rates, freight costs, fuel costs, utilities and other store occupancy costs, may reduce our profitability. We seek to adjust our product sales pricing, operate more efficiently, and increase our comparable store net sales to offset inflation, currency rate changes, changes in tax rates or in the methods used to calculate or collect taxes on our sales or income and other factors that can increase costs. We might not be able to adjust prices, operate more efficiently or increase our comparable store net sales in the future to a great enough extent to offset increased costs. In the first half of fiscal year 2022, we experienced significant increases in freight costs for our merchandise sourced overseas due to the global shortage of shipping containers and supply chain disruptions. Please see Part II. “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this Form 10-K for further discussion of the effect of currency rate changes, inflation and other economic factors on our operations.

We are subject to risks associated with our dependence on third-party suppliers and service providers, and we have no assurances of continued supply, pricing or access to new merchandise.

We have important ongoing relationships with various third-party suppliers of services and merchandise. These include, but are not limited to, local, regional, and international merchandise suppliers, information technology suppliers, equipment suppliers, financial institutions, credit card issuers and processors, and lessors. Significant changes in the relationships or the agreements that govern the terms through which business is conducted could have a material adverse effect on our business, financial condition and results of operations. We have no assurances of continued supply, pricing or access to new merchandise, and any supplier could at any time change the terms upon which it sells to us or discontinue selling to us. One of our significant suppliers operates a warehouse club business and may in the future seek to compete with us in some of our markets. In addition, the manner in which we acquire merchandise, either directly from the supplier’s parent company or through a local subsidiary or distributor, is subject to change from time to time based on changes initiated by the supplier and for reasons beyond our control. Significant changes or disruptions in how we acquire merchandise from these suppliers could negatively affect our access to such merchandise, as well as the cost of merchandise to us and hence our Members, which could have a material adverse effect on our business and results of operations.

Our failure to maintain our brand and reputation could adversely affect our results of operations.

Our success depends on our ability to continue to preserve and enhance our brand and reputation. Damage to the PriceSmart brand could adversely impact merchandise club sales, diminish Member trust, reduce Member renewal rates and impair our ability to add new Members. A failure to maintain and enhance our reputation also could lead to loss of new opportunities or employee retention and recruiting difficulties. Negative incidents, such as a data breach or product recall, can quickly erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation. In particular, the propagation of negative publicity on social media, whether merited or not, can have a damaging effect on our business in one or more markets. In addition, we sell many products under our private label Member’s Selection brand. If we do not maintain consistent product quality of our Member’s Selection products, which generally carry higher margins than national brand products carried in our warehouse clubs, our net warehouse sales and gross margin results could be adversely affected and Member loyalty could be harmed.

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

If our merchandise, such as food and prepared food products for human consumption, medication, children's products, pet products and durable goods, do not meet or are perceived not to meet applicable safety standards or our Members’ expectations regarding safety, we could experience lost sales, increased costs, litigation or reputational harm. The sale of these items exposes us to the risk of product liability claims, a product recall and adverse publicity. We may inadvertently redistribute food products or prepare food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the food service or consumer level. We package and market fresh produce products within our markets, so we may be exposed to additional risk of product liability and adverse publicity if those fresh food products are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at our packaging service centers.

We generally seek contractual indemnification and proof of insurance from our major suppliers and carry product liability insurance for all products we sell to or package for our Members. However, if we do not have adequate insurance or contractual indemnification available, product liability claims relating to products that are contaminated or otherwise harmful could have a material adverse effect on our ability to successfully market our products and on our financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding a product recall or any assertion that our products caused illness or injury could have a material adverse effect on our reputation with existing and potential Members and on our business, financial condition and results of operations.

[Table of Contents](#)

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

Given the high number of individual transactions we have each year, we seek to maintain uninterrupted operation of our business-critical computer systems. Our computer systems, including back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, catastrophic events such as fires, earthquakes, tornadoes and hurricanes, and errors by our employees. Our information systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. If our computer systems and back-up systems are damaged or cease to function properly, we may have to make significant investments to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer systems could have a material adverse effect on our business or results of operations.

We depend on third-party service providers to support transaction and payment processing, data security and other technology services. Any interruption in the operations of these service providers could, in turn, have a material adverse effect on us. For example, in 2022, a third party that supported our point-of-sale system became insolvent, which required us to quickly develop and implement short-term workarounds and delayed our migration to a cloud-based system integrating in-store and online functionality.

From time to time, we make technology investments to improve or replace our information processes and systems that are key to managing our business. The risk of system disruption is increased when system changes are undertaken. Targeting the wrong opportunities, failing to make the right investments, or making an investment commitment significantly above or below our needs could result in the loss of our competitive position and adversely impact our financial condition and results of operations. Additionally, the potential problems and interruptions associated with implementing technology initiatives could disrupt or reduce the efficiency of our operations in the short term. These initiatives might not provide the anticipated benefits or may provide them on a delayed schedule or at a higher cost.

Several years ago, we began evaluating options to replace our existing Enterprise Resource Planning (ERP) system. However, we have intentionally deferred this project as originally contemplated in order to more holistically assess our overall IT landscape and strategy. Not updating our systems on a timely basis could leave us at a disadvantage relative to our competitors. Our current ERP system is not supported by the developer of the software, which could increase the risk of a system disruption. In addition, there are newer versions available from the vendors of some of our other internal systems offering greater functionality and reliability which we have not yet implemented. We also continue to rely on other systems we developed internally a number of years ago, which will require us to migrate to more industry-standard technologies. During the last three years, we have been updating critical enterprise systems in a way that separates our e-commerce, logistics, reporting, membership and costing systems from our dated ERP system in an effort to simplify the migration to a new ERP system and minimize disruptions. As we have separated and updated these new systems, we have sought to improve functionality and reliability, while simultaneously reducing our dependency on legacy software, including our current ERP system. Nevertheless, these updates and a transition to a new ERP system will require a significant investment by us, and any failure by us to effectively design, implement and transition to new systems may adversely affect operations, Member satisfaction or sales.

Any failure by us to maintain the security of the information that we hold relating to our company, Members, employees and vendors, could damage our reputation with them, could disrupt our operations, could cause us to incur substantial additional costs and to become subject to litigation and could materially adversely affect our operating results.

We receive, retain, and transmit personal information about our Members and employees and entrust that information to third-party business associates, including cloud service-providers that perform activities for us. In addition, we and our third-party service providers store and maintain health-related personal information, pharmacy, and medical records in connection with our health and wellness and pharmacy businesses. We also utilize third-party service providers for a variety of reasons, including, without limitation, cloud services, back-office support, and other functions. In addition, our online operations depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. Each year, computer hackers, cyber terrorists, and others make numerous attempts to access the information stored in companies' information systems. The increased use of remote work infrastructure due to the COVID-19 pandemic has also increased cybersecurity risk.

The use of data by our business and our business associates is regulated in all of our operating countries. Privacy and information-security laws and regulations change, and compliance with them may result in cost increases due to, among other things, systems changes and the development of new processes. If we or those with whom we share information fail to comply with these laws and regulations, we could be subjected to legal risk as a result of non-compliance.

Table of Contents

We or our third-party service providers may be unable to anticipate one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to defeat our security measures or those of our third-party service providers and breach our or our third-party service providers' information systems. Cyber threats are rapidly evolving and are becoming increasingly sophisticated. As cyber threats evolve and become more difficult to detect and successfully defend against, one or more hackers, cyber terrorists or others might defeat our security measures or those of our third-party service providers and obtain the personal information of Members, employees and vendors that we hold or to which our third-party service providers have access, and we or our third-party service providers may not discover any security breach and loss of information for a significant period of time after the security breach occurs. We or one of our third-party service providers also may be subject to a ransomware or cyber-extortion attack, which could significantly disrupt our operations. In the enterprise context, ransomware attacks involve restricting access to computer systems or vital data until a ransom is paid. Error or malfeasance by our employees and consultants, faulty password management or other irregularities may result in a defeat of our or our third-party service providers' security measures and breach our or our third-party service providers' information systems (whether digital or otherwise).

Any breach of our security measures or those of our third-party service providers and loss of our confidential information, which could be undetected for a period of time, or any failure by us to comply with applicable privacy and information security laws and regulations, could cause us to incur significant costs to protect any Members and/or employees whose personal data was compromised and to restore Member and employee confidence in us and to make changes to our information systems and administrative processes to address security issues and compliance with applicable laws and regulations.

In addition, such events could have a material adverse effect on our reputation with our Members, employees, vendors and stockholders, as well as our operations, results of operations, financial condition and liquidity, could result in the release to the public of confidential information about our operations and financial condition and performance and could result in litigation against us or the imposition of penalties or liabilities. Moreover, a security breach could require us to devote significant management resources to address the problems created by the security breach and to expend significant additional resources to upgrade further the security measures that we employ to guard such important personal information against cyberattacks and other attempts to access such information, resulting in a disruption of our operations.

Business acquisitions or divestitures and new business initiatives could adversely impact the Company's performance.

From time to time, we may consider acquisition opportunities and new business initiatives. During fiscal year 2018, we acquired Aeropost, Inc. ("Aeropost"). Acquisitions and new business initiatives involve certain inherent risks, including the failure to retain key personnel from an acquired business; undisclosed or subsequently arising liabilities or accounting, internal control, regulatory or compliance issues associated with an acquired business; challenges in the successful integration of operations, and alignment of standards, policies and systems; future developments that may impair the value of our purchased goodwill or intangible assets; and the potential diversion of management resources from existing operations to respond to unforeseen issues arising in the context of the integration of a new business or initiative.

We sold the legacy casillero and marketplace businesses operated by Aeropost in October 2021. In connection with this sale, we retained the technology and intellectual property rights required for the furtherance of our business interest in PriceSmart.com and related capabilities. We also retained the individuals formerly employed by Aeropost who we believed would best support PriceSmart's objectives. We could incur unforeseen expenses or other issues in connection with the separation of these businesses. In addition, we and the buyer of the legacy casillero and marketplace businesses have agreed to indemnify each other for any breach of representations and warranties we made to one another in the purchase agreement.

On August 5, 2022, PriceSmart received notice from Click USA Inc. and Aeropost, Inc. alleging that PriceSmart had breached certain provisions of a Stock Purchase Agreement between PriceSmart and Click USA, Inc. dated October 1, 2021, concerning the sale of Aeropost, Inc. to Click USA Inc. In this notice, Click USA Inc. and Aeropost, Inc. allege that PriceSmart made inaccurate or incomplete representations and warranties relating to Aeropost, Inc.'s cyber security and the condition of its IT systems in connection with the sale. Click USA Inc. and Aeropost, Inc. further asserted that, in or around April 2022, Aeropost, Inc. suffered cyberattacks, and they seek to hold PriceSmart liable for some amount of damages due to alleged losses directly relating to the cyber-attacks as well as due to possible third-party claims as a result of the cyber-attacks. The notice suggested that aggregate losses attributable to these losses and future claims could exceed \$3,000,000. Per the express terms of the agreement, the maximum amount of all losses for which PriceSmart may be liable for claims arising out of allegations concerning the above-referenced representations and warranties is \$4,000,000. PriceSmart intends to vigorously defend itself and, as such, we have concluded that a loss related to this matter is not probable and any potential loss is not reasonably estimable; therefore, we have not accrued a liability for this matter.

Failure to attract and retain qualified employees could materially adversely affect our financial performance.

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

Legal and Compliance Risks

We face compliance risks related to our international operations.

In the United States and within the international markets where we operate, there are multiple laws and regulations that relate to our business and operations. These laws and regulations are subject to change, and any failure by us to effectively manage our operations and reporting obligations as required by the various laws and regulations can result in our incurring significant legal costs and fines as well as disruptions to our business and operations. Such failure could also result in investors' loss of confidence in us, which could have a material adverse effect on our stock price.

In foreign countries in which we have operations, a risk exists that our employees, contractors or agents could, in contravention of our policies, engage in business practices prohibited by U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act and the laws and regulations of other countries. We maintain policies prohibiting such business practices and have in place global anti-corruption compliance programs designed to ensure compliance with these laws and regulations. Nevertheless, we remain subject to the risk that one or more of our employees, contractors or agents, including those based in or from countries where practices that violate such U.S. laws and regulations or the laws and regulations of other countries may be customary, will engage in business practices that are prohibited by our policies or circumvent our compliance programs and, by doing so, violate such laws and regulations. Any violations of anti-corruption laws, even if prohibited by our internal policies, could adversely affect our reputation, business, or financial performance.

We could be subject to additional tax liabilities or subject to reserves on the recoverability of tax receivables.

We compute our income tax based on enacted tax rates in the countries in which we operate. As the tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall taxes. Changes in tax laws, increases in the enacted tax rates, adverse outcomes in connection with tax audits in any jurisdiction, or any change in the pronouncements relating to accounting for income taxes could have a material adverse effect on our financial condition and results of operations. In two countries, there have been changes in the method of computing minimum tax payments, under which the governments have sought to require the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company has made and may continue to make income tax payments substantially in excess of those it would expect to pay based on taxable income, and the rules that allow the Company to obtain refunds or to offset payments that are substantially in excess of taxes payable based on taxable income are unclear or complex. We, together with our tax and legal advisers, are currently appealing these interpretations. However, if we do not prevail in these efforts, we may be required to establish a valuation reserve against these tax receivables and take an accompanying charge, which would adversely affect our financial condition and results of operations. In the meantime, we are taking other actions to recover excess taxes paid or withheld and to limit further increases in these receivables, including the possibility that we might choose in one of the jurisdictions to make income tax payments using the original computation based on a percentage of taxable income in advance of a favorable court ruling.

We file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which affects the amount of tax we pay. We, in consultation with our tax advisors, base our tax returns on interpretations that we believe to be reasonable under the prevailing circumstances. However, our tax returns are subject to routine reviews by the various taxing authorities in the jurisdictions in which we file our returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations we used to calculate our tax liability and therefore require us to pay additional taxes.

A few of our stockholders own approximately 16.5% of our voting stock as of August 31, 2022, which may make it difficult to complete some corporate transactions without their support and may impede a change in control.

Robert E. Price, the Company's Chairman of the Board, and affiliates of Mr. Price, including Price Philanthropies, The Price Group, LLC, The Robert & Allison Price Charitable Remainder Trust and various other trusts, collectively beneficially own approximately 16.5% of our outstanding shares of common stock. Of this amount, approximately 74.8% (i.e., 12.3% of our total outstanding shares) is held by charitable entities. As a result of their beneficial ownership, these stockholders have the ability to significantly affect the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

Financial and Accounting Risks

We are subject to volatility in foreign currency exchange rates and limits on our ability to convert foreign currencies into U.S. dollars.

As of August 31, 2022, we had a total of 50 warehouse clubs operating in 12 foreign countries and one U.S. territory, 40 of which operate under currencies other than the U.S. dollar. For fiscal year 2022, approximately 78.0% of our net merchandise sales were in foreign currencies. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net merchandise sales denominated in foreign currencies.

Our consolidated financial statements are denominated in U.S. dollars, and to prepare those financial statements we must translate the amounts of the assets, liabilities, net sales, other revenues, and expenses of our operations outside of the U.S. from foreign currencies into U.S. dollars using exchange rates for the current period. As a result of such translations, fluctuations in currency exchange rates from period-to-period may result in our consolidated financial statements reflecting significant adverse period-over-period changes in our financial performance or reflecting a period-over-period improvement in our financial performance that is not as robust as it would be without such fluctuations in the currency exchange rates.

In addition, devaluing foreign local currencies compared to the U.S. dollar could negatively impact the purchasing power of our Members for imported merchandise in those countries. Merchandise imported into our markets is generally purchased by the Company in U.S. dollars and priced and sold in the local currency of that country. If the local currency devalues against the U.S. dollar, we may elect to increase prices in the local currency to maintain our target margins, making the products more expensive for our Members. We may also decide to reduce or modify the flow of merchandise into those markets. Depending on the severity of the devaluation and corresponding price increase (as experienced in Colombia in 2015, 2020, and 2022), the demand for, and sales of, those products could be negatively impacted.

Finally, the ability of the Company to convert local currency into U.S. dollars to settle U.S. dollar invoices can be impacted in certain markets due to economic factors or government policies creating illiquidity of the local currency. This has been the case in Trinidad in fiscal years 2017, 2020, and 2021, which led us to reduce shipments from the U.S. to Trinidad to amounts that our Trinidad subsidiary could pay for using the amount of tradeable currency that could be sourced in that market, resulting in lost sales.

As of August 31, 2022, our Trinidad subsidiary had Trinidad dollar denominated cash and cash equivalents and short and long-term investments measured in U.S. dollars of approximately \$25.0 million, a decrease of \$27.9 million from August 31, 2021, when these same balances were approximately \$52.9 million. The Trinidad central bank manages the exchange rate of the Trinidad dollar with the U.S. dollar. While the Trinidad government has publicly stated it has no intention to devalue the Trinidad dollar, it could in the future decide to devalue the currency to improve market liquidity, resulting in a devaluation in the U.S. dollar value of these cash and investments balances. If, for example, a hypothetical 20% devaluation of the Trinidad dollar were to occur, the value of our Trinidad dollar cash and investments position, measured in U.S. dollars, would decrease by approximately \$5.0 million, with a corresponding increase in Accumulated other comprehensive loss reflected on our consolidated balance sheet. Separate from the Trinidad dollar denominated cash and investments balances described above, as of August 31, 2022, we had a U.S. dollar denominated monetary asset position of approximately \$80.3 million in Trinidad (net of U.S. dollar denominated liabilities), which would produce a gain from a potential devaluation of Trinidad dollars. If, for example, a hypothetical 20% devaluation of the Trinidad dollar occurred, the net effect on other income (expense), net on our consolidated statement of operations of revaluing these U.S. dollar denominated net monetary assets would be an approximate \$16.1 million gain. While we may pay premiums or enter into financial transactions at a discount from the official government rate to convert our Trinidad dollars into U.S. dollars, we use the official exchange rate published by the Central Bank of Trinidad and Tobago to measure the U.S. dollar equivalent of Trinidad dollar-based revenues, expenses, assets and liabilities and the Trinidad dollar equivalent of U.S. dollar-based monetary assets and liabilities for financial reporting purposes, as there are no other reliable references available to translate or remeasure our revenues, expenses, assets and liabilities.

Volatility and uncertainty regarding the currencies and economic conditions in the countries where we operate could have a material impact on our operations in future periods.

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

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business are highly complex and involve many subjective assumptions, projections, estimates and judgments by our management. These include, but are not limited to assumptions, projections, estimates and judgments related to contingencies and litigation, income taxes, value added taxes, and long-lived assets. Changes in these rules or their interpretation or changes in underlying assumptions, projections, estimates or judgments by our management could significantly change our reported or expected financial performance.

For example, because of Accounting Standards Update ASU 2016-02 – Leases (Topic 842), which the Company adopted September 1, 2019, the Company is required to recognize a “Right-of-Use” (ROU) asset and lease liability for each of the Company’s long-term leases. Accounting Standard Codification (ASC) 842 requires that the ROU asset be designated as a non-monetary asset and the lease liability as a monetary liability. Therefore, when accounting for a lease that is denominated in a foreign currency, if remeasurement into the lessee’s functional currency is required, the lease liability is remeasured using the current exchange rate. We have leases in several of our subsidiaries in which the lease payments are denominated in a foreign currency that is not the functional currency of that entity. Therefore, we are subject to additional volatility in foreign currency exchange rates as a result of this accounting standard update. The monetary lease liability subject to revaluation as of August 31, 2022 was \$32.4 million. Due to the mix of foreign currency exchange rate fluctuations during fiscal 2022, the impact to the consolidated statements of income of revaluing this liability was immaterial.

Item 1B. Unresolved Staff Comments

None.

[Table of Contents](#)

Item 2. Properties

At August 31, 2022, PriceSmart operated 50 membership warehouse clubs, as detailed below:

Location	Own land and building	Lease land and/or building
COLOMBIA SEGMENT		
Colombia ⁽¹⁾	8	1
CENTRAL AMERICA SEGMENT		
Panama	5	2
Guatemala	3	2
Costa Rica	8	—
El Salvador ⁽¹⁾	2	—
Honduras	2	1
Nicaragua	2	—
CARIBBEAN SEGMENT		
Dominican Republic	5	—
Aruba	—	1
Barbados	1	—
Trinidad	3	1
U.S. Virgin Islands	—	1
Jamaica	2	—
Total	41	9

(1) We are currently constructing and plan to open warehouse clubs in San Miguel, El Salvador in Spring 2023 and in Medellín, Colombia in the summer of 2023. We own the land for each and expect to own each of the buildings upon its completion.

Although we have entered into real estate leases in the past and will likely do so in the future, our preference is to own rather than lease real estate. We lease land and in some cases land and buildings when appropriate sites within market areas are not available to purchase. The term on these leases generally run for 20 to 30 years and contain options to renew from 5 to 20 years. We actively seek to secure lease extensions or find suitable replacement properties before our leases expire. We have successfully negotiated extensions in the past and believe we will continue to be able to do so in the future; however, each lease renewal is subject to its own facts and circumstances, so we cannot be sure that we will be able to renew each lease on economically favorable terms.

As of August 31, 2022, sales floors of the Company's warehouse club buildings occupied a total of approximately 2,484,126 square feet, of which 430,588 square feet were on leased property.

We operate two large regional distribution centers, one in Miami, Florida and the other in San Jose, Costa Rica, along with several smaller local distribution centers for the consolidation and distribution of merchandise shipments to our warehouse clubs. Our corporate headquarters is located in San Diego, California, and we maintain other regional offices in the Miami distribution facility and our international locations. We own our regional distribution facility in Miami, Florida, but we otherwise lease most non-warehouse club facilities and expect to continue to lease these types of facilities as we expand. Our leases for non-warehouse club facilities typically provide for initial lease terms between five and 30 years, with options to extend. We believe this leasing strategy for non-warehouse club facilities enhances our flexibility to pursue expansion opportunities when the needs of our business require. As current leases expire, we believe that we will be able to obtain lease renewals, if desired, for these present locations, or to obtain leases for equivalent or better locations in the same general area.

Item 3. Legal Proceedings

We are often involved in claims arising in the ordinary course of business seeking monetary damages and other relief. Based upon information currently available to us, none of these claims is expected to have a material adverse effect on our business, financial condition or results of operations. Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 9 – Commitments and Contingencies" for additional information regarding our legal proceedings.

[Table of Contents](#)

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock has been quoted and traded on the NASDAQ Global Select Market under the symbol “PSMT” since September 2, 1997. As of October 21, 2022, there were approximately 24,689 holders of record of the common stock.

	Dates		Stock Price	
	From	To	High	Low
2022 FISCAL QUARTERS				
First Quarter	9/1/2021	11/30/2021	\$ 86.16	\$ 70.10
Second Quarter	12/1/2021	2/28/2022	76.13	66.77
Third Quarter	3/1/2022	5/31/2022	88.30	69.53
Fourth Quarter	6/1/2022	8/31/2022	\$ 74.74	\$ 63.14
2021 FISCAL QUARTERS				
First Quarter	9/1/2020	11/30/2020	\$ 82.63	\$ 63.26
Second Quarter	12/1/2020	2/28/2021	103.07	81.89
Third Quarter	3/1/2021	5/31/2021	99.72	83.70
Fourth Quarter	6/1/2021	8/31/2021	\$ 94.13	\$ 79.56

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the fiscal year ended August 31, 2022.

Dividends

Declared	Amount	First Payment			Second Payment		
		Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
2/3/2022	\$ 0.86	2/15/2022	2/28/2022	\$ 0.43	8/15/2022	8/31/2022	\$ 0.43
2/4/2021	\$ 0.70	2/15/2021	2/26/2021	\$ 0.35	8/15/2021	8/31/2021	\$ 0.35
2/6/2020	\$ 0.70	2/15/2020	2/28/2020	\$ 0.35	8/15/2020	8/31/2020	\$ 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, taking into account all relevant factors, including, but not limited to, the uncertainty surrounding the ongoing effects of the COVID-19 pandemic on our results of operations and cash flows.

[Table of Contents](#)**Repurchase of Equity Securities**

Upon vesting of restricted stock awarded by the Company to employees, the Company repurchases shares and withholds the amount of the repurchase payment to cover employees' tax withholding obligations.

As set forth in the table below, during fiscal year 2022, the Company repurchased a total of 88,415 shares in the indicated months. These were the only repurchases of equity securities made by the Company during fiscal 2022. The Company does not have a stock repurchase program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
September 1, 2021 - September 30, 2021	—	\$ —	—	N/A
October 1, 2021 - October 31, 2021	31,437	77.12	—	N/A
November 1, 2021 - November 30, 2021	114	72.65	—	N/A
December 1, 2021 - December 31, 2021	—	—	—	N/A
January 1, 2022 - January 31, 2022	19,140	70.58	—	N/A
February 2, 2022 - February 28, 2022	—	—	—	N/A
March 1, 2022 - March 31, 2022	2,505	77.13	—	N/A
April 1, 2022 - April 30, 2022	239	80.34	—	N/A
May 1, 2022 - May 31, 2022	—	—	—	N/A
June 1, 2022 - June 30, 2022	—	—	—	N/A
July 1, 2022 - July 31, 2022	3,036	65.90	—	N/A
August 1, 2022 - August 31, 2022	31,944	64.57	—	N/A
Total	88,415	\$ 70.79	—	N/A

Item 6. Reserved.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements concerning PriceSmart, Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flows, omni-channel initiatives, proposed warehouse club openings, COVID-19 related factors and challenges, and the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "anticipated," "scheduled," "intend," and like expressions, and the negative thereof. Forward-looking statements are only as of the date they are made, and we do not undertake to update these statements, except as required by law. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to the risks detailed in this Annual Report on Form 10-K under the heading Part I. "Item 1A. Risk Factors." 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.

Overview

PriceSmart, headquartered in San Diego, California, owns and operates U.S.-style membership shopping warehouse clubs in Latin America and the Caribbean, selling high quality merchandise and services at low prices to our Members. We operate 50 warehouse clubs in 12 countries and one U.S. territory (nine in Colombia; eight in Costa Rica; seven in Panama; five in the Dominican Republic and Guatemala; four in Trinidad; three in Honduras; two each in El Salvador, Nicaragua and Jamaica; and one each in Aruba, Barbados and the United States Virgin Islands). The Company also plans to open new warehouse clubs in San Miguel, El Salvador in the spring of 2023 and in Medellin, Colombia in the summer of 2023. Once these two new clubs are open, the Company will operate 52 warehouse clubs. Our corporate headquarters, U.S. buying operations and regional distribution centers are located primarily in the United States. Our operating segments are the United States, Central America, the Caribbean and Colombia. All intercompany balances and transactions have been eliminated in consolidation.

Mission and Business Strategy

PriceSmart exists to improve the lives and businesses of our Members, our employees and our communities through the responsible delivery of the best quality goods and services at the lowest possible prices. Our mission is to serve as a model company, which operates profitably and provides a good return to our investors, by providing Members in emerging and developing markets with exciting, high quality merchandise sourced from around the world and valuable services at compelling prices in safe U.S. style clubs and through PriceSmart.com. We prioritize the well-being and safety of our Members and employees. We provide good jobs, fair wages and benefits and the opportunities for advancement. We strive to treat our suppliers right and empower them when we can. We conduct ourselves in a socially responsible manner as we endeavor to improve the quality of the lives of our Members and their businesses, while respecting the environment and the laws of all the countries in which we operate. The annual membership fee enables us to operate our business with lower margins than traditional retail stores. As we continue to invest in technological capabilities, we are increasing our tools to drive sales and operational efficiencies. We believe we are well positioned to blend the excitement and appeal of our brick-and-mortar business with the convenience and additional benefits of online shopping and services, and meanwhile, enhance Member experience and engagement.

Factors Affecting the Business

We continue to encounter operational challenges directly or indirectly related to the COVID-19 pandemic, including increased supply chain pressures, inflation, and foreign currency fluctuations relative to the U.S. dollar. COVID-19 may continue to affect consumer purchasing behavior as it continues to evolve and may affect our ability to meet unanticipated shifts in consumer demand and could give rise to additional operating costs that could have other potential long-term impacts on our financial condition and results of operations. For additional information, refer to the risk factors discussed in Part I. "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended August 31, 2022.

However, the COVID pandemic also has presented us opportunities to improve how we do business, how we serve our Members and how we treat our employees. In response to the pandemic, we:

- Increased our focus on expanding local sourcing and near-shoring of goods that we offer,
- Expedited our efforts to engage with Members online, including the launch of PriceSmart.com, and
- Highlighted the importance of employee well-being and accelerated our decision to ensure health coverage for all employees in our Company. We also are establishing flexible schedules and hybrid work environments for office employees in order to maximize efficiencies and provide opportunity for balance in our employees' lives.

[Table of Contents](#)

Overall economic trends, foreign currency exchange volatility, and other factors impacting the business

Our sales and profits vary from market to market depending on general economic factors, including GDP growth; consumer preferences; foreign currency exchange rates; political policies and social conditions; local demographic characteristics (such as population growth); the number of years we have operated in a particular market; and the level of retail and wholesale competition in that market. The economies of many of our markets are dependent on foreign trade, tourism, and foreign direct investments. Uncertain economic conditions and slowdown in global economic growth and investment may impact the economies in our markets, causing significant declines in GDP and employment and devaluations of local currencies against the U.S. dollar.

For most of fiscal year 2022, the environment we operated in was characterized by global supply chain disruption, high fuel and freight costs, inflation, significant foreign currency devaluations and less predictable consumer behavior and purchasing patterns due, in part, to the COVID pandemic's impact on consumer lifestyles. These factors have increased the complexity of managing our inventory flow and business. We saw several factors pressuring supply chains, including raw material shortages, limited manufacturer capacity, factory labor shortages, container shortages, port delays, and truck and driver shortages. However, in the fourth quarter of fiscal year 2022, we saw a gradual improvement in shipping costs and a general improvement in on-time shipments from our Asia vendors. Despite the issues we experienced for most of the year, we had strong sales growth. We are working to hold down and/or mitigate the price increases passed on to our Members while maintaining the right inventory mix to grow sales. One key mitigating factor has been our expanded network of distribution centers, which has facilitated alternative routings of shipments, increased throughput, and provided flexibility to more effectively mitigate these challenges.

In late fiscal year 2021, we made investments in inventory based on anticipated demand and worked with our local vendors to source alternative products in order to reduce out-of-stocks on high demand items that were impacted by these disruptions or that were affected by electronic part shortages. However, rapidly changing consumer preferences, long lead times, and supply chain disruptions led to inventory build up in some of the discretionary non-foods categories in our hardlines segment. We took significantly higher than usual markdowns in the third quarter and approximately forty basis points of margin compression in the fourth quarter compared to the prior year. We are planning to reduce our days on hand of inventory to better adapt to and meet the changing demands of our Members for fiscal year 2023.

Currency fluctuation can be one of the largest variables affecting our overall sales and profit performance, as we have experienced in prior fiscal years, because many of our markets are susceptible to foreign currency exchange rate volatility. During fiscal 2022, approximately 78.0% of our net merchandise sales were in currencies other than the U.S. dollar. Of those sales, 48.6% consisted of sales of products we purchased in U.S. dollars.

A devaluation of local currency reduces the value of sales and membership income that is generated in that country when translated to U.S. dollars for our consolidated results. In addition, when local currency experiences devaluation, we may elect to increase the local currency price of imported merchandise to maintain our target margins, which could impact demand for the merchandise affected by the price increase. We may also modify the mix of imported versus local merchandise and/or the source of imported merchandise to mitigate the impact of currency fluctuations. Information about the effect of local currency devaluations is discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Net Merchandise Sales and Comparable Sales."

Our capture of total retail and wholesale sales can vary from market to market due to competition and the availability of other shopping options for our Members. Demographic characteristics within each of our markets can affect both the overall level of sales and future sales growth opportunities. Certain island markets, such as Aruba, Barbados and the U.S. Virgin Islands offer us limited upside for sales growth given their overall market size.

We continue to face the risk of political instability which may have significant effects on our business. For example, civil unrest in Colombia in response to tax reform and austerity measures paralyzed significant portions of the country's infrastructure as roadblocks and riots disrupted normal economic activity during the third quarter of fiscal 2021. Nicaragua and Honduras experienced anti-government protests in 2019; Costa Rica also had a general strike against tax reform measures that significantly impeded regular economic activity in 2018.

Our operations are subject to volatile weather conditions and natural disasters. In November 2020, Hurricanes Eta and Iota brought severe rainfall, winds, and flooding to a significant portion of Central America, especially Honduras, which caused significant damage to parts of that country's infrastructure. Although our warehouse clubs were not significantly affected and we were able to manage our supply chain to keep our warehouse clubs stocked with merchandise, these natural disasters could adversely impact our overall sales, costs and profit performance in the future.

[Table of Contents](#)

Periodically, we experience a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity), particularly in Trinidad. This can and has impeded our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products and to otherwise redeploy these funds in our Company. This illiquidity also increases our foreign exchange exposure to any devaluation of the local currency relative to the U.S. dollar. During fiscal year 2021, we experienced significant limitations on our ability to convert Trinidad dollars to U.S. dollars or other tradeable currencies.

As of August 31, 2022, our Trinidad subsidiary had Trinidad dollar denominated cash and cash equivalents and short and long-term investments measured in U.S. dollars of approximately \$25.0 million, a decrease of \$27.9 million from August 31, 2021 when these same balances were approximately \$52.9 million and a decrease of \$75.5 million from the peak of \$100.5 million as of November 30, 2020. The Trinidad central bank manages the exchange rate of the Trinidad dollar with the U.S. dollar. While the Trinidad government has publicly stated it has no intention to devalue the Trinidad dollar, it could in the future decide to devalue the currency to improve market liquidity, resulting in a devaluation in the U.S. dollar value of these cash and investments balances.

In March 2022 the International Monetary Fund updated prior calculations and estimated that the Trinidad dollar was over-valued between approximately 11.6% and 20.4%. If, for example, a hypothetical 20% devaluation of the Trinidad dollar were to occur, the value of our Trinidad dollar cash and investments position, measured in U.S. dollars, would decrease by approximately \$5.0 million, with a corresponding increase in Accumulated other comprehensive loss reflected on our consolidated balance sheet. Separate from the Trinidad dollar denominated cash and investments balances described above, as of August 31, 2022, we had a U.S. dollar, Euro, and Canadian dollar denominated monetary asset position (net of U.S. dollar, Euro, and Canadian dollar denominated liabilities) of approximately \$80.3 million in Trinidad, which would produce a gain from a potential devaluation of Trinidad dollars. If, for example, a hypothetical 20% devaluation of the Trinidad dollar occurred, the net effect on Other income (expense), net on our consolidated statement of operations of revaluing these U.S. dollar denominated net monetary assets would be an approximately \$16.1 million gain. While we may pay premiums or enter into financial transactions at a discount from the official government rate to convert our Trinidad dollars into U.S. dollars, we use the official exchange rate published by the Central Bank of Trinidad and Tobago to measure the U.S. dollar equivalent of Trinidad dollar-based revenues, expenses, assets and liabilities and the Trinidad dollar equivalent of U.S. dollar-based monetary assets and liabilities for financial reporting purposes, as there are no other reliable references available to translate or remeasure our revenues, expenses, assets and liabilities.

While our balance of Trinidad dollars has been reduced significantly in fiscal 2022, we have not yet converted all of our Trinidad dollars into U.S. dollars. In response to these liquidity challenges in Trinidad, we have been taking multiple actions, including but not limited to: raising sales prices on imported goods in Trinidad due to increased costs of conversion of Trinidad dollars to U.S. dollars and risks associated with continued illiquidity, shifting to local sources of goods where appropriate, and entering into financing arrangements such as the loan we obtained in December 2021 whereby we received \$25 million in U.S. dollars and will repay the balance in Trinidad dollars (using a conversion rate fixed upon initial disbursement) over the four-year life of the loan. Additionally, we significantly limited shipments of goods from the U.S. to Trinidad during most of fiscal 2021 due to the illiquidity of the Trinidad dollar and further reduced our shipments in the last quarter of fiscal 2021 because of the government-imposed restrictions on sales of non-essential items during that period driven by the pandemic. We no longer limit our U.S. imports; however, we continue to seek sourcing opportunities with local vendors and we are in the process of opening a package manufacturing plant in Trinidad in fiscal year 2023, which we expect will improve our ability to source more tradable foreign currencies by exporting products to our other markets.

Financial highlights for the fourth quarter of fiscal year 2022 included:

- Total revenues increased 12.3% over the comparable prior year period.
- Net merchandise sales increased 13.6% over the comparable prior year period. We ended the quarter with 50 warehouse clubs compared to 47 warehouse clubs at the end of the fourth quarter of fiscal year 2021. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 2.9% versus the same three-month period in the prior year.
- Comparable net merchandise sales (that is, sales in the 47 warehouse clubs that have been open for greater than 13 ½ calendar months) for the 14 weeks ended September 4, 2022 increased 9.2%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 2.7%.
- Membership income for the fourth quarter of fiscal year 2022 increased 6.7% to \$15.6 million over the comparable prior year period.
- Total gross margins (net merchandise sales less associated cost of goods sold) increased 11.1% over the prior-year period, and merchandise gross profits as a percent of net merchandise sales were 15.5%, a decrease of 40 basis points (0.4%) from the same period in the prior year.
- Operating income for the fourth quarter of fiscal year 2022 was \$39.0 million, an increase of 20.0%, or \$6.5 million, compared to the fourth quarter of fiscal year 2021.
- We recorded a \$1.3 million net currency loss from currency transactions in the fourth quarter of fiscal year 2022 compared to a \$1.4 million net currency loss in the same period last year.
- Our effective tax rate decreased in the fourth quarter of fiscal year 2022 to 34.2% from 35.5% in the fourth quarter of fiscal year 2021. The decrease in the effective tax rate is primarily related to the favorable impact from changes in income tax liabilities from uncertain tax positions.
- Net income attributable to PriceSmart for the fourth quarter of fiscal year 2022 was \$23.3 million, or \$0.75 per diluted share, compared to \$19.5 million, or \$0.63 per diluted share, in the fourth quarter of fiscal year 2021.

Financial highlights for fiscal year 2022 included:

- Total revenues increased 12.3% over the prior year.
- Net merchandise sales increased 13.8% over the prior year. We ended the year with 50 warehouse clubs compared to 47 warehouse clubs at the end of fiscal year 2021. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 2.3%.
- Comparable net merchandise sales (that is, sales in the 47 warehouse clubs that have been open for greater than 13 ½ calendar months) for the 53 weeks ended September 4, 2022 increased 10.4% compared to the 53 weeks ended September 5, 2021. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 2.2%.
- Membership income for fiscal year 2022 increased 8.7% to \$60.9 million.
- Trailing 12 month membership renewal rate was 88.9%.
- Total gross margins (net merchandise sales less associated cost of goods sold) increased 9.4% over the prior year, and merchandise gross profits as a percent of net merchandise sales were 15.3%, a decrease of 70 basis points (0.7%) from the prior year.
- Operating income for fiscal year 2022 was \$167.1 million, an increase of 5.7% or \$9.1 million compared to fiscal year 2021.
- We recorded a \$7.4 million net currency loss from currency transactions in the current year compared to a \$5.4 million net loss in the prior year.
- The effective tax rate for fiscal year 2022 was 33.2% as compared to the effective tax rate for fiscal year 2021 of 33.3%. The decrease is primarily driven by the effect of the change in foreign currency value and related adjustments.
- Net income attributable to PriceSmart for fiscal year 2022 was \$104.5 million, or \$3.38 per diluted share, compared to \$98.0 million, or \$3.18 per diluted share, in the prior year.

Comparison of Fiscal Year 2022 to 2021

The following discussion and analysis compares the results of operations for the fiscal years ended August 31, 2022 and 2021 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. For a comparison of the fiscal years ended August 31, 2021 and 2020, please see Part II. “Item 7. Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2021 filed with the SEC on October 21, 2021. Unless otherwise noted, all tables present U.S. dollar amounts in thousands. Certain percentages presented are calculated using actual results prior to rounding. Our operations consist of four reportable segments: Central America, the Caribbean, Colombia and 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 and the Company’s chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. From time to time, we revise the measurement of each segment’s operating income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by our chief operating decision maker. When we do so, the previous period amounts and balances are reclassified to conform to the current period’s presentation.

Net Merchandise Sales

The following tables indicate the net merchandise club sales in the reportable segments in which we operate and the percentage growth in net merchandise sales by segment during fiscal years 2022 and 2021.

	Years Ended					
	August 31, 2022			August 31, 2021		
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales
Central America	\$ 2,336,500	59.2 %	\$ 271,947	13.2 %	\$ 2,064,553	59.6 %
Caribbean	1,139,323	28.9	150,855	15.3	988,468	28.5
Colombia	468,994	11.9	56,573	13.7	412,421	11.9
Net merchandise sales	\$ 3,944,817	100.0 %	\$ 479,375	13.8 %	\$ 3,465,442	100.0 %

Overall, net merchandise sales grew by 13.8% for fiscal year 2022 compared to fiscal year 2021, driven by a 10.4% increase in transactions and a 3.1% increase in average ticket. Transactions represent the total number of visits our Members make to our warehouse clubs plus the number of Click & Go™ curbside pickup and delivery service transactions. Average ticket represents the amount our Members spend on each visit or Click & Go™ order. We had 50 clubs in operation as of August 31, 2022 compared to 47 clubs as of August 31, 2021.

Net merchandise sales in our Central America segment increased 13.2% during fiscal year 2022. This increase had a 780 basis point (7.8%) positive impact on total net merchandise sales growth. All markets within this segment showed increased net merchandise sales for the twelve-month period ended August 31, 2022. We added one new club to the segment when compared to the comparable prior-year period. We opened our fifth warehouse club in Guatemala in October 2021.

Net merchandise sales in our Caribbean segment increased 15.3% during fiscal year 2022. This increase had a 440 basis point (4.4%) positive impact on total net merchandise sales growth. All of our markets in this segment had positive net merchandise sales growth. Sales for Trinidad were particularly strong for the twelve months ended August 31, 2022 because sales in the comparable fiscal second and third quarters of 2021 were adversely impacted by COVID-19 closures, government prohibitions on sales of most non-foods and non-essential items, and our decision to reduce imported merchandise due to the U.S. dollar liquidity challenges, which improved in the last three quarters of fiscal 2022. Refer to “Management’s Discussion & Analysis – Factors Affecting Our Business” for more information regarding the impact on us of the illiquidity of the Trinidad dollar. We added one new club to the segment when compared to the comparable prior-year period. We opened our second warehouse club in Jamaica in April 2022.

[Table of Contents](#)

Net merchandise sales in our Colombia segment increased 13.7% during fiscal year 2022. This increase had a 160 basis point (1.6%) positive impact on total net merchandise sales growth. The primary driver of the increased sales for the year was due to the additional club added to the segment when compared to the comparable prior year period. We opened our ninth warehouse club in Colombia in November 2021. For the three months ended August 31, 2022, net merchandise sales growth slowed to 7.6% as measured in U.S. dollars compared to the same quarter in the prior year, as currency exchange rate fluctuations impacted sales negatively by 11.3%. Net merchandise sales growth decreased further to 1.8% in September 2022 (fiscal 2023) as measured in U.S. dollars compared to the same month in the prior year, as currency exchange rate fluctuations impacted sales negatively by 14.1% in September of fiscal year 2023 as the Colombia Peso exchange rate with the U.S. dollar has deteriorated significantly during the past several months.

The following table indicates the impact that currency exchange rates had on our net merchandise sales in dollars and as a percentage of net merchandise sales for the year ended August 31, 2022.

	Currency exchange rate fluctuations for the	
	Years Ended	
	August 31, 2022	
	Amount	% change
Central America	\$ (48,135)	(2.3)%
Caribbean	6,680	0.7
Colombia	(37,185)	(9.0)
Net merchandise sales	<u>\$ (78,640)</u>	<u>(2.3)%</u>

Overall, the effects of currency fluctuations within our markets had an approximately \$78.6 million, or 230 basis point (2.3%), negative impact on net merchandise sales for the twelve-months ended August 31, 2022.

Currency fluctuations had a \$48.1 million, or 230 basis point (2.3%), negative impact on net merchandise sales in our Central America segment for the twelve months ended August 31, 2022. These currency fluctuations contributed approximately 140 basis points (1.4%) of negative impact on total net merchandise sales for fiscal year 2022. The Costa Rica Colón depreciated significantly against the dollar as compared to the same period a year ago, which was a significant contributing factor to the unfavorable currency fluctuations in this segment.

Currency fluctuations had a \$6.7 million, or 70 basis point (0.7%), positive impact on net merchandise sales in our Caribbean segment for the twelve months ended August 31, 2022. These currency fluctuations contributed approximately 20 basis points (0.2%) positive impact on total net merchandise sales growth for the current fiscal year period. The Dominican Republic market experienced currency appreciation when compared to the same periods last year.

Currency fluctuations had a \$37.2 million, or 900 basis point (9.0%), negative impact on net merchandise sales in our Colombia segment for the twelve months ended August 31, 2022. These currency fluctuations contributed approximately 110 basis points (1.1%) of negative impact on total net merchandise sales for the current fiscal year period.

Net Merchandise Sales by Category

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold during the fiscal years ended August 31, 2022 and 2021.

	Years Ended August 31,	
	2022	2021
Foods & Sundries	49%	50%
Fresh Foods	29	29
Hardlines	11	12
Softlines	6	5
Other Business	5	4
Net Merchandise Sales	<u>100%</u>	<u>100%</u>

The mix of sales by major category changed slightly. Foods & Sundries and Hardlines each decreased approximately 1%, while Softlines and Other Business each increased approximately 1% between fiscal year 2022 and 2021. Shifts in consumer preferences and in-club traffic increases as a result of the lessening of COVID-19 restrictions contributed to the changes in category mix.

Comparable Merchandise Sales

We report comparable warehouse club sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher warehouse club sales on the weekends. Approximately every five years, the Company uses a 53-week year and a six-week “August” to account for the fact that 52 weeks is only 364 days. For fiscal year 2022, we used a 53-week year and a six-week “August.” Further, each of the warehouse clubs used in the calculations was open for at least 13 1/2 calendar months before its results for the current period were compared with its results for the prior period. As a result, sales related to two of our warehouse clubs opened during calendar year 2021 and one opened in April 2022 will not be used in the calculation of comparable sales until they have been open for at least 13 1/2 months. Therefore, comparable net merchandise sales includes 47 warehouse clubs for the fifty-three week period ended September 4, 2022.

The following tables indicate the comparable net merchandise sales in the reportable segments in which we operate and the percentage changes in net merchandise sales by segment during the fifty-three-week period ended September 4, 2022, compared to the same fifty-three-week period of the prior year and the fifty-two-week period August 29, 2021 compared to the fifty-two-week period of the prior year.

	Fifty-Three Weeks Ended	Fifty-Two Weeks Ended
	September 4, 2022	August 29, 2021
	% Increase in comparable net merchandise sales	% Increase in comparable net merchandise sales
Central America	10.4 %	8.8 %
Caribbean	12.7	1.4
Colombia	4.5	2.4
Consolidated comparable net merchandise sales	10.4 %	5.8 %

Comparable net merchandise sales for those warehouse clubs that were open for at least 13 1/2 months for some or all of the 53-week period ended September 4, 2022 increased 10.4%.

Comparable net merchandise sales in our Central America segment increased 10.4% for the 53-week period ended September 4, 2022 compared to the 53-week period ended September 5, 2021. This increase contributed approximately 620 basis points (6.2%) of the increase in total comparable net merchandise sales.

For the 53 weeks ended September 4, 2022, strong performance in the relatively smaller markets of Guatemala, Nicaragua, Honduras, and El Salvador, along with our second largest market, Panama, contributed approximately 510 basis points (5.1%) of positive impact on the segment’s comparable net merchandise sales. This increase was combined with a 110 basis point (1.1%) positive impact on the segment’s comparable net merchandise sales from our largest market, Costa Rica. During the year, Costa Rica experienced foreign currency exchange headwinds, with the Costa Rica Colón devaluing versus the comparable prior year period.

Comparable net merchandise sales in our Caribbean segment increased 12.7% for the 53-week period ended September 4, 2022. This increase contributed approximately 370 basis points (3.7%) of positive impact in total comparable net merchandise sales.

Our Dominican Republic market continued its strong performance in the 53-week period, partially due to foreign currency exchange appreciation, with 19.6% of comparable sales growth. Trinidad also contributed strong comparable net merchandise sales growth, with 12.4% increase for the 53-week period.

Comparable net merchandise sales in our Colombia segment increased 4.5% for the 53-week period ended September 4, 2022. This increase contributed approximately 50 basis points (0.5%) of the increase in total comparable net merchandise sales. The year-to-date increase is primarily due to year-over-year improvements in sales growth due to the comparably improved COVID-19 situation.

The following table illustrates the impact that changes in foreign currency exchange rates had on our comparable net merchandise sales in dollars and as a percentage of comparable net merchandise sales for the 53-week period ended September 4, 2022.

**Impact of Currency Exchange Rate Fluctuations for the
Fifty-Three Weeks Ended
September 4, 2022**

	Amount	% change
Central America	\$ (49,133)	(2.4)%
Caribbean	7,645	0.7
Colombia	(34,696)	(8.4)
Consolidated comparable net merchandise sales	\$ (76,184)	(2.2)%

Overall, the mix of currency fluctuations within our markets had an approximately \$76.2 million, or 220 basis point (2.2%), negative impact on comparable net merchandise sales for the 53-week period ended September 4, 2022.

Currency fluctuations within our Central America segment accounted for approximately 140 basis points (1.4%) of the negative impact on total comparable net merchandise sales for the 53-week period ended September 4, 2022. This is primarily the result of significant devaluation in the Costa Rica Colón against the U.S. dollar compared to the same period a year ago.

Currency fluctuations within our Caribbean segment accounted for approximately 20 basis points (0.2%) of positive impact on total comparable net merchandise sales for the 53-week period ended September 4, 2022. Our Dominican Republic market experienced currency appreciation, while Jamaica market experienced currency devaluation when compared to the same period last year.

Currency fluctuations within our Colombia segment accounted for approximately 100 basis points (1.0%) of negative impact on total comparable net merchandise sales for the 53-week period ended September 4, 2022. This reflects the devaluation of the Colombia peso when compared to the same period a year ago.

Membership Income

Membership income is recognized ratably over the one-year life of the membership.

	Years Ended			Membership income % to net merchandise club sales	Amount
	Amount	Increase from prior year	% Change		
Membership income - Central America	\$ 36,009	\$ 2,860	8.6 %	1.5 %	\$ 33,149
Membership income - Caribbean	16,345	947	6.2	1.4	15,398
Membership income - Colombia	8,533	1,050	14.0	1.8	7,483
Membership income - Total	\$ 60,887	\$ 4,857	8.7 %	1.5 %	\$ 56,030
Number of accounts - Central America	951,829	47,252	5.2%		904,577
Number of accounts - Caribbean	453,697	23,948	5.6		429,749
Number of accounts - Colombia	357,265	21,156	6.3		336,109
Number of accounts - Total	1,762,791	92,356	5.5%		1,670,435

The number of Member accounts at the end of fiscal 2022 was 5.5% higher than the prior year period. Membership income increased 8.7% compared to the comparable prior-year period.

Membership income increased across all operating segments in the twelve months ended August 31, 2022. The consolidated increase in membership income is due to an increasing membership base since the start of fiscal year 2022. Since August 31, 2021, all segments have increased their membership base. Colombia had the largest increase in membership base in fiscal year 2022 with 6.3% growth, followed by the Caribbean with a 5.6% increase and Central America with a 5.2% increase. In fiscal year 2022, we opened a new club in each of Colombia, the Caribbean, and Central America.

We offer our Platinum Membership program in all locations where PriceSmart operates. The annual fee for a Platinum Membership in most markets is approximately \$75. The Platinum Membership program provides Members with a 2% rebate on most items, up to an annual maximum of \$500. We record the 2% rebate as a reduction on net merchandise sales at the time of the sales transaction. Platinum Membership accounts were 7.4% of our total membership base as of August 31, 2022, an increase from 6.2% as of August 31, 2021. Platinum Members tend to have higher renewal rates than our Diamond Members.

[Table of Contents](#)

Our trailing twelve-month renewal rate was 88.9% and 89.6% for the periods ended August 31, 2022 and August 31, 2021, respectively. Approximately 13% and 16% of our membership sign-ups were completed using our online platform for the twelve-month period ended August 31, 2022 and August 31, 2021, respectively. Our online platform facilitates capturing data and provides the opportunity for automatic renewal of memberships, as well as improving our digital connection with our Members.

Other Revenue

Other revenue consists primarily of non-merchandise revenue from freight and handling fees generated from the marketplace and casillero operations we sold in October 2021, income from the interest-generating portfolio of our co-branded credit cards, and rental income from operating leases where the Company is the lessor.

	Years Ended			August 31, 2021
	August 31, 2022		% Change	
	Amount	Increase (decrease) from prior year		
Non-merchandise revenue	\$ 3,307	\$ (43,569)	(92.9)%	\$ 46,876
Miscellaneous income	9,397	2,350	33.3	7,047
Rental income	2,468	(488)	(16.5)	2,956
Other revenue	\$ 15,172	\$ (41,707)	(73.3)%	\$ 56,879

Comparison of 2022 to 2021

The primary driver of the decrease in other revenue for the year ended August 31, 2022 was the sale of our Aeropost subsidiary and its marketplace and casillero operations on October 1, 2021. For additional information on the results of the disposition, refer to “Index to Consolidated Financial Statements: Notes to Consolidated Financial Statements, Note 2 – Summary of Significant Accounting Policies.” This decrease was partially offset by an increase from our interest-generating portfolio from our co-branded credit cards for the year ended August 31, 2022.

Results of Operations

Results of Operations Consolidated

(Amounts in thousands, except percentages and number of warehouse clubs)

	Years Ended	
	August 31, 2022	August 31, 2021
Results of Operations Consolidated		
Net merchandise sales		
Net merchandise sales	\$ 3,944,817	\$ 3,465,442
Total gross margin	\$ 604,755	\$ 552,953
Total gross margin percentage	15.3 %	16.0 %
Revenues		
Total revenues	\$ 4,066,093	\$ 3,619,871
Percentage change from prior period	12.3 %	8.7 %
Comparable net merchandise sales		
Total comparable net merchandise sales increase	10.4 %	5.8 %
Total revenue margin		
Total revenue margin	\$ 681,148	\$ 644,533
Total revenue margin percentage	16.8 %	17.8 %
Selling, general and administrative		
Selling, general and administrative	\$ 514,082	\$ 486,513
Selling, general and administrative percentage of total revenues	12.6 %	13.4 %

[Table of Contents](#)

<i>Results of Operations Consolidated</i>	Years Ended			
	August 31, 2022	% of Total Revenue	August 31, 2021	% of Total Revenue
Operating income- by segment				
Central America	\$ 171,119	4.2 %	\$ 151,933	4.2 %
Caribbean	79,022	1.9	74,769	2.1
Colombia	22,526	0.6	21,932	0.6
United States	23,364	0.6	12,687	0.4
Reconciling items ⁽¹⁾	(128,965)	(3.2)	(103,301)	(2.9)
Operating income - Total	\$ 167,066	4.1 %	\$ 158,020	4.4 %
Warehouse clubs				
Warehouse clubs at period end	50		47	
Warehouse club sales square feet at period end	2,484		2,336	

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

The following table summarizes the selling, general and administrative expense for the periods disclosed.

Selling, general and administrative detail:	Years Ended			
	August 31, 2022	% of Total Revenue	August 31, 2021	% of Total Revenue
Warehouse club and other operations	\$ 378,161	9.3 %	\$ 359,221	9.9 %
General and administrative	133,185	3.3	125,416	3.5
Pre-opening expenses	1,471	-	849	-
Loss on disposal of assets	1,265	-	1,027	-
Total Selling, general and administrative	\$ 514,082	12.6 %	\$ 486,513	13.4 %

Total gross margin is derived from our Revenue – Net merchandise sales less our Cost of goods sold – Net merchandise sales and represents our sales and cost of sales generated from the business activities of our warehouse clubs. We express our Total gross margin percentage as a percentage of our Net merchandise sales.

On a consolidated basis, total gross margin for the twelve months ended August 31, 2022, was 15.3%, 70 basis points (0.7%) lower than the comparable prior year period. This decrease was primarily due to increased markdowns versus the prior fiscal year period and a reduction in the premium we applied to our sales prices to offset our COVID-related operating costs. During 2021, while experiencing strong sales and projecting high demand for our long-lead time merchandise, we were also noting increases in costs of merchandise. We proceeded to purchase merchandise at higher-than-normal volumes to secure good pricing and in-stock positions. That, combined with higher-than-normal freight and fuel costs, subsequent COVID-related Asia port closures and other supply-chain disruptions hampered the expected cadence of inventory flow, resulting in, among other things, seasonal merchandise arriving too late for the applicable season. We also did not attain the levels of sales we projected for certain non-food categories. As a result, we took significantly higher than usual markdowns in the third quarter and incurred approximately 40 basis points (0.4%) of margin compression in the fourth quarter compared to the prior year fourth quarter as we continued to sell through pockets of excess merchandise.

Total revenue margin is derived from Total revenues, which includes our Net merchandise sales, Membership income, Export sales, and Other revenue and income less our Cost of goods sold for net merchandise sales, Export sales, and Non-merchandise revenues. We express our Total revenue margin as percentage of Total revenues.

Total revenue margin decreased 100 basis points (1.0%) for the twelve months ended August 31, 2022, compared to the prior-year period, which is primarily the result of the sale on October 1, 2021 of our casillero and marketplace business, which had higher revenue margins than our core operations, along with the lower total gross margin percentage of 70 basis points (0.7%).

[Table of Contents](#)

Selling, general, and administrative expenses consist of warehouse club and other operations, general and administrative expenses, pre-opening expenses, and loss on disposal of assets. In total, selling, general and administrative expenses increased by \$27.6 million, or 5.7% year-over-year but decreased to 12.6% of total revenues for fiscal year 2022 compared to 13.4% of total revenues for fiscal year 2021.

Warehouse club and other operations expenses decreased to 9.3% of total revenues for fiscal year 2022 compared to 9.9% for fiscal year 2021, primarily due to the elimination for most of fiscal year 2022 of operating expenses associated with our casillero and marketplace business due to the sale of Aeropost on October 1, 2021. The 50 basis point savings resulting from the Aeropost sale was supplemented by reduced warehouse club and other operations expenses as a percentage of revenue in our Costa Rica market, which decreased 10 basis points (0.1%) primarily due to higher sales volumes driving favorable leverage in expenses and the devaluation of the Costa Rica Colón.

General and administrative expenses decreased to 3.3% of total revenues for the current year compared to 3.5% for the prior fiscal year. The 20 basis point (0.2%) decrease is primarily due to a 50 basis point (0.50%) decrease from the reduction in general and administrative expenses due to the sale of Aeropost. This decrease was partially offset by a 30 basis point (0.30%) increase from our continued investments to support our technology development, talent acquisition, and employee development. Given our strategic initiatives, we intend to continue to invest at comparable levels as a percentage of total revenue, or at higher levels under appropriate circumstances, especially in talent and technology, to enhance our competence and support our three drivers of growth.

Operating income in fiscal year 2022 increased to \$167.1 million (4.1% of total revenue) compared to \$158.0 million (4.4% of total revenue) for the same period last year. This reflects the decrease in total revenue margin of 100 basis points (1.0%), partially offset by an 80 basis point (0.8%) increase due to leveraging of selling, general and administrative expenses over the comparable prior-year period.

Interest Expense

	Twelve Months Ended		
	August 31, 2022		August 31, 2021
	Amount	Change	Amount
Interest expense on loans	\$ 7,640	\$ 1,804	\$ 5,836
Interest expense related to hedging activity	3,234	(421)	3,655
Less: Capitalized interest	(1,263)	1,018	(2,281)
Net interest expense	\$ 9,611	\$ 2,401	\$ 7,210

Net interest expense reflects borrowings by PriceSmart, Inc. and our wholly owned foreign subsidiaries to finance new land acquisition and construction for new warehouse clubs, warehouse club expansions and distribution centers, the capital requirements of warehouse club and other operations and ongoing working capital requirements.

Net interest expense increased for the twelve-month period ended August 31, 2022, primarily due to the increase in long-term borrowings in our Trinidad market to facilitate conversion of Trinidad dollars to US dollars and a decrease in capitalized interest from fewer construction projects compared to the prior year.

Other Expense, net

Other expense, net, consists of currency gains or losses, as well as net benefit costs related to our defined benefit plans and other items considered to be non-operating in nature.

	Years Ended		
	August 31, 2022		August 31, 2021
	Amount	Decrease from prior year	Amount
Other expense, net	\$ (3,235)	\$ 2,368	\$ (5,603)

[Table of Contents](#)

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) are recorded as currency gains or losses. Additionally, gains or losses from transactions denominated in currencies other than the functional currency of the respective entity also generate currency gains or losses.

For the twelve-months ended August 31, 2022 the primary driver of Other expense, net was higher transaction costs of \$7.4 million associated with converting Trinidad dollars into available tradeable currencies, such as euros or Canadian dollars, before converting them to U.S. dollars. These expenses were partially offset by a gain of \$2.7 million associated with the sale of our Aeropost subsidiary on October 1, 2021.

Provision for Income Taxes

The tables below summarize the effective tax rate for the periods reported:

	Years Ended		
	August 31, 2022		August 31, 2021
	Amount	Change	Amount
Current tax expense	\$ 55,158	\$ 2,336	\$ 52,822
Net deferred tax benefit	(3,300)	553	(3,853)
Provision for income taxes	<u>\$ 51,858</u>	<u>\$ 2,889</u>	<u>\$ 48,969</u>
Effective tax rate	<u>33.2 %</u>		<u>33.3 %</u>

For fiscal 2022, the effective tax rate was 33.2% compared to 33.3% for fiscal year 2021. The decrease in the effective rate versus the prior year was primarily attributable to the comparably favorable impact of 0.4% resulting from the effect of the change in foreign currency value and related adjustments.

Other Comprehensive Loss

Other comprehensive loss for fiscal years 2022 and 2021 resulted primarily from foreign currency translation adjustments related to the assets and liabilities and the translation of the statements of income related to revenue, costs and expenses of our subsidiaries whose functional currency is not the U.S. dollar. When the functional currency in our international subsidiaries is the local currency and not U.S. dollars, the assets and liabilities of such 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 not affect net income until the sale or liquidation of the underlying investment. The reported other comprehensive income or loss reflects the unrealized increase or decrease in the value in U.S. dollars of the net assets of the subsidiaries as of the date of the balance sheet, which will vary from period to period as exchange rates fluctuate.

	Other Comprehensive Loss			
	Years Ended			
	August 31, 2022		August 31, 2021	
	Amount	Change From Prior Year	% Change	Amount
	Other comprehensive loss	<u>\$ (13,078)</u>	<u>\$ (7,390)</u>	

Our other comprehensive loss of approximately \$13.1 million for fiscal 2022 resulted primarily from the comprehensive loss of approximately \$19.0 million from foreign currency translation adjustments related to assets and liabilities and the translation of revenue, costs and expenses on the statements of income of our subsidiaries whose functional currency is not the U.S. dollar. During fiscal 2022, the largest translation adjustments were related to the devaluation of the local currencies against the U.S. dollar for our Colombia and Costa Rica subsidiaries, partially offset by the translation adjustment for the appreciation of the local currency against the U.S. dollar of our Dominican Republic subsidiary. These losses were offset by approximately \$6.2 million related to unrealized gains on changes in the value of our derivative obligations.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

Our operations have historically supplied us with a significant source of liquidity. We generate cash from operations primarily through net merchandise sales and membership fees. Cash used in operations generally consist of payments to our merchandise vendors, warehouse club and distribution center operating costs (including payroll, employee benefits and utilities), as well as payments for income taxes. Our cash flows provided by operating activities, supplemented with our long-term debt and short-term borrowings, have generally been sufficient to fund our operations while allowing us to invest in activities that support the long-term growth of our operations and to pay dividends on our common stock. We evaluate our funding requirements on a regular basis to cover any shortfall in our ability to generate sufficient cash from operations to meet our capital requirements. We may consider funding alternatives to provide additional liquidity if necessary. Refer to Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 11 - Debt” for additional information regarding our drawdown on our short-term facilities and long-term borrowings.

Repatriation of cash and cash equivalents held by foreign subsidiaries may require us to accrue and pay taxes. We have no plans at this time to repatriate cash through the payment of cash dividends by our foreign subsidiaries to our domestic operations and, therefore, have not accrued taxes that would be due from repatriation.

The following table summarizes the cash and cash equivalents, including restricted cash, held by our foreign subsidiaries and domestically (in thousands):

	August 31, 2022	August 31, 2021
Amounts held by foreign subsidiaries	\$ 203,952	\$ 160,808
Amounts held domestically	47,421	54,671
Total cash and cash equivalents, including restricted cash	\$ 251,373	\$ 215,479

The following table summarizes the short-term investments held by our foreign subsidiaries and domestically (in thousands):

	August 31, 2022	August 31, 2021
Amounts held by foreign subsidiaries	\$ 11,160	\$ 50,233
Amounts held domestically	—	—
Total short-term investments	\$ 11,160	\$ 50,233

As of August 31, 2022, there were no certificates of deposit with a maturity of over a year held by our foreign subsidiaries and domestically, while there were \$1.5 million as of August 31, 2021.

From time to time, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products or otherwise fund our operations. Since fiscal 2017, we have experienced this situation in Trinidad and have been unable to source a sufficient level of tradeable currencies. We are working with our banks in Trinidad and government officials to convert all of our Trinidad dollars into tradeable currencies. We have and continue to take additional actions in this respect. Refer to “Management’s Discussion & Analysis – Factors Affecting Our Business” for our quantitative analysis and discussion.

The following table summarizes our significant sources and uses of cash and cash equivalents:

	Years Ended		
	August 31, 2022	August 31, 2021	Change
Net cash provided by operating activities	\$ 121,829	\$ 127,166	\$ (5,337)
Net cash used in investing activities	(74,756)	(116,721)	41,965
Net cash used in financing activities	(12,209)	(95,137)	82,928
Effect of exchange rates	1,030	(3,600)	4,630
Net increase (decrease) in cash and cash equivalents	\$ 35,894	\$ (88,292)	\$ 124,186

[Table of Contents](#)

Net cash provided by operating activities totaled \$121.8 million and \$127.2 million for the twelve months ended August 31, 2022 and 2021, respectively. The decrease in net cash provided by operating activities is primarily the result of net changes in operating assets and liabilities. Specifically, changes in various current and non-current assets and current liabilities resulted in a \$13.8 million use of cash for fiscal year 2022 compared to \$13.1 million of cash provided by changes in the same accounts in fiscal year 2021. Most of these changes in fiscal year 2022 resulted from increases in deferred tax assets and the year-over-year in accrued payroll during the twelve months ended August 31, 2022 compared to the prior year. The net changes in operating assets and liabilities were partially offset by an increase in net income for the twelve months ended August 31, 2022 over the prior-year period and favorable changes in merchandise inventories and accounts payable. Inventory was \$464.4 million as of August 31, 2022, compared with \$389.7 million at August 31, 2021. The increase in the inventory balance compared to the prior fiscal year is the result of three additional clubs, carrying higher than normal safety stock as a precaution against supply chain disruption and inflationary pressure on material inputs.

Net cash used in investing activities totaled \$74.8 million and \$116.7 million, respectively, for the years ended August 31, 2022 and August 31, 2021. The decrease is primarily the result of a decrease in purchases of certificates of deposits compared to the same twelve-month period a year-ago, primarily due to our being able to source more U.S. dollars in Trinidad. Refer to “Management’s Discussion and Analysis – Factors Affecting Our Business” for additional discussion of the current U.S. dollar illiquidity we are experiencing in that market. The decrease was partially offset by higher property and equipment expenditures compared to the same twelve-month period a year-ago to support growth of our real estate footprint.

Net cash used in financing activities totaled \$12.2 million and \$95.1 million for the twelve months ended August 31, 2022 and 2021, respectively. Our cash flows used for financing activities are used primarily to repay long-term and short-term borrowings use to fund our working capital needs, our warehouse club and distribution center acquisitions and expansions, and investments in technology to support our omni-channel initiatives. The \$82.9 million decrease in cash used in financing activities is primarily due to lower net repayments of short-term debt compared to the same twelve-month period a year-ago, when we were repaying short-term facilities accessed at the early stages of the COVID-19 pandemic and obtaining additional financing (primarily the \$25 million loan in Trinidad to address U.S. dollar liquidity challenges in that market).

The following table summarizes the dividends declared and paid during fiscal years 2022, 2021 and 2020 (amounts are per share):

Declared	Amount	First Payment			Second Payment		
		Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
2/3/2022	\$ 0.86	2/15/2022	2/28/2022	\$ 0.43	8/15/2022	8/31/2022	\$ 0.43
2/4/2021	\$ 0.70	2/15/2021	2/26/2021	\$ 0.35	8/15/2021	8/31/2021	\$ 0.35
2/6/2020	\$ 0.70	2/15/2020	2/28/2020	\$ 0.35	8/15/2020	8/31/2020	\$ 0.35

Short-Term Borrowings and Long-Term Debt

Our financing strategy is to ensure liquidity and access to capital markets while minimizing our borrowing costs. The proceeds of these borrowings were or will be used for general corporate purposes, which may include, among other things, funding for working capital, capital expenditures, acquisitions, and repayment of existing debt. Refer to Part II, “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 11 - Debt.” for further discussion.

Repurchase of Equity Securities and Reissuance of Treasury Shares

At the vesting dates for restricted stock awards to our employees, we repurchase a portion of the shares that have vested at the prior day's closing price per share, with the funds used to pay the employees' statutory tax withholding requirements related to the vesting of restricted stock awards. We do not have a stock repurchase program.

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in the reduction of stockholders' equity in our consolidated balance sheets. We may reissue these treasury shares.

[Table of Contents](#)

The following table summarizes the shares repurchased during fiscal years 2022, 2021 and 2020:

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Shares repurchased	88,415	62,282	56,503
Cost of repurchase of shares (in thousands)	\$ 6,259	\$ 5,542	\$ 3,651

We reissued 8,300 treasury shares as part of our stock-based compensation programs during fiscal 2022, 96,400 treasury shares during fiscal year 2021 and 234,400 treasury shares during fiscal 2020.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP in the United States. The preparation of our consolidated financial statements requires that management make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of our accounting policies require management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

We evaluate our accounting policies and significant estimates on an ongoing basis, including those related to business acquisitions, contingencies and litigation, income taxes, value added taxes, and long-lived assets. We base our estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances. Using different estimates could have a material impact on our financial condition and results of operations.

We believe that the accounting policies described below involve a significant degree of judgment and complexity. Accordingly, we believe these are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. For further information, refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 2 - Summary of Significant Accounting Policies."

Income Taxes

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

As of August 31, 2022, we evaluated our deferred tax assets and liabilities and determined that a valuation allowance was necessary for certain deferred tax asset balances, primarily because of the existence of significant negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, indicating that certain net operating loss carry-forward periods are not sufficient to realize the related deferred tax assets. We also specifically considered whether foreign tax credit balances could be utilized in the foreseeable future in light of current and future U.S. tax liabilities. We have historically applied foreign tax credits, generated from taxes withheld on certain payments PriceSmart receives from our foreign subsidiaries, to reduce U.S. income tax liabilities. However, as an incidental result of U.S. tax reform, following the reduction of the U.S. corporate income tax rate from 35% to 21%, we expect foreign tax credits generated to exceed U.S. income tax liability for the foreseeable future. Therefore, for the twelve-month period ended August 31, 2022 and August 31, 2021, we have recorded valuation allowances of \$11.8 million and \$11.4 million against our foreign tax credits, respectively.

We 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 us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by us. We, in consultation with our tax advisors, base our tax returns on interpretations that we believe to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various taxing authorities in the jurisdictions in which we file our tax returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations we used to calculate our tax liability and therefore require us to pay additional taxes.

[Table of Contents](#)

We accrue an amount for our 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 50% or less 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, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. There were no material changes in our uncertain income tax positions for the period ended on August 31, 2022.

Tax Receivables

We pay Value Added Tax (“VAT”) or similar taxes, income taxes, and other taxes within the normal course of our business in most of the countries in which we operate related to the procurement of merchandise and/or services we acquire and/or on sales and taxable income. VAT is a form of indirect tax applied to the value added at each stage of production (primary, manufacturing, wholesale and retail). This tax is similar to, but operates somewhat differently than, sales tax paid in the United States. We generally collect VAT from our Members upon sale of goods and services and pay VAT to our vendors upon purchase of goods and services. Periodically, we submit VAT reports to governmental agencies and reconcile the VAT paid and VAT received. The net overpaid VAT may be refunded or applied to subsequent returns, and the net underpaid VAT must be remitted to the government.

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. In most countries where we operate, the governments have implemented additional collection procedures, such as requiring credit card processors to remit a portion of sales processed via credit and debit cards directly to the government as advance payments of VAT and/or income tax. This collection mechanism generally leaves us with net VAT and/or income tax receivables, forcing us to process significant refund claims on a recurring basis. These refund or offset processes can take anywhere from several months to several years to complete.

In two countries where the Company operates, there have been changes in the method of computing minimum tax payments, under which the governments have sought to require the Company to pay taxes based on a percentage of sales rather than taxable income. As a result, we have made and may continue to make income tax payments substantially in excess of those we would expect to pay based on taxable income. The Company had income tax receivables of \$11.0 million as of August 31, 2022 and August 31, 2021, respectively, and deferred tax assets of \$3.5 million and \$3.3 million as of August 31, 2022 and August 31, 2021, respectively, in these countries. While the rules related to refunds of income tax receivables in these countries are either unclear or complex, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests. Similarly, we have not placed any recoverability allowances on tax receivables that arise from payments we are required to make originating from tax assessments that we are appealing, as we believe it is more likely than not that we will ultimately prevail in the related appeals. There can be no assurance, however, that the Company will be successful in recovering all tax receivables or deferred tax assets.

[Table of Contents](#)

Our 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 Prepaid expenses and Other current assets: This classification is used for any countries where our subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. We also classify as short-term any approved refunds or credit notes to the extent that we expect 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 our 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 we do not expect to eventually prevail in our recovery of such balances. We do not currently have any allowances provided against VAT and income tax receivables.

Long-lived Assets

We periodically evaluate our long-lived assets for indicators of impairment. Indicators that an asset may be impaired are:

- the asset's inability to continue to generate income from operations and positive cash flow in future periods;
- loss of legal ownership or title to the asset;
- significant changes in its strategic business objectives and utilization of the asset(s); and
- the impact of significant negative industry or economic trends.

Management's judgments are based on market and operational conditions at the time of the evaluation and can include management's best estimate of future business activity, which in turn drives estimates of future cash flows from these assets. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges. We did not record any impairment charges during fiscal 2022 related to the loss of legal ownership or title to assets; significant changes in the Company's strategic business objectives or utilization of assets; or the impact of significant negative industry or economic trends. Loss on disposal of assets recorded during the years reported resulted from improvements to operations and normal preventive maintenance.

Goodwill

Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. Generally, this evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If we determine, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in excess of the carrying amount cannot be assured, then a quantitative impairment test would be performed. The quantitative test for impairment requires management to make judgments relating to future cash flows, growth rates and economic and market conditions. These evaluations are based on determining the fair value of a reporting unit or asset using a valuation method such as discounted cash flow or a relative, market-based approach. Historically, our reporting units have generated sufficient returns to recover the cost of our goodwill. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted. For approximately \$43.3 million of certain acquired goodwill, the fair value was greater than the carrying value; however, any deterioration in the fair value may result in an impairment charge.

Seasonality and Quarterly Fluctuations

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity price risk. These market risks arise in the normal course of business. We do not engage in speculative trading activities. To manage the risk arising from these exposures, we utilize interest rate swaps, cross-currency interest rate swaps, non-deliverable foreign currency forward contracts and loans denominated in foreign currencies. For a discussion of our accounting policies for derivative instruments and further disclosures, refer to Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 13 - Derivative Instruments and Hedging Activities.”

Each market risk sensitivity analysis presented below is based on hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. The effect of a change in a particular assumption is calculated without adjusting any other assumption. In reality, however, a change in one factor could cause a change in another factor, which may magnify or negate other sensitivities.

Interest Rate Risk

We are exposed to changes in interest rates as a result of our short-term borrowings and long-term debt borrowings. We have mitigated a portion of our interest rate risk by managing the mix of fixed and variable rate debt and by entering into interest rate swaps and cross-currency interest rate swaps to hedge interest rate risk. The notional amount, interest payment and maturity dates of the swap match the terms of the associated debt.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table represents the principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, including cross-currency interest rate swaps, the table represents the contractual cash flows and weighted-average interest rates by the contractual maturity date, unless otherwise noted. The notional amounts are used to calculate contractual cash flows to be exchanged under the contracts. The weighted-average variable rates are based upon prevailing market interest rates and the outstanding balances as of August 31, 2022.

Table of Contents

Annual maturities of long-term debt and derivatives are as follow (in thousands):

	Twelve Months Ended August 31, (Amounts in thousands)							Total
	2023	2024	2025	2026	2027	Thereafter		
Long-Term Debt (Unhedged):								
Long-term debt with fixed interest rate	\$ 9,173	\$ 10,269	\$ 10,386	\$ 7,245	\$ 2,734	\$ 6,000	\$ 45,807	(1)
Weighted-average interest rate	7.20 %	7.20 %	7.10 %	7.10 %	7.10 %	7.00 %	7.20 %	
Long-term debt with variable interest rate	\$ 24,542	\$ 8,519	\$ 23,138	\$ 8,251	\$ 27,014	\$ —	\$ 91,464	
Weighted-average interest rate	6.00 %	5.60 %	5.50 %	4.30 %	3.70 %	—%	5.40 %	
Total long-term debt	\$ 33,715	\$ 18,788	\$ 33,524	\$ 15,496	\$ 29,748	\$ 6,000	\$ 137,271	(1)
Derivatives:								
Interest Rate Swaps:								
Variable to fixed interest	\$ 9,900	\$ 1,275	\$ 1,275	\$ 1,275	\$ 26,244	\$ —	\$ 39,969	(2)
Weighted-average pay rate	5.69 %	3.65 %	3.65 %	3.65 %	3.65 %	—%	4.15 %	
Weighted-average receive rate	5.04 %	4.26 %	4.26 %	4.26 %	4.26 %	—%	4.46 %	
Cross-Currency Interest Rate Swaps:								
Variable to fixed interest	\$ 10,754	\$ 3,329	\$ 19,770	\$ —	\$ —	\$ —	\$ 33,853	(2)
Weighted-average pay rate	9.18 %	7.92 %	7.92 %	—%	—%	—%	8.32 %	
Weighted-average receive rate	5.74 %	5.14 %	5.20 %	—%	—%	—%	5.36 %	
Long-Term Debt Payments with Fixed Interest or Subject to Financial Derivatives:								
Long-term debt with fixed interest rate or with variable to fixed interest rate swaps	\$ 29,827	\$ 14,873	\$ 31,431	\$ 8,520	\$ 28,978	\$ 6,000	\$ 119,629	
Portion of long-term debt with fixed interest rate or with variable to fixed interest rate swaps	88.5 %	79.2 %	93.8 %	55.0 %	97.4 %	100.0 %	87.1 %	
Portion of long-term debt with variable interest rates and no swaps	11.5 %	20.8 %	6.2 %	45.0 %	2.6 %	—%	12.9 %	

- (1) The Company has disclosed the future annual maturities of long-term debt, for which it has entered into cross-currency interest rate swaps by using the derivative obligation as of August 31, 2022 to estimate the future commitments. Therefore, the total annual commitments reflects these obligations, including the effect of the cross-currency interest rate swaps on the total-long term debt as disclosed on the consolidated balance sheet.
- (2) The derivative obligations of the interest rate swaps and cross-currency interest rate swaps are included in the Total long-term debt section of this table.

Foreign Currency Risk

We have foreign currency risks related to sales, operating expenses and financing transactions in currencies other than the U.S. dollar. As of August 31, 2022, we had a total of 50 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 40 of which operate under currencies other than the U.S. dollar. Approximately 48.6% of our net merchandise sales are comprised of products we purchased in U.S. dollars that were sold in countries whose currencies were other than the U.S. dollar. Approximately 78.0% of our net merchandise sales are in markets whose functional currency is other than the U.S. dollar. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net merchandise sales denominated in foreign currencies.

Currency exchange rate changes either increase or decrease the cost of imported products that we purchase in U.S. dollars and price in local currency. Price changes can impact the demand for those products in the market. Currency exchange rates also affect the reported sales of the consolidated company when local currency-denominated sales are translated to U.S. dollars. In addition, we revalue all U.S. dollar denominated assets and liabilities within those markets that do not use the U.S. dollar as the functional currency. These assets and liabilities include, but are not limited to, excess cash permanently reinvested offshore and the value of items shipped from the U.S. to our foreign markets. The gain or loss associated with this revaluation, net of reserves, is recorded in other income (expense).

[Table of Contents](#)

Foreign currencies in most of the countries where we operate have historically devalued against the U.S. dollar and are expected to continue to devalue. The following tables summarize by country, for those countries with functional currencies other than the U.S. dollar, the weakening of the countries' currency against the U.S. dollar (devaluation) or the strengthening of their currencies (revaluation):

Country	Revaluation/(Devaluation)	
	Twelve Months Ended August 31,	
	2022	2021
	% Change	% Change
Colombia	(15.58)%	(1.24) %
Costa Rica	(5.25)	(4.63)
Dominican Republic	6.87	2.51
Guatemala	(0.11)	—
Honduras	(2.37)	2.51
Jamaica	0.40	(2.12)
Nicaragua	(2.00)	(2.25)
Trinidad	0.67 %	(0.45) %

We seek to manage foreign exchange risk by (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; (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) by entering into cross-currency interest rate swaps and forward currency derivatives. We have local-currency-denominated long-term loans in Costa Rica and Guatemala; we have cross-currency interest rate swaps in Colombia and Honduras; and we have interest rate swaps in Panama and in the United States. Turbulence in the currency markets can have a significant impact on the value of the foreign currencies within the countries in which we operate. 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 and uncertainties regarding the currencies in the countries that we operate in could have a material impact on our operations in future periods. However, there is no way to accurately forecast how currencies may trade in the future and, as a result, we cannot accurately project the impact of the change in rates on our future demand for imported products, reported sales, or financial results.

We are exposed to foreign exchange risks related to U.S. dollar-denominated and other foreign-denominated cash, cash equivalents and restricted cash, to U.S. dollar-denominated intercompany debt balances and to other U.S. dollar-denominated debt/asset balances (excluding U.S. dollar-denominated debt obligations for which we hedge a portion of the currency risk inherent in the interest and principal payments), within entities whose functional currency is not the U.S. dollar. As part of the adoption of the new leasing standard, we recorded several monetary liabilities on the consolidated balance sheet that are exposed to foreign exchange movements. These monetary liabilities arise from leases denominated in a currency that is not the functional currency of the Company's local subsidiary. The monetary liability for these leases as of August 31, 2022 was \$32.4 million. Due to the mix of foreign currency exchange rate fluctuations during fiscal 2022, the impact to the consolidated statements of income of revaluing this liability was immaterial.

The following table discloses the net effect on other expense, net for U.S. dollar-denominated and other foreign-denominated accounts relative to a hypothetical simultaneous currency revaluation based on balances as of August 31, 2022 (in thousands) including the new lease-related monetary liabilities described above:

Overall weighted negative currency movement	Losses based on change in U.S. dollar denominated and other foreign denominated cash, cash equivalents and restricted cash balances	Gains based on change in U.S. dollar denominated inter-company balances	Gains based on change in U.S. dollar denominated other asset/liability balances	Net Loss ⁽¹⁾
5%	\$ (4,380)	\$ 682	\$ 2,099	\$ (1,599)
10%	\$ (8,760)	\$ 1,365	\$ 4,197	\$ (3,198)
20%	\$ (17,519)	\$ 2,730	\$ 8,394	\$ (6,395)

(1) Amounts are before consideration of income taxes.

[Table of Contents](#)

Information about the financial impact of foreign currency exchange rate fluctuations for the twelve months ended August 31, 2022 is disclosed in Part II. “Item 7. Management’s Discussion and Analysis – Other Expense, net.”

Examples of where we have significant U.S. dollar net asset positions subjecting us to exchange rate losses if the local currency strengthens against the U.S. dollar are our Trinidad, Nicaragua, and Costa Rica subsidiaries, with balances of \$80.3 million, \$23.2 million and \$13.3 million, respectively, as of August 31, 2022. Examples where we have significant U.S. dollar net liability positions subjecting us to exchange rate losses if the local currency weakens against the U.S. dollar are our Honduras, Guatemala, and Dominican Republic subsidiaries, with balances of \$37.8 million, \$22.5 million, and \$15.9 million, respectively, as of August 31, 2022.

We are also exposed to foreign exchange risks related to local-currency-denominated cash and cash equivalents, to local-currency-denominated debt obligations, to local-currency-denominated current assets and liabilities and to local-currency-denominated long-term assets and liabilities within entities whose functional currency is not the U.S. dollar. The following table discloses the net effect on other comprehensive loss for these local currency denominated accounts relative to hypothetical simultaneous currency devaluation in all the countries listed in the table above, based on balances as of August 31, 2022:

Overall weighted negative currency movement	Other comprehensive loss on the decline in local currency denominated cash and cash equivalents and restricted cash (in thousands)	Other comprehensive gain on the decline in foreign currency denominated debt obligations (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated current assets net of current liabilities (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated long-term assets net of long-term liabilities (in thousands)
5%	\$ 2,678	\$ (3,684)	\$ 5,152	\$ 28,910
10%	\$ 5,356	\$ (7,368)	\$ 10,305	\$ 57,820
20%	\$ 10,713	\$ (14,736)	\$ 20,610	\$ 115,639

In addition, we are exposed to foreign currency exchange rate fluctuations associated with our U.S. dollar-denominated debt obligations that we hedge. We hedge a portion of the currency risk inherent in the interest and principal payments associated with this debt through the use of cross-currency interest rate swaps. The terms of these swap agreements are commensurate with the underlying debt obligations. The aggregate fair value of these swaps was in a net asset position of approximately \$12.9 million at August 31, 2022 and approximately \$1.8 million at August 31, 2021. A hypothetical 10% increase in the currency exchange rates underlying these swaps from the market rates at August 31, 2022 would have resulted in a further increase in the value of the swaps of approximately \$1.4 million. Conversely, a hypothetical 10% decrease in the currency exchange rates underlying these swaps from the market rates at August 31, 2022 would have resulted in a net decrease in the value of the swaps of approximately of \$3.1 million.

From time to time, we use non-deliverable forward foreign exchange contracts primarily to address exposure to U.S. dollar merchandise inventory expenditures made by our international subsidiaries whose functional currency is other than the U.S. dollar. The net increase or decrease in the fair value of these derivative instruments would be economically offset by the gains or losses on the underlying transactions.

Occasionally, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. Since fiscal 2017, we have experienced this situation in Trinidad and have been unable to source a sufficient level of tradeable currencies. We are working with our banks in Trinidad to source tradeable currencies. We expect the illiquid market conditions in Trinidad to continue. Refer to Part II. “Item 7. Management’s Discussion & Analysis – Factors Affecting Our Business” for our quantitative analysis and discussion.

Commodity Price Risk

The increasing price of oil and certain commodities could have a negative effect on our operating costs and sales. Higher oil prices can negatively impact the economic growth of the countries in which we operate, thereby reducing the buying power of our Members. Higher oil prices can also increase our operating costs, particularly utilities and merchandise transportation expenses. Inflationary pressures on various commodities also may impact consumer spending. We do not currently seek to hedge commodity price risk.

[Table of Contents](#)

Item 8. Financial Statements and Supplementary Data

See the list of financial statements filed with this report under Part IV. Item 15 below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As of August 31, 2022, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). These disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in its periodic reports with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that the information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The design of any disclosure controls and procedures also is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Annual Report on Form 10-K.

(b) Management's report on internal control over financial reporting.

Internal control over financial reporting refers to the process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer, and effected by its board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision, and with the participation, of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting. Management has used the 2013 framework set forth in the report entitled "Internal Control-Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of its internal control over financial reporting. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was effective as of August 31, 2022, the end of its most recent fiscal year.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of August 31, 2022, as stated in their report which is included herein.

[Table of Contents](#)

(c) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during the fiscal year ended August 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibit 31.1 and 31.2 to this report.

[Table of Contents](#)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

Opinion on Internal Control over Financial Reporting

We have audited PriceSmart, Inc.'s internal control over financial reporting as of August 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PriceSmart, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of August 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of PriceSmart, Inc. as of August 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended August 31, 2022 and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated October 31, 2022, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Diego, California

October 31, 2022

[Table of Contents](#)

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

PriceSmart has adopted a code of conduct that applies to its principal executive officer, principal financial officer, principal accounting officer, controller, and to all of its other officers, directors, employees and agents. The code of conduct is available on PriceSmart's web site at <https://investors.pricessmart.com/investor/corporate-governance>. PriceSmart intends to disclose on its website future amendments to, or waivers from, certain provisions of its code of conduct within four business days following the date of such amendment or waiver.

The additional information required by Item 10 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the headings "Proposal 1: Election of Directors," "Information Regarding the Board of Directors," "Executive Officers of the Company" and "General – Section 16(a) Beneficial Ownership Reporting Compliance."

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the heading "Executive and Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the headings "Securities Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the headings "Certain Transactions" and "Information Regarding the Board of Directors."

Item 14. Principal Accounting Fees and Services

Our independent registered public accounting firm is Ernst & Young LLP, San Diego, CA, Auditor Firm ID: 42.

The information required by Item 14 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the heading "Proposal 3: Ratification of Selection of Independent Registered Public Accounting Firm."

[Table of Contents](#)

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report.

(1) Financial Statements:

- Index to Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets
- Consolidated Statements of Income
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

(2) List of financial statement schedules:

Schedule II – Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) List of exhibits required by Item 601 of Regulation S-K. See part (b) below.

(b) The following exhibits are filed as a part of this report:

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company.
3.2(5)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.3(4)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.4(11)	Second Amended and Restated Bylaws of the Company.
4.1(6)	Specimen of Common Stock certificate.
4.2(25)	Description of Registrant's Securities.
10.1(15)	ISDA 2002 Master Agreement between MUFG Union Bank, N.A. and PriceSmart, Inc. dated November 4, 2016.
10.2(9)	Loan Agreement dated March 31, 2014 between PriceSmart Panama, S.A. and The Bank of Nova Scotia.
10.3(10)	Loan Agreement between The Bank of Nova Scotia and PriceSmart Panama, S.A. dated March 31, 2014.
10.4(16)	Promissory Note between PriceSmart, Inc. and MUFG UNION BANK, N.A. for US \$35.7 million, dated January 27, 2017.
10.5(7)	Shareholders' Agreement between Pricemarlandco, S.A. and JB Enterprises Inc. dated September 29, 2008.
10.6(7)	Shareholders' Agreement between Fundacion Tempus Fugit and PriceSmart Panama, S.A. dated September 24, 2008.
10.7(3)	Trademark Agreement between the Company and Associated Wholesale Grocers, Inc., dated August 1, 1999.
10.8(2)	Master Agreement between the Company and Payless ShoeSource (BVI) Holdings, Ltd., dated November 27, 2000.
10.9(12)**	Employment Agreement between the Company and Brud Drachman, dated September 1, 2015.
10.10(10)	Collective Agreement by and between Oilfields Workers' Trade Union and PriceSmart Clubs (TT) Ltd. entered into December 1, 2012.
10.11(8)**	2013 Equity Incentive Award Plan of PriceSmart, Inc., as amended and restated.

Table of Contents

<u>10.12(8)**</u>	<u>Form of Restricted Stock Grant Notice and Restricted Stock Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. (for awards prior to July 16, 2019).</u>
<u>10.13(8)**</u>	<u>Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. for Employees of Foreign Subsidiaries (for awards prior to July 16, 2019).</u>
<u>10.14(19)**</u>	<u>Form of Performance Stock Unit Grant Notice and Restricted Stock Unit Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. (for awards prior to July 16, 2019).</u>
<u>10.15(22)**</u>	<u>Form of Restricted Stock Grant Notice and Restricted Stock Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. (for awards on or after July 16, 2019).</u>
<u>10.16(22)**</u>	<u>Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. for Employees of Foreign Subsidiaries (for awards on or after July 16, 2019).</u>
<u>10.17(22)**</u>	<u>Form of Performance Stock Unit Grant Notice and Restricted Stock Unit Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. (for awards on or after July 16, 2019).</u>
<u>10.18(8)**</u>	<u>Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement for Non-Employee Directors under the 2013 Equity Incentive Award Plan of PriceSmart, Inc.</u>
<u>10.19(13)**</u>	<u>Employment Agreement between the Company and Frank R. Diaz dated November 1, 2015.</u>
<u>10.20(12)**</u>	<u>Employment Agreement between the Company and Rodrigo Calvo dated September 1, 2015.</u>
<u>10.21(14)**</u>	<u>Employment Agreement between the PriceSmart Panama, S.A. and Jesus Von Chong dated November 1, 2015.</u>
<u>10.22(14)**</u>	<u>Employment Agreement between the Company and Francisco Velasco dated July 14, 2016.</u>
<u>10.23(17)**</u>	<u>Employment Agreement between the Company and Laura Santana dated March 1, 2017.</u>
<u>10.24(18)</u>	<u>Promissory Note between PriceSmart Honduras, S.A. de C.V. and Citibank, N.A. dated February 26, 2017.</u>
<u>10.25(19)**</u>	<u>Employment Agreement between the Company and Ana Luisa Bianchi dated August 1, 2018.</u>
<u>10.26(21)**</u>	<u>Form of Indemnification Agreement.</u>
<u>10.27(20)**</u>	<u>Employment Agreement dated March 4, 2019 between Sherry S. Bahrambeygui and the Company.</u>
<u>10.28(23)**</u>	<u>Employment Agreement dated April 1, 2020 between Michael McCleary and the Company.</u>
<u>10.29(24)</u>	<u>Credit Agreement between PriceSmart Colombia S.A.S and Citibank, N.A. dated December 2, 2019.</u>
<u>10.30(24)</u>	<u>Credit Agreement between PriceSmart Colombia S.A.S. and Citibank, N.A. date November 25, 2019.</u>
<u>10.31(24)</u>	<u>Loan Agreement between PriceSmart Guatemala, Sociedad Anonima and Banco Industrial, Sociedad Anonima, dated November 20, 2019.</u>
<u>10.32(25)**</u>	<u>Employment Agreement between the Company and Juan Ignacio Biehl dated March 15, 2018 (including amendments dated June 14, 2018, July 26, 2019, and September 1, 2020).</u>
<u>10.33*(26)</u>	<u>Second Amended and Restated Loan Facility Agreement between PriceSmart Realty (TT) LTD and FirstCaribbean International Bank (Trinidad & Tobago) Limited, dated August 27, 2021.</u>
<u>10.34(27)**</u>	<u>Amended and Restated Employment Agreement date September 1, 2021 between Nicolas Maslowski and the Company.</u>
<u>10.35(28)**</u>	<u>Separation Agreement and Waiver and Release of Claims dated February 22, 2022 between William J. Naylon and the Company.</u>
<u>10.36(29)</u>	<u>Citibank Credit Agreement dated February 18, 2022</u>
<u>10.37(30)**</u>	<u>Amended and Restated Employment Agreement dated May 1, 2022 between John Hildebrandt and the Company.</u>
<u>10.38(30)**</u>	<u>Employment Agreement dated May 1, 2022, between Christopher Souhrada and the Company.</u>
<u>21.1*</u>	<u>Subsidiaries of the Company.</u>
<u>23.1*</u>	<u>Consent of Independent Registered Public Accounting Firm.</u>
<u>31.1*</u>	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1*#</u>	<u>Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2*#</u>	<u>Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>101.INS</u>	<u>Inline XBRL Instance Document</u>
<u>101.SCH</u>	<u>Inline XBRL Taxonomy Extension Schema Document</u>
<u>101.CAL</u>	<u>Inline XBRL Taxonomy Extension Calculation Linkbase Document</u>
<u>101.DEF</u>	<u>Inline XBRL Taxonomy Extension Definition Linkbase Document</u>
<u>101.LAB</u>	<u>Inline XBRL Taxonomy Extension Label Linkbase Document</u>
<u>101.PRE</u>	<u>Inline XBRL Taxonomy Extension Presentation Linkbase Document</u>
<u>104</u>	<u>Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)</u>

* Filed herewith as an exhibit.

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K.

Table of Contents

- # These certifications are being furnished solely to accompany this Report pursuant to 18 U.S.C. 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of PriceSmart, Inc. whether made before or after the date hereof, regardless of any general incorporation language in such filing.
- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 1997 filed with the Commission on November 26, 1997.
 - (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2001 filed with the Commission on April 16, 2001.
 - (3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 1999 filed with the Commission on November 29, 1999.
 - (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2004 filed with the Commission on November 24, 2004.
 - (5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 filed with the Commission on April 14, 2004.
 - (6) Incorporated by reference to the Company's Registration Statement on Form S-3 filed with the Commission on December 2, 2004.
 - (7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A for the quarter ended November 30, 2008 filed with the Commission on January 14, 2009.
 - (8) Incorporated by reference to the Company's Registration Statement on Form S-8 filed April 4, 2013.
 - (9) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014 filed with the Commission on July 10, 2014.
 - (10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2014 filed with the Commission on October 30, 2014.
 - (11) Incorporated by reference to the Company's Form 8-K Filed with the Commission on July 17, 2015.
 - (12) Incorporated by reference to the Company's Form 8-K filed with the Commission on September 2, 2015.
 - (13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2015 filed with the Commission on January 7, 2016.
 - (14) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2016 filed with the Commission on October 27, 2016.
 - (15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2016 filed with the Commission on January 5, 2017.
 - (16) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2017 filed with the Commission on April 6, 2017.
 - (17) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2017 filed with the Commission on October 26, 2017.
 - (18) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2018 filed with the Commission on April 5, 2018.
 - (19) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2018 filed with the Commission on October 25, 2018.
 - (20) Incorporated by reference to the Company's Form 8-K/A filed with the Commission on March 7, 2019.
 - (21) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2019 filed with the Commission on October 29, 2019.
 - (22) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2019 filed with the Commission on January 9, 2020.
 - (23) Incorporated by reference to the Company's Form 8-K filed with the Commission on April 7, 2020.
 - (24) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2020 filed with the Commission on April 8, 2020.
 - (25) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2020 filed with the Commission on January 7, 2021.
 - (26) Incorporated by reference to the Company's Quarterly Report on Form 10-K for the year ended August 31, 2021 filed with the Commission on October 21, 2021.
 - (27) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2021 filed with the Commission on January 6, 2022.
 - (28) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on February 28, 2022.
 - (29) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2022 filed with the Commission on April 7, 2022.
 - (30) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2022 filed with the Commission on July 11, 2022.

Item 16. Form 10-K Summary

None.

SCHEDULE II

PRICESMART, INC.

VALUATION AND QUALIFYING ACCOUNTS
(amounts in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended August 31, 2020	\$ 144	\$ 155	\$ (152)	\$ 147
Year ended August 31, 2021	\$ 147	\$ 93	\$ (146)	\$ 94
Year ended August 31, 2022	\$ 94	\$ 89	\$ (80)	\$ 103

SIGNATURES

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

PRICESMART, INC.

Date: October 31, 2022

By:

/s/ SHERRY S. BAHRAMBEGUI

Sherry S. Bahrambeygui
Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2022

By:

/s/ MICHAEL L. MCCLEARY

Michael L. McCleary
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Sherry S. Bahrambeygui and Michael L. McCleary, and each of them singly, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agents full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his or her substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ SHERRY S. BAHRAMBEYGUI</u> Sherry S. Bahrambeygui	Chief Executive Officer and Director (Principal Executive Officer)	October 31, 2022
<u>/s/ MICHAEL L. MCCLEARY</u> Michael L. McCleary	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	October 31, 2022
<u>/s/ ROBERT E. PRICE</u> Robert E. Price	Chairman of the Board	October 31, 2022
<u>/s/ DAVID R. SNYDER</u> David R. Snyder	Vice Chair	October 31, 2022
<u>/s/ JEFFREY R. FISHER</u> Jeffrey R. Fisher	Director	October 31, 2022
<u>/s/ GORDON H. HANSON</u> Gordon H. Hanson	Director	October 31, 2022
<u>/s/ BEATRIZ V. INFANTE</u> Beatriz V. Infante	Director	October 31, 2022
<u>/s/ LEON C. JANKS</u> Leon C. Janks	Director	October 31, 2022
<u>/s/ PATRICIA MÁRQUEZ</u> Patricia Márquez	Director	October 31, 2022
<u>/s/ DAVID N. PRICE</u> David N. Price	Director	October 31, 2022
<u>/s/ EDGAR ZURCHER</u> Edgar Zurcher	Director	October 31, 2022

PRICESMART, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm (PCAOB ID: 42)	Page F-2
Consolidated Balance Sheets as of August 31, 2022 and 2021	F-4
Consolidated Statements of Income for each of the three years in the period ended August 31, 2022	F-6
Consolidated Statements of Comprehensive Income for each of the three years in the period ended August 31, 2022	F-7
Consolidated Statements of Equity for each of the three years in the period ended August 31, 2022	F-8
Consolidated Statements of Cash Flows for each of the three years in the period ended August 31, 2022	F-9
Notes to Consolidated Financial Statements	F-11

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PriceSmart, Inc. (the Company) as of August 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended August 31, 2022 and the related notes and financial statement schedule listed in the Index at Item 15(a), (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at August 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of August 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated October 31, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Table of Contents

Tax receivables and contingencies

Description of the Matter

As discussed in Note 2 and in Note 10 to the consolidated financial statements, the Company pays Value Added Tax (“VAT”) or similar indirect taxes, income taxes, and other taxes within the normal course of the Company’s business in the United States and numerous foreign jurisdictions. The different interpretations of sometimes complex tax regulations create uncertainty and necessitate the use of significant judgment in the determination of the Company’s income tax liabilities and the recoverability of both income tax and VAT receivables. As of August 31, 2022, the Company had \$6.3 million accrued for potential income and other tax liabilities and had income tax and VAT receivables of \$32.1 million and \$36.4 million, respectively.

Auditing the measurement of the Company’s income and VAT receivables and contingencies was challenging because the evaluation of the various tax positions can be complex, highly judgmental and based on international tax laws, interpretations and legal rulings, which can vary significantly between the countries in which the Company has operations.

How We Addressed the Matter in Our Audit

We tested controls, including key management review controls, over the Company’s process to assess the technical merits of its income and other tax receivables and contingencies, including management’s process to measure the benefit of its income tax positions and evaluate the recoverability of the receivables. For example, we tested controls over management’s review of the uncertain tax positions and the significant assumptions surrounding more-likely-than-not conclusions, as well as controls over management’s review of the tax receivables and the significant assumptions surrounding the recoverability of such assets.

We involved our international tax professionals to assist in our assessment of the technical merits of certain of the Company’s income tax positions and the Company’s understanding and documentation of the respective international laws and regulations related to recoverability of income and other tax receivables. Depending on the nature of the specific tax position and, as applicable, developments with the relevant tax authorities, our procedures included obtaining and reviewing the Company’s correspondence with such tax authorities and evaluating income tax opinions or other third-party advice obtained by the Company. We used our knowledge of and experience with the application of international and other tax laws by the relevant income tax authorities to evaluate the Company’s accounting for its tax contingencies and receivables. We evaluated developments in the applicable regulatory environments to assess potential effects on the Company’s positions. We considered the Company’s historical experiences with the different taxing authorities and their historical results in evaluating and concluding on the likely impact of different tax cases. In this manner, we analyzed the Company’s assumptions used to determine the amounts of income tax benefits to recognize and the recoverability of the tax receivables. We also tested the data used by the Company in determining these amounts by comparing inputs to internal data and testing the accuracy of the calculations.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1997.

San Diego, California

October 31, 2022

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

	August 31,	
	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 237,710	\$ 202,060
Short-term restricted cash	3,013	3,647
Short-term investments	11,160	50,233
Receivables, net of allowance for doubtful accounts of \$103 as of August 31, 2022 and \$94 as of August 31, 2021, respectively	13,391	12,359
Merchandise inventories	464,411	389,711
Prepaid expenses and other current assets (includes \$2,761 and \$0 as of August 31, 2022 and August 31, 2021, respectively, for the fair value of derivative instruments)	43,894	39,194
Total current assets	773,579	697,204
Long-term restricted cash	10,650	9,772
Property and equipment, net	757,241	730,204
Operating lease right-of-use assets, net	111,810	123,655
Goodwill	43,303	45,095
Other intangibles, net	765	7,762
Deferred tax assets	28,355	24,225
Other non-current assets (includes \$11,884 and \$2,464 as of August 31, 2022 and August 31, 2021, respectively, for the fair value of derivative instruments)	72,163	57,329
Investment in unconsolidated affiliates	10,534	10,544
Total Assets	\$ 1,808,400	\$ 1,705,790
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	\$ 10,608	\$ —
Accounts payable	408,407	388,791
Accrued salaries and benefits	44,097	41,896
Deferred income	29,228	26,898
Income taxes payable	7,243	8,310
Other accrued expenses and other current liabilities (includes \$82 and \$0 as of August 31, 2022 and August 31, 2021, respectively, for the fair value of derivative instruments)	38,667	39,736
Operating lease liabilities, current portion	7,491	8,526
Long-term debt, current portion	33,715	19,395
Total current liabilities	579,456	533,552
Deferred tax liability	2,165	1,568
Long-term income taxes payable, net of current portion	5,215	4,160
Long-term operating lease liabilities	118,496	129,256
Long-term debt, net of current portion	103,556	110,110
Other long-term liabilities (includes \$0 and \$3,010 for the fair value of derivative instruments and \$8,440 and \$7,380 for post-employment plans as of August 31, 2022 and August 31, 2021, respectively)	8,439	10,930
Total Liabilities	817,327	789,576

[Table of Contents](#)

Stockholders' Equity:

Common stock \$0.0001 par value, 45,000,000 shares authorized; 31,697,590 and 31,467,971 shares issued and 30,904,826 and 30,755,308 shares outstanding (net of treasury shares) as of August 31, 2022 and August 31, 2021, respectively	3	3
Additional paid-in capital	481,406	465,015
Accumulated other comprehensive loss	(195,586)	(182,508)
Retained earnings	736,894	658,919
Less: treasury stock at cost, 792,764 shares as of August 31, 2022 and 712,663 shares as of August 31, 2021	(31,644)	(26,084)
Total stockholders' equity attributable to PriceSmart, Inc. stockholders	991,073	915,345
Noncontrolling interest in consolidated subsidiaries	—	869
Total stockholders' equity	991,073	916,214
Total Liabilities and Equity	<u>\$ 1,808,400</u>	<u>\$ 1,705,790</u>

See accompanying notes.

[Table of Contents](#)

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

	Years Ended August 31,		
	2022	2021	2020
Revenues:			
Net merchandise sales	\$ 3,944,817	\$ 3,465,442	\$ 3,191,762
Export sales	45,217	41,520	34,374
Membership income	60,887	56,030	54,501
Other revenue and income	15,172	56,879	48,551
Total revenues	<u>4,066,093</u>	<u>3,619,871</u>	<u>3,329,188</u>
Operating expenses:			
Cost of goods sold:			
Net merchandise sales	3,340,062	2,912,489	2,723,942
Export sales	43,074	39,513	32,676
Non-merchandise	1,809	23,336	18,160
Selling, general and administrative:			
Warehouse club and other operations	378,161	359,221	323,178
General and administrative	133,185	125,416	106,776
Pre-opening expenses	1,471	849	1,545
Loss on disposal of assets	1,265	1,027	443
Total operating expenses	<u>3,899,027</u>	<u>3,461,851</u>	<u>3,206,720</u>
Operating income	167,066	158,020	122,468
Other expense:			
Interest income	2,201	1,979	2,031
Interest expense	(9,611)	(7,210)	(7,625)
Other expense, net	(3,235)	(5,603)	(834)
Total other expense	<u>(10,645)</u>	<u>(10,834)</u>	<u>(6,428)</u>
Income before provision for income taxes and loss of unconsolidated affiliates	156,421	147,186	116,040
Provision for income taxes	(51,858)	(48,969)	(37,764)
Loss of unconsolidated affiliates	(10)	(58)	(95)
Net income	<u>104,553</u>	<u>98,159</u>	<u>78,181</u>
Less: net income attributable to noncontrolling interest	(19)	(196)	(72)
Net income attributable to PriceSmart, Inc.	<u>\$ 104,534</u>	<u>\$ 97,963</u>	<u>\$ 78,109</u>
Net income attributable to PriceSmart, Inc. per share available for distribution:			
Basic	<u>\$ 3.38</u>	<u>\$ 3.18</u>	<u>\$ 2.55</u>
Diluted	<u>\$ 3.38</u>	<u>\$ 3.18</u>	<u>\$ 2.55</u>
Shares used in per share computations:			
Basic	<u>30,591</u>	<u>30,403</u>	<u>30,259</u>
Diluted	<u>30,600</u>	<u>30,403</u>	<u>30,259</u>
Dividends per share	<u>\$ 0.86</u>	<u>\$ 0.70</u>	<u>\$ 0.70</u>

See accompanying notes.

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

	Years Ended August 31,		
	2022	2021	2020
Net income	\$ 104,553	\$ 98,159	\$ 78,181
Less: net income attributable to noncontrolling interest	(19)	(196)	(72)
Net income attributable to PriceSmart, Inc.	\$ 104,534	\$ 97,963	\$ 78,109
Other Comprehensive Income, net of tax:			
Foreign currency translation adjustments ⁽¹⁾	(19,034)	(7,837)	(29,413)
Defined benefit pension plan:			
Net loss arising during period	(341)	(230)	(79)
Amortization of prior service cost and actuarial gains included in net periodic pensions cost	127	127	93
Total defined benefit pension plan	(214)	(103)	14
Derivative instruments: ⁽²⁾			
Unrealized losses on change in derivative obligations	(4,021)	(140)	(490)
Unrealized gains/(losses) on change in fair value of interest rate swaps	10,191	2,392	(5,313)
Amounts reclassified from accumulated other comprehensive income to other expense, net for settlement of derivatives	—	—	2,721
Total derivative instruments	6,170	2,252	(3,082)
Other comprehensive loss	(13,078)	(5,688)	(32,481)
Comprehensive income	91,456	92,275	45,628
Less: comprehensive income attributable to noncontrolling interest	3	117	114
Comprehensive income attributable to PriceSmart, Inc. stockholders	\$ 91,453	\$ 92,158	\$ 45,514

(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) Refer to "Note 13 - Derivative Instruments and Hedging Activities."

See accompanying notes.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Total Stockholders' Equity Attributable to PriceSmart, Inc.	Noncontrolling Interest	Total Equity
	Shares	Amount				Shares	Amount			
Balance at August 31, 2019	31,461	\$ 3	\$ 454,570	\$ (144,339)	\$ 525,804	924	\$ (38,687)	\$ 797,351	\$ 928	\$ 798,279
Purchase of treasury stock	—	—	—	—	—	57	(3,651)	(3,651)	—	(3,651)
Issuance of treasury stock	(234)	—	(13,932)	—	—	(234)	13,932	—	—	—
Issuance of restricted stock award	222	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(31)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	13,817	—	—	—	—	13,817	—	13,817
Dividend paid to stockholders	—	—	—	—	(21,426)	—	—	(21,426)	(101)	(21,527)
Net income	—	—	—	—	78,109	—	—	78,109	72	78,181
Other comprehensive income (loss)	—	—	—	(32,481)	—	—	—	(32,481)	114	(32,367)
Balance at August 31, 2020	31,418	\$ 3	\$ 454,455	\$ (176,820)	\$ 582,487	747	\$ (28,406)	\$ 831,719	\$ 1,013	\$ 832,732
Purchase of treasury stock	—	—	—	—	—	62	(5,542)	(5,542)	—	(5,542)
Issuance of treasury stock	(96)	—	(7,864)	—	—	(96)	7,864	—	—	—
Issuance of restricted stock award	154	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(8)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	18,424	—	—	—	—	18,424	—	18,424
Dividend paid to stockholders	—	—	—	—	(21,531)	—	—	(21,531)	(457)	(21,988)
Net income	—	—	—	—	97,963	—	—	97,963	196	98,159
Other comprehensive income (loss)	—	—	—	(5,688)	—	—	—	(5,688)	117	(5,571)
Balance at August 31, 2021	31,468	\$ 3	\$ 465,015	\$ (182,508)	\$ 658,919	713	\$ (26,084)	\$ 915,345	\$ 869	\$ 916,214
Purchase of treasury stock	—	—	—	—	—	88	(6,259)	(6,259)	—	(6,259)
Issuance of treasury stock	(8)	—	(699)	—	—	(8)	699	—	—	—
Issuance of restricted stock award	247	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(9)	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	16,803	—	—	—	—	16,803	—	16,803
Dividend paid to stockholders	—	—	—	—	(26,559)	—	—	(26,559)	—	(26,559)
Net income	—	—	—	—	104,534	—	—	104,534	19	104,553
Other comprehensive income (loss)	—	—	—	(13,078)	—	—	—	(13,078)	3	(13,075)
Sale of Aeropost stock	—	—	287	—	—	—	—	287	(891)	(604)
Balance at August 31, 2022	31,698	\$ 3	\$ 481,406	\$ (195,586)	\$ 736,894	793	\$ (31,644)	\$ 991,073	\$ —	\$ 991,073

See accompanying notes.

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

	Years Ended August 31,		
	2022	2021	2020
Operating Activities:			
Net income	\$ 104,553	\$ 98,159	\$ 78,181
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	67,868	64,983	61,225
Allowance for doubtful accounts	63	(53)	3
Loss on sale of property and equipment	1,265	1,027	443
Deferred income taxes	(3,300)	(3,853)	(3,405)
Equity in losses of unconsolidated affiliates	10	58	95
Stock-based compensation	16,803	18,424	13,817
Change in operating assets and liabilities:			
Receivables, prepaid expenses and other current assets, non-current assets, accrued salaries and benefits, deferred membership income and other accruals	(13,785)	13,097	(3,040)
Merchandise inventories	(74,706)	(80,202)	21,764
Accounts payable	23,058	15,526	90,185
Net cash provided by operating activities	<u>121,829</u>	<u>127,166</u>	<u>259,268</u>
Investing Activities:			
Additions to property and equipment	(120,660)	(113,174)	(100,320)
Purchases of short-term investments	(22,469)	(69,460)	(49,629)
Proceeds from settlements of short-term investments	61,733	65,528	20,182
Purchases of long-term investments	—	(1,478)	(1,485)
Proceeds from settlements of long-term investments	1,488	1,478	—
Proceeds from disposal of property and equipment	193	385	40
Proceeds from the disposal of Aeropost, net of divested cash	4,959	—	—
Net cash used in investing activities	<u>(74,756)</u>	<u>(116,721)</u>	<u>(131,212)</u>
Financing Activities:			
Proceeds from long-term bank borrowings	30,633	17,565	57,882
Repayment of long-term bank borrowings	(22,697)	(19,993)	(15,164)
Proceeds from short-term bank borrowings	23,829	—	271,014
Repayment of short-term bank borrowings	(11,156)	(64,983)	(212,919)
Cash dividend payments	(26,559)	(21,988)	(21,527)
Purchase of treasury stock for tax withholding on stock compensation	(6,259)	(5,542)	(3,651)
Other financing activities	—	(196)	(72)
Net cash used in financing activities	<u>(12,209)</u>	<u>(95,137)</u>	<u>75,563</u>
Effect of exchange rate changes on cash and cash equivalents and restricted cash	1,030	(3,600)	(6,084)
Net increase (decrease) in cash, cash equivalents	35,894	(88,292)	197,535
Cash, cash equivalents and restricted cash at beginning of period	215,479	303,771	106,236
Cash, cash equivalents and restricted cash at end of period	<u>\$ 251,373</u>	<u>\$ 215,479</u>	<u>\$ 303,771</u>
Supplemental disclosure of noncash investing activities:			
Capital expenditures accrued, but not yet paid	\$ 3,129	\$ 3,497	\$ 10,563
Cash paid during the period for:			
Interest	\$ 9,392	\$ 7,774	\$ 6,877
Income taxes	\$ 67,143	\$ 58,571	\$ 50,814

[Table of Contents](#)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same amounts shown in the statement of cash flows:

	Years Ended August 31,		
	2022	2021	2020
Cash and cash equivalents	\$ 237,710	\$ 202,060	\$ 299,481
Short-term restricted cash	3,013	3,647	185
Long-term restricted cash	10,650	9,772	4,105
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 251,373</u>	<u>\$ 215,479</u>	<u>\$ 303,771</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart," the "Company," or "we") business consists primarily of international membership shopping warehouse clubs similar to, but typically smaller in size than, warehouse clubs in the United States. As of August 31, 2022, the Company had 50 warehouse clubs in operation in 12 countries and one U.S. territory (nine in Colombia; eight in Costa Rica; seven in Panama; five in the Dominican Republic and Guatemala, four in Trinidad; three in Honduras; two each in El Salvador, Jamaica, and Nicaragua; and one each in Aruba, Barbados, and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). The Company plans to open a warehouse club in San Miguel, El Salvador in the spring of 2023 and a warehouse club in Medellín, Colombia in the summer of 2023. Once these two new clubs are open, the Company will operate 52 warehouse clubs. Our operating segments are the United States, Central America, the Caribbean, and Colombia.

PriceSmart continues to invest in technology and talent to support the following three major drivers of growth:

1. **Expand Real Estate Footprint with New Clubs and Distribution Facilities;**
2. **Increase Membership Value;** and
3. **Drive Incremental Sales via PriceSmart.com and Enhanced Online, Digital and Technological Capabilities.**

Basis of Presentation – The consolidated financial statements have been prepared in accordance with the instructions to Form 10-K for annual financial reporting pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and U.S. generally accepted accounting principles ("GAAP") for annual financial information. The 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company's wholly owned subsidiaries, subsidiaries in which it has a controlling interest, and the Company's joint ventures for which the Company has determined that it is the primary beneficiary. The Company's net income excludes income attributable to noncontrolling interests. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. The consolidated financial statements also include 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 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 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) and is determined to be the primary beneficiary. If the Company determines that it is not the primary beneficiary of the VIE, then the Company records its investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. Due to the nature of the joint ventures that the Company participates in and the continued commitments for additional financing, the Company determined these joint ventures are VIEs.

In the case of the Company's ownership interest in real estate development joint ventures, both parties to each joint venture share all rights, obligations and the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. As a result, 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.

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

The Company's ownership interest in real estate development joint ventures the Company has recorded under the equity method as of August 31, 2022 are 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.

Disposals, Acquisitions and Related Items – From March 2018 through September 2021, we operated a cross border package forwarding (casillero) and online marketplace business under the “Aeropost” banner in 38 countries in Latin America and the Caribbean. PriceSmart acquired Aeropost in 2018 to leverage Aeropost’s technology and its management’s experience in developing software and systems for e-commerce and logistics to advance PriceSmart’s development of an omni-channel shopping experience for its Members. In October 2021, PriceSmart sold the legacy casillero and marketplace operations, which were not core to our main objectives. PriceSmart retained key Aeropost personnel and technology in the transaction, with which we believe we can continue to grow our omni-channel business. This technology and talent have helped us combine our brick-and-mortar operations with online capabilities, supported by a more sophisticated distribution system. These online capabilities and the enhanced distribution system provide us with the potential to expand our geographic coverage, reach more Members in more ways, increase efficiencies, reduce costs and provide Members with greater value.

The Company disposed of its entire ownership in Aeropost to an unrelated third party. However, as part of the consideration of the sale, Aeropost will provide \$2.0 million of logistical services to the Company as needed for 36 months. The Company recorded a pre-tax gain from the sale of Aeropost of \$2.7 million in the first quarter of fiscal year 2022 in other income (expense), net in the consolidated statements of income.

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. These estimates and assumptions take into account historical and forward-looking factors that the Company believes are reasonable. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents – The Company considers as cash and cash equivalents all cash on deposit, highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions in the process of settlement.

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):

	August 31, 2022	August 31, 2021
Short-term restricted cash	\$ 3,013	\$ 3,647
Long-term restricted cash	10,650	9,772
Total restricted cash ⁽¹⁾	<u>\$ 13,663</u>	<u>\$ 13,419</u>

⁽¹⁾ Restricted cash consists mainly of cash deposits held within banking institutions in compliance with federal regulatory requirements in Costa Rica and Panama. In addition, the Company is required to maintain a certificate of deposit and/or security deposits of Trinidad dollars, of approximately \$8.4 million, as measured in U.S. dollars, with a few of its lenders as compensating balances for several U.S. dollar denominated loans payable over several years. These certificates of deposit will be reduced annually commensurate with the loan balances.

Short-Term Investments – The Company considers as short-term investments certificates of deposit and similar time-based deposits with financial institutions with maturities over three months and up to one year.

Long-Term Investments – The Company considers as long-term investments certificates of deposit and similar time-based deposits with financial institutions with maturities over one year.

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

Goodwill and Other Intangibles, net – Goodwill and other intangibles totaled \$44.1 million as of August 31, 2022 and \$52.9 million as of August 31, 2021. The Company reviews reported goodwill and other intangibles at the reporting unit level for impairment. The Company tests goodwill for impairment at least annually or when events or changes in circumstances indicate that it is more likely than not that the asset is impaired. In connection with the Aeropost disposal, we retained the intellectual property associated with our PriceSmart.com business. However, in conjunction with this disposal, we wrote off \$1.7 million of goodwill, \$4.4 million of intangibles related to the Aeropost trademark, and \$1.0 million of intangibles related to the developed technology of Aeropost directly associated with Aeropost’s legacy marketplace and casillero business. The \$2.7 million net pre-tax gain recorded during the first fiscal quarter of 2022 for the sale of Aeropost is net of these write offs of goodwill and intangible assets.

The changes in the carrying amount of goodwill for the year ended August 31, 2022 are as follows (in thousands):

	Amount
Goodwill at August 31, 2021	\$ 45,095
Goodwill written off	(1,714)
Foreign currency exchange rate changes	(78)
Goodwill at August 31, 2022	\$ 43,303

	Amount
Other intangibles at August 31, 2021	\$ 7,762
Trade Name written off	(4,375)
Development Technology written off	(1,009)
Amortization	(1,613)
Net other intangibles at August 31, 2022	\$ 765
Total goodwill and other intangibles, net at August 31, 2022	\$ 44,068

The table below shows our estimated amortization of intangibles for fiscal year 2023 (in thousands):

Twelve Months Ended August 31,	Amount
2023	\$ 765
Total	\$ 765

Tax Receivables – The Company pays Value Added Tax (“VAT”) or similar taxes, income taxes, and other taxes within the normal course of business in most of the countries in which it operates related to the procurement of merchandise and/or services the Company acquires and/or on sales and taxable income. VAT is a form of indirect tax applied to the value added at each stage of production (primary, manufacturing, wholesale and retail). This tax is similar to, but operates somewhat differently than, sales tax paid in the United States. The Company generally collects VAT from its Members upon sale of goods and services and pays VAT to its vendors upon purchase of goods and services. Periodically, the Company submits VAT reports to governmental agencies and reconciles the VAT paid and VAT received. The net overpaid VAT may be refunded or applied to subsequent returns, and the net underpaid VAT must be remitted to the government. 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. In most 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 and debit cards directly to the government as advance payments of VAT and/or income tax. This collection mechanism generally leaves the Company with net VAT and/or income tax receivables, forcing the Company to process significant refund claims on a recurring basis. These refund or offset processes can take anywhere from several months to several years to complete.

In two countries, there have been changes in the method of computing minimum tax payments, under which the governments have sought to require the Company to pay taxes based on a percentage of sales rather than taxable income. As a result, the Company has made and may continue to make income tax payments substantially in excess of those it would expect to pay based on taxable income. The rules related to refunds of income tax receivables in these countries are either unclear or complex. The Company had income tax receivables of \$11.0 million as of August 31, 2022 and August 31, 2021, respectively, and deferred tax assets of \$3.5 million and \$3.3 million as of August 31, 2022 and August 31, 2021, respectively, in these countries.

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 Prepaid expenses and 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 Company does not currently have any allowances provided against VAT and income tax receivables.

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

	August 31, 2022	August 31, 2021
Prepaid expenses and other current assets	\$ 3,890	\$ 3,173
Other non-current assets	32,460	28,437
Total amount of VAT receivables reported	<u>\$ 36,350</u>	<u>\$ 31,610</u>

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

	August 31, 2022	August 31, 2021
Prepaid expenses and other current assets	\$ 12,077	\$ 11,491
Other non-current assets	19,985	18,872
Total amount of income tax receivables reported	<u>\$ 32,062</u>	<u>\$ 30,363</u>

Lease Accounting – The Company's leases are operating leases for warehouse clubs and non-warehouse club facilities such as corporate headquarters, regional offices, and regional distribution centers. The Company determines if an arrangement is a lease and classifies it as either a finance or operating lease at lease inception. Operating leases are included in Operating lease right-of-use assets, net; Operating lease liabilities, current portion; and Long-term operating lease liabilities on the consolidated balance sheets. The Company does not have finance leases.

Operating lease liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term. The Company's leases generally do not have a readily determinable implicit rate; therefore, the Company uses a collateralized incremental borrowing rate at the commencement date in determining the present value of future payments. The incremental borrowing rate is based on a yield curve derived from publicly traded bond offerings for companies with credit characteristics that approximate the Company's market risk profile.

In addition, we adjust the incremental borrowing rate for jurisdictional risk derived from quoted interest rates from financial institutions to reflect the cost of borrowing in the Company's local markets. The Company's lease terms may include options to purchase, extend or terminate the lease, which are recognized when it is reasonably certain that the Company will exercise that option. The Company does not combine lease and non-lease components.

The Company measures Right-of-use ("ROU") assets based on the corresponding lease liabilities, adjusted for any initial direct costs and prepaid lease payments made to the lessor before or at the commencement date (net of lease incentives). The lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease payments are not included in the calculation of the ROU asset and the related lease liability and are recognized as this lease expense is incurred. The Company's variable lease payments generally relate to amounts the Company pays for additional contingent rent based on a contractually stipulated percentage of sales.

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

Merchandise Inventories – Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or net realizable value. The Company provides for estimated inventory losses and obsolescence based on a percentage of sales. The provision is adjusted every reporting period to reflect the trend of actual physical inventory and cycle count results. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Stock Based Compensation – The Company utilizes three types of equity awards: restricted stock awards (“RSAs”), restricted stock units (“RSUs”) and performance-based restricted stock units (“PSUs”). Compensation related to RSAs, RSUs and PSUs is based on the fair market value at the time of grant. The Company recognizes the compensation cost related to RSAs and RSUs 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 also recognizes compensation cost for PSUs over the performance period of each tranche, adjusting this cost based on the probability that performance metrics will be achieved. When an award is forfeited, any previously recorded expense is then reversed.

The Company accounts for actual forfeitures as they occur. The Company records the tax savings resulting from tax deductions in excess of expense for stock-based compensation and the tax deficiency resulting from stock-based compensation in excess of the related tax deduction as income tax expense or benefit. In addition, the Company reflects the tax savings (deficiency) resulting from the taxation of stock-based compensation as an operating cash flow in its consolidated statement of cash flows.

RSAs are outstanding shares of common stock and have the same cash dividend and voting rights as other shares of common stock. Shares of common stock subject to RSUs are not issued nor outstanding until vested, 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.

PSUs, similar to RSUs, are awarded with dividend equivalents, provided that such amounts become payable only if the performance metric is achieved. At the time the Compensation Committee confirms the performance metric has been achieved, the corresponding dividend equivalents are paid on the PSUs.

Treasury Stock – Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders’ equity in the Company’s consolidated balance sheets. The Company may reissue these treasury shares as part of its stock-based compensation programs. When treasury shares are reissued, the Company uses the first in/first out (“FIFO”) cost method for determining cost of the reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in capital (“APIC”). If the issuance price is lower than the cost, the difference is first charged against any credit balance in APIC from treasury stock and the balance is charged to retained earnings. During the twelve months ended August 31, 2022, the Company reissued approximately 8,300 treasury shares.

Fair Value Measurements – The Company measures the fair value for all financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties able to engage in the transaction. A liability’s fair value is defined as the amount that would be paid to transfer the liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

The Company has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring and revaluing fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as 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, consisted of 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 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.

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

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.

Short-term investments: Short-term investments consists of certificates of deposit and similar time-based deposits with financial institutions with maturity dates over three months and up to twelve months. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit within the normal operating cycle of the Company.

Long-term investments: Long-term investments consists of certificates of deposit and similar time-based deposits with financial institutions with maturity dates over one year. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit.

Long-term restricted cash: Long-term restricted cash primarily consists of certificates of deposit with maturity dates of over a year, which are held as collateral against our long-term debt. The carrying value approximates fair value due to the maturity of the underlying certificates of deposit.

Accounts receivable: Receivables consist primarily of credit card receivables and receivables from vendors and are stated net of allowances for credit losses. The determination of the allowance for credit losses is based on the Company’s assessment of collectability along with the consideration of current and expected market conditions that could impact collectability.

Short-term VAT and Income tax receivables: The carrying value approximates fair value due to the short maturity of these accounts.

Long-term VAT and income tax receivables: The fair value of long-term receivables would normally be measured using a discounted cash flow analysis based on the current market interest rates for similar types of financial instruments, with an estimate of the time these receivables are expected to be outstanding. The Company is not able to provide an estimate as to the time these receivables owed to the Company by various government agencies are expected to be outstanding; therefore, the Company has not presented a fair value on the long-term VAT and income tax receivables.

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 August 31, 2022 and August 31, 2021 is as follows (in thousands):

	August 31, 2022		August 31, 2021	
	Carrying Value	Fair Value ⁽¹⁾	Carrying Value	Fair Value ⁽¹⁾
Long-term debt, including current portion	\$ 137,271	136,479	129,505	119,646

⁽¹⁾ The Company has disclosed the fair value of long-term debt, including debt for which it has entered into cross-currency interest rate swaps, using the derivative obligation as of August 31, 2022 to estimate the fair value of long-term debt, which includes the effects that the cross-currency interest rate swaps have had on the fair value of long-term debt.

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 reported in accumulated other comprehensive loss until the hedged item completes its contractual term. 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.

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

The Company did not change valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company's consolidated balance sheets from previous practice during the reporting period. The Company seeks to manage counterparty risk associated with these contracts by limiting transactions to counterparties with which the Company has an established banking relationship. There can be no assurance, however, that this practice effectively mitigates counterparty risk.

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 and interest-rate 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 entire gain or loss of the derivative, calculated as the net present value of the future cash flows, is reported on the consolidated balance sheets in accumulated other comprehensive loss. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. Refer to "Note 13 - Derivative Instruments and Hedging Activities" for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of August 31, 2022 and August 31, 2021.

Fair Value Instruments. The Company is exposed to foreign currency exchange rate fluctuations in the normal course of business. This includes exposure to foreign currency exchange rate fluctuations on U.S. dollar denominated liabilities within the Company's 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 flows 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.

Revenue Recognition – The accounting policies and other disclosures such as the disclosure of disaggregated revenues are described in "Note 3 – Revenue Recognition."

Gain Contingencies and Recoveries – A gain contingency is an existing condition, situation, or set of circumstances involving uncertainty as to a possible gain that will ultimately be resolved when one or more future events occur or fail to occur. During the ordinary course of our business, gain contingencies arise when we have the opportunity to recover costs or damages we incur from insurance carriers or other third parties. Anticipated proceeds in excess of the amount of loss recognized are considered contingent gains. Anticipated proceeds in excess of a loss recognized in the financial statements are not recognized until all contingencies related to the collectability, timing and amount are realizable.

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

For export sales, the Company includes the cost of merchandise and external and internal distribution and handling costs for supplying merchandise in cost of goods sold, exports.

For the marketplace and casillero operations, the Company includes the costs of external and internal shipping, handling and other direct costs incurred to provide delivery, insurance and customs processing services in cost of goods sold, non-merchandise.

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

Vendor consideration consists primarily of volume rebates, time-limited product promotions, cooperative marketing efforts, digital advertising, slotting fees, demonstration reimbursements and prompt payment discounts. Volume rebates and time-limited promotions are recognized on a systematic and rational allocation of the cash consideration as the Company progresses toward earning the rebate, provided the amounts to be earned are probable and reasonably estimable. Cooperative marketing efforts and digital advertising are related to consideration received by the Company from vendors for non-distinct online advertising services on the Company's website and social media platforms. 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-club promotion of the vendors' products. The Company records the reduction in cost of goods sold on a transactional basis for these programs. 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, if significant. Prompt payment discounts are taken in substantially all cases and therefore are applied directly to reduce the acquisition cost of the related inventory, with the resulting 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 operating warehouse clubs and package forwarding operations. These costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, building and equipment depreciation, bank, credit card processing fees, and amortization of intangibles. Also included in selling, general and administrative expenses are the payroll and related costs for the Company's U.S. and regional management and purchasing centers.

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

Loss 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 material 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.

The following table discloses the net effect of translation into the reporting currency on other comprehensive loss for these local currency denominated accounts for the years ended August 31, 2022, 2021 and 2020:

	Years Ended August 31,		
	2022	2021	2020
Effect on other comprehensive loss due to foreign currency restatement	\$ (19,034)	\$ (7,837)	\$ (29,413)

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.

	Years Ended August 31,		
	2022	2021	2020
Currency Loss	\$ (7,414)	\$ (5,395)	\$ (1,370)

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

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

The Company is required to file federal and state income tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. The Company, in consultation with its tax advisors, bases its tax returns on interpretations that are believed to be reasonable under the circumstances. The tax returns, however, are subject to routine reviews by the various federal, state and foreign 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 a 50% or less 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.

Recent Accounting Pronouncements Adopted

FASB ASC 740 ASU 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, Simplifying the Accounting for Income Taxes. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. The Company adopted ASU No. 2019-12 on September 1, 2021, the first quarter of fiscal year 2022. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

There were no other new accounting standards that had a material impact on the Company's consolidated financial statements during the twelve-month period ended August 31, 2022, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of August 31, 2022 that the Company expects to have a material impact on its consolidated financial statements.

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

NOTE 3 – REVENUE RECOGNITION

The Company uses the five-step model to recognize revenue according to Accounting Standards Codification (ASC) Topic 606, “Revenue Recognition from Contracts with Customers.” The five steps are:

- Identify the contract with the customer;
- Identify the performance obligation(s);
- Determine the transaction price;
- Allocate the transaction price to each performance obligation if multiple obligations exist; and
- Recognize the revenue as the performance obligations are satisfied.

Performance Obligations

The Company identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Company recognizes revenue when (or as) it satisfies a performance obligation by transferring control of the goods or services to the customer.

Net Merchandise Sales. The Company recognizes merchandise sales revenue, net of sales taxes, on transactions where the Company has determined that it is the principal in the sale of merchandise. These transactions may include shipping commitments and/or shipping revenue if the transaction involves delivery to the customer.

Non-merchandise Sales. Until the disposal of Aeropost in the first quarter of fiscal 2022, the Company recognized non-merchandise revenue, net of sales taxes, on transactions where the Company had determined that it was the agent in the transaction. These transactions primarily consisted of contracts the Company entered into with its customers to provide delivery, insurance and customs processing services for products its customers purchased online in the United States either directly from other vendors utilizing the vendor’s website or through the Company’s marketplace site. Revenue was recognized when the Company’s performance obligations were completed (that is when delivery of the items have been made to the destination point) and was recorded in “non-merchandise revenue” on the consolidated statements of income. Prepayment for orders for which the Company had not fulfilled its performance obligation were recorded as deferred income. Additionally, the Company recorded revenue at the net amounts retained, i.e., the amount paid by the customer less amounts remitted to the respective merchandise vendors, as the Company was acting as an agent and was not the principal in the sale of those goods being purchased from the vendors by the Company’s customers.

Membership Fee Revenue. 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. Our membership policy allows for Members to cancel their membership in the first 60 days and receive a full refund. After the 60 day period, membership refunds are prorated over the remaining term of the membership. The Company has significant experience with membership refund patterns and expects membership refunds will not be material. Therefore, no refund reserve was required for the periods presented. Membership fee revenue is included in membership income in the Company’s consolidated statements of income. The deferred membership fee is included in deferred income in the Company’s consolidated balance sheets.

Platinum Points Reward Programs. The Company currently offers Platinum Memberships in all of its thirteen countries. The annual fee for a Platinum Membership is approximately \$75. The Platinum Membership provides Members with a 2% rebate on most items, up to an annual maximum of \$500. The rebate is issued annually to Platinum Members on March 1 and expires August 31. Platinum Members can apply this rebate to future purchases at the warehouse club during the redemption period. The Company records this 2% rebate as a reduction of revenue at the time of the sales transaction. Accordingly, the Company has reduced net merchandise sales and has accrued a liability within other accrued expenses and other current liabilities, platinum rewards. The Company has determined that breakage revenue is 5% of the awards issued; therefore, it records 95% of the Platinum Membership liability at the time of sale. Annually, the Company reviews for expired unused rebates outstanding, and the expired unused rebates are recognized as “Other revenue and income” on the consolidated statements of income.

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

Co-branded Credit Card Points Reward Programs. Most of the Company's subsidiaries have points reward programs related to co-branded credit cards. These points reward programs provide incremental points that can be used at a future time to acquire merchandise within the Company's warehouse clubs. This results in two performance obligations, the first performance obligation being the initial sale of the merchandise or services purchased with the co-branded credit card and the second performance obligation being the future use of the points rewards to purchase merchandise or services. As a result, upon the initial sale, the Company allocates the transaction price to each performance obligation with the amount allocated to the future use points rewards recorded as a contract liability within other accrued expenses and other current liabilities on the consolidated balance sheet. The portion of the selling price allocated to the reward points is recognized as Net merchandise sales when the points are used or when the points expire. The Company reviews on an annual basis expired points rewards outstanding, and the expired rewards are recognized as Net merchandise sales on the consolidated statements of income within markets where the co-branded credit card agreement allows for such treatment.

Gift Cards. Members' purchases of gift cards to be utilized at the Company's warehouse clubs are not recognized as sales until the card is redeemed and the customer purchases merchandise using the gift card. The outstanding gift cards are reflected as other accrued expenses and other current liabilities in the consolidated balance sheets. These gift cards generally have a one-year stated expiration date from the date of issuance and are generally redeemed prior to expiration. However, the absence of a large volume of transactions for gift cards impairs the Company's ability to make a reasonable estimate of the redemption levels for gift cards; therefore, the Company assumes a 100% redemption rate prior to expiration of the gift card. The Company periodically reviews unredeemed outstanding gift cards, and the gift cards that have expired are recognized as "Other revenue and income" on the consolidated statements of income.

Co-branded Credit Card Revenue Sharing Agreements. As part of the co-branded credit card agreements that the Company has entered into with financial institutions within its markets, the Company often enters into revenue sharing agreements. As part of these agreements, in some countries, the Company receives a portion of the interest income generated from the average outstanding balances on the co-branded credit cards from these financial institutions ("interest generating portfolio" or "IGP"). The Company recognizes its portion of interest received as revenue during the period it is earned. The Company has determined that this revenue should be recognized as "Other revenue and income" on the consolidated statements of income.

Determining the Transaction Price

The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimate into the determination of the transaction price. The Company may offer sales incentives to customers, including discounts. For retail transactions, the Company has significant experience with returns and refund patterns and relied on this experience in its determination that expected returns are not material; therefore, returns are not factored when determining the transaction price.

Discounts given to customers are usually in the form of coupons and instant markdowns and are recognized as redeemed and recorded in contra revenue accounts, as they are part of the transaction price of the merchandise sale. Manufacturer coupons that are available for redemption at all retailers are not recorded as a reduction to the sale price of merchandise. Manufacturer coupons or discounts that are specific to the Company are recorded as a reduction to the cost of sales.

Agent Relationships

The Company evaluates the criteria outlined in ASC 606-10-55, Principal versus Agent Considerations, in determining whether it is appropriate in these arrangements to record the gross amount of merchandise sales and related costs, or the net amount earned as commissions. When the Company is considered the principal in a transaction, revenue is recorded gross; otherwise, revenue is recorded on a net basis. The Company's Non-merchandise Sales revenues are recorded on a net basis.

Significant Judgments

For arrangements that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation on a relative standalone selling price basis. During fiscal year 2022, there were no revenue transactions that required significant judgement.

Incremental costs to obtain contracts are not material to the Company.

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

Policy Elections

In addition to those previously disclosed, the Company has made the following accounting policy elections and practical expedients:

- Taxes - The Company excludes from the transaction price any taxes collected from customers that are remitted to taxing authorities.
- Shipping and Handling Charges - Charges that are incurred after the customer obtains control of goods are deemed costs required to complete our performance obligation. Therefore, the Company considers the act of shipping after the customer obtains control of goods to not be a separate performance obligation. These shipping and handling costs are classified as "Costs of goods sold" in the consolidated statements of income because they are incurred to fulfill a revenue obligation.
- Time Value of Money - The Company's payment terms are less than one year from the transfer of goods. Therefore, the Company does not adjust promised amounts of consideration for the effects of the time value of money.

Contract Performance Liabilities

Contract performance liabilities as a result of transactions with customers primarily consist of deferred membership income, other deferred income, deferred gift card revenue, Platinum points programs, and liabilities related to co-branded credit card points rewards programs that are included in deferred income and other accrued expenses and other current liabilities in the Company's consolidated balance sheets. The following table provides these contract balances from transactions with customers as of the dates listed (in thousands):

	Contract Liabilities	
	August 31, 2022	August 31, 2021
Deferred membership income	\$ 28,000	\$ 25,951
Other contract performance liabilities	\$ 10,473	\$ 7,871

Disaggregated Revenues

In the following table, net merchandise sales are disaggregated by merchandise category (in thousands):

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Foods & Sundries	\$ 1,947,734	\$ 1,736,509	\$ 1,656,682
Fresh Foods	1,145,920	1,003,694	912,325
Hardlines	443,311	409,644	345,051
Softlines	227,371	175,505	147,085
Other Business	180,481	140,090	130,619
Net Merchandise Sales	<u>\$ 3,944,817</u>	<u>\$ 3,465,442</u>	<u>\$ 3,191,762</u>

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

NOTE 4 – 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 3 to 15 years and that of certain components of building improvements and buildings from 10 to 40 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 certain that the renewal option in the underlying lease will be exercised because 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.

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

	August 31, 2022	August 31, 2021
Land	\$ 224,278	\$ 216,703
Building and improvements	592,749	533,802
Fixtures and equipment	343,859	315,391
Construction in progress	42,602	68,835
Total property and equipment, historical cost	1,203,488	1,134,731
Less: accumulated depreciation	(446,247)	(404,527)
Property and equipment, net	<u>\$ 757,241</u>	<u>\$ 730,204</u>

Depreciation and amortization expense (in thousands):

	Years Ended August 31,		
	2022	2021	2020
Depreciation expense, Property and equipment	\$ 66,255	\$ 62,579	\$ 58,815
Amortization expense, Intangible assets	1,613	2,404	2,410
Total depreciation and amortization expense	<u>\$ 67,868</u>	<u>\$ 64,983</u>	<u>\$ 61,225</u>

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 continue. The amount capitalized in an accounting period is determined by applying the Company's consolidated capitalization rate (average interest rate) to the average amount of accumulated expenditures for the qualifying asset, for each country, during the period. The capitalization rates are based on the interest rates applicable to borrowings outstanding during the period.

Total interest capitalized (in thousands):

	Balance as of	
	August 31, 2022	August 31, 2021
Total interest capitalized	\$ 12,934	\$ 13,175

Total interest capitalized (in thousands):

	Years Ended August 31,		
	2022	2021	2020
Interest capitalized	\$ 1,263	\$ 2,282	\$ 2,190

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

A summary of asset disposal activity for fiscal years 2022, 2021 and 2020 is as follows (in thousands):

	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Proceeds from disposal</u>	<u>Loss recognized</u>
Fiscal Year 2022	\$ 12,785	\$ 11,327	\$ 193	\$ (1,265)
Fiscal Year 2021	\$ 10,946	\$ 9,534	\$ 385	\$ (1,027)
Fiscal Year 2020	\$ 5,115	\$ 4,640	\$ 32	\$ (443)

The Company also recorded within accounts payable and other accrued expenses approximately \$2.2 million and \$0.9 million, respectively, as of August 31, 2022 and \$1.2 million and \$2.3 million, respectively, as of August 31, 2021 of liabilities related to the acquisition and/or construction of property and equipment.

NOTE 5 – EARNINGS PER SHARE

The Company presents basic 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 (“RSAs”), restricted stock units (“RSUs”) and performance stock units (“PSUs”) issued pursuant to the 2013 Equity Incentive Award Plan, provided that the Company does not include PSUs as participating securities until the performance conditions have been met. RSAs are outstanding shares of common stock and have the same cash dividend and voting rights as other shares of common stock. Shares of common stock subject to RSUs are not issued nor outstanding until vested, 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. PSUs, similar to RSUs, are awarded with dividend equivalents, provided that such amounts become payable only if the performance metric is achieved. At the time the Compensation Committee confirms the performance metric has been achieved, the corresponding dividend equivalents are paid on the PSUs. 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 performance stock units 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 attributable to PriceSmart for the twelve months ended August 31, 2022, 2021 and 2020 (in thousands, except per share amounts):

	<u>Years Ended August 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net income attributable to PriceSmart, Inc.	\$ 104,534	\$ 97,963	\$ 78,109
Less: Allocation of income to unvested stockholders	(1,245)	(1,282)	(842)
Net income attributable to PriceSmart, Inc. available for distribution	<u>\$ 103,289</u>	<u>\$ 96,681</u>	<u>\$ 77,267</u>
Basic weighted average shares outstanding	30,591	30,403	30,259
Add dilutive effect of performance stock units (two-class method)	9	—	—
Diluted average shares outstanding	<u>30,600</u>	<u>30,403</u>	<u>30,259</u>
Basic net income per share	<u>\$ 3.38</u>	<u>\$ 3.18</u>	<u>\$ 2.55</u>
Diluted net income per share	<u>\$ 3.38</u>	<u>\$ 3.18</u>	<u>\$ 2.55</u>

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

NOTE 6 – STOCKHOLDERS’ EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2022, 2021 and 2020:

Declared	Amount	First Payment		Second Payment			
		Record Date	Date Paid	Record Date	Date Paid	Amount	
2/3/2022	\$ 0.86	2/15/2022	2/28/2022	\$ 0.43	8/15/2022	8/31/2022	\$ 0.43
2/4/2021	\$ 0.70	2/15/2021	2/26/2021	\$ 0.35	8/15/2021	8/31/2021	\$ 0.35
2/6/2020	\$ 0.70	2/15/2020	2/28/2020	\$ 0.35	8/15/2020	8/31/2020	\$ 0.35

The Company anticipates the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, if any, 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, taking into account the uncertainty surrounding the ongoing effects of the COVID-19 pandemic on our results of operations and cash flows.

Comprehensive Income and Accumulated Other Comprehensive Loss

The following table discloses the changes in each component of other comprehensive loss, net of tax (in thousands):

	Attributable to PriceSmart	Noncontrolling Interests	Total
Ending balance, August 31, 2019	\$ (144,339)	\$ 20	\$ (144,319)
Foreign currency translation adjustments	(29,413)	114	(29,299)
Defined benefit pension plans ⁽¹⁾	(79)	—	(79)
Derivative Instruments ⁽²⁾	(5,803)	—	(5,803)
Amounts reclassified from accumulated other comprehensive loss	2,814	—	2,814
Ending balance, August 31, 2020	\$ (176,820)	\$ 134	\$ (176,686)
Foreign currency translation adjustments	(7,837)	117	(7,720)
Defined benefit pension plans ⁽¹⁾	(230)	—	(230)
Derivative Instruments ⁽²⁾	2,252	—	2,252
Amounts reclassified from accumulated other comprehensive loss	127	—	127
Ending balance, August 31, 2021	\$ (182,508)	\$ 251	\$ (182,257)
Foreign currency translation adjustments	(19,034)	3	(19,031)
Defined benefit pension plans ⁽¹⁾	(341)	—	(341)
Derivative Instruments ⁽²⁾	6,170	—	6,170
Amounts reclassified from accumulated other comprehensive loss	127	—	127
Sale of Aeropost	—	(254)	(254)
Ending balance, August 31, 2022	\$ (195,586)	\$ —	\$ (195,586)

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

(2) Refer to “Note 13 - Derivative Instruments and Hedging Activities.”

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

Retained Earnings Not Available for Distribution

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

	August 31, 2022	August 31, 2021
Retained earnings not available for distribution	\$ 8,648	\$ 8,022

NOTE 7 – POST EMPLOYMENT PLANS

Defined Contribution Plans

PriceSmart offers a defined contribution 401(k) retirement plan to its U.S. employees, including warehouse club employees in the U.S. Virgin Islands, which auto-enrolls employees in the plan immediately on the first day of employment. The Company makes nondiscretionary contributions to the 401(k) plan with a 4% “Company Contribution” based on the employee’s salary regardless of the employee’s own contributions to the plan up to the IRS maximum allowed. The Company also makes incremental nondiscretionary contributions to the 401(k) plan to the employees who defer up to 2% of their salary. Employer contributions to the 401(k) plan for the Company’s U.S. employees were \$2.9 million, \$2.6 million and \$2.2 million during fiscal years 2022, 2021 and 2020, respectively.

PriceSmart also offers defined contribution retirement plans in many of its subsidiaries. The Company makes nondiscretionary contributions to these plans based on the employee’s salary, regardless of the employee’s own contributions to the plan, up to the maximum allowed. The expenses associated with the plans for the Company’s non-U.S. employees were \$3.6 million, \$3.0 million and \$3.1 million during fiscal years 2022, 2021 and 2020, respectively.

Defined Benefit Plans

The Company’s subsidiaries located in three countries have unfunded post-employment benefit plans (defined benefit plans) in which the subsidiary is required to pay a specified benefit upon retirement, voluntary departure or death of the employee. The amount of the benefit is predetermined by a formula based on the employee’s earnings history, tenure of service and age. Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, the Company recognizes the cost of providing the benefits over the projected employee service periods. These payments are only due if an employee reaches certain thresholds, such as tenure and/or age. Therefore, these plans are treated as defined benefit plans. For these defined benefit plans, the Company has engaged actuaries to assist with estimating the current costs associated with these future benefits. The liabilities for these unfunded plans are recorded as non-current liabilities.

The following table summarizes the amount of the funding obligation and the line items in which it is recorded on the consolidated balance sheets as of August 31, 2022 and 2021 and consolidated statements of income for the fiscal years ended August 31, 2022, 2021 and 2020 (in thousands):

	Other Long-Term Liability		Accumulated Other Comprehensive Loss		Operating Expenses		
	August 31,				Year Ended August 31,		
	2022	2021	2022	2021	2022	2021	2020
Start of period	\$ (2,298)	\$ (1,805)	\$ 897	\$ 747	\$ —	\$ —	\$ —
Service cost	(205)	(184)	—	—	315	229	177
Interest cost	(129)	(104)	—	—	129	104	101
Prior service cost (including amortization)	—	—	(36)	(55)	36	55	55
Actuarial gains/(losses)	(344)	(205)	344	205	92	72	38
Totals	\$ (2,976)	\$ (2,298)	\$ 1,205	\$ 897 ⁽¹⁾	\$ 572	\$ 460	\$ 371

⁽¹⁾ The Company has recorded a deferred tax asset of \$377,000 and \$282,000 as of August 31, 2022 and 2021, respectively, relating to the unrealized expense on defined benefit plans. The Company also recorded accumulated other comprehensive loss, net of tax, for \$(829,000) and \$(615,000) as of August 31, 2022 and 2021, respectively.

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

The valuation assumptions used to calculate the liability for the defined benefit plans differ based on the country where the plan applies. These assumptions are summarized as follows:

Valuation Assumptions:	Year Ended August 31,	
	2022	2021
Discount rate	3.5% to 6.4%	3.5% to 7.5%
Future salary escalation	3.0% to 4.5%	3.0% to 4.0%
Percentage of employees assumed to withdraw from Company without a benefit (“turnover”)	6.7% to 15.0%	8.3% to 15.0%
Percentage of employees assumed to withdraw from Company with a benefit (“disability”)	0.5% to 6.6%	0.5% to 6.6%

For the fiscal year ending August 31, 2023, the Company expects to recognize, as components of net periodic benefit cost, the following amounts currently recorded in accumulated other comprehensive loss (in thousands):

Prior service cost	\$	26
Actuarial gain/loss		152
	\$	178

Other Post-Employment Benefit Plans

Some of the Company’s subsidiaries are parties to funded and unfunded post-employment benefit plans based on services that the employees have rendered. These plans require the Company to pay a specified benefit on retirement, voluntary departure or death of the employee, or monthly payments to an external fund manager. The amount of these payments is predetermined by a formula based on the employee’s earnings history and tenure of service. Because the obligation to provide benefits arises as employees render the services necessary to earn the benefits pursuant to the terms of the plan, the cost associated with providing the benefits is recognized as the employee provides those services. The employees’ rights to receive payment on these plans are not dependent on their reaching certain thresholds like age or tenure. Therefore, these plans are not treated as defined benefit plans. For these post-employment benefit plans, the Company has accrued liabilities that are recorded as accrued salaries and benefits and other long-term liabilities.

The following table summarizes the amounts recorded on the balance sheet and amounts expensed on the consolidated statements of income (in thousands):

	Accrued Salaries and Benefits		Other Long-Term Liability		Restricted Cash Held ⁽¹⁾		Operating Expenses		
	Years Ended August 31,								
	2022	2021	2022	2021	2022	2021	2022	2021	2020
Other Post Employment Plans	\$ 522	\$ 544	\$ 4,567	\$ 4,352	\$ 4,382	\$ 3,909	\$ 1,423	\$ 1,447	\$ 1,250

(1) With some locations, local statutes require the applicable Company subsidiary to deposit cash in its own name with designated fund managers. The funds earn interest, which the Company recognizes as interest income.

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

NOTE 8 – STOCK BASED COMPENSATION

Stock Based Compensation – The Company utilizes three types of equity awards: restricted stock awards (“RSAs”), restricted stock units (“RSUs”) and performance based restricted stock units (“PSUs”). Refer “Note 2 - Summary of Significant Accounting Policies.”

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 1.1 million shares of common stock plus 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 2013 plan was amended in fiscal year 2021 to increase the number of shares of Common Stock available for the grant of awards by 500,000 shares. 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. However, in no event will more than an aggregate of 2,031,818 shares of the Company’s common stock be issued under the 2013 Plan.

The following table summarizes the shares authorized and shares available for future grants:

	Shares authorized for issuance as of August 31, 2022 (including shares originally authorized for issuance under prior plans)	Shares available to grant	
		August 31, 2022	August 31, 2021
2013 Plan	1,567,923	549,319	705,924

The following table summarizes the components of the stock-based compensation expense for the twelve-month periods ended August 31, 2022, 2021 and 2020 (in thousands), which are included in general and administrative expense and warehouse club and other operations in the consolidated statements of income:

	Years Ended August 31,		
	2022	2021	2020
Restricted stock awards	\$ 9,378	\$ 11,010	\$ 8,747
Restricted stock units	3,519	3,939	3,011
Performance-based restricted stock units	3,906	3,475	2,059
Stock-based compensation expense	\$ 16,803	\$ 18,424	\$ 13,817

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

	Balance as of		
	August 31, 2022	August 31, 2021	August 31, 2020
Remaining unrecognized compensation cost (in thousands)	\$ 18,478	\$ 16,349	\$ 21,720
Weighted average period of time over which this cost will be recognized (years)	2	2	3

	Years Ended August 31,		
	2022	2021	2020
Excess tax benefit (deficiency) on stock-based compensation (in thousands)	\$ (2,259)	\$ (778)	\$ (936)

The restricted stock awards and units generally vest over a three-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.

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

Restricted stock awards, restricted stock units, and performance-based restricted stock units activity for the twelve-months ended August 31, 2022, 2021 and 2020 was as follows:

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Grants outstanding at beginning of period	375,622	415,869	362,826
Granted	261,204	166,160	266,759
Forfeited	(16,184)	(12,436)	(43,198)
Vested	(258,820)	(193,971)	(170,518)
Grants outstanding at end of period	<u>361,822</u>	<u>375,622</u>	<u>415,869</u>

The following table summarizes the weighted average per share grant date fair value for restricted stock awards, restricted stock units, and performance based restricted stock units for fiscal years 2022, 2021 and 2020:

Weighted Average Grant Date Fair Value	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
RSAs, RSUs, and PSUs granted	\$ 76.85	\$ 79.02	\$ 64.57
RSAs, RSUs, and PSUs vested	\$ 72.69	\$ 70.03	\$ 72.82
RSAs, RSUs, and PSUs forfeited	\$ 69.70	\$ 70.56	\$ 76.81

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

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Total fair market value of restricted stock awards and units vested (in thousands)	\$ 18,422	\$ 17,478	\$ 10,914

At the vesting dates for restricted stock awards to employees, the Company repurchases a portion of the shares that have vested at the prior day's closing price per share, with the funds used to pay the employees' minimum statutory tax withholding requirements related to the vesting of restricted stock awards. The Company expects to continue this practice going forward. The Company does not have a stock repurchase program.

Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders' equity in the Company's consolidated balance sheets. The Company may reissue these treasury shares.

The following table summarizes the shares repurchased during fiscal years 2022, 2021 and 2020:

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Shares repurchased	88,415	62,282	56,503
Cost of repurchase of shares (in thousands)	\$ 6,259	\$ 5,542	\$ 3,651

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

	Years Ended		
	August 31, 2022	August 31, 2021	August 31, 2020
Reissued treasury shares	8,314	96,400	234,370

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

NOTE 9 – 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 related to the Company's operations 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 believes that the final disposition of these matters will not have a material adverse effect on its financial position, results of operations or liquidity. It is possible, however, that the Company's results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to such matters.

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.

On August 5, 2022, PriceSmart received notice from Click USA Inc. and Aeropost, Inc. alleging that PriceSmart had breached certain provisions of a Stock Purchase Agreement between PriceSmart and Click USA, Inc. dated October 1, 2021, concerning the sale of Aeropost, Inc. to Click USA Inc. In this notice, Click USA Inc. and Aeropost, Inc. allege that PriceSmart made inaccurate or incomplete representations and warranties relating to Aeropost, Inc.'s cyber security and the condition of its IT systems in connection with the sale. Click USA Inc. and Aeropost, Inc. further asserted that, in or around April 2022, Aeropost, Inc. suffered cyberattacks, and they seek to hold PriceSmart liable for some amount of damages due to alleged losses directly relating to the cyber-attacks as well as due to possible third-party claims as a result of the cyber-attacks. The notice suggested that aggregate losses attributable to these losses and future claims could exceed \$3,000,000. Per the express terms of the agreement, the maximum amount of all losses for which PriceSmart may be liable for claims arising out of allegations concerning the above-referenced representations and warranties is \$4,000,000. PriceSmart intends to vigorously defend itself and, as such, we have concluded that a loss related to this matter is not probable and any potential loss is not reasonably estimable; therefore, we have not accrued a liability for this matter.

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 a 50% or less likelihood of being sustained (refer to "Note 10 - Income Taxes for additional information").

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 August 31, 2022 and 2021, the Company has recorded within other accrued expenses a total of \$1.1 million and \$1.8 million, respectively, for various non-income tax related tax contingencies.

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

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

Other Commitments

The Company is committed under non-cancelable operating leases for the rental of facilities and land. Refer to “Note 12 – Leases”.

The Company is committed to non-cancelable construction service obligations for various warehouse club developments and expansions. As of August 31, 2022 and August 31, 2021, the Company had approximately \$16.5 million and \$16.2 million, respectively, in contractual obligations for construction services not yet rendered.

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

From time to time, the Company has entered into general land purchase and land purchase option agreements. The Company's land purchase agreements are typically subject to various conditions, including, but not limited to, the ability to obtain necessary governmental permits or approvals. A deposit under an agreement is typically returned to the Company if all permits or approvals are not obtained. Generally, the Company has the right to cancel any of its agreements to purchase land without cause by forfeiture of some or all of the deposits it has made pursuant to the agreement. As of August 31, 2022, the Company had entered into four land purchase agreements that (three for new warehouse clubs and one for a new produce distribution center), if completed, would result in the use of approximately \$13.5 million in cash.

Refer to "Note 15 - 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.

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

NOTE 10 – INCOME TAXES

Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates includes the following components (in thousands):

	Years Ended August 31,		
	2022	2021	2020
United States	\$ 55,667	\$ 33,818	\$ 24,771
Foreign	100,754	113,368	91,269
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	\$ 156,421	\$ 147,186	\$ 116,040

Significant components of the income tax provision are as follows (in thousands):

	Years Ended August 31,		
	2022	2021	2020
Current:			
U.S. tax expense	\$ 20,824	\$ 16,904	\$ 10,046
Foreign tax expense	34,334	35,918	31,122
Total	\$ 55,158	\$ 52,822	\$ 41,168
Deferred:			
U.S. tax benefit	\$ (11,894)	\$ (10,212)	\$ (5,945)
U.S. valuation allowance change	11,823	9,777	5,570
Foreign tax benefit	(3,259)	(3,125)	(3,157)
Foreign valuation allowance change	30	(293)	128
Total	\$ (3,300)	\$ (3,853)	\$ (3,404)
Provision for income taxes	\$ 51,858	\$ 48,969	\$ 37,764

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

	Years Ended August 31,		
	2022	2021	2020
Federal tax provision at statutory rates	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	0.2	0.1	0.1
Differences in foreign tax rates	7.1	6.9	9.7
Permanent items and other adjustments	(2.6)	(2.2)	(4.4)
Increase in valuation allowance	7.5	7.5	6.1
Provision for income taxes	33.2 %	33.3 %	32.5 %

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

Significant components of the Company's deferred tax assets as of August 31, 2022 and 2021 are shown below (in thousands):

	August 31,	
	2022	2021
Deferred tax assets:		
U.S. net operating loss carryforward	\$ —	\$ 2,866
Foreign tax credits	32,322	22,420
Deferred compensation	1,782	2,334
U.S. timing differences	7,746	3,759
Foreign net operating losses	5,026	5,051
Foreign timing differences:		
Accrued expenses and other timing differences	9,937	7,636
Depreciation and amortization	13,019	10,498
Deferred income	7,749	6,422
Gross deferred tax assets	77,581	60,986
U.S. deferred tax liabilities (depreciation and other timing differences)	(2,273)	(4,083)
Foreign deferred tax liabilities netted against deferred tax assets	(8,697)	(5,753)
U.S. valuation allowance	(33,824)	(22,523)
Foreign valuation allowance	(4,432)	(4,402)
Net deferred tax assets	\$ 28,355	\$ 24,225

For fiscal 2022, the effective tax rate was 33.2%. The decrease in the effective rate versus the prior year was primarily attributable to the comparably favorable impact of 0.4% resulting from the effect of the change in foreign currency value and related adjustments.

For fiscal 2022, management concluded that a valuation allowance continues to be necessary for certain U.S. and foreign deferred tax assets primarily because of the existence of negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, and the determination that certain net operating loss carryforward periods are not sufficient to realize the related deferred tax assets. The Company factored into its analysis the inherent risk of forecasting revenue and expenses over an extended period of time and also considered the potential risks associated with its business. The Company had net foreign deferred tax assets of \$22.6 million and \$19.5 million as of August 31, 2022 and 2021, respectively.

The Company does not provide for income taxes which would be payable if undistributed earnings of its foreign subsidiaries were remitted to the U.S. because the Company considers these earnings to be permanently reinvested as management has no plans to repatriate undistributed earnings and profits of foreign affiliates. As of August 31, 2022 and 2021 the undistributed earnings of these foreign subsidiaries are approximately \$335.5 million and \$254.5 million, respectively.

The Company accrues for the estimated additional amount of taxes for uncertain income tax positions if the likelihood of sustaining the tax position does not meet the more-likely-than-not-standard for recognition of tax benefits. These positions are recorded as unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Years Ended August 31,		
	2022	2021	2020
Balance at beginning of fiscal year	\$ 3,911	\$ 4,573	\$ 6,490
Gross increase - tax positions in prior period	264	135	464
Gross decrease - tax positions in prior period	—	(306)	—
Additions based on tax positions related to the current year	1,356	333	186
Expiration of the statute of limitations for the assessment of taxes	(490)	(824)	(2,567)
Balance at end of fiscal year	\$ 5,041	\$ 3,911	\$ 4,573

As of August 31, 2022, the liability for income taxes associated with unrecognized tax benefits was \$5.0 million and can be reduced by \$1.5 million of tax benefits recorded as deferred tax assets and liabilities. The total \$5.0 million unrecognized tax benefit includes \$400,000 of associated timing adjustments. The net amount of \$4.6 million would, if recognized, favorably affect the Company's financial statements and favorably affect the Company's effective income tax rate.

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

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense. As of August 31, 2022 and 2021, the Company had accrued an additional \$1.5 million and \$1.6 million, respectively, for the payment of interest and penalties related to the above-mentioned unrecognized tax benefits.

The Company expects changes in the amount of unrecognized tax benefits in the next 12 months as the result of a lapse in various statutes of limitations. The lapse of statutes of limitations in the twelve-month period ending August 31, 2022 could result in a total income tax benefit amounting up to \$800,000.

The Company has various appeals pending before tax courts in its subsidiaries' jurisdictions. Any possible settlement could increase or decrease earnings but is not expected to be significant. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

In two countries where the Company operates, minimum income tax rules require the Company to pay taxes based on a percentage 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 Company had income tax receivables of \$11.0 million as of August 31, 2022 and August 31, 2021, respectively, and deferred tax assets of \$3.5 million and \$3.3 million as of August 31, 2022 and August 31, 2021, respectively, in these countries. While the rules related to refunds of income tax receivables in these countries are either unclear or complex, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests.

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

Tax Jurisdiction	Fiscal Years Subject to Audit
U.S. federal	2005, 2007, 2011* to 2017*, 2018 to the present
California (U.S.) (state return)	2005 and 2018 to the present
Florida (U.S.) (state return)	2011* to 2018*, 2019 to the present
Aruba	2017 to the present
Barbados	2016 to the present
Costa Rica	2011 to 2012, 2015 to 2016, 2018 to the present
Colombia	2016 to the present
Dominican Republic	2011 to 2012, 2016, 2019 to the present
El Salvador	2019 to the present
Guatemala	2012 to 2013, 2017 the present
Honduras	2017 to the present
Jamaica	2016 to the present
Mexico	2017 to the present
Nicaragua	2018 to the present
Panama	2018 to the present
Trinidad	2016 to the present
U.S. Virgin Islands	2001 to the present
Spain	2019 to the present
Chile	2019* to the present

*Aeropost only

Generally for U.S. federal and U.S. Virgin Islands tax reporting purposes, the statute of limitations is three years from the date of filing of the income tax return. If and to the extent the tax year resulted in a taxable loss, the statute is extended to three years from the filing date of the income tax return in which the carryforward tax loss was used to offset taxable income in the carryforward year. Given the historical losses in these jurisdictions and the Section 382 change in control limitations on the use of the tax loss carryforwards, there is uncertainty and significant variation as to when a tax year is no longer subject to audit.

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

NOTE 11 – DEBT

Short-term borrowings consist of unsecured lines of credit. The following table summarizes the balances of total facilities, facilities used and facilities available (in thousands):

	Total Amount of Facilities	Facilities Used		Facilities Available	Weighted average interest rate
		Short-term Borrowings	Letters of Credit		
August 31, 2022 - Committed	\$ 75,000	—	73	74,927	— %
August 31, 2022 - Uncommitted	91,000	10,608	—	80,392	5.3
August 31, 2022 - Total	<u>\$ 166,000</u>	<u>\$ 10,608</u>	<u>\$ 73</u>	<u>\$ 155,319</u>	<u>5.3 %</u>
August 31, 2021 - Committed	\$ 40,000	—	97	39,903	— %
August 31, 2021 - Uncommitted	91,000	—	—	91,000	—
August 31, 2021 - Total	<u>\$ 131,000</u>	<u>\$ —</u>	<u>\$ 97</u>	<u>\$ 130,903</u>	<u>— %</u>

As of August 31, 2022 and August 31, 2021, the Company was in compliance with all covenants or amended covenants for each of its short-term facility agreements. These facilities generally expire annually or bi-annually and are normally renewed. One of these facilities is a committed credit agreement with one bank for \$75.0 million. In exchange for the bank's commitment to fund any drawdowns the Company requests, the Company pays an annual commitment fee of 0.25%, payable quarterly, on any unused portion of this facility. Additionally, the Company has uncommitted facilities in most of the countries where it operates, with drawdown requests subject to approval by the individual banks each time a drawdown is requested.

The following table provides the changes in long-term debt for the twelve months ended August 31, 2022:

(Amounts in thousands)	Current portion of long-term debt	Long-term debt (net of current portion)	Total
Balances as of August 31, 2020	\$ 19,437	\$ 112,610	\$ 132,047 (1)
Proceeds from long-term debt received during the period:			
Trinidad subsidiary	2,736	14,829	17,565
Repayments of long-term debt:	(5,168)	(14,825)	(19,993)
Reclassifications of long-term debt due in the next 12 months	2,368	(2,368)	—
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	22	(136)	(114)
Balances as of August 31, 2021	<u>19,395</u>	<u>110,110</u>	<u>129,505 (2)</u>
Proceeds from long-term debt received during the period:			
Guatemala subsidiary	—	4,204	4,204
Trinidad subsidiary	4,924	21,505	26,429
Total proceeds from long-term debt received during the period	<u>4,924</u>	<u>25,709</u>	<u>30,633</u>
Repayments of long-term debt:	(8,110)	(14,587)	(22,697)
Reclassifications of long-term debt due in the next 12 months	17,618	(17,618)	—
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	(112)	(58)	(170)
Balances as of August 31, 2022	<u>\$ 33,715</u>	<u>\$ 103,556</u>	<u>\$ 137,271 (4)</u>

(1) The carrying amount on non-cash assets assigned as collateral for these loans was \$158.6 million. No cash assets were assigned as collateral for these loans.

(2) The carrying amount on non-cash assets assigned as collateral for these loans was \$153.5 million. The carrying amount on cash assets assigned as collateral for these loans was \$7.0 million.

(3) These foreign currency translation adjustments are recorded within other comprehensive loss.

(4) The carrying amount on non-cash assets assigned as collateral for these loans was \$155.6 million. The carrying amount on cash assets assigned as collateral for these loans was \$5.3 million.

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

The following table provides a summary of the long-term loans entered into by the Company:

	August 31, 2022	August 31, 2021
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into a cross-currency interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	\$ 33,853	\$ 38,531
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into an interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	39,969	42,744
Unswapped loans entered into by the Company's subsidiaries with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	63,449	48,230
Total long-term debt	137,271	129,505
Less: current portion	33,715	19,395
Long-term debt, net of current portion	<u>\$ 103,556</u>	<u>\$ 110,110</u>

As of August 31, 2022 and August 31, 2021, the Company had approximately \$110.7 million and \$103.4 million, respectively, of long-term loans in several foreign subsidiaries that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. The Company was in compliance with all covenants or amended covenants for both periods. The net increase in long-term debt during the twelve months ended August 31, 2022 is primarily attributable to a loan entered into by the Company's Trinidad subsidiary, whereby it received \$25.0 million in U.S. dollars, which it will pay back in Trinidad dollars (using a conversion rate fixed upon initial disbursement) over the four year life of the loan.

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

Twelve Months Ended August 31,	Amount
2023	\$ 33,715
2024	18,788
2025	33,524
2026	15,496
2027	29,748
Thereafter	6,000
Total	<u>\$ 137,271</u>

NOTE 12 – LEASES

In accordance with ASC 842, the Company determines if an arrangement is a lease at inception or modification of a contract and classifies each lease as either operating or finance lease at commencement. The Company only reassesses lease classification subsequent to commencement upon a change to the expected lease term or the contract being modified. As of August 31, 2022, the Company only has operating leases for its clubs, distribution centers, office space, and land. Operating leases, net of accumulated amortization, are included in operating lease right of use ("ROU") assets, and current and non-current operating lease liabilities, on the Company's consolidated balance sheets. Lease expense for operating leases is included in selling, general and administrative expense on the Company's consolidated statements of income. Leases with an initial term of twelve months or less are not recorded on the Company's consolidated balance sheet.

The Company is generally obligated for the cost of property taxes, insurance, and maintenance relating to its leases, which are often variable lease payments. Such costs are included in selling, general and administrative expense in the consolidated statements of income.

Certain of the Company's lease agreements provide for lease payments based on future sales volumes at the leased location, or include rental payments adjusted periodically for inflation or based on an index, which are not measurable at the inception of the lease. The Company expenses such variable amounts in the period incurred, which is the period in which it becomes probable that the specified target that triggers the variable lease payments will be achieved. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the reasonably certain lease term. The operating lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option or if an economic penalty may be incurred if the option is not exercised. The initial lease term of the Company's operating leases range from two years to 30 years.

Where the Company's leases do not provide an implicit rate, a collateralized incremental borrowing rate ("IBR") is used to determine the present value of lease payments. The IBR is based on a yield curve derived by publicly traded bond offerings for companies with similar credit characteristics that approximate the Company's market risk profile. In addition, we adjust the IBR for jurisdictional risk derived from quoted interest rates from financial institutions to reflect the cost of borrowing in the Company's local markets.

The following table is a summary of the Company's components of total lease costs for fiscal year 2022 and 2021 (in thousands):

	Years Ended August 31,	
	2022	2021
Operating lease cost	\$ 15,632	\$ 17,724
Short-term lease cost	49	167
Variable lease cost	4,376	4,410
Sublease income	(180)	(891)
Total lease costs	\$ 19,877	\$ 21,410

The weighted average remaining lease term and weighted average discount rate for operating leases as of August 31, 2022 and August 31, 2021 were as follows:

	Years Ended August 31,	
	2022	2021
Weighted average remaining lease term in years	18.3	18.3
Weighted average discount rate percentage	6.7%	6.7%

Supplemental cash flow information related to leases under which the Company is the lessee was as follows (amounts in thousands):

	Years Ended August 31,	
	2022	2021
Operating cash flows paid for operating leases	\$ 14,885	\$ 16,420

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 August 31,	Leased Locations
2023	\$ 14,936
2024	14,040
2025	14,012
2026	12,508
2027	10,314
Thereafter	161,563
Total future lease payments	227,373
Less imputed interest	(101,386)
Total operating lease liabilities	\$ 125,987

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

NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to interest rate risk relating to its ongoing business operations. 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 its wholly owned subsidiaries. To manage this foreign currency and interest rate cash flow exposure, the Company's subsidiaries entered 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 entire gain or loss on the derivative reported as a component of other comprehensive loss. Amounts are deferred in other comprehensive loss and reclassified into earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings.

The Company is exposed to foreign-currency exchange-rate fluctuations in the normal course of business, including 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 (NDFs) 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.

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

As of August 31, 2022, 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 Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting.

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

The following table summarizes agreements for which the Company has cash flow hedge accounting transactions as of August 31, 2022:

Entity	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
Colombia subsidiary	3-May-22	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 10,000,000	PriceSmart, Inc.	3.00%	9.04 %	3rd day of each May, August, November and February, beginning on August 3, 2022	May 3, 2022 - May 3, 2027
Colombia subsidiary	17-Nov-21	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 10,000,000	PriceSmart, Inc.	3.00%	8.40%	17th day of each February, May, August, and November, beginning on February 17, 2022	November 17, 2021 - November 18, 2024
Colombia subsidiary	3-Dec-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 7,875,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.45%	7.87%	3rd day of each December, March, June, and September, beginning on March 3, 2020	December 3, 2019 - December 3, 2024
Colombia subsidiary	27-Nov-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 25,000,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.45%	7.93%	27th day of each November, February, May and August beginning February 27, 2020	November 27, 2019 - November 27, 2024
Colombia subsidiary	24-Sep-19	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 12,500,000	PriceSmart, Inc.	Variable rate 3-month Libor plus 2.50%	7.09%	24th day of each December, March, June and September beginning December 24, 2019	September 24, 2019 - September 26, 2022
Panama subsidiary	25-Jun-18	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	\$ 14,625,000	Bank of Nova Scotia	Variable rate 3-month Libor plus 3.0%	5.99%	23rd day of each month beginning on July 23, 2018	June 25, 2018 - March 23, 2023
Honduras subsidiary	26-Feb-18	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 13,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 3.00%	9.75%	29th day of May, August, November and February beginning May 29, 2018	February 26, 2018 - February 24, 2023
PriceSmart, Inc.	7-Nov-16	MUFG Union Bank, N.A. ("Union Bank")	Interest rate swap	\$ 35,700,000	Union Bank	Variable rate 1-month Libor plus 1.7%	3.65%	1st day of each month beginning on April 1, 2017	March 1, 2017 - March 1, 2027

For the twelve-month periods ended August 31, 2022, 2021 and 2020 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 year ended August 31, 2022	\$ 2,577	\$ 3,234	\$ 5,811
Interest expense for the year ended August 31, 2021	\$ 2,619	\$ 3,655	\$ 6,274
Interest expense for the year ended August 31, 2020	\$ 4,045	\$ 2,416	\$ 6,461

(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 interest rate swaps and cross currency swaps designated as cash flow hedging instruments.

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

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

	Notional Amount as of	
	August 31, 2022	August 31, 2021
Floating Rate Payer (Swap Counterparty)		
Union Bank	\$ 31,344	\$ 32,619
Citibank N.A.	66,353	51,032
Scotiabank	8,625	10,125
Total	<u>\$ 106,322</u>	<u>\$ 93,776</u>

Derivatives listed on the table below were designated as cash flow hedging instruments. The table summarizes the effect of the fair value of interest rate swap and cross-currency interest rate swap derivative instruments that qualify for derivative hedge accounting and its associated tax effect on accumulated other comprehensive (income)/loss (in thousands):

Derivatives designated as cash flow hedging instruments	Balance Sheet Classification	August 31, 2022			August 31, 2021		
		Fair Value	Net Tax Effect	Net OCI	Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other current assets	\$ 2,736	\$ (348)	\$ 2,388	\$ —	\$ —	\$ —
	Other non-current assets	10,289	(4,559)	5,730	2,464	(741)	1,723
Cross-currency interest rate swaps	Other current liabilities	(82)	25	(57)	—	—	—
	Other non-current liabilities	1,596	(6)	1,590	—	—	—
Interest rate swaps	Other long-term liabilities	—	—	—	(2,305)	535	(1,770)
	Other long-term liabilities	—	—	—	(705)	212	(493)
Cross-currency interest rate swaps		—	—	—	(705)	212	(493)
Net fair value of derivatives designated as hedging instruments		<u>\$ 14,539</u>	<u>\$ (4,888)</u>	<u>\$ 9,651</u>	<u>\$ (546)</u>	<u>\$ 6</u>	<u>\$ (540)</u>

Fair Value Instruments

From time to time the Company enters 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.

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

The following table summarizes the non-deliverable forward foreign exchange contracts that are open as of August 31, 2022:

Subsidiary	Dates entered into	Financial Derivative (Counterparty)	Derivative Financial Instrument	Notional Amount (in thousands)	Settlement Date	Effective Period of Forward
Colombia	30-Aug-22	Scotiabank Colpatria, S.A.	Forward foreign exchange contracts (USD)	\$ 1,500	11-Jan-23	August 30, 2022 - January 11, 2023
Colombia	17-Aug-22	Scotiabank Colpatria, S.A.	Forward foreign exchange contracts (USD)	\$ 1,500	30-Dec-22	August 17, 2022 - December 30, 2022

Forward derivative gains and (losses) on non-deliverable forward foreign-exchange contracts are included in Other income (expense), net in the consolidated statements of income in the period of change, but the amounts were immaterial for the twelve months ended August 31, 2022, 2021, and 2020.

Other Instruments

Other derivatives not designated as hedging instruments consist primarily of written call options in which the Company receives a premium that it uses to reduce the costs associated with its hedging activities. As of August 31, 2022, the Company has settled its outstanding call options and does not have any other contracts not designated as hedging instruments.

For the twelve-month periods ended August 31, 2022, 2021, and 2020, the Company included in its consolidated statements of income the loss of its other non-designated derivative contracts as follows (in thousands):

Income Statement Classification	Years, Ended August 31		
	2022	2021	2020
Other expense, net	\$ —	\$ —	\$ (912)

NOTE 14 – RELATED-PARTY TRANSACTIONS

Relationships with Edgar Zurcher: Mr. Zurcher is also a director of a company that owns 40% of Payless ShoeSource Holdings, Ltd., which rents retail space from the Company. The Company recorded approximately \$927,000, \$1.4 million, and \$1.5 million in rental income for this space during the fiscal years ended 2022, 2021 and 2020. Additionally, Mr. Zurcher is a director of Molinos de Costa Rica S.A. The Company paid approximately \$1.1 million for products purchased from this entity for each of the fiscal years ended August 31, 2022, 2021 and 2020, respectively.

Relationships with Price Family Charitable Organizations: During the years ended August 31, 2022, 2021 and 2020, the Company sold approximately \$438,000, \$1.6 million, and \$525,000, respectively, of supplies to Price Philanthropies Foundation. Robert Price, Chairman of the Company's Board of Directors, is the Chairman of the Board and President of the Price Philanthropies Foundation. Sherry S. Bahrambeygui, a director and the Chief Executive Officer of the Company, serves as an independent director of the Board of the Price Philanthropies Foundation. Jeffrey R. Fisher, a director of the Company, serves as the Chief Financial Officer and as a independent director of the Board of the Price Philanthropies Foundation. David Price, a director, and Vice President – Omnichannel Initiatives & Social and Environmental Responsibility of the Company, serves as an independent director of the Board of the Price Philanthropies Foundation.

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

Relationship with Golf Park Plaza, S.A.: Golf Park Plaza, S.A. is a real estate joint venture located in Panama, entered by the Company in 2008 (see Note 15 - Unconsolidated Affiliate). 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. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. On July 14, 2017, the Company entered into a lease agreement for approximately 2,992 square feet (278 square meters) of a building with Golf Park Plaza, S.A. for warehouse storage space. The agreement was recently renewed for an additional five years during fiscal year 2022. Combined, the Company recognized \$149,000 in rent expense for the fiscal year ended August 31, 2022 and \$149,800 in rent expense for each of the fiscal years ended August 31, 2021 and August 31, 2020.

NOTE 15 – 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 the power to direct the VIE’s activities that most significantly impact the VIE’s economic performance and has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. 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 (GolfPark Plaza, S.A.) and Costa Rica (Price Plaza Alajuela PPA, 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, obligations and the power to direct the activities of a VIE that most significantly impact the VIE's economic performance is shared equally 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. On July 14, 2017, the Company entered into a lease agreement for approximately 2,992 square feet (278 square meters) of a building with Golf Park Plaza, S.A. for warehouse storage space. The agreement was recently renewed for an additional five years during fiscal year 2022. Combined, the Company recognized \$149,000 in rent expense for the fiscal year ended August 31, 2022, and \$149,800 in rent expense for each of the fiscal years ended August 31, 2021 and August 31, 2020.

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 August 31, 2022 (in thousands):

Entity	% Ownership	Initial Investment	Additional Investments	Net Income (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	\$ 2,402	\$ (72)	\$ 6,946	\$ 99	\$ 7,045
Price Plaza Alajuela PPA, S.A.	50 %	\$ 2,193	\$ 1,236	\$ 159	\$ 3,588	\$ 785	\$ 4,373
Total		\$ 6,809	\$ 3,638	\$ 87	\$ 10,534	\$ 884	\$ 11,418

(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):

	<u>August 31,</u> <u>2022</u>	<u>August 31,</u> <u>2021</u>
Current assets	\$ 1,839	\$ 1,728
Noncurrent assets	\$ 10,109	\$ 10,253
Current liabilities	\$ 175	\$ 151
Noncurrent liabilities	\$ 8	\$ 8

	<u>Years Ended August 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
PriceSmart's share of the net loss of unconsolidated affiliates	\$ (10)	\$ (58)	\$ (95)

NOTE 16 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international operation of membership shopping in 50 warehouse clubs located in 12 countries and one U.S. territory that are located in Central America, the Caribbean and Colombia. In addition, the Company operates distribution centers and corporate offices in the United States. The Company has aggregated its warehouse clubs, distribution centers and corporate offices into reportable segments. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues, operating costs and inter-company charges included in the United States segment are not allocated to the segments within this presentation, as it is impractical to do so, and they appear as reconciling items to reflect the amount eliminated on consolidation of intersegment transactions. From time to time, the Company revises the measurement of each segment's operating income and net income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by the Company's chief operating decision maker. When the Company does so, the previous period amounts and balances are reclassified to conform to the current period's presentation.

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 ⁽¹⁾	Colombia Operations	Reconciling Items ⁽²⁾	Total
Year Ended August 31, 2022						
Revenue from external customers	\$ 48,716	\$ 2,382,163	\$ 1,156,607	\$ 478,607	\$ —	\$ 4,066,093
Intersegment revenues	1,492,648	22,119	5,857	3,600	(1,524,224)	—
Depreciation, Property and equipment	4,719	34,155	17,061	10,320	—	66,255
Amortization, Intangibles	1,613	—	—	—	—	1,613
Operating income (loss)	23,364	171,119	79,022	22,526	(128,965)	167,066
Interest income from external sources	147	1,115	863	76	—	2,201
Interest income from intersegment sources	1,789	1,954	255	—	(3,998)	—
Interest expense from external sources	1,225	3,107	2,163	3,116	—	9,611
Interest expense from intersegment sources	27	1,187	1,821	899	(3,934)	—
Provision for income taxes	19,629	23,396	8,106	727	—	51,858
Net income attributable to PriceSmart, Inc.	8,292	144,159	62,799	18,268	(128,984)	104,534
Long-lived assets (other than deferred tax assets)	70,978	498,204	218,021	175,194	—	962,397
Intangibles, net	765	—	—	—	—	765
Goodwill	8,981	24,250	10,072	—	—	43,303
Investment in unconsolidated affiliates	—	10,534	—	—	—	10,534
Total assets	230,411	867,898	474,411	235,680	—	1,808,400
Capital expenditures, net	5,119	46,959	36,610	33,654	—	122,342
Year Ended August 31, 2021						
Revenue from external customers	\$ 88,397	\$ 2,105,856	\$ 1,004,793	\$ 420,825	\$ —	\$ 3,619,871
Intersegment revenues	1,280,236	17,861	5,087	3,869	(1,307,053)	—
Depreciation, Property and equipment	6,970	31,319	15,432	8,858	—	62,579
Amortization, Intangibles	2,404	—	—	—	—	2,404
Operating income (loss)	12,687	151,933	74,769	21,932	(103,301)	158,020
Interest income from external sources	13	878	985	103	—	1,979
Interest income from intersegment sources	2,130	2,393	483	—	(5,006)	—
Interest expense from external sources	1,606	2,831	427	2,346	—	7,210
Interest expense from intersegment sources	34	1,286	2,647	298	(4,265)	—
Provision for income taxes	15,919	22,661	8,006	2,383	—	48,969
Net income (loss) attributable to PriceSmart, Inc.	(4,777)	127,879	61,025	17,333	(103,497)	97,963
Long-lived assets (other than deferred tax assets)	79,404	490,099	197,030	164,970	—	931,503
Intangibles, net	7,762	—	—	—	—	7,762
Goodwill	10,695	24,332	10,068	—	—	45,095
Investment in unconsolidated affiliates	—	10,544	—	—	—	10,544
Total assets	246,896	795,940	434,428	228,526	—	1,705,790
Capital expenditures, net	9,061	45,524	23,342	28,181	—	106,108
Year Ended August 31, 2020						
Revenue from external customers	\$ 73,703	\$ 1,895,857	\$ 993,657	\$ 365,971	\$ —	\$ 3,329,188
Intersegment revenues	1,148,004	16,524	4,909	2,723	(1,172,160)	—
Depreciation, Property and equipment	6,888	29,312	15,441	7,174	—	58,815
Amortization, Intangibles	2,410	—	—	—	—	2,410
Operating income (loss)	3,873	125,351	57,217	18,071	(82,044)	122,468
Interest income from external sources	7	612	749	663	—	2,031
Interest income from intersegment sources	2,065	2,566	431	—	(5,062)	—
Interest expense from external sources	1,890	3,425	310	2,000	—	7,625
Interest expense from intersegment sources	39	1,547	2,258	561	(4,405)	—
Provision for income taxes	10,106	20,001	6,416	1,241	—	37,764
Net income (loss) attributable to PriceSmart, Inc.	(7,578)	103,697	50,553	13,554	(82,117)	78,109
Long-lived assets (other than deferred tax assets)	81,008	475,744	177,166	146,862	—	880,780
Intangibles, net	10,166	—	—	—	—	10,166
Goodwill	10,696	24,418	10,092	—	—	45,206
Investment in unconsolidated affiliates	—	10,602	—	—	—	10,602
Total assets	272,190	741,523	395,244	247,868	—	1,656,825
Capital expenditures, net	6,072	48,150	14,460	35,565	—	104,247

- (1) Management considers its club in the U.S. Virgin Islands to be part of its Caribbean operations.
- (2) The reconciling items reflect the amount eliminated on consolidation of intersegment transactions.

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

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of August 31, 2022 through the date of issuance of these consolidated financial statements and has determined that, except as set forth below, there are no subsequent events that require disclosure.

On September 26, 2022, the Company's Colombia subsidiary entered into a fixed-to-fixed cross-currency interest rate swap on an existing U.S. Dollar-denominated loan wherein the Company will pay interest of 10.35% on 56.0 billion Colombian pesos and receive interest of 3.00% on \$12.5 million U.S. dollars. The swap is designated as a cash flow hedge.

On October 3, 2022, the Company's Guatemala subsidiary received a disbursement of 97.5 million Guatemalan quetzals, or approximately \$12.4 million in U.S. dollars, on a loan originally entered into in October 2021.

[Table of Contents](#)

ADDITIONAL INFORMATION

Corporate Offices

9740 Scranton Road
San Diego, CA 92121
(858) 404-8800

Stock Exchange Listing

NASDAQ Global Select Market
Stock Symbol: PSMT

Annual Meeting

Friday, February 3, 2023 at 10:00 AM
PriceSmart, Inc. Corporate Headquarters
9740 Scranton Road
San Diego, CA 92121

Transfer Agent

Computershare Inc.

462 South 4th Street, Suite 1600
Louisville, KY, 40202
Telephone: (888) 867-6003
TDD for Hearing Impaired: (800) 490-1493
Outside U.S.: (201) 680-6578

Independent Registered Public Accounting Firm

Ernst & Young U.S. LLP
4365 Executive Drive, Suite 1600
San Diego, CA 92121

PriceSmart's annual reports to the Securities and Exchange Commission on Form 10-K and any quarterly reports on Form 10-Q, as amended, will be provided free of charge upon written request to Investor Relations, PriceSmart, Inc., 9740 Scranton Road., San Diego, CA 92121. Internet users can access PriceSmart's web site at <http://www.investors.pricemart.com>.

LIST OF SUBSIDIARIES OF PRICESMART, INC.

The following table sets forth a list of the Company's subsidiaries as of August 31, 2022:

Name	Jurisdiction of Incorporation and Organization Ownership	
PriceSmart Panama, S.A.	Panama	100 %
GolfPark Plaza, S.A.	Panama	50 %
PriceSmart (Guatemala), S.A.	Guatemala	100 %
PSMT Caribe, Inc.	British Virgin Islands	100 %
PriceSmart El Salvador, S.A. de C.V.	El Salvador	100 %
Prismar de Costa Rica, S.A.	Costa Rica	100 %
Plaza Price Alajuela PPA, S.A.	Costa Rica	50 %
PriceSmart Honduras, S.A. de C.V.	Honduras	100 %
PriceSmart Dominicana, S.R.L.	Dominican Republic	100 %
PriceSmart Exempt SRL	Barbados	100 %
PSMT Trinidad/Tobago Limited	Trinidad & Tobago/St. Lucia	100 %
PriceSmart Realty (TT) Limited	Trinidad & Tobago	100 %
PriceSmart Clubs (TT) Limited	Trinidad & Tobago	100 %
PSMT, LLC	U.S. Virgin Islands	100 %
PriceSmart Holdings, Inc.	St. Lucia	100 %
PSMT (Barbados), Inc.	Barbados	100 %
Island Foods and Distributors, N.V.	Aruba	100 %
PriceSmart Jamaica (SL), Inc.	St. Lucia	100 %
PriceSmart (Jamaica) Limited	Jamaica	100 %
PriceSmart Realty (Jamaica) Limited	Jamaica	100 %
PS Exportadora Latinoamericana, S.A. de CV.	Mexico	100 %
PSMT Nicaragua (BVI), Inc	British Virgin Islands	100 %
PSMT Nicaragua, S.A.	Nicaragua	100 %
Inmobiliaria PSMT Nicaragua, S.A.	Nicaragua	100 %
PriceSmart Colombia SAS	Colombia	100 %
PSCR Exportadora, S.A.	Costa Rica	100 %
PriceSmart Latinoamerica SL	Spain	100 %
AP Marketplace IP, LLC	Delaware	100 %

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements on Form S-8 (Nos. 333-38345, 333-61067, 333-82220, 333-102947, 333-132173, 333-158615 and 333-187722) of PriceSmart, Inc., and

(2) Registration Statements on Form S-3 (Nos. 333-42374, 333-67106, 333-83412, 333-86552, 333-96811, 333-100757 and 333-140290) of PriceSmart, Inc.;

of our reports dated October 31, 2022, with respect to the consolidated financial statements and schedule of PriceSmart, Inc., and the effectiveness of internal control over financial reporting of PriceSmart, Inc., included in this Annual Report (Form 10-K) of PriceSmart, Inc. for the year ended August 31, 2022.

/s/ Ernst & Young LLP

San Diego, California

October 31, 2022

Certification

I, Sherry S. Bahrambeygui, certify that:

1. I have reviewed this Annual Report on Form 10-K of PriceSmart, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2022

/s/ SHERRY S. BAHRAMBEYGUI

Sherry S. Bahrambeygui
Chief Executive Officer
(Principal Executive Officer)

Certification

I, Michael L. McCleary, certify that:

1. I have reviewed this Annual Report on Form 10-K of PriceSmart, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2022

/s/ MICHAEL L. MCCLEARY

Michael L. McCleary
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of PriceSmart, Inc. (the “Company”) hereby certifies, to such officer’s knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the annual period ended August 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2022

/s/ SHERRY S. BAHRAMBEYGUI

Sherry S. Bahrambeygui
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of PriceSmart, Inc. (the “Company”) hereby certifies, to such officer’s knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the annual period ended August 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2022

/s/ MICHAEL L. MCCLEARY

Michael L. McCleary
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
