2020

Annual Report

December 18, 2020

Dear PriceSmart Stockholders,

For the fiscal year ended August 31, 2020, our Company's total revenues were $3.33 billion, a 3.3% increase compared to $3.22 billion in the prior year. Earnings per share for fiscal year 2020 were $2.55 per share compared to $2.40 per share a year earlier. Our fiscal year ending balance sheet included a $299.5 million cash and cash equivalents balance and stockholders' equity attributable to the Company's stockholders of $831.7 million.

At fiscal year-end, there were 46 PriceSmart warehouse clubs in a total of 12 countries plus the United States Virgin Islands. During fiscal 2020, we opened three new locations in Central America. In addition, we opened the newest PriceSmart warehouse club on December 1, 2020 in Bogotá, Colombia, the third location in the greater metropolitan area of that large market.

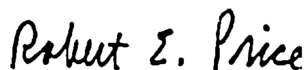
The story of our fiscal year 2020 was, and continues to be, the pandemic. From the beginning of the fiscal year in September and continuing through March, our Company was reporting solid sales and earnings growth. March sales were especially strong as our members purchased large quantities of basic merchandise in preparation for the COVID-related disruptions in shopping that were soon to come. In April, governments in our countries began to limit store hours and the number of customers permitted to shop. Our response was to institute measures specifically focused on protecting the health and safety of our employees and members, reducing expenses while protecting our employees' job security and shoring up our balance sheet cash position. We accomplished all of these actions quickly and with minimal disruption to our business.

One of the most gratifying outcomes from our response to the pandemic is how well our Chief Executive Officer, Sherry Bahrambeygui, and the entire Company have adapted to the truly new world of COVID-19. Within a matter of weeks after the pandemic hit our markets, we began rolling out our Click & Go™ contactless shopping, a new service that allows members to order online and pick up their orders at their closest PriceSmart location or, currently in all markets, receive delivery of their order either to their homes or places of business. Sales from Click & Go ™ shopping represented more than 3.6% of our total net merchandise sales for the fourth quarter of fiscal year 2020.

The pandemic has pushed us to get better at everything we do, including merchandising, distribution, cash management and how we use technology to enhance efficiency and member experience. But our markets remain especially vulnerable to the impact of the pandemic in a number of respects. First, many of our markets' economies rely substantially on tourism. Second, a couple of our markets depend on the export of petroleum products to generate sources of foreign currency for exchange with the local currency. And, third, a number of our markets receive substantial dependence remittances, moneys sent from family members in the United States. In light of these headwinds, our team of more than 9,500 employees has performed admirably in maintaining and even increasing revenues, controlling expenses and maintaining a strong balance sheet.

In concluding this letter, I want to reemphasize the importance we attach to the core values of our Company, especially our responsibilities to our employees and to our members. And, on behalf of myself and Sherry Bahrambeygui and our Board of Directors, we wish you good health and a wonderful holiday season.

Sincerely,



Robert E. Price

PRICESMART, INC.

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August 31, 2020

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PRICESMART, INC.

Selected Financial Data

The selected consolidated financial data presented below is derived from the Company's consolidated financial statements and accompanying notes. This selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and accompanying notes thereto included elsewhere in this report.

SELECTED FINANCIAL DATA

	Years Ended August 31,				
	2020	**2019**	**2018 [1]**	**2017**	**2016**
	(in thousands, except income per common share)				
OPERATING RESULTS DATA:					
Net merchandise sales	$ 3,191,762	$ 3,091,648	$ 3,053,754	$ 2,910,062	$ 2,820,740
Export sales	34,374	30,981	40,581	34,244	33,813
Membership income	54,501	52,149	50,821	47,743	45,781
Other revenue and income	48,551	49,140	21,546	4,579	4,842
Total revenues	3,329,188	3,223,918	3,166,702	2,996,628	2,905,176
Total cost of goods sold	2,774,778	2,695,691	2,656,520	2,519,752	2,449,626
Selling, general and administrative	429,954	409,255	379,949	338,642	316,474
Pre-opening expenses	1,545	2,726	913	44	1,191
Asset impairment	—	—	1,929	—	—
Loss on disposal of assets	443	1,079	1,339	1,961	1,162
Operating income	122,468	115,167	126,052	136,229	136,723
Total other expense	(6,428)	(4,057)	(3,464)	(3,486)	(5,483)
Income before provision for income taxes and income of unconsolidated affiliates	116,040	111,110	122,588	132,743	131,240
Provision for income taxes	(37,764)	(37,560)	(48,177)	(42,018)	(42,849)
Income (loss) of unconsolidated affiliates	(95)	(61)	(8)	(1)	332
Net income	$ 78,181	$ 73,489	$ 74,403	$ 90,724	$ 88,723
Less: net income attributable to noncontrolling interest	(72)	(298)	(75)	—	—
Net income attributable to PriceSmart, Inc.	$ 78,109	$ 73,191	$ 74,328	$ 90,724	$ 88,723
NET INCOME ATTRIBUTABLE TO PRICESMART, INC. PER SHARE AVAILABLE FOR DISTRIBUTION:					
Basic	$ 2.55	$ 2.40	$ 2.44	$ 2.98	$ 2.92
Diluted	2.55	$ 2.40	$ 2.44	$ 2.98	$ 2.92
Weighted average common shares - basic	30,259	30,195	30,115	30,020	29,928
Weighted average common shares - diluted	30,259	30,195	30,115	30,023	29,933

[1] U.S. Tax Reform in December 2017 resulted in a reduction in the tax rate from 35% to 21% and may have a beneficial impact on the Company in the future. However, in fiscal year 2018, we incurred charges of $12.5 million due to a one time transitional tax on unremitted foreign earnings and of $222,000 to reduce the value of deferred tax assets due to the reduction in U.S. tax rates.

SELECTED FINANCIAL DATA - (Continued)

	As of August 31,				
	2020	2019	2018	2017	2016
			(in thousands)		
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 299,481	$ 102,653	$ 93,460	$ 162,434	$ 199,522
Short-term investments	46,509	17,045	32,304	—	—
Short-term and long-term restricted cash	4,290	3,583	3,454	3,278	3,194
Total Assets[(1)]	1,656,825	1,296,411	1,216,392	1,177,514	1,096,735
Long-term debt	132,047	89,586	102,575	106,297	88,107
Total PriceSmart stockholders' equity attributable to PriceSmart, Inc. stockholders	831,719	797,351	758,002	708,767	638,071
Dividends paid on common stock attributable to PriceSmart, Inc. stockholders[(2)]	$ 21,426	$ 21,341	$ 21,240	$ 21,285	$ 21,274

(1) Effective September 1, 2019, we adopted the requirements of Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)" (ASC 842) using the modified retrospective approach, under which financial results reported in prior periods were not restated. As a result, the Total Assets as of August 31, 2020 is not comparable with that as of August 31, 2019, August 31, 2018, August 31, 2017, and August 31, 2016.

(2) On February 6, 2020, January 30, 2019, January 24, 2018, February 1, 2017, and February 3, 2016 the Company declared cash dividends on its common stock.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis and the information under the heading Part II. "Item 6. Selected Financial Data" 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. 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," 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.

Overview

PriceSmart, headquartered in San Diego, 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 46 warehouse clubs in 12 countries and one U.S. territory (eight in Costa Rica; seven each in Colombia and Panama; five in the Dominican Republic, four in Trinidad and Guatemala; three in Honduras; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica and the United States Virgin Islands). The Company is currently constructing and plans to open a warehouse club in Bogota, Colombia in December 2020. 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.

Factors Affecting the Business

COVID-19 Updates

The COVID-19 pandemic resulted in significant challenges across our 13 markets in the third and fourth quarters of fiscal 2020. Many markets imposed limitations, varying by market and in frequency, on access to the Company's clubs and on the Company's club operations, including in some cases frequent temporary club closures, a reduction in the number of days during the week and hours per day the Company's clubs are permitted to be open, restrictions on segments of the population permitted to shop or circulate on particular days, and limits on the number of people permitted to be in the club at the same time. We have also experienced product mix shifts due to changing consumer habits, decreases in purchases by many business members, particularly restaurants and hotels, as well as sporadic supply chain challenges, which can impact inventory levels. In response, early in calendar year 2020 we identified four main priorities:

Protect the safety and well-being of our employees and our members. We remain vigilant and continue to take proactive measures to provide a safe environment for our employees and our members. We are closely tracking numerous decrees and government mandates and are following all local guidelines. We have taken preventative measures that include frequent and enhanced cleaning and sanitizing protocols, providing personal protective equipment, installing protective barriers for the cashiers and in other member-facing areas, implementing social distancing measures, metering the number of customers in a club at any one time, requiring masks to be worn by members in the club (where legally permitted), taking temperatures of employees at the beginning of shifts, quickly identifying and cooperating with local health officials about confirmed cases, promptly implementing contact tracing protocols and mapping of potentially exposed employees who are then immediately quarantined while continuing to be paid, directing employees whose functions could be performed remotely to work off site, offering vulnerable employees with underlying health conditions, employees over 60 and pregnant employees paid leave and vigilantly educating our employees about safe practices and enforcing best practices of good hygiene. We have also expanded our efforts to educate family members of employees about safe practices and to provide them with masks and sanitizing materials. We have modified our sick leave policy to make sure that sick people can take paid time off. We have built reserve teams of employees who do not overlap with each other so that they can step in as needed. In the initial months of the pandemic, we reduced or eliminated in-club food service and food sampling; however, later in the fiscal year as infection rates decreased and restrictions eased, we resumed some limited seating and capacity in-club food service in some of our markets and we have begun to reintroduce sampling incrementally using hygienic methods.

Take proactive measures to protect our supply chain. We are working closely with our suppliers to make sure that we have essential items available for our members. This includes increasing the use of our regional and local distribution centers and

merchandise vendors to provide additional flexibility and reduce the risk of interruption of the flow of merchandise to our markets. We have also placed limits on the quantity of certain key items that members can purchase, such as cleaning supplies, paper products and core shelf-stable groceries. We have also activated alternative distribution systems and routing to ensure optionality in the event of outbreak or restrictions on mobility in certain geographic areas.

Expand technology-enabled shopping. During the third fiscal quarter of 2020, we launched our Click & Go™ curbside pickup service to allow for a contactless way for our members to shop. As of August 31, 2020, we offered the Click & Go™ curbside pickup service in all 13 of our markets. Early in our fourth fiscal quarter, we also added delivery to our Click & Go™ service, which was available in six of our 13 markets as of August 31, 2020 and expanded into further markets in early fiscal 2021. These services provide an alternative and convenient way for our members to shop, while reducing physical contact. Our Click & Go™ service enables members to use our e-commerce platform to identify and select merchandise, order and pay online, and then have their orders placed in their cars at their chosen clubs or delivered to their homes or place of business. We continue to work on improving and expanding our online initiatives, including order fulfillment, in conjunction with optimizing our club operations to allow members to shop safely, quickly and efficiently.

Manage cash and capital resources. Given the uncertainty surrounding the potential impact of the outbreak on our results of operations and cash flows, we are taking steps to secure and preserve available cash. Initially, we suspended most of our capital projects and discretionary spending. As we closely monitored and better understood the risks and opportunities of operating in this climate, we restarted several of our previously postponed investments. We opened our smaller format warehouse club in Liberia, Costa Rica in June 2020, and we have resumed construction on our third club in the greater metropolitan area of Bogota, the eighth in Colombia, which is expected to open in December 2020. We continue to evaluate whether and when to restart previously announced construction of future warehouse clubs on land that we acquired in Bucaramanga, Colombia and in Jamaica, as well as other capital projects. In the third quarter of fiscal 2020, we initially furloughed approximately 80 employees in the United States and implemented temporary salary reductions for employees and executives above a certain income level on a tiered basis increasing from 10% to 30% based on compensation level. Additionally, the Board of Directors waived their cash compensation for the calendar quarter ended June 30, 2020. In late fourth quarter of fiscal 2020, we ended the furloughs and discontinued the temporary salary reductions. Based on Company performance, at the end of the fourth quarter we paid a special bonus for all employees up to and including Senior Vice Presidents who had their salaries reduced. In addition, in the first quarter of fiscal year 2021, the Board approved the restoration of their compensation for the quarter for which they had previously waived it. Furthermore, we initially negotiated extended payments with our vendors, but since then we have begun to return to more normal payment term arrangements. Lastly, we have taken advantage of tax deferral arrangements where available. In the current environment, we believe cash flows from operations, our current cash position and access to capital markets will continue to be sufficient to meet our anticipated operating cash needs, which include any deferred liabilities, funding seasonal buildups in merchandise inventories and funding our capital expenditures, dividend payments and other financing requirements. Refer to Part II. “Item 7. Management’s Discussion and Analysis - Liquidity and Capital Resources” for additional information.

We expect continued uncertainty and opportunities in the economies of our markets because of the unpredictability of the duration and intensity of the COVID–19 pandemic and the length and impact of stay-at-home orders and other restrictions; volatility in employment trends and consumer confidence; volatility in foreign currency exchange rates and commodity prices; and possible fiscal austerity measures taken by governments in our markets, which will likely impact our results in the near future.

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. The global and local travel restrictions and general slow-down in global economic activity as result of COVID-19 have significantly impacted and may continue to impact the economies our markets causing significant declines in GDP and employment and devaluations of local currencies against the U.S. dollar. In general, positive conditions in the broader economy promotes member spending in our warehouse clubs, while economic weakness, which generally results in a reduction of customer spending, may have a different or more extreme effect on spending at our clubs.

Currency fluctuations 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 2020, approximately 77.5% of our net merchandise sales were in currencies other than the U.S. dollar. Of those sales, 48.2% were comprised 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 Part II. “Item 7. 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. Island countries such as Aruba, Barbados and the U.S. Virgin Islands offer us limited upside for sales growth given their overall market size. Countries with smaller upper and middle class consumer populations, such as Honduras, El Salvador, Jamaica and Nicaragua, offer growth potential but may have a more limited market opportunity for sales growth as compared to more developed countries with larger or growing upper and middle class consumer populations.

The membership model is a basic and critical operating characteristic in the warehouse club industry that enables us to operate our business on lower margins because of the membership fee income generated. Our twelve-month renewal rate was 80.5% as of August 31, 2020, a decline from our 85.7% renewal rate as of August 31, 2019. The mobility restrictions imposed by the local governments in our markets in response to COVID-19, particularly in our Colombian and Central American markets, significantly reduced in-club visits, which is when most of our membership renewals occur.

Political and other factors in each of our markets may have significant effects on our business. U.S. foreign policy can also have an impact on social and economic stability in the countries where we operate. For example, the U.S. State Department has announced varying strategies regarding if, when and how it would authorize disbursement of foreign aid that had been previously approved by the U.S. Congress to Guatemala, Honduras and El Salvador. Changes in U.S. policies regarding financial assistance could cause political or financial instability in the countries we serve.

In the past, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity), particularly in Trinidad. This can impede 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 redeploy these funds in our Company, increasing our foreign exchange exposure to any devaluation of the local currency relative to the U.S. dollar. We continued to experience limitations on our ability to convert Trinidad dollars to U.S. dollars or other tradeable securities during fiscal 2020, with a further deterioration and the problem becoming more acute in August 2020 and into the first two months of fiscal year 2021. We are working with our banks in Trinidad to source tradeable currencies, but until more U.S. dollars or other tradeable securities become available, this illiquidity condition is likely to continue. As of August 31, 2020, our Trinidad subsidiary had Trinidad dollar denominated cash and cash equivalents and short and long-term investments measured in U.S. dollars of approximately $79.6 million, an increase of $54.7 million from August 31, 2019 when these same balances were approximately $24.9 million. The Trinidad central bank manages the exchange rate of the Trinidad dollar with the U.S. dollar. While the recently elected government has publicly stated it has no intention to devalue the Trinidad dollar, the Trinidad government 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 $15.9 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, 2020, we had a U.S. dollar denominated monetary asset position of approximately $4.8 million in Trinidad (net of U.S. dollar denominated liabilities) that 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 $1.0 million gain. However, following a significant additional decline of U.S. dollar liquidity beginning in August 2020 and continuing into fiscal year 2021, this net monetary asset position has shifted into a liability position in early 2021, subjecting us to potential future losses in the case of a devaluation, which would be recorded in Other income (expense), net on our consolidated statement of operations.

We are carefully monitoring the situation and taking steps to mitigate the risks. For example, as liquidity conditions have tightened, we have methodically raised prices, initially on imported goods, and have sought to shift the purchase of goods to local sources, where appropriate. Additionally, we are actively monitoring our ability to exchange Trinidad dollars for tradeable currencies, in order to manage our exposure to any potential devaluation, and in early fiscal 2021 have begun to limit shipments of goods from the U.S. to Trinidad in line with this ability. These actions may result in a decrease in our sales and/or profitability in Trinidad.

Mission and Business Strategy

Our mission is to be a model for how to operate a profitable company that provides a good return to our investors, by serving our members in emerging and developing markets, with safe, clean buildings and equipment, and by providing good jobs, fair wages and benefits, quality merchandise and services at compelling prices that are made accessible to a broader segment of the population, while treating our suppliers right, empowering them where we can, and conducting ourselves responsibly by local norms, and respecting the environment and the laws of all the countries in which we operate. To do this, we make available a wide range of high quality, curated merchandise sourced from around the world at good value. The annual membership fee enables us to operate our business with lower margins than traditional retail stores. Through the use of technology and the development of an omni-channel platform, we are pursuing opportunities to satisfy our members' shopping expectations, create additional efficiencies in the supply chain and better understand and serve our members' needs to play greater role in their lives. We strive to establish a relationship with our members that enhances their lives with quality goods and services and offers a shopping experience that blends the excitement and appeal of our brick and mortar business with the convenience of online shopping and services.

Growth

We measure our growth primarily by the amount of the period-over-period activity in our net merchandise sales, our comparable club net merchandise sales, membership income and total revenues. Our investments are geared toward creating greater efficiency, which enable us to offer lower prices, better services, enhanced convenience and exciting experiences for our members, which we believe will support membership renewals and sustained growth for the Company. However, these investments can impact near-term results, such as when we invest in technology and talent that are expected to yield long-term benefits or when we incur fixed costs in advance of achieving full projected sales, negatively impacting near-term operating profit and net income. When we open a new warehouse club in an existing market, which may reduce reported comparable net merchandise sales due to the transfer of sales from existing warehouse clubs, we do so to enhance the member experience, grow membership and support long-term sales growth and profitability.

Current and Future Management Actions

Logistics and distribution efficiencies are fundamental to delivering high quality merchandise at compelling prices to our members. We continue to explore ways to improve efficiency, reduce costs, secure additional high quality sourcing alternatives and ensure a reliable and exciting flow of merchandise to our warehouse clubs. As we continue to refine our logistics and distribution infrastructure, we are exploring ways to improve our supply chain effectiveness through regional distribution centers that maintain our merchandise closer to our members. For example, in fiscal 2020, we opened fresh produce distribution centers in two of our markets that enable us to quickly and efficiently bring high quality and fresh produce from farm-to-table, which also enhances quality, reduces waste and supports local farmers. We plan to search for additional space to expand this concept throughout our markets.

Purchasing land and constructing warehouse clubs is generally our largest ongoing capital investment. Securing land for warehouse club locations is challenging within our markets, because suitable sites at economically feasible prices are difficult to find. We believe real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. While our preference is to own rather than lease real estate, we have entered into real estate leases in certain cases and will likely do so in the future. We currently own undeveloped land in Guatemala City, Guatemala, Bucaramanga, Colombia, and in Jamaica. We continue to evaluate the optimal timing to begin warehouse club construction on these sites, given the general economic conditions, our financial position, and feasibility of these projects in light of the uncertainties caused by the COVID-19 pandemic.

In the third and fourth quarter of fiscal 2020, we launched our Click & Go™ service, which enables our members to place orders on our website and decide whether to pick them up curbside at our warehouse clubs or have them delivered. Our curbside service was available in all 13 of our markets and with delivery was available in six as of August 31, 2020 and expanded into further markets in early fiscal 2021. We plan to continue to make investments to scale and create efficiencies for this service while also continuing to invest in other omni-channel capabilities that enable e-commerce, by integrating technology, talent, supply chain and operations to enhance the membership shopping experience, drive efficiencies and fuel sales growth. We are developing and implementing technologies that we believe will enhance customer service, provide greater insight to consumer preferences, facilitate membership sign-ups and renewals, and maximize use of sales floor space in our brick and mortar clubs. Our focus will be on launching these additional omni-channel capabilities in a methodical, phased manner.

Financial highlights for the fourth quarter of fiscal year 2020 included:

- Total revenues increased 1.2% over the comparable prior year period.
- Net merchandise sales increased 0.5% over the comparable prior year period. We ended the quarter with 46 warehouse clubs compared to 43 warehouse clubs at the end of the fourth quarter of fiscal 2019. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 3.6% versus the same three-month period.
- Comparable net merchandise sales (that is, sales in the 42 warehouse clubs that have been open for greater than 13 ½ calendar months) for the 13 weeks ended August 30, 2020 decreased 4.0%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 3.6%.
- Membership income for the fourth quarter of fiscal 2020 decreased 2.2% to $13.1 million primarily due to the decline in the overall account base because of a decrease in in-club traffic from COVID-19.
- Total gross margins (net merchandise sales less associated cost of goods sold) decreased 0.4% over the prior-year period, and merchandise gross profits as a percent of net merchandise sales were 15.1%, a decrease of 10 basis points (0.1%) from the same period in the prior year.
- Operating income for the fourth quarter of fiscal 2020 was $29.0 million, a decrease of 9.3%, or $3.0 million, compared to the fourth quarter of fiscal 2019.
- We recorded a $1.1 million net currency gain from currency transactions in the fourth quarter of fiscal 2020 compared to a $454,000 net currency gain in the same period last year, primarily due to a favorable foreign currency exchange rate fluctuation in Jamaica.
- Our effective tax rate decreased in the fourth quarter of fiscal 2020 to 28.2% from 34.1% in the fourth quarter of fiscal 2019. The decrease in the effective tax rate is primarily related to recognition timing for the loss of benefit of foreign tax credits, which are no longer recoverable as a result of U.S. Tax Reform.
- Net income attributable to PriceSmart for the fourth quarter of fiscal 2020 was $20.1 million, or $0.65 per diluted share, compared to $20.7 million, or $0.67 per diluted share, in the fourth quarter of fiscal 2019.

Financial highlights for fiscal year 2020 included:

- Total revenues increased 3.3% over the prior year.
- Net merchandise sales increased 3.2% over the prior year. We ended the year with 46 warehouse clubs compared to 43 warehouse clubs at the end of the fiscal 2019. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 2.1%.
- Comparable net merchandise sales (that is, sales in the 42 warehouse clubs that have been open for greater than 13 ½
- calendar months) for the 52 weeks ended August 30, 2020 decreased 1.5%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 1.9%.
- Membership income for the fiscal 2020 increased 4.5% to $54.5 million primarily due to new club member sign-ups in Panama, Guatemala and Costa Rica. Our expansion of the Platinum Membership program contributed to the increase.
- Total gross margins (net merchandise sales less associated cost of goods sold) increased 5.6% over the prior year, and merchandise gross profits as a percent of net merchandise sales were 14.7%, an increase of 40 basis points (0.4%) from the prior year.
- Operating income for fiscal 2020 was $122.5 million, an increase of 6.3% or $7.3 million compared to fiscal 2019.
- We recorded a $1.4 million net currency loss from currency transactions in the current year compared to a $1.5 million net loss in the prior year.
- The effective tax rate for fiscal 2020 was 32.5% as compared to the effective tax rate for fiscal 2019 of 33.8%. 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 fiscal year 2020 was $78.1 million, or $2.55 per diluted share, compared to $73.2 million, or $2.40 per diluted share, in the prior year.

Comparison of Fiscal Year 2020 to 2019

The following discussion and analysis compares the results of operations for each of the three fiscal years ended August 31, 2020, 2019 and 2018 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, 2019 and 2018, 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, 2019 filed with the SEC on October 29, 2019. 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 2020 and 2019.

	Years Ended					
	August 31, 2020				August 31, 2019	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 1,855,538	58.1 %	$ 65,595	3.7 %	$ 1,789,943	57.9 %
Caribbean	978,021	30.7	58,626	6.4	919,395	29.7
Colombia	358,203	11.2	(24,107)	(6.3)	382,310	12.4
Net merchandise sales	$ 3,191,762	100.0 %	$ 100,114	3.2 %	$ 3,091,648	100.0 %

Comparison of 2020 and 2019

Overall, net merchandise sales grew by 3.2% for fiscal year 2020 compared to fiscal year 2019, resulting from a 9.5% increase in average ticket offset by a 5.7% decrease in transactions. Transactions represent the number of visits our members make to our warehouse clubs and average ticket represents the amount our members spend on each visit.

During the current fiscal year, net merchandise sales were positively impacted by increases in average ticket, which were offset by decreases in transactions due to capacity restrictions and other government restrictions as a result of the COVID-19 pandemic. In the second half of fiscal 2020, governments in our markets imposed restrictions of varying degrees on nearly all businesses, including essential businesses such as ours. These governments have mandated various protocols resulting in limitations on the number of people in our clubs, reduced hours of operation, restrictions on or closure of dining and other services areas, and, in some cases, closure of our clubs intermittently or on certain days of the week. These, in combination with consumer trepidation about the spread of COVID-19 and government restrictions limiting times when consumers can leave their homes, have reduced traffic in our clubs and led to the significant decline in transactions for the twelve month period ended August 31, 2020. In addition, we had 46 clubs in operation as of August 31, 2020 compared to 43 clubs as of August 31, 2019.

Net merchandise sales in our Central America segment increased 3.7% for fiscal 2020 compared to fiscal year 2019. These increases had a 210 basis point (2.1%) positive impact on total net merchandise sales growth. All markets within this segment, with the exception of Honduras, showed increased net merchandise sales year-on-year. Honduras had the most government restrictions with the longest duration during the COVID-19 pandemic, which led to negative sales growth in the year compared to the prior period. We added three new clubs to the segment when compared to the comparable prior period. We opened our seventh club in Panama in October 2019, our fourth club in Guatemala in November 2019 and we opened our eighth club in Costa Rica in June 2020. In addition to the new club in Costa Rica, the market also benefited from a significant foreign currency exchange rate tailwind that contributed to increased U.S. dollar sales. Refer to Part II. “Item 7. Management Discussion & Analysis – Currency Exchange Rate Fluctuations” for more information on the impact of currency movements on net merchandise sales.

Net merchandise sales in our Caribbean segment grew 6.4% for fiscal 2020 when compared to fiscal 2019. This increase had a 190 basis point (1.9%) positive impact on total net merchandise sales growth. Our Dominican Republic and Jamaica markets led the way in this segment, with both having double digit year-over-year growth with 19.0% and 10.3% increases in net merchandise sales, respectively. In the Dominican Republic, we launched our fifth club in June 2019, while Jamaica continued its exceptional sales run with net merchandise sales growth of 10.3%. This is the second straight year for Jamaica having double-digit sales growth. With the exception of our Aruba and USVI markets, all other markets within this segment showed increased net merchandise sales year-on-year.

Net merchandise sales in our Colombia segment decreased 6.3% for fiscal 2020 when compared to fiscal 2019. This decrease had an 80 basis point (0.8%) negative impact on total net merchandise sales growth. The declines during the period are primarily due to significant unfavorable foreign currency devaluation and government restrictions in response to the coronavirus outbreak.

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, 2020.

	Currency Exchange Rate Fluctuations for the Twelve Months Ended August 31, 2020	
	Amount	**% change**
Central America	$ 12,293	0.7 %
Caribbean	(30,425)	(3.3)
Colombia	(43,802)	(11.5)
Net merchandise sales	$ (61,934)	(2.1)%

Overall, the effects of currency fluctuations within our markets had an approximately $61.9 million or 210 basis point (2.1%) negative impact on net merchandise sales for the year ended August 31, 2020.

Currency fluctuations had a $12.3 million or 70 basis point (0.7%) positive impact on net merchandise sales in our Central America segment for the year ended August 31, 2020. The currency fluctuations contributed approximately 40 basis points (0.4%) of the total positive impact on total net merchandise sales. The Costa Rica Colón appreciated significantly against the dollar as compared to a year ago and was a significant factor in the contribution to the favorability of currency exchange rate fluctuations in this segment.

Currency fluctuations had a $30.4 million or 330 basis point (3.3%) negative impact on reported net merchandise sales in our Caribbean segment for the year ended August 31, 2020. The currency fluctuations contributed approximately 100 basis points (1.0%) of the total negative impact on total net merchandise sales. The Dominican Peso and Jamaican Dollar depreciated significantly against the dollar as compared to a year ago and were the driving factors in the contribution to the negative currency exchange rate fluctuations in this segment.

Currency fluctuations had a $43.8 million or 1,150 basis point (11.5%) negative impact on net merchandise sales in our Colombia segment for the year ended August 31, 2020. The currency fluctuations contributed approximately 150 basis points (1.5%) to the total negative impact on total net merchandise sales.

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, 2020 and 2019.

	Years Ended August 31,	
	2020	**2019**
Foods & Sundries	52%	51%
Fresh Foods	29	27
Hardlines	11	12
Softlines	4	5
Other Business	4	5
	100%	100%

Comparison of 2020 to 2019

During the second half of fiscal 2020 our member shopping patterns changed significantly in reaction to the COVID-19 pandemic. Across our merchandise categories, sales grew significantly in Food & Sundries and Fresh Foods, while our non-food categories of Hardlines and Softlines declined. The decline in other business is primarily due to restrictions in certain markets that did not permit our food courts and ancillary services, such as optical, to operate during the COVID-19 pandemic. Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 3 - Revenue Recognition" for sales by category. In response to these changes, we have taken many actions, including accelerating purchases of certain merchandise in high volume categories and slowing or canceling certain merchandise purchases in lower volume non-food categories.

Comparable Merchandise Sales

We report comparable net merchandise 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 of 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 merchandise club sales on the weekends. Each of the warehouse clubs used in the calculations was open for at least 13 ½ calendar months before its results for the current period were compared with its results for the prior period. As a result, sales related to three of our four warehouse clubs opened during calendar year 2019 and the one club opened during calendar year 2020, will not be used in the calculation of comparable sales until they have been open for at least the 13 ½ months. Therefore, comparable net merchandise sales include 42 warehouse clubs for the fifty-two week period ended August 30, 2020.

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-two week periods ended August 30, 2020 and September 1, 2019.

	Fifty-Two Weeks Ended	
	August 30, 2020	September 1, 2019
	% Increase/(decrease) in comparable net merchandise sales	% Increase/(decrease) in comparable net merchandise sales
Central America	(3.2)%	(2.0)%
Caribbean	3.8	2.2
Colombia	(6.4)	(0.3)
Consolidated comparable net merchandise sales	(1.5)%	(0.6)%

Comparison of Fifty-Two Week Periods Ended August 30, 2020 and September 1, 2019

Comparable net merchandise sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the fifty-two week period ended August 30, 2020 decreased 1.5%.

Comparable net merchandise sales in our Central America segment decreased 3.2% for the fifty-two week period ended August 30, 2020. This decrease contributed approximately 190 basis points (1.9%) of the decrease in total comparable merchandise sales.

For the fifty-two weeks ended August 30, 2020, decreases in comparable net merchandise sales in Guatemala, Honduras and Panama contributed approximately 310 basis points (3.1%) of the decrease, which was partially offset by a 120 basis point (1.2%) increase in Costa Rica, El Salvador, and Nicaragua. The decreases in Guatemala, Honduras, and Panama are primarily related to periodic club closures and other government-mandated restrictions in response to the coronavirus outbreak, which also include travel restrictions, "shelter in place" advisories, curfews, and social distancing measures. Many of these government policies and restrictions in response to the coronavirus outbreak have resulted in limiting access for our members and impacted our club operations. These include temporary club closures, limits on the number of days during the week and hours per day our clubs can be open, restrictions on segments of the population permitted to shop on particular days, and limits on the number of people that can be in a club. We believe comparable net merchandise sales in the segment were also adversely affected by transfers of sales from existing clubs included in the calculation of comparable net merchandise sales to newly opened clubs not included in the calculation, with one in Panama and one in Guatemala. These decreases were partially offset by significant foreign currency appreciation within our Costa Rica market as well as strong performance in our El Salvador and Nicaragua markets.

Comparable net merchandise sales in our Caribbean segment increased 3.8% for the fifty-two week period ended August 30, 2020. This increase contributed approximately 120 basis points (1.2%) of positive impact in total comparable merchandise sales.

For the fifty-two week period ended August 30, 2020, all markets in our Caribbean segment, with the exception of the U.S. Virgin Islands and Aruba, showed strong growth compared to the same period in the prior year. Investments we made in our Jamaica market resulted in 10.2% growth in comparable net merchandise sales for the fifty-two week period ended August 30, 2020. The Dominican Republic also had strong comparable sales of 7.1% despite the transfer of sales to our new club in that market. In our U.S. Virgin Islands market, comparable net merchandise sales declined when compared to the same period in the prior year. Hurricanes Irma and Maria had a severe impact on the infrastructure of the islands in the fall of calendar year 2017. From that time until the end the first quarter of fiscal 2020, the Company benefitted from the difficulty other retailers had in becoming fully operational, but those same retailers have rebuilt, contributing to increased competition in that market.

Comparable net merchandise sales in our Colombia segment decreased 6.4% for the fifty-two week period ended August 30, 2020. This decrease contributed approximately 80 basis points (0.8%) of the decrease in total comparable merchandise sales. These declines were largely due to the devaluation of the Colombian peso relative to the U.S. dollar and government restrictions imposed in response to the coronavirus outbreak.

The following table illustrates the impact that changes in foreign currency exchange rates had on our comparable merchandise sales in dollars and as a percentage of comparable merchandise sales for the fifty-two week period ended August 30, 2020.

	Fifty-Two Weeks Ended August 30, 2020	
	Amount	**% change**
Central America	$ 11,557	0.6 %
Caribbean	(27,950)	(3.1)
Colombia	(42,951)	(11.3)
Consolidated comparable net merchandise sales	$ (59,344)	(1.9)%

Overall, the mix of currency fluctuations within our markets had an approximate $59.4 million, or 190 basis point (1.9%), negative impact on comparable net merchandise for the fifty-two week period ended August 30, 2020.

Currency fluctuations within our Central America segment accounted for approximately 40 basis points (0.4%) of the positive impact on total comparable merchandise sales for the fifty-two week period ended August 30, 2020. This is primarily the result of significant appreciation in the Costa Rica Colón against the U.S. dollar during the current periods compared to the same periods a year ago.

Currency fluctuations within our Caribbean segment accounted for approximately 90 basis points (0.9%) of negative impact on total comparable merchandise for the fifty-two week period ended August 30, 2020. Our Dominican Republic and Jamaica markets experienced currency devaluation when compared to the same period last year.

Currency fluctuations within our Colombia segment accounted for approximately 140 basis points (1.4%) of negative impact on total comparable merchandise sales for the fifty-two week period ended August 30, 2020. 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				
	August 31, 2020				August 31, 2019
	Amount	**Increase/ (decrease) from prior year**	**% Change**	**Membership income % to net merchandise club sales**	**Amount**
Membership income - Central America	$ 32,825	$ 1,320	4.2 %	1.8 %	$ 31,505
Membership income - Caribbean	14,814	1,144	8.4	1.5	13,670
Membership income - Colombia	6,862	(112)	(1.6)	1.9	6,974
Membership income - Total	$ 54,501	$ 2,352	4.5 %	1.7 %	$ 52,149
Number of accounts - Central America	828,958	(32,511)	(3.8)%		861,469
Number of accounts - Caribbean	426,383	(4,486)	(1.0)		430,869
Number of accounts - Colombia	302,979	(39,682)	(11.6)		342,661
Number of accounts - Total	1,558,320	(76,679)	(4.7)%		1,634,999

Comparison of 2020 to 2019

The number of member accounts at the end of fiscal 2020 was 4.7% lower than the prior year period. Membership income increased 4.5% compared to the comparable prior-year period.

The growth in membership income during fiscal 2020 in our Central America segment is primarily the result of the opening of three new warehouse clubs – Metropark in Panama, San Cristobal in Guatemala, and Liberia in Costa Rica. The launch of Platinum membership in two Central American markets in calendar year 2019 also contributed to the increase in membership income for fiscal year 2020 compared to the prior year. Despite the new clubs in the segment, the membership base has declined for two consecutive quarters due to the in-club traffic decline because of COVID-19, which will have a negative impact on membership income in the segment in future reporting periods.

In our Caribbean market, membership income growth was primarily attributable to the opening of the new Bolivar warehouse club in the Dominican Republic in June 2019. The launch of Platinum membership in three Caribbean markets in calendar year 2019 also contributed to the increase in membership income for the twelve-month period.

Membership income in Colombia declined slightly in fiscal 2020 due to the decline in total Colombia membership accounts because of restrictions on in-club traffic from COVID-19 when most members renew or sign-up.

We began offering our Platinum membership program in Colombia in June 2020 and we intend to expand our Platinum membership program to the remaining two markets that do not currently offer platinum membership. 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.

Our trailing twelve-month renewal rate was 80.5% and 85.7% for the periods ended August 31, 2020 and August 31, 2019, respectively. We believe the renewal rate decline is driven by a significant decline of in-club traffic in some of our markets due to governmental COVID-19 movement restrictions on their respective general populaces. Historically, membership renewals have primarily been transacted in the club at the time of purchase of merchandise or services when a membership has expired. Since COVID-19 and the notable increase of online traffic due to our new online catalogue and Click & Go™ services, sign-ups and renewals completed online have been increasing.

Other Revenue

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

	Years Ended			
	August 31, 2020			August 31, 2019
	Amount	Increase/(Decrease) from prior year	% Change	Amount
Non-merchandise revenue	$ 38,271	$ 1,434	3.9 %	$ 36,837
Miscellaneous income	7,546	(1,503)	(16.6)	9,049
Rental income	2,734	(520)	(16.0)	3,254
Other revenue	$ 48,551	$ (589)	(1.2)%	$ 49,140

Comparison of 2020 to 2019

Other revenue for the year ended August 31, 2020 includes non-merchandise revenue generated by the marketplace and casillero operations of a company we acquired in March 2018, primarily from freight and handlings charges for online orders placed from customers in Latin America to retailers in the United States and delivered to locations throughout Latin America. The $1.4 million increase in non-merchandise revenue compared to the prior year represents higher package volume in the business we acquired in March 2018 during the current year. For the year ended August 31, 2020, the net decrease of $1.5 million in Miscellaneous income was primarily due to $3.1 million of non-recurring income from credit card vendors in the prior year. In the current year we had an increase of $0.9 million on our interest generating portfolio ("IGP") from our co-branded credit cards and an increase of $0.4 million from Platinum membership rebate compared to the prior year. For the year ended August 31, 2020, the net decrease of $0.5 million in rental income was due to tenants not continuing to lease our excess real estate and concessions we granted to our lessees in response to the COVID-19 pandemic.

Results of Operations

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

Results of Operations Consolidated	Years Ended August 31, 2020	Years Ended August 31, 2019
Net merchandise sales		
Net merchandise sales	$ 3,191,762	$ 3,091,648
Total gross margin	$ 467,820	$ 442,983
Total gross margin percentage	14.7 %	14.3 %
Revenues		
Total revenues	$ 3,329,188	$ 3,223,918
Percentage change from prior period	3.3 %	1.8 %
Comparable merchandise sales		
Total comparable merchandise sales increase (decrease)	(1.5)%	(0.6)%
Total revenue margin		
Total revenue margin	$ 554,410	$ 528,227
Total revenue margin percentage	16.7 %	16.4 %
Selling, general and administrative		
Selling, general and administrative	$ 431,942	$ 413,060
Selling, general and administrative percentage of total revenues	13.0 %	12.8 %

Results of Operations Consolidated	Years Ended August 31, 2020	% of Total Revenue	August 31, 2019	% of Total Revenue
Operating income- by segment				
Central America	$ 125,351	3.8 %	$ 122,629	3.8 %
Caribbean	57,217	1.7	50,724	1.6
Colombia	18,071	0.6	14,909	0.5
United States	3,873	0.1	3,805	0.1
Reconciling items [(1)]	(82,044)	(2.5)	(76,900)	(2.4)
Operating income - Total	$ 122,468	3.7 %	$ 115,167	3.6 %
Warehouse clubs				
Warehouse clubs at period end	46		43	
Warehouse club sales square feet at period end	2,270		2,158	

(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.

	Years Ended August 31, 2020	% of Total Revenue	August 31, 2019	% of Total Revenue
Selling, general and administrative detail:				
Warehouse club and other operations	$ 323,178	9.7 %	$ 307,823	9.5 %
General and administrative	106,776	3.2	101,432	3.2
Pre-opening expenses	1,545	0.1	2,726	0.1
Loss on disposal of assets	443	0.0	1,079	0.0
Total Selling, general and administrative	$ 431,942	13.0 %	$ 413,060	12.8 %

Comparison of 2020 to 2019

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 fiscal 2020 was 14.7%, 40 basis points (0.4%) higher than fiscal 2019. This improvement is attributable to more focused merchandising strategies and inventory management. Net merchandise margins increased across all segments with the Central America segment contributing 20 basis points (0.2%), the Caribbean segment contributing 10 basis points (0.1%), and the Colombia segment contributing 10 basis points (0.1%) to the overall increase.

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 increased 30 basis points (0.3%) for the twelve months ended August 31, 2020 primarily due to improved total gross margins of 40 basis points (0.4%). These total revenue margin improvements were offset by the non-recurring reimbursement payment from one of our credit card vendors in the prior year, which resulted in a 10 basis point (0.1%) decline in total revenue margins.

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 $18.4 million to 13.0% of total revenues for the twelve month period ended August 31, 2020 compared to 12.8% for the same period during fiscal year 2019.

Warehouse club and other operations expense increased to 9.7% of total revenues compared to 9.5% for the twelve-month period ended August 31, 2020. The increase is due to operating an additional three warehouse clubs compared to the prior year period. These thee clubs along with two other new clubs that were opened late in fiscal 2019 have not reached sales maturity as of August 31, 2020, thus increasing operational expenses by 20 basis points (0.2%) as a percentage of total revenues.

General and administrative expenses, as a percentage of total revenues, remained flat at 3.2% for the twelve-month periods ended August 31, 2020 and August 31, 2019. The increase in general and administrative expenses of $5.3 million (net of the non-recurring fiscal 2019 charges mentioned below) is primarily due to our investments to support our technology development, talent acquisition, and employee development in fiscal 2020.

In the twelve months, ended August 31, 2019, two non-recurring transactions contributed to general and administrative expenses. First was a $3.8 million charge for separation and other related termination benefits for our former Chief Executive Officer and President who resigned in October 2018 by mutual agreement with the Board of Directors. The second was the final $2.3 million of the amortization of post-combination compensation expense related to the Aeropost business that we acquired in March 2018.

Pre-opening expense remained flat at (0.1%) of total revenues for fiscal 2020 and 2019. The decrease in overall expense is attributable to fewer non-recurring costs associated with our current new club pipeline than we incurred to open our five new clubs in the past 15 months.

Operating income for the twelve months ended August 31, 2020, increased to $123.0 million, (3.7% of total revenue) compared to $115.2 million (3.6% of total revenue) for the same period last year. Higher total gross margins as a percent of total revenue and margin dollars, partially offset by incrementally higher general and administrative expenses, were the primary factors for the overall 10 basis point (0.1%) increase in operating income.

Interest Expense

	Years Ended		
	August 31, 2020		August 31, 2019
	Amount	Increase/ (decrease) from prior year	Amount
Interest expense on loans	$ 7,399	$ 1,855	$ 5,544
Interest expense related to hedging activity	2,416	1,905	511
Less: Capitalized interest	(2,190)	(74)	(2,116)
Net interest expense	$ 7,625	$ 3,686	$ 3,939

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.

Comparison of 2020 to 2019

Net interest expense increased $3.7 million for the year ended August 31. 2020. Interest expense related to loans increased $1.9 million primarily due to higher average long-term loan balances to fund our capital projects and recent drawdowns on short-term lines of credit as part of our COVID-19 related efforts to secure cash. Interest expense related to hedging activity increased $1.9 million due to an increase in hedging activity as we seek to mitigate our foreign currency exposure risk on our loan agreements entered into during fiscal 2020 to finance construction of future anticipated warehouse clubs.

Other Income (Expense), net

Other income (expense), net consists of currency gains or losses, as well as net benefit costs related to our defined benefit plans and the one time settlement of a business combination escrow account.

	Years Ended		
	August 31, 2020		August 31, 2019
	Amount	Increase from prior year	Amount
Other expense, net	$ (834)	$ 773	$ (1,607)

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.

Comparison of 2020 to 2019

For the twelve-month period ended August 31, 2020 the primary driver of Other income (expense), net included a $1.4 million loss associated with foreign currency transactions and the revaluation of monetary assets and liabilities in several of our markets. The foreign currency gains and losses resulted from the revaluation of net U.S. dollar assets and liabilities in markets where the local functional currency revalued or devalued against the U.S. dollar, and from exchange transactions, net of any exchange reserve movements. There were also $169,000 of expenses recorded for our defined benefit plans. These net expenses were partially offset by a $705,000 gain resulting from a settlement payment we received with respect to outstanding claims we made related to the acquisition of the business that we purchased in March of 2018.

Provision for Income Taxes

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

	Years Ended		
	August 31, 2020		August 31, 2019
	Amount	Increase/ (decrease) from prior year	Amount
Current tax expense	$ 41,168	$ 615	$ 40,553
Net deferred tax benefit	(3,404)	(411)	(2,993)
Provision for income taxes	$ 37,764	$ 204	$ 37,560
Effective tax rate	32.5 %		33.8 %

Comparison of 2020 to 2019

For fiscal 2020, the effective tax rate was 32.5%. The decrease in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably unfavorable impact of 1.3% due to the prior year's one-time reversal of valuation allowances on net deferred tax assets in the Company's Colombia subsidiary.

2. The comparably unfavorable impact of 1.3% resulting from valuation allowances on deferred tax assets from foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable.

3. The comparably favorable impact of 1.2% resulting from changes in income tax liabilities from uncertain tax position for which the applicable statutes of limitations have expired.

4. The comparably favorable impact of 1.1% resulting from the effect of the change in foreign currency value and related adjustments.

5. The comparably favorable impact of 0.4% due to a greater portion of income falling into lower tax jurisdictions.

6. The comparably favorable impact of 0.7% resulting from nonrecurrence of non-deductible severance compensation for our former Chief Executive Officer.

Other Comprehensive Loss

Other comprehensive loss for fiscal years 2020 and 2019 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, 2020			August 31, 2019		
	Amount	Decrease from prior year	% Change	Amount	Decrease from prior year	% Change
Other comprehensive loss	$ (32,481)	$ (9,358)	(40.5)%	$ (23,123)	$ (11,966)	(107.3)%

Comparison of 2020 to 2019

Our other comprehensive loss of approximately $32.5 million for fiscal 2020 resulted primarily from the comprehensive loss of approximately $29.4 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 2020, the largest translation adjustments were related to the devaluation of the local currencies against the U.S. dollar for our Colombia, Dominican Republic and Jamaica subsidiaries, partially offset by the translation adjustment for the appreciation of the local currency against the U.S. dollar of our Costa Rica subsidiary. Additional losses of approximately $3.1 million related to unrealized losses on changes in our derivative obligations.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

Our operations have historically supplied us with a significant source of liquidity. 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. There is some uncertainty surrounding the continuing potential impact of the novel coronavirus outbreak (COVID-19) on our results of operations and cash flows. As a result, we have taken steps to increase cash available on-hand, including, but not limited to, drawing funds on our short-term facilities and lengthening vendor payment terms. 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, 2020	August 31, 2019
Amounts held by foreign subsidiaries	$ 203,598	$ 98,964
Amounts held domestically	100,173	7,272
Total cash and cash equivalents, including restricted cash	$ 303,771	$ 106,236

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

	August 31, 2020	August 31, 2019
Amounts held by foreign subsidiaries	$ 46,509	$ 17,045
Amounts held domestically	—	—
Total short-term investments	$ 46,509	$ 17,045

As of August 31, 2020, certificates of deposits with a maturity of over a year held by our foreign subsidiaries and domestically were $1.5 million. There were no certificates of deposits with a maturity of over a year held by our foreign subsidiaries or domestically as of August 31, 2019.

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. 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.

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

	Years Ended	
	August 31, 2020	**August 31, 2019**
Net cash provided by operating activities	$ 259,268	$ 170,332
Net cash used in investing activities	(131,212)	(124,704)
Net cash provided by (used in) financing activities	75,563	(31,955)
Effect of exchange rates	(6,084)	(4,351)
Net increase in cash and cash equivalents	$ 197,535	$ 9,322

Net cash provided by operating activities totaled $259.3 million and $170.3 million for the twelve months ended August 31, 2020 and 2019, respectively. Our cash flow provided by operations is primarily derived from net merchandise sales and membership fees. Cash flows used in operations generally consists of payments to our merchandise vendors, warehouse operating costs (including payroll, employee benefits and utilities), as well as payments for income taxes. The $89.0 million increase in net cash provided by operating activities was primarily due to a net increase of $78.9 million in operating assets and liabilities and a net increase of $10.1 million from changes in non-cash reconciling items. The $78.9 million increase in operating assets and liabilities is primarily due to net working capital improvements of $96.9 million, which resulted from a $32.0 million decrease in merchandise inventories and a $64.9 million increase in accounts payable during the twelve-months ended August 31, 2020 compared to the prior year. The decrease in merchandise inventories is primarily the result of lower replenishment of certain items within our non-food categories in response to changes in consumer preferences toward purchases of more essential goods during the ongoing COVID-19 crisis in addition to more focused merchandising strategies and inventory management. The accounts payable increase resulted primarily from temporary extensions of vendor terms negotiated as part of our response to the COVID-19 pandemic. The $96.9 million increase in working capital was offset by a $18.0 million decrease year-over-year in all other balance sheet changes. The balance sheet changes were primarily driven by increases in long-term assets and accounts receivable of $11.7 million and $2.2 million, respectively. The increases in long term assets is driven by the net movements of $5.5 million in long term tax receivables and $5.2 million in net long term derivative assets. In addition, there was a decrease of $4.1 million in deferred membership income due to the decline in our membership base and our 12-month renewal rate. The $10.1 million change in non-cash reconciling items was primarily due to the increase in net income and depreciation for the twelve-month period ended August 31, 2020 compared to the prior year.

Net cash used in investing activities totaled $131.2 million and $124.7 million for the twelve months ended August 31, 2020 and 2019, respectively. Our cash used in investing activities is primarily for the construction of and improvements to our warehouse clubs and management of our cash investments. The $6.5 million increase in cash used in investing activities is primarily the result of a net $46.2 million increase in short-term and long-term certificate of deposit purchases and fewer settlements compared to the same twelve-month period a year-ago. The increase in purchases and fewer settlements is the result of additional Trinidad dollars we have on-hand and that we have invested into certificates of deposit to generate interest income while we actively work to convert those Trinidad dollars into U.S. dollars as availability allows. Refer to Part II. "Item 7. Management's Discussion and Analysis – Factors Affecting Our Business" for additional information regarding the current U.S. dollar illiquidity we are experiencing in that market. We also had a $39.7 million decrease in construction expenditures due to fewer warehouse clubs currently being constructed compared to the same twelve-month period a year ago.

Net cash provided by financing activities totaled $75.6 million versus net cash used in financing activities of $32.0 million for the twelve months ended August 31, 2020 and 2019, respectively. Our cash flows provided by or used in financing activities are used primarily to fund our working capital needs and our warehouse club expansions and investments. The $107.6 million increase in cash provided by financing activities is primarily the result of a net increase of proceeds from long-term borrowings of $55.7 million compared to a year ago and a net $50.6 million increase in cash provided by additional short-term borrowings, compared to the same twelve-month period a year ago. We have increased our short-term borrowings to increase available cash on hand to meet current and any future potential operational cash needs as a result of COVID-19. We may pay down these short-term borrowings in the future should we determine we have sufficient cash availability.

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.

Contractual Obligations	**Payments due in:**				
Contractual obligations	**Less than 1 Year**	**1 to 3 Years**	**4 to 5 Years**	**After 5 Years**	**Total**
Long-term debt and interest[1]	$ 19,437	$ 41,549	$ 32,350	$ 38,711	$ 132,047
Operating leases[2]	15,001	29,738	28,199	167,775	240,713
Warehouse club construction commitments [3]	5,100	—	—	—	5,100
Total	$ 39,538	$ 71,287	$ 60,549	$ 206,486	$ 377,860

(1) Long-term debt includes debt with both fixed and variable interest rates. We have used rates as of August 31, 2020 to calculate future estimated payments related to the variable rate items. For the portion of the loans subject to interest rate swaps and cross-currency interest rate swaps, we have used the fixed interest rate as set by the interest rate swaps.

(2) Operating lease obligations have been reduced by approximately $0.9 million to reflect the amounts net of expected sublease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased. Future minimum lease payments include $0.6 million of lease payment obligations for the prior leased Miami distribution center. For the purposes of calculating the minimum lease payments, a reduction is reflected for the actual sub-lease income the Company expects to receive during the remaining lease term. This sub-lease income was also considered, for the purposes of calculating the exit obligation, which was immaterial as of August 31, 2020.

(3) The amounts shown represent contractual obligations for construction services not yet rendered.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on its financial condition or consolidated financial statements.

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' minimum 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.

The following table summarizes the shares repurchased during fiscal years 2020, 2019 and 2018:

	Years Ended		
	August 31, 2020	**August 31, 2019**	**August 31, 2018**
Shares repurchased	56,503	75,462	37,414
Cost of repurchase of shares (in thousands)	$ 3,651	$ 4,604	$ 3,183

We reissued 234,400 treasury shares as part of our stock-based compensation programs during fiscal 2020 and 63,000 treasury shares during fiscal 2019, but we did not reissue any treasury shares during fiscal 2018.

Dividends

Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 6 - Stockholders' Equity" for further discussion.

Derivatives

Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 13 - Derivative Instruments and Hedging Activities" for further discussion.

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, 2020, 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, 2020 and August 31, 2019, we have recorded valuation allowance of $8.5 million and $6.7 million against our foreign tax credits.

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.

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. During fiscal 2020, we released $2.4 million of certain income tax contingency

accruals due to the expiration of the statute of limitations. There were no material changes in our uncertain income tax positions for the period ended on August 31, 2019.

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 most countries where we operate, there are defined and structured processes to recover VAT receivables via refunds or offsets. However, in one country without a clearly defined refund process, the Company is actively engaged with the local government to recover VAT receivables totaling $7.0 million and $5.1 million as of August 31, 2020 and August 31, 2019, respectively. In addition, in two other 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 $10.4 million and $7.8 million and deferred tax assets of $2.8 million and $2.7 million as of August 31, 2020 and August 31, 2019, 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.

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 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. No impairment charges have been recorded during fiscal 2020 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 and Other Indefinite-Lived Intangibles

Goodwill and other indefinite-lived acquired intangible assets are not amortized, but are 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 and other indefinite-lived acquired intangible assets have generated sufficient returns to recover the cost of goodwill and other indefinite-lived acquired intangible assets. 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 $45.2 million of certain acquired indefinite-lived intangible assets, the fair value approximated the carrying value; 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.

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, 2020.

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

	Twelve Months Ended August 31, (Amounts in thousands)						
	2021	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Long-Term Debt:							
Long-term debt with fixed interest rate	$ 3,967	$ 2,106	$ 2,593	$ 2,592	$ 2,592	$ 11,192	$ 25,042 [(1)]
Weighted-average interest rate	5.00%	7.00%	7.00%	7.00%	7.00%	7.00%	6.90%
Long-term debt with variable interest rate	$ 15,470	$ 14,681	$ 22,169	$ 5,871	$ 21,295	$ 27,519	$ 107,005
Weighted-average interest rate	6.10%	6.10%	6.10%	5.60%	5.60%	3.70%	5.80%
Total long-term debt	$ 19,437	$ 16,787	$ 24,762	$ 8,463	$ 23,887	$ 38,711	$ 132,047 [(1)]
Derivatives:							
Interest Rate Swaps:							
Variable to fixed interest	$ 2,775	$ 2,775	$ 9,900	$ 1,275	$ 1,275	$ 27,519	$ 45,519
Weighted-average pay rate	4.91%	4.91%	5.69%	3.65%	3.65%	3.65%	4.25%
Weighted-average receive rate	2.61%	2.61%	3.07%	1.86%	1.86%	1.86%	2.22%
Cross-Currency Interest Rate Swaps:							
Variable to fixed interest	$ 4,054	$ 4,679	$ 10,754	$ 3,329	$ 19,770	—	$ 42,586
Weighted-average pay rate	8.52%	8.44%	9.18%	7.92%	7.92%	—%	8.35%
Weighted-average receive rate	2.89%	2.86%	3.08%	2.70%	2.70%	—%	2.83%

(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, 2020 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.

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, 2020, we had a total of 46 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 36 of which operate under currencies other than the U.S. dollar. Approximately 48.2% of our net merchandise sales are comprised of products we purchased in U.S. dollars and were sold in countries whose currencies were other than the U.S. dollar. Approximately 77.5% 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).

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):

	Revaluation/(Devaluation) Twelve Months Ended August 31,	
	2020	**2019**
Country	**% Change**	**% Change**
Colombia	(9.72)%	(13.21) %
Costa Rica	(4.27)	0.84
Dominican Republic	(13.96)	(3.02)
Guatemala	(0.64)	(1.57)
Honduras	0.24	(2.25)
Jamaica	(8.46)	(0.28)
Nicaragua	(3.33)	(5.00)
Trinidad	0.06 %	0.01 %

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, 2020 was $35.5 million. Due to the mix of foreign currency exchange rate fluctuations during fiscal 2020, 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, 2020 (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**	**Losses 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%	$ (3,635)	$ (318)	$ 3,573	$ (380)
10%	$ (7,271)	$ (635)	$ 7,146	$ (760)
20%	$ (14,542)	$ (1,270)	$ 14,293	$ (1,519)

(1) Amounts are before consideration of income taxes.

Information about the financial impact of foreign currency exchange rate fluctuations for the twelve months ended August 31, 2020 is disclosed in Part II. "Item 7. Management's Discussion and Analysis – Other Expense, net".

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. 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.

Examples of countries 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 Jamaica, Nicaragua, and Costa Rica subsidiaries with balances of $24.4 million, $20.8 million and $20.2 million, respectively as of August 31, 2020. Examples of countries 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 Dominican Republic and Honduras subsidiaries with balances of $25.0 million and $24.8 million, respectively as of August 31, 2020.

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 income (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, 2020:

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%	$ 4,627	$ (3,025)	$ 381	$ 23,633
10%	$ 9,253	$ (6,050)	$ 763	$ 47,266
20%	$ 18,506	$ (12,100)	$ 1,525	$ 94,533

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 $44,000 at August 31, 2020 and approximately $2.0 million at August 31, 2019. A hypothetical 10% increase in the currency exchange rates underlying these swaps from the market rates at August 31, 2020 would have resulted in a further increase in the value of the swaps of approximately $1.6 million. Conversely, a hypothetical 10% decrease in the currency exchange rates underlying these swaps from the market rates at August 31, 2020 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. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The market risk related to foreign currency forward contracts would be measured by estimating the potential impact of a 10% change in the value of the U.S. dollar relative to the local currency exchange rates. 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.

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 distribution expenses. Inflationary pressures on various commodities also may impact consumer spending. We do not currently seek to hedge commodity price risk.

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, 2020, 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, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCOAB), the consolidated balance sheets of PriceSmart, Inc. as of August 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended August 31, 2020 and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated October 29, 2020, 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 29, 2020

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

	August 31,	
	2020	**2019**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 299,481	$ 102,653
Short-term restricted cash	185	54
Short-term investments	46,509	17,045
Receivables, net of allowance for doubtful accounts of $147 as of August 31, 2020 and $144 as of August 31, 2019, respectively	13,153	9,872
Merchandise inventories	309,509	331,273
Prepaid expenses and other current assets (includes $0 and $2,736 as of August 31, 2020 and August 31, 2019, respectively, for the fair value of derivative instruments)	30,165	30,999
Total current assets	699,002	491,896
Long-term restricted cash	4,105	3,529
Property and equipment, net	692,279	671,151
Operating lease right-of-use assets, net	119,533	—
Goodwill	45,206	46,101
Other intangibles, net	10,166	12,576
Deferred tax assets	21,672	15,474
Other non-current assets (includes $872 and $0 as of August 31, 2020 and August 31, 2019, respectively, for the fair value of derivative instruments)	54,260	44,987
Investment in unconsolidated affiliates	10,602	10,697
Total Assets	$ 1,656,825	$ 1,296,411
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	$ 65,143	$ 7,540
Accounts payable	373,172	286,219
Accrued salaries and benefits	32,946	25,401
Deferred income	23,525	25,340
Income taxes payable	7,727	4,637
Other accrued expenses and other current liabilities	37,731	32,442
Operating lease liabilities, current portion	8,594	—
Long-term debt, current portion	19,437	25,875
Total current liabilities	568,275	407,454
Deferred tax liability	1,713	2,015
Long-term portion of deferred rent	—	11,198
Long-term income taxes payable, net of current portion	5,132	5,069
Long-term operating lease liabilities	124,181	—
Long-term debt, net of current portion	112,610	63,711
Other long-term liabilities (includes $4,685 and $2,910 for the fair value of derivative instruments and $6,155 and $5,421 for post-employment plans as of August 31, 2020 and August 31, 2019, respectively)	12,182	8,685
Total Liabilities	824,093	498,132

Stockholders' Equity:		
Common stock $0.0001 par value, 45,000,000 shares authorized; 31,417,576 and 31,461,359 shares issued and 30,670,712 and 30,537,027 shares outstanding (net of treasury shares) as of August 31, 2020 and August 31, 2019, respectively	3	3
Additional paid-in capital	442,969	443,084
Tax benefit from stock-based compensation	11,486	11,486
Accumulated other comprehensive loss	(176,820)	(144,339)
Retained earnings	582,487	525,804
Less: treasury stock at cost, 746,864 shares as of August 31, 2020 and 924,332 shares as of August 31, 2019	(28,406)	(38,687)
Total stockholders' equity attributable to PriceSmart, Inc. stockholders	831,719	797,351
Noncontrolling interest in consolidated subsidiaries	1,013	928
Total stockholders' equity	832,732	798,279
Total Liabilities and Equity	$ 1,656,825	$ 1,296,411

See accompanying notes.

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

	Years Ended August 31,		
	2020	**2019**	**2018**
Revenues:			
Net merchandise sales	$ 3,191,762	$ 3,091,648	$ 3,053,754
Export sales	34,374	30,981	40,581
Membership income	54,501	52,149	50,821
Other revenue and income	48,551	49,140	21,546
Total revenues	3,329,188	3,223,918	3,166,702
Operating expenses:			
Cost of goods sold:			
Net merchandise sales	2,723,942	2,648,665	2,610,111
Export sales	32,676	29,524	38,740
Non-merchandise	18,160	17,502	7,669
Selling, general and administrative:			
Warehouse club and other operations	323,178	307,823	291,488
General and administrative	106,776	101,432	88,461
Pre-opening expenses	1,545	2,726	913
Asset impairment	—	—	1,929
Loss on disposal of assets	443	1,079	1,339
Total operating expenses	3,206,720	3,108,751	3,040,650
Operating income	122,468	115,167	126,052
Other income (expense):			
Interest income	2,031	1,489	1,415
Interest expense	(7,625)	(3,939)	(5,071)
Other income (expense), net	(834)	(1,607)	192
Total other expense	(6,428)	(4,057)	(3,464)
Income before provision for income taxes and loss of unconsolidated affiliates	116,040	111,110	122,588
Provision for income taxes	(37,764)	(37,560)	(48,177)
Loss of unconsolidated affiliates	(95)	(61)	(8)
Net income	78,181	73,489	74,403
Less: net income attributable to noncontrolling interest	(72)	(298)	(75)
Net income attributable to PriceSmart, Inc.	$ 78,109	$ 73,191	$ 74,328
Net income attributable to PriceSmart, Inc. per share available for distribution:			
Basic	$ 2.55	$ 2.40	$ 2.44
Diluted	$ 2.55	$ 2.40	$ 2.44
Shares used in per share computations:			
Basic	30,259	30,195	30,115
Diluted	30,259	30,195	30,115
Dividends per share	$ 0.70	$ 0.70	$ 0.70

See accompanying notes.

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

	Years Ended August 31,		
	2020	**2019**	**2018**
Net income	$ 78,181	$ 73,489	$ 74,403
Less: net income attributable to noncontrolling interest	(72)	(298)	(75)
Net income attributable to PriceSmart, Inc.	$ 78,109	$ 73,191	$ 74,328
Other Comprehensive Income, net of tax:			
Foreign currency translation adjustments [1]	(29,413)	(19,717)	(12,890)
Defined benefit pension plan:			
Net loss arising during period	(79)	(112)	(87)
Amortization of prior service cost and actuarial gains included in net periodic pensions cost	93	74	41
Total defined benefit pension plan	14	(38)	(46)
Derivative instruments: [2]			
Unrealized losses on change in derivative obligations	(490)	(267)	(97)
Unrealized gains/(losses) on change in fair value of interest rate swaps	(5,313)	(3,102)	1,882
Amounts reclassified from accumulated other comprehensive income (loss) to other expense, net for settlement of derivatives	2,721	1	(6)
Total derivative instruments	(3,082)	(3,368)	1,779
Other comprehensive loss	(32,481)	(23,123)	(11,157)
Comprehensive income	45,628	50,068	63,171
Less: comprehensive income (loss) attributable to noncontrolling interest	114	21	(1)
Comprehensive income attributable to PriceSmart, Inc. stockholders	$ 45,514	$ 50,047	$ 63,172

(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 Part II. “Item 8. Financial Statements and Supplementary Data: Notes to the Consolidated Financial Statements, 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	Tax Benefit From Stock Based Compensation	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, 2017	31,276	$ 3	$ 422,762	$ 11,486	$ (110,059)	$ 420,499	875	$ (35,924)	$ 708,767	$ —	$ 708,767
Acquisition of Aeropost	—	—	—	—	—	—	—	—	—	562	562
Cumulative effect of accounting change for the adoption of ASU 2016-09	—	—	(367)	—	—	367	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	37	(3,183)	(3,183)	—	(3,183)
Issuance of restricted stock award	109	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(16)	—	—	—	—	—	—	—	—	—	—
Exercise of stock options	4	—	269	—	—	—	—	—	269	—	269
Stock-based compensation	—	—	10,218	—	—	—	—	—	10,218	—	10,218
Dividend paid to stockholders	—	—	—	—	—	(21,240)	—	—	(21,240)	—	(21,240)
Net income	—	—	—	—	—	74,328	—	—	74,328	75	74,403
Other comprehensive loss	—	—	—	—	(11,157)	—	—	—	(11,157)	(1)	(11,158)
Balance at August 31, 2018	31,373	$ 3	$ 432,882	$ 11,486	$ (121,216)	$ 473,954	912	$ (39,107)	$ 758,002	$ 636	$ 758,638
Purchase of treasury stock	—	$ —	$ —	$ —	$ —	$ —	75	$ (4,604)	$ (4,604)	$ —	$ (4,604)
Issuance of treasury stock	(63)	—	(5,024)	—	—	—	(63)	5,024	—	—	—
Issuance of restricted stock award	178	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(27)	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	15,512	—	—	—	—	—	15,512	—	15,512
Dividend paid to stockholders	—	—	—	—	—	(21,341)	—	—	(21,341)	(313)	(21,654)
Net income	—	—	—	—	—	73,191	—	—	73,191	298	73,489
Other comprehensive income (loss)	—	—	—	—	(23,123)	—	—	—	(23,123)	21	(23,102)
Other	—	—	(286)	—	—	—	—	—	(286)	286	—
Balance at August 31, 2019	31,461	$ 3	$ 443,084	$ 11,486	$ (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	$ 442,969	$ 11,486	$ (176,820)	$ 582,487	747	$ (28,406)	$ 831,719	$ 1,013	$ 832,732

See accompanying notes.

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

	Years Ended August 31,		
	2020	**2019**	**2018**
Operating Activities:			
Net income	$ 78,181	$ 73,489	$ 74,403
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	61,225	54,958	52,640
Allowance for doubtful accounts	3	47	(369)
Asset impairment and closure costs	—	—	1,929
Loss on sale of property and equipment	443	1,079	1,339
Deferred income taxes	(3,405)	(4,401)	6,962
Equity in losses of unconsolidated affiliates	95	61	8
Stock-based compensation	13,817	15,061	10,218
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	(3,040)	14,961	(1,108)
Merchandise inventories	21,764	(10,248)	(10,079)
Accounts payable	90,185	25,325	(16,489)
Net cash provided by operating activities	259,268	170,332	119,454
Investing Activities:			
Business acquisition, net of cash acquired	—	—	(23,895)
Additions to property and equipment	(100,320)	(140,061)	(98,109)
Purchases of short-term investments	(49,629)	(15,244)	(77,997)
Proceeds from settlements of short-term investments	20,182	30,527	45,693
Purchases of long-term investments	(1,485)	—	(100)
Proceeds from disposal of property and equipment	40	74	629
Net cash used in investing activities	(131,212)	(124,704)	(153,779)
Financing Activities:			
Proceeds from long-term bank borrowings	57,882	—	28,500
Repayment of long-term bank borrowings	(15,164)	(12,939)	(32,088)
Proceeds from short-term bank borrowings	271,014	18,403	81,851
Repayment of short-term bank borrowings	(212,919)	(10,863)	(81,851)
Cash dividend payments	(21,527)	(21,654)	(21,240)
Purchase of treasury stock for tax withholding on stock compensation	(3,651)	(4,604)	(3,183)
Proceeds from exercise of stock options	—	—	269
Other financing activities	(72)	(298)	(75)
Net cash provided by (used in) financing activities	75,563	(31,955)	(27,817)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(6,084)	(4,351)	(6,656)
Net increase (decrease) in cash, cash equivalents	197,535	9,322	(68,798)
Cash, cash equivalents and restricted cash at beginning of period	106,236	96,914	165,712
Cash, cash equivalents and restricted cash at end of period	$ 303,771	$ 106,236	$ 96,914
Supplemental disclosure of noncash investing activities:			
Capital expenditures accrued, but not yet paid	$ 10,563	$ 6,637	$ 1,481
Cash paid during the period for:			
Interest, net of amounts capitalized	$ 6,877	$ 3,504	$ 4,955
Income taxes	$ 50,814	$ 48,312	$ 52,151

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,		
	2020	2019	2018
Cash and cash equivalents	$ 299,481	$ 102,653	$ 93,460
Short-term restricted cash	185	54	405
Long-term restricted cash	$ 4,105	$ 3,529	$ 3,049
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 303,771	$ 106,236	$ 96,914

See accompanying notes.

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 smaller in size than, warehouse clubs in the United States. As of August 31, 2020, the Company had 46 warehouse clubs in operation in 12 countries and one U.S. territory (eight in Costa Rica; seven each in Colombia and Panama; five in the Dominican Republic, four in Trinidad and Guatemala; three in Honduras; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 2 - Summary of Significant Accounting Policies"). In June 2020, the Company opened its 46th warehouse club and eighth club in Costa Rica, located in the city of Liberia, in the Guanacaste region. The Company also expects to open its third warehouse club in the greater metropolitan area of Bogota, its eighth in Colombia, in December 2020.

PriceSmart continues to invest in technology to increase efficiencies and to enhance the member experience by enabling omni-channel capabilities, including e-commerce online shopping and services. As of August 31, 2020, we offered the Click & Go™ curbside pickup service in all 13 of our markets. Early in our fourth fiscal quarter, we also added delivery to our Click & Go™ service, which was available in six of our 13 markets as of August 31, 2020 and expanded into further markets in early fiscal 2021. These services provide an alternative and convenient way for our members to shop, while reducing physical contact. PriceSmart also operates a package forwarding (casillero) and marketplace business under the "Aeropost" banner in 38 countries in Latin America and the Caribbean, many of which overlap with markets where it operates warehouse clubs.

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. The novel coronavirus (COVID-19) pandemic has severely impacted the economies of the U.S. and the countries where the Company operates. The Company has assessed the impact that COVID-19 has had on our estimates, assumptions and accounting policies and made additional disclosures, if and as necessary.

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. The Company's ownership interest in real estate development joint ventures the Company has recorded under the equity method as of August 31, 2020 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.

The Company has determined that for its ownership interest in store-front joint ventures within its marketplace and casillero business, the Company has the power to direct the activities that most significantly impact the economic performance of these VIEs. Therefore, the Company has determined that it is the primary beneficiary of these VIEs and has consolidated these entities within its consolidated financial statements. The Company's ownership interest in store-front joint ventures for which the Company has consolidated their financial statements as of August 31, 2020 are listed below:

Marketplace and Casillero Store-front Joint Ventures	Countries	Ownership	Basis of Presentation
Guatemala	Guatemala	60.0 %	Consolidated
Tortola	British Virgin Islands	50.0 %	Consolidated
Trinidad	Trinidad	50.0 %	Consolidated

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

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, 2020	August 31, 2019
Short-term restricted cash	$ 185	$ 54
Long-term restricted cash [(1)]	4,105	3,529
Total restricted cash	$ 4,290	$ 3,583

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

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.

Goodwill and Other Intangibles, net – Goodwill and other intangibles totaled $55.4 million as of August 31, 2020 and $58.7 million as of August 31, 2019. The Company reviews reported goodwill and other intangibles at the cash-generating 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. The Company's intangible assets consist of the Aeropost trade

name and developed technology, which are amortized on a straight-line basis over a period of 25 and 5 years, respectively. Amortization expense is included in general and administrative expenses on the accompanying consolidated statements of income.

The changes in the carrying amount of goodwill for the year ended August 31, 2020 are as follows (in thousands):

		Amount
Goodwill at August 31, 2019	$	46,101
Foreign currency exchange rate changes		(895)
Goodwill at August 31, 2020	$	45,206

		Amount
Other intangibles at August 31, 2019	$	12,576
Amortization		(2,410)
Net other intangibles at August 31, 2020	$	10,166
Total goodwill and other intangibles, net at August 31, 2020	$	55,372

The table below shows our estimated amortization of intangibles for fiscal years 2021 through 2025 and thereafter (in thousands):

Twelve Months Ended August 31,		Amount
2021	$	2,404
2022		2,404
2023		1,373
2024		205
2025		204
Thereafter		3,576
Total	$	10,166

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 most countries where the Company operates, there are defined and structured processes to recover VAT receivables via refunds or offsets. However, in one country without a clearly defined refund process, the Company is actively engaged with the local government to recover VAT receivables totaling $7.0 million and $5.1 million as of August 31, 2020 and August 31, 2019, respectively. In two other 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 Company had income tax receivables of $10.4 million and $7.8 million and deferred tax assets of $2.8 million and $2.7 million as of August 31, 2020 and August 31, 2019, 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.

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, 2020	August 31, 2019
Prepaid expenses and other current assets	$ 1,749	$ 1,639
Other non-current assets	25,851	22,691
Total amount of VAT receivables reported	$ 27,600	$ 24,330

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

	August 31, 2020	August 31, 2019
Prepaid expenses and other current assets	$ 10,944	$ 9,009
Other non-current assets	20,116	16,381
Total amount of income tax receivables reported	$ 31,060	$ 25,390

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 does not have finance leases. 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.

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.

In April 2020, the Financial Accounting Standards Board ("FASB") issued a Staff Question-and-Answer ("Q&A") to clarify whether lease concessions related to the effects of COVID-19 require the application of the lease modification guidance under the new lease standard, which the Company adopted on September 1, 2019. The Company has elected to apply the temporary practical expedient and not treat changes to certain leases due to the effects of COVID-19 as modifications. The Company has recorded accruals for rent payment deferrals.

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 between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically to reflect the trend of actual physical inventory count results, with physical inventories occurring primarily in the second and fourth fiscal quarters. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

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. If the Company determines that an award is unlikely to vest, 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 accrued 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, 2020, the Company reissued approximately 234,400 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.

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 within the normal operating cycle of the Company.

Long-term restricted cash: Long-term restricted cash primarily consists of auto renewable 3-12 month certificates of deposit, 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 within the normal operating cycle of the Company.

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

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, 2020 and August 31, 2019 is as follows (in thousands):

	August 31, 2020		August 31, 2019	
	Carrying Value	Fair Value[1]	Carrying Value	Fair Value
Long-term debt, including current portion	$ 132,047	$ 124,085	$ 89,586	$ 84,833

(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, 2020 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. 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 Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, 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, 2020 and August 31, 2019.

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.

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. For derivative instruments not designated as hedging instruments, the Company recognizes changes in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Other expense, net in the consolidated statements of income in the period of change.

Revenue Recognition – The accounting policies and other disclosures such as the disclosure of disaggregated revenues are described in Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 3 – Revenue Recognition."

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

Cost of Goods Sold – The Company includes the cost of merchandise, food service and bakery raw materials 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.

Payments from Vendors – 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 that are not threshold based are incorporated into the unit cost of merchandise reducing the inventory cost and cost of goods sold. Volume rebates that are threshold based are recorded as a reduction to cost of goods sold when the Company achieves established purchase levels that are confirmed by the vendor in writing or upon receipt of funds. On a quarterly basis, the Company calculates the amount of rebates recorded in cost of goods sold that relates to inventory on hand and this amount is reclassified as a reduction to inventory, if significant. 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. 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.

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 income (loss) for these local currency denominated accounts for the years ended August 31, 2020, 2019 and 2018:

	Years Ended August 31,		
	2020	**2019**	**2018**
Effect on other comprehensive loss due to foreign currency restatement	$ (29,413)	$ (19,717)	$ (12,890)

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,		
	2020	2019	2018
Currency gain (loss)	$ (1,370)	$ (1,476)	$ 192

Income Taxes – The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company 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 – Not Yet Adopted

FASB ASC 848 ASU 2020-04—Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU No. 2020-04 provides optional expedients and exceptions for a limited period of time to ease the potential burden in accounting for contracts, hedging relationships, and other transactions affected by reference rate reform. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company will evaluate the impact adoption of this guidance may have on the Company’s consolidated financial statements.

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 expects to adopt ASU No. 2019-12 on September 1, 2021, the first quarter of fiscal year 2022. The Company will evaluate the impact adoption of this guidance may have on the Company’s consolidated financial statements.

FASB ASC 810 ASU 2018-15 – Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use

software (and hosting arrangements that include an internal-use software license). As such, the amendment in this ASU requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in subtopic 350-40 in order to determine which implementation costs to capitalize as an asset and which costs to expense.

Additionally, the amendments in this ASU require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU are effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted. The Company will adopt ASU No. 2018-15 on September 1, 2020, the first quarter of fiscal year 2021. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

FASB ASC 715 ASU 2018-14 – Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement benefits (Topic 715-20). The standard amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other post-retirement plans. This ASU is effective for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. The Company expects to adopt ASU No. 2018-14 on September 1, 2021, the first quarter of fiscal 2022. The Company will evaluate the impact adoption of this guidance may have on the Company's consolidated financial statements.

FASB ASC 820 ASU 2018-13 – Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). The standard eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. ASU No. 2018-13 adds new disclosure requirements for Level 3 measurements. The amendments in this ASU are effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company will adopt ASU No. 2018-13 on September 1, 2020, the first quarter of fiscal year 2021. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

FASB ASC 350 ASU 2017-04 – Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the amendments in this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Additionally, ASU No. 2017-04 requires any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. The amendments in this ASU are effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company will adopt ASU No. 2017-04 prospectively on September 1, 2020, the first quarter of fiscal year 2021. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

FASB ASC 326 ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which amends the FASB's guidance on the impairment of financial instruments. In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments to clarify and address certain items related to the amendments in ASU 2016-13. These amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company will adopt the amendments on September 1, 2020, the first quarter of fiscal year 2021. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements given the materiality and nature of the financial assets currently held.

Recent Accounting Pronouncements Adopted

FASB ASC 815 ASU 2018-16 – Derivatives and Hedging — Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In October 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-16, Derivatives and Hedging—Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, which expands the list of United States benchmark interest rates permitted in the application of hedge accounting. The amendments in this ASU allow use of the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, Derivatives and Hedging. The Company adopted ASU 2018-16 in the first quarter of fiscal year 2020. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 718 ASU 2018-07 - Compensation—Stock Compensation (Topic 718) — Improvements to Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope to include share-based payment transactions for acquiring goods and services from non-employees. The amendments in this ASU apply to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards. The amendments in this ASU are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company adopted ASU 2018-07 in the first quarter of fiscal year 2020. Adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

FASB ASC 842 ASU 2016-02 -Leases (Topic 842): Amendments to the FASB Accounting Standards Codification

In February 2016, the FASB issued guidance codified in ASC 842, *Leases*, which amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments.

The Company adopted ASU 2016-02 using the modified retrospective transition method in the first quarter of fiscal 2020. In accordance with ASC 842, the Company did not restate comparative periods in transition to ASC 842 and instead reported comparative periods under ASC 840. Adoption of the standard resulted in the initial recognition of $120.6 million of operating lease right-of-use ("ROU") assets and $132.1 million of short-term and long-term operating lease liabilities as of September 1, 2019. The difference between the assets and liabilities primarily represents the deferred rent recorded as of August 31, 2019, which was eliminated upon adoption. No cumulative-effect adjustments were recorded to retained earnings, and there was no material impact to the Company's interim consolidated statements of income, consolidated statements of comprehensive income, or consolidated statements of cash flows. However, several of the Company's leases are denominated in a currency that is not the functional currency of the Company's local subsidiary. The resulting monetary liability is revalued to the functional currency at each balance sheet date, with the resulting gain or loss being recorded in Other income (expense). The monetary lease liability subject to revaluation as of August 31, 2020 was $35.5 million. Due to the mix of foreign currency exchange rate fluctuations during fiscal 2020, the impact to the consolidated statements of income of revaluing this liability was immaterial.

The Company elected the transition package of practical expedients permitted within the new standard which, among other things, allowed it to carry-forward the historical lease classification. The Company also elected the practical expedient to carry forward the accounting treatment for land easements and the practical expedient allowing the Company not to apply the recognition requirements of ASC 842 to short-term leases. However, the Company did not elect to combine lease and non-lease components. Refer to Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 12 - Leases for further discussion on the Company's leases" for further discussion on the Company's leases.

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, 2020, and there were no other new accounting standards or pronouncements that were issued but not yet effective as of August 31, 2020 that the Company expects to have a material impact on its consolidated financial statements.

NOTE 3 – REVENUE RECOGNITION

Revenue Recognition - In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted the ASU on September 1, 2018, using the modified retrospective approach. The Company's updated accounting policies and related disclosures are set forth below, including the disclosure for disaggregated revenue. The impact of adopting the ASU was not material to the consolidated financial statements.

The Company uses the five-step model to recognize revenue:

- Identify the contract with the customer;
- Identity 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.

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, and revenue is recognized when the Company's performance obligations have been completed (that is when delivery of the items have been made to the destination point).

Non-merchandise Sales. The Company recognizes non-merchandise revenue, net of sales taxes, on transactions where the Company has determined that it is the agent in the transaction. These transactions primarily consist of contracts the Company enters into with its customers to provide delivery, insurance and customs processing services for products its customers purchase online in the United States either directly from other vendors utilizing the vendor's website or through the Company's marketplace site. Revenue is recognized when the Company's performance obligations have been completed (that is when delivery of the items have been made to the destination point) and is recorded in "non-merchandise revenue" on the consolidated statements of income. Prepayment for orders for which the Company has not fulfilled its performance obligation are recorded as deferred income. Additionally, the Company records 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 is acting as an agent and is 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. In fiscal 2020, our membership policy changed to allow for members to cancel their membership in the first 60 days, they will receive a full refund. After the 60 day period, members may receive a refund of the prorated share of their remaining membership fee if they so request. 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 eleven 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 warehouse 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.

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 certificates; therefore, the Company assumes a 100% redemption rate prior to expiration of the gift certificate. The Company periodically reviews unredeemed outstanding gift certificates, and the gift certificates that have expired are recognized as "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.

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

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 which 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, 2020	August 31, 2019
Deferred membership income	$ 23,051	$ 24,901
Other contract performance liabilities	$ 5,190	$ 4,048

Disaggregated Revenues

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

	Years Ended		
	August 31, 2020	August 31, 2019	August 31, 2018
Foods & Sundries	$ 1,656,682	$ 1,563,162	$ 1,548,237
Fresh Foods	912,325	847,496	821,412
Hardlines	345,051	358,276	366,487
Softlines	147,085	167,149	164,115
Other Business	130,619	155,565	153,503
Net Merchandise Sales	$ 3,191,762	$ 3,091,648	$ 3,053,754

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 25 years. Leasehold improvements are amortized over the shorter of the life of the improvement or the expected term of the lease. In some locations, leasehold improvements are amortized over a period longer than the initial lease term where management believes it is reasonably 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, 2020	August 31, 2019
Land	$ 215,433	$ 207,167
Building and improvements	498,964	464,025
Fixtures and equipment	287,073	258,543
Construction in progress	44,362	49,555
Total property and equipment, historical cost	1,045,832	979,290
Less: accumulated depreciation	(353,553)	(308,139)
Property and equipment, net	$ 692,279	$ 671,151

Depreciation and amortization expense (in thousands):

	Years Ended August 31,		
	2020	2019	2018
Depreciation expense, Property and equipment	$ 58,815	$ 52,554	$ 51,520
Amortization expense, Intangible assets	2,410	2,404	1,120
Total depreciation and amortization expense	$ 61,225	$ 54,958	$ 52,640

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, 2020	August 31, 2019
Total interest capitalized	$ 12,493	$ 11,581

Total interest capitalized (in thousands):

	Years Ended August 31,		
	2020	2019	2018
Interest capitalized	$ 2,190	$ 2,116	$ 1,134

A summary of asset disposal activity for fiscal years 2020, 2019 and 2018 is as follows (in thousands):

	Historical Cost	Accumulated Depreciation	Receivables and Proceeds from Disposal	Loss recognized
Fiscal Year 2020	$ 5,115	$ 4,640	$ 32	$ (443)
Fiscal Year 2019	$ 10,740	$ 9,587	$ 74	$ (1,079)
Fiscal Year 2018	$ 10,465	$ 8,388	$ 738	$ (1,339)

The Company also recorded within accounts payable, other accrued expenses, and other long-term liabilities approximately $2.2 million, $7.3 million, and $1.0 million, respectively, as of August 31, 2020 and $322,000, $6.3 million and $0, respectively, as of August 31, 2019 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 and restricted stock units issued pursuant to the 2013 Equity Incentive Award Plan. The Company does not include performance stock units as participating securities until they vest. 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, 2020, 2019 and 2018 (in thousands, except per share amounts):

	Years Ended August 31,		
	2020	2019	2018
Net income attributable to PriceSmart, Inc.	$ 78,109	$ 73,191	$ 74,328
Less: Allocation of income to unvested stockholders	(842)	(721)	(897)
Net income attributable to PriceSmart, Inc. per share available for distribution	$ 77,267	$ 72,470	$ 73,431
Basic weighted average shares outstanding	30,259	30,195	30,115
Add dilutive effect of equity award (two-class method)	—	—	—
Diluted average shares outstanding	30,259	30,195	30,115
Basic net income per share	$ 2.55	$ 2.40	$ 2.44
Diluted net income per share	$ 2.55	$ 2.40	$ 2.44

NOTE 6 – STOCKHOLDERS' EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2020, 2019 and 2018.

		First Payment			Second Payment		
Declared	Amount	Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
2/6/2020	$ 0.70	2/15/2020	2/28/2020	$ 0.35	8/15/2020	8/31/2020	$ 0.35
1/30/2019	$ 0.70	2/15/2019	2/28/2019	$ 0.35	8/15/2019	8/30/2019	$ 0.35
1/24/2018	$ 0.70	2/14/2018	2/28/2018	$ 0.35	8/15/2018	8/31/2018	$ 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 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 income (loss), net of tax (in thousands):

	Attributable to PriceSmart	Noncontrolling Interests	Total
Beginning balance, August 31, 2017	$ (110,059)	$ —	$ (110,059)
Foreign currency translation adjustments	(12,890)	(1)	(12,891)
Defined benefit pension plans [1]	(87)	—	(87)
Derivative Instruments [2]	1,785	—	1,785
Amounts reclassified from accumulated other comprehensive income (loss)	35	—	35
Ending balance, August 31, 2018	$ (121,216)	$ (1)	$ (121,217)
Foreign currency translation adjustments	(19,717)	21	(19,696)
Defined benefit pension plans [1]	(112)	—	(112)
Derivative Instruments [2]	(3,369)	—	(3,369)
Amounts reclassified from accumulated other comprehensive income (loss)	75	—	75
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 income (loss)	2,814	—	2,814
Ending balance, August 31, 2020	$ (176,820)	$ 134	$ (176,686)

(1) Amounts reclassified from accumulated other comprehensive income (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 Part II. "Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 13 - Derivative Instruments and Hedging Activities."

Retained Earnings Not Available for Distribution

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

	August 31, 2020	August 31, 2019
Retained earnings not available for distribution	$ 8,726	$ 7,843

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 nondiscretionary contributions to the 401(k) plan to the non-officer employees that defer up to 2% of their salary. Employer contributions to the 401(k) plan for the Company's U.S. employees were $2.2 million, $2.1 million and $2.0 million during fiscal years 2020, 2019 and 2018, 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 $3.1 million, $3.0 million and $2.9 million during fiscal years 2020, 2019, and 2018, 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, 2020 and 2019 and consolidated statements of income for the fiscal years ended August 31, 2020, 2019 and 2018 (in thousands):

	Other Long-Term Liability		Accumulated Other Comprehensive Loss		Operating Expenses		
	August 31,				Year Ended August 31,		
	2020	2019	2020	2019	2020	2019	2018
Start of period	$ (1,579)	$ (1,290)	$ 772	$ 719	$ —	$ —	$ —
Service cost	(95)	(70)	—	—	177	187	117
Interest cost	(101)	(80)	—	—	101	80	64
Prior service cost (amortization)	—	—	(55)	(55)	55	55	52
Actuarial gains/(losses)	(30)	(139)	30	108	38	19	13
Totals	$ (1,805)	$ (1,579)	$ 747	$ 772 [1]	$ 371	$ 341	$ 246

[1] The Company has recorded a deferred tax asset of $236,000 and $246,000 as of August 31, 2020 and 2019, respectively, relating to the unrealized expense on defined benefit plans. The Company also recorded accumulated other comprehensive loss, net of tax, for $(512,000) and $(526,000) as of August 31, 2020 and 2019, respectively.

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:

	Year Ended August 31,	
Valuation Assumptions:	2020	2019
Discount rate	3.5% to 10.7%	3.5% to 10.7%
Future salary escalation	3.0% to 4.1%	3.0% to 4.1%
Percentage of employees assumed to withdraw from Company without a benefit ("turnover")	11.1% to 15.0%	10.5% to 17.5%
Percentage of employees assumed to withdraw from Company with a benefit ("disability")	0.5% to 4.9%	0.5% to 2.6%

For the fiscal year ending August 31, 2021, the Company expects to recognize, as components of net periodic benefit cost, the following amounts currently recorded in accumulated other comprehensive income (in thousands):

Prior service cost	$ 55
Actuarial gain/loss	99
	$ 154

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,								
	2020	2019	2020	2019	2020	2019	2020	2019	2018
Other Post Employment Plans	$ 438	$ 471	$ 3,813	$ 3,404	$ 3,688	$ 3,153	$ 1,250	$ 1,259	$ 1,187

(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.

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 “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, 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) 600,000 shares of common stock plus (2) the number of shares that remained available for issuance as of January 22, 2013 under three equity participation plans previously maintained by the Company. The number of shares reserved for issuance under the 2013 Plan increases during the term of the plan by the number of shares relating to awards outstanding under the 2013 Plan or any of the prior plans that expire, or are forfeited, terminated, canceled or repurchased, or are settled in cash in lieu of shares. However, in no event will more than an aggregate of 713,235 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, 2020 (including shares originally authorized for issuance under prior plans)	Shares available to grant	
		August 31, 2020	August 31, 2019
2013 Plan	1,057,126	297,366	464,424

The following table summarizes the components of the stock-based compensation expense for the twelve-month periods ended August 31, 2020, 2019 and 2018 (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,		
	2020	2019	2018
Restricted stock awards	$ 8,747	$ 11,477	$ 7,476
Restricted stock units	3,011	2,820	2,742
Performance-based restricted stock units	2,059	764	—
Stock-based compensation expense	$ 13,817	$ 15,061	$ 10,218

In October 2018, the Company's then Chief Executive Officer ("former C.E.O."), resigned by mutual agreement with the Board of Directors. In connection with his departure, the Company recorded among other things approximately $3.3 million of non-cash charges related to the acceleration of certain equity restricted stock awards.

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

	Balance as of		
	August 31, 2020	August 31, 2019	August 31, 2018
Remaining unrecognized compensation cost (in thousands)	$ 21,720	$ 21,116	$ 29,473
Weighted average period of time over which this cost will be recognized (years)	2	3	3

	Years Ended		
	August 31, 2020	August 31, 2019	August 31, 2018
Excess tax benefit (deficiency) on stock-based compensation (in thousands)	$ (936)	$ (1,829)	$ 530 [(1)]

(1) Beginning in the first quarter of fiscal 2018, the Company began recording the tax savings resulting from tax deductions in excess of expense for stock-based compensation and the tax deficiencies resulting from stock-based compensation in excess of the related tax deduction as income tax expense or benefit, based on the adoption of ASU 2016-09.

The restricted stock awards and units vest from a one year to ten year period and the unvested portion of the award is forfeited if the employee or non-employee director leaves the Company before the vesting period is completed. Restricted stock awards, restricted stock units, and performance-based restricted stock units activity for the twelve-months ended August 31, 2020, 2019 and 2018 was as follows:

	Years Ended		
	August 31, 2020	August 31, 2019	August 31, 2018
Grants outstanding at beginning of period	362,826	385,417	404,368
Granted	266,759	193,489	132,031
Forfeited	(43,198)	(16,127)	(23,119)
Vested	(170,518)	(199,953)	(127,863)
Grants outstanding at end of period	415,869	362,826	385,417

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 2020, 2019 and 2018:

	Years Ended		
Weighted Average Grant Date Fair Value	August 31, 2020	August 31, 2019	August 31, 2018
RSAs, RSUs, and PSUs granted	$ 64.57	$ 65.11	$ 84.83
RSAs, RSUs, and PSUs vested	$ 72.82	$ 79.28	$ 79.36
RSAs, RSUs, and PSUs forfeited	$ 76.81	$ 75.02	$ 73.27

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, 2020	August 31, 2019	August 31, 2018
Total fair market value of RSAs, RSUs, and PSUs vested (in thousands)	$ 10,914	$ 12,302	$ 10,886

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 2020, 2019 and 2018:

	Years Ended		
	August 31, 2020	August 31, 2019	August 31, 2018
Shares repurchased	56,503	75,462	37,414
Cost of repurchase of shares (in thousands)	$ 3,651	$ 4,604	$ 3,183

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, 2020	August 31, 2019	August 31, 2018
Reissued treasury shares	234,370	63,130	—

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 May 22, 2019, a class action complaint was filed against PriceSmart, Inc., as well as certain former and current officers in the United States District Court for the Southern District of California. On October 7, 2019, the Court granted Public Employees Retirement Association of New Mexico's (PERA's) Motion for Appointment as Lead Plaintiff. On January 3, 2020, PERA filed a consolidated class action complaint, which alleges violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The Company believes the case lacks merit and intends to vigorously defend itself against any obligations or liability to the plaintiffs. During the third quarter of fiscal 2020, the Company filed a Motion to Dismiss the Plaintiff's Consolidated Amended Complaint and the Plaintiff filed an Opposition to the Motion to Dismiss. During the fourth quarter of fiscal 2020, the Company filed a Reply to the Opposition. The Court has taken the matter under advisement.

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 Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, 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, 2020 and 2019, the Company has recorded within other accrued expenses a total of $2.5 million and $3.2 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.

Other Commitments

The Company is committed under non-cancelable operating leases for the rental of facilities and land (refer to Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, Note 12 - Leases).

The Company is committed to non-cancelable construction service obligations for various warehouse club developments and expansions. As of August 31, 2020 and August 31, 2019, the Company had approximately $5.1 million and $14.9 million, respectively, in contractual obligations for construction services not yet rendered.

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, 2020, the Company did not have any pending land purchase option agreements.

Refer to Part II. “Item 8. Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements, 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.

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,		
	2020	2019	2018
United States	$ 24,771	$ 25,167	$ 19,723
Foreign	91,269	85,943	102,865
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	$ 116,040	$ 111,110	$ 122,588

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

	Years Ended August 31,		
	2020	2019	2018
Current:			
U.S. tax expense	$ 10,046	$ 10,878	$ 10,827
Foreign tax expense	31,122	29,675	30,389
Total	$ 41,168	$ 40,553	$ 41,216
Deferred:			
U.S. tax expense (benefit)	$ (5,945)	$ (5,978)	$ 8,223
U.S. valuation allowance change	5,570	6,171	2
Foreign tax expense (benefit)	(3,157)	966	3,516
Foreign valuation allowance change	128	(4,152)	(4,780)
Total	$ (3,404)	$ (2,993)	$ 6,961
Provision for income taxes	$ 37,764	$ 37,560	$ 48,177

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,		
	2020	2019	2018
Federal tax provision at statutory rates	21.0 %	21.0 %	25.7 %
State taxes, net of federal benefit	0.1	0.3	0.2
Differences in foreign tax rates	9.7	10.6	3.9
Permanent items and other adjustments	(4.4)	(2.1)	10.8
(Decrease)/increase in valuation allowance	6.1	4.0	(1.3)
Provision for income taxes	32.5 %	33.8 %	39.3 %

Significant components of the Company's deferred tax assets as of August 31, 2020 and 2019 are shown below (in thousands):

	August 31, 2020	August 31, 2019
Deferred tax assets:		
U.S. net operating loss carryforward	$ 4,416	$ 3,763
Foreign tax credits	12,691	7,170
Deferred compensation	1,357	927
U.S. timing differences	3,742	2,598
Foreign net operating losses	4,811	4,481
Foreign timing differences:		
Accrued expenses and other timing differences	6,808	5,581
Depreciation and amortization	9,043	8,819
Deferred income	5,241	4,504
Gross deferred tax assets	48,109	37,843
U.S. deferred tax liabilities (depreciation and other timing differences)	(4,679)	(5,286)
Foreign deferred tax liabilities netted against deferred tax assets	(4,311)	(5,360)
U.S. valuation allowance	(12,746)	(7,177)
Foreign valuation allowance	(4,701)	(4,546)
Net deferred tax assets	$ 21,672	$ 15,474

For fiscal 2020, the effective tax rate was 32.5%. The decrease in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably unfavorable impact of 1.3% resulting from nonrecurrence of the reversal of valuation allowances on net deferred tax assets in the Company's Colombia subsidiary.

2. The comparably unfavorable impact of 1.3% resulting from valuation allowances on deferred tax assets from foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable.

3. The comparably favorable impact of 1.2% resulting from changes in income tax liabilities from uncertain tax position.

4. The comparably favorable impact of 1.1% resulting from the effect of the change in foreign currency value and related adjustments.

5. The comparably favorable impact of 0.4% due to a greater portion of income falling into lower tax jurisdiction.

6. The comparably favorable impact of 0.7% resulting from nonrecurrence of severance compensation of one of our officers.

For fiscal 2020, 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 $16.9 million and $13.5 million as of August 31, 2020 and 2019, respectively.

The Company had U.S. federal and state tax NOLs at August 31, 2020 of approximately $16.8 million and $16.4 million, respectively. Substantially all of the federal and state NOLs expire during periods ranging from 2020 through 2036 unless previously utilized. In calculating the tax provision and assessing the likelihood that the Company will be able to utilize the deferred tax assets, the Company considered and weighed all of the evidence, both positive and negative, and both objective and subjective. The Company factored in the inherent risk of forecasting revenue and expenses over an extended period of time and considered the potential risks associated with its business. Using the Company's U.S. income from continuing operations and projections of future taxable income in the U.S., the Company was able to determine that there was sufficient positive evidence to support the conclusion that it was more likely than not that the Company would be able to realize substantially all of its federal U.S. NOLs by generating sufficient taxable income during the carry-forward period. Further, based on current projections and using current apportionment factors, the Company maintains a partial valuation allowance on its Florida state NOLs

($16.4 million in gross) originating from its acquisition of its Aeropost, Inc. subsidiary, as the Company expects that $11.1 million of this NOL will expire before being utilized.

The Company has determined that due to a deemed change of ownership (as defined in Section 382 of the Internal Revenue Code) in October 2004, for PriceSmart, Inc., and March 2018 for Aeropost, Inc., there will be annual limitations in the amount of U.S. taxable income that may be offset by NOLs of approximately $6.1 million, through 2022. The Company expects substantially all recoverable NOLs will be recovered by 2023.

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, 2020 and 2019, the undistributed earnings of these foreign subsidiaries are approximately $177.5 million and $108.9 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,		
	2020	**2019**	**2018**
Balance at beginning of fiscal year	$ 6,490	$ 7,005	$ 7,694
Gross increase - tax positions in prior period	464	530	1,600 (1)
Gross decrease - tax positions in prior period	—	—	(2,526)(2)
Additions based on tax positions related to the current year	186	94	258
Expiration of the statute of limitations for the assessment of taxes	(2,567)	(1,139)	(21)
Balance at end of fiscal year	$ 4,573	$ 6,490	$ 7,005

(1) Aeropost related unrecognized tax benefits, with corresponding increase to Goodwill, due to prior year acquisition.
(2) Beneficial impact of US tax rate change, with corresponding detrimental rate change offset in deferred tax assets.

As of August 31, 2020, the liability for income taxes associated with unrecognized tax benefits was $4.6 million and can be reduced by $1.5 million of tax benefits recorded as deferred tax assets and liabilities. The total $4.6 million unrecognized tax benefit includes $400,000 of associated timing adjustments. The net amount of $4.2 million would, if recognized, favorably affect the Company's financial statements and favorably affect the Company's effective income tax rate.

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense. As of August 31, 2020 and 2019, the Company had accrued an additional $2.0 million 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, 2020 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 other 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 $10.4 million and $7.8 million and deferred tax assets of $2.8 million and $2.7 million as of Aug 31, 2020 and August 31, 2019, 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 to 2007, 2011* to 2016*, 2017 to the present
California (U.S.) (state return)	2005 and 2016 to the present
Florida (U.S.) (state return)	2011* to 2016*, 2017 to the present
Aruba	2015 to the present
Barbados	2014 to the present
Costa Rica	2011 to 2012, 2015 to the present
Colombia	2015 to the present
Dominican Republic	2011 to 2012 and 2016 to the present
El Salvador	2017 to the present
Guatemala	2009, 2012 to 2013, 2016 the present
Honduras	2015 to the present
Jamaica	2014 to the present
Mexico	2015 to the present
Nicaragua	2016 to the present
Panama	2016*, 2017 to the present
Trinidad	2014 to the present
U.S. Virgin Islands	2001 to the present
Spain	2017 to the present
Chile	2017* 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.

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):

		Facilities Used			
	Total Amount of Facilities	Short-term Borrowings	Letters of Credit	Facilities Available	Weighted average interest rate
August 31, 2020	$ 81,210	$ 65,143	$ 388	$ 15,679	3.7 %
August 31, 2019	$ 69,000	$ 7,540	$ 486	$ 60,974	6.1 %

As of August 31, 2020 and August 31, 2019, the Company had approximately $40.0 million of short-term facilities in the U.S. that require compliance with certain quarterly financial covenants. As of August 31, 2020 and August 31, 2019, the Company was in compliance with respect to these covenants. Each of the facilities expires annually except for the U.S. facility, which expires bi-annually. The facilities are normally renewed.

The following table provides the changes in long-term debt for the twelve months ended August 31, 2020:

(Amounts in thousands)	Current portion of long-term debt	Long-term debt (net of current portion)	Total	
Balances as of August 31, 2018	$ 14,855	$ 87,720	$ 102,575	(1)
Regularly scheduled loan payments	(4,467)	(8,472)	(12,939)	
Reclassifications of long-term debt	15,394	(15,394)	—	
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	93	(143)	(50)	
Balances as of August 31, 2019	25,875	63,711	89,586	(2)
Proceeds from long-term debt incurred during the period:				
Colombia subsidiary	—	25,000	25,000	
Guatemala subsidiary	—	20,820	20,820	
Trinidad subsidiary	6,062	6,000	12,062	
Regularly scheduled loan payments	(5,393)	(9,771)	(15,164)	
Refinances of short-term debt	(11,046)	11,046	—	
Reclassifications of long-term debt due in the next 12 months	3,875	(3,875)	—	
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	64	(321)	(257)	
Balances as of August 31, 2020	$ 19,437	$ 112,610	$ 132,047	(4)

(1) The carrying amount on non-cash assets assigned as collateral for these loans was $125.9 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 $111.3 million. No cash assets were assigned as collateral for these loans.
(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 $158.6 million. No cash assets were assigned as collateral for these loans.

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

	August 31, 2020	August 31, 2019
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	$ 42,585	$ 24,224
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	45,519	53,544
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	43,943	11,818
Total long-term debt	132,047	89,586
Less: current portion	19,437	25,875
Long-term debt, net of current portion	$ 112,610	$ 63,711

As of August 31, 2020, the Company had approximately $107.4 million 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. As of August 31, 2020, the Company was in compliance with all covenants or amended covenants.

As of August 31, 2019, the Company had approximately $83.1 million 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. As of August 31, 2019, the Company was in compliance with all covenants or amended covenants.

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

Twelve Months Ended August 31,	Amount
2021	$ 19,437
2022	16,787
2023	24,762
2024	8,463
2025	23,887
Thereafter	38,711
Total	$ 132,047

NOTE 12 – LEASES

The Company adopted ASC 842 as of September 1, 2019, using the modified retrospective method and applying transitional relief allowing entities to initially apply the requirements at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, results and disclosures for the reporting periods beginning September 1, 2019 are reported and presented under ASC 842, while prior period amounts and disclosures are not adjusted and continue to be reported and presented under ASC 840.

As part of the adoption, the Company elected the following practical expedients:

- A package of practical expedients allowing the Company to: a) carry forward its historical lease classification; b) avoid reassessing whether any expired or existing contracts are or contain leases; and c) avoid reassessing initial direct costs for any existing lease.

- A practical expedient related to land easements, allowing the Company to carry forward the accounting treatment for land easements on existing agreements and eliminating the need to reassess existing lease contracts to determine if land easements are separate leases under ASC 842.

- A practical expedient allowing the Company not to apply the recognition requirements of ASC 842 to short-term leases (12 months or less).

The Company did not elect the following practical expedients:

- A practical expedient that would allow the Company to use hindsight in determining the lease term and to assess impairment of the entity's right-of use ("ROU") assets because election of this expedient could make adoption more complex given the requirement to reevaluate the lease term.

- A practical expedient allowing the Company to not separate lease components from nonlease components (*e.g.*, common area maintenance costs) because the Company does not combine lease and nonlease components for any of its real estate 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, 2020, 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 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 on the interim unaudited 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.

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 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.

Adoption of the standard resulted in the initial recognition of $120.6 million of operating lease ROU assets and $132.1 million of short-term and long-term operating lease liabilities as of September 1, 2019. The difference between the newly recorded assets and liabilities is $11.5 million, which was recorded against our deferred rent balance of $11.2 million as of August 31, 2019. The difference of $0.3 million was expensed in the first quarter of fiscal 2020. No cumulative-effect adjustments were recorded to retained earnings, and there was no material impact to the Company's consolidated statements of income, consolidated statements of comprehensive income, or consolidated statements of cash flows.

The following table is a summary of the Company's components of total lease costs for fiscal year 2020 (in thousands):

	Year Ended August 31, 2020
Operating lease cost	$ 17,305
Short-term lease cost	236
Variable lease cost	3,679
Sublease income	(1,061)
Total lease costs	$ 20,159

The weighted average remaining lease term and weighted average discount rate for operating leases as of August 31, 2020 were as follows:

	Operating leases
Weighted average remaining lease term in years	18.2
Weighted average discount rate percentage	6.4%

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

	Year Ended August 31, 2020
Operating cash flows paid for operating leases	$ 15,392

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[1]
2021	$ 15,001
2022	15,040
2023	14,698
2024	14,205
2025	13,994
Thereafter	167,775
Total future lease payments	240,713
Less: imputed interest	(107,938)
Total operating lease liabilities	$ 132,775 [2]

[1] Operating lease obligations have been reduced by approximately $0.9 million to reflect expected sub-lease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

[2] Future minimum lease payments include $0.6 million of lease payment obligations for the prior leased Miami distribution center. For the purposes of calculating the minimum lease payments, a reduction is reflected for the actual sub-lease income the Company expects to receive during the remaining lease term. This sub-lease income was also considered, for the purposes of calculating the exit obligation, which was immaterial as of August 31, 2020.

Upon adoption of ASU 2016-02, Leases (Topic 842), the Company's aggregate annual lease obligations includes leases with reasonably assured renewals. The aggregate minimum annual lease rentals as of August 31, 2019 for the remaining contractual term of non-cancelable leases under ASC 840 were as follows:

Years Ended August 31,	Leased Locations[1]
2020	$ 14,049
2021	13,272
2022	13,033
2023	13,065
2024	12,558
Thereafter	180,913
Total	246,890 [2]

[1] Operating lease obligations have been reduced by approximately $2.3 million to reflect expected sub-lease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

[2] Future minimum lease payments include $1.6 million of lease payment obligations for the prior leased Miami distribution center. For the purposes of calculating the minimum lease payments, a reduction is reflected for the actual sub-lease income the Company expects to receive during the remaining lease term. This sub-lease income was also considered, for the purposes of calculating the exit obligation, which was immaterial as of August 31, 2019.

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 three 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 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.

The Company uses other derivatives not designated as hedging instruments that consist primarily of written call options in which the Company receives a premium from the holder. This premium lowers the cost of the Company's hedging activities. The Company recognizes changes in fair value of the derivative instrument, as well as the offsetting change in the fair value of the hedged item, in Other expense, net in the consolidated statements of income in the period of change.

Cash Flow Hedges

As of August 31, 2020, 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.

The following table summarizes agreements for which the Company has cash flow hedge accounting transactions as of August 31, 2020:

Subsidiary	Date Entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Initial US$ Notional Amount	Bank US$ loan Held with	Floating Leg (swap counter-party)	Fixed Rate for PSMT Subsidiary	Settlement Dates	Effective Period of swap
Colombia	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	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	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	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	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, 2024
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, 2020, 2019 and 2018 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, 2020	$ 4,045	$ 2,416	$ 6,461
Interest expense for the year ended August 31, 2019	$ 4,732	$ 511	$ 5,243
Interest expense for the year ended August 31, 2018	$ 4,100	$ 981	$ 5,081

(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.

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	
Floating Rate Payer (Swap Counterparty)	August 31, 2020	August 31, 2019
Union Bank	$ 33,894	$ 35,169
Citibank N.A.	55,086	24,225
Scotiabank	11,625	14,992
Total	$ 100,605	$ 74,386

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):

		August 31, 2020			August 31, 2019		
Derivatives designated as cash flow hedging instruments	Balance Sheet Classification	Fair Value	Net Tax Effect	Net OCI	Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other current assets	$ —	$ —	$ —	$ 2,736	$ (903)	$ 1,833
Cross-currency interest rate swaps	Other non-current assets	872	(265)	607	—	—	—
Interest rate swaps	Other long-term liabilities	(3,857)	898	(2,959)	(2,178)	517	(1,661)
Cross-currency interest rate swaps	Other long-term liabilities	(828)	248	(580)	(732)	220	(512)
Net fair value of derivatives designated as hedging instruments		$ (3,813)	$ 881	$ (2,932)	$ (174)	$ (166)	$ (340)

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. As of August 31, 2020, the Company did not have any material non-deliverable forward foreign-exchange contracts.

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, 2020, 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, 2020 and 2019, the Company included in its consolidated statements of income the loss of its other non-designated derivative contracts as follows (in thousands):

	Years Ended August 31,		
Income Statement Classification	**2020**	**2019**	**2018**
Other expense, net	$ (912)	$ —	$ —

NOTE 14 – RELATED-PARTY TRANSACTIONS

Relationship with Francisco Velasco: Francisco Velasco is the Executive Vice President, General Counsel, Secretary and Chief Ethics and Compliance Officer for the Company. As part of his employment agreement dated July 2016, the Company purchased his home in Chicago, IL, in July 2016 based on its appraised value for approximately $625,000. The Company sold the property in July 2018 for $485,000, net of commissions and expenses.

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 $1.5 million, $1.6 million and $1.3 million in rental income for this space during the fiscal years ended 2020, 2019 and 2018. Additionally, Mr. Zurcher is a director of Molinos de Costa Rica S.A. The Company paid approximately $1.1 million, $741,000 and $754,000 for products purchased from this entity during the fiscal years ended August 31, 2020, 2019 and 2018, respectively. Also, Mr. Zurcher was formerly a director of Roma Prince S.A. PriceSmart purchased products from this entity for approximately $1.1 million, $1.0 million and $1.1 million for the years ended August 31, 2020, 2019 and 2018, respectively.

Relationships with Price Family Charitable Organizations: During the years ended August 31, 2020, 2019 and 2018, the Company sold approximately $525,000, $527,000 and $457,000, 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 Vice President and Vice Chairman 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 director of the Board of the Price Philanthropies Foundation.

Relationships with Mitchell G. Lynn: Mr. Lynn has been a director of the Company since November 2011. Mr. Lynn is a founder and a limited partner of CRI 2000, LP, dba Combined Resources International ("CRI") and Lightspeed Outdoors, LP (“LSO”). CRI designs and imports consumer products for wholesale distribution, primarily through warehouse clubs. LSO designs and imports recreational products for wholesale distribution and online retailing. The Company purchased immaterial amounts of merchandise from CRI and LSO during the fiscal years ended August 31, 2020 and 2019. The Company purchased $305,000 of merchandise from these entities during the fiscal year ended August 31, 2018.

Relationship with Golf Park Plaza, S.A.: Golf Park Plaza, S.A. is a real estate joint venture located in Panama entered into 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. The Company recognized $105,700 in rent expense for each of the fiscal years ended August 31, 2020, 2019 and 2018.

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. The Company recognized $105,700 in rent expense for each of the fiscal years ended August 31, 2020, 2019 and 2018.

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, 2020 (in thousands):

Entity	% Ownership	Initial Investment	Additional Investments	Net Income 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	$ 7,090	$ 99	$ 7,189
Price Plaza Alajuela PPA, S.A.	50 %	2,193	1,236	83	3,512	785	4,297
Total		$ 6,809	$ 3,638	$ 155	$ 10,602	$ 884	$ 11,486

(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.

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

	August 31, 2020	August 31, 2019
Current assets	$ 1,398	$ 1,344
Noncurrent assets	10,686	10,949
Current liabilities	138	156
Noncurrent liabilities	$ 8	$ 8

	Years Ended August 31,		
	2020	2019	2018
PriceSmart's share of net loss of unconsolidated affiliates	$ (95)	$ (61)	$ (8)

NOTE 16 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international operation of membership shopping in 46 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.

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, 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)[3]	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
Year Ended August 31, 2019						
Revenue from external customers	$ 68,335	$ 1,831,761	$ 933,886	$ 389,936	$ —	$ 3,223,918
Intersegment revenues	1,205,986	11,185	4,507	1,498	(1,223,176)	—
Depreciation, Property and equipment	5,334	24,684	14,052	8,484	—	52,554
Amortization, Intangibles	2,404	—	—	—	—	2,404
Operating income (loss)	3,805	122,629	50,724	14,909	(76,900)	115,167
Interest income from external sources	74	499	568	348	—	1,489
Interest income from intersegment sources	1,408	1,877	724	—	(4,009)	—
Interest expense from external sources	1,377	2,368	(401)	595	—	3,939
Interest expense from intersegment sources	60	1,505	2,132	8	(3,705)	—
Provision for income taxes	11,280	19,429	6,615	236	—	37,560
Net income (loss) attributable to PriceSmart, Inc.	(8,518)	100,614	44,168	14,124	(77,197)	73,191
Long-lived assets (other than deferred tax assets)	65,278	383,665	165,584	115,838	—	730,365
Intangibles, net	12,576	—	—	—	—	12,576
Goodwill	11,315	24,593	10,193	—	—	46,101
Investment in unconsolidated affiliates	—	10,697	—	—	—	10,697
Total assets	161,583	614,579	340,216	180,033	—	1,296,411
Capital expenditures, net	8,439	85,962	28,434	22,832	—	145,667
Year Ended August 31, 2018						
Revenue from external customers	$ 57,445	$ 1,839,810	$ 879,423	$ 390,024	$ —	$ 3,166,702
Intersegment revenues	1,184,530	—	4,472	993	(1,189,995)	—
Depreciation, Property and equipment	7,373	23,391	11,596	9,160	—	51,520
Amortization, Intangibles	1,120	—	—	—	—	1,120
Operating income (loss)	2,016	130,849	48,383	12,086	(67,282)	126,052
Interest income from external sources	25	487	767	136	—	1,415
Interest income from intersegment sources	747	1,245	730	—	(2,722)	—
Interest expense from external sources	1,465	3,210	(353)	750	—	5,072
Interest expense from intersegment sources	16	1,042	1,576	3	(2,637)	—
Provision for income taxes	19,977	20,767	5,624	1,809	—	48,177
Net income (loss) attributable to PriceSmart, Inc.	(19,811)	107,401	44,178	9,917	(67,357)	74,328
Long-lived assets (other than deferred tax assets)	67,650	320,612	150,516	118,284	—	657,062
Intangibles, net	14,980	—	—	—	—	14,980
Goodwill	11,230	24,903	10,196	—	—	46,329
Investment in unconsolidated affiliates	—	10,758	—	—	—	10,758
Total assets	164,008	550,874	318,837	182,673	—	1,216,392
Capital expenditures, net	2,252	50,982	39,379	3,237	—	95,850

(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.

(3) Effective September 1, 2019, we adopted the requirements of Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)" (ASC 842) using the modified retrospective approach, under which financial results reported in prior periods were not restated. As a result, the Long-lived assets (other than deferred tax assets) as of August 31, 2020 is not comparable with that as of August 31, 2019 and August 31, 2018.

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of August 31, 2020 through the date of issuance of these consolidated financial statements and has determined that there are no subsequent events that require disclosure.

NOTE 18 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 2020, 2019 and 2018 is as follows (in thousands, except per share data):

	Three Months Ended,				Year Ended,
Fiscal Year 2020	**Nov 30, 2019**	**Feb 29, 2020**	**May 31, 2020**	**Aug 31, 2020**	**Aug 31, 2020**
Total revenues	$ 811,941	$ 906,735	$ 799,931	$ 810,581	$ 3,329,188
Total cost of goods sold	$ 674,946	$ 756,174	$ 672,756	$ 670,902	$ 2,774,778
Net income attributable to PriceSmart, Inc.	$ 19,728	$ 25,600	$ 12,705	$ 20,076	$ 78,109
Basic net income per share	$ 0.64	$ 0.85	$ 0.41	$ 0.65	$ 2.55
Diluted net income per share	$ 0.64	$ 0.85	$ 0.41	$ 0.65	$ 2.55

	Three Months Ended,				Year Ended,
Fiscal Year 2019	**Nov 30, 2018**	**Feb 28, 2019**	**May 31, 2019**	**Aug 31, 2019**	**Aug 31, 2019**
Total revenues	$ 779,637	$ 854,425	$ 788,556	$ 801,300	$ 3,223,918
Total cost of goods sold	$ 653,180	$ 716,858	$ 661,887	$ 663,766	$ 2,695,691
Net income attributable to PriceSmart, Inc.	$ 14,612	$ 23,810	$ 14,096	$ 20,673	$ 73,191
Basic net income per share	$ 0.48	$ 0.79	$ 0.46	$ 0.67	$ 2.40
Diluted net income per share	$ 0.48	$ 0.79	$ 0.46	$ 0.67	$ 2.40

	Three Months Ended,				Year Ended,
Fiscal Year 2018	**Nov 30, 2017**	**Feb 28, 2018**	**May 31, 2018**	**Aug 31, 2018**	**Aug 31, 2018**
Total revenues	$ 767,072	$ 839,563	$ 782,201	$ 777,866	$ 3,166,702
Total cost of goods sold	$ 644,985	$ 708,040	$ 652,694	$ 650,801	$ 2,656,520
Net income attributable to PriceSmart, Inc.	$ 22,490	$ 14,148 [1]	$ 18,694	$ 18,996	$ 74,328
Basic net income per share	$ 0.74	$ 0.47	$ 0.61	$ 0.62	$ 2.44
Diluted net income per share	$ 0.74	$ 0.47	$ 0.61	$ 0.62	$ 2.44

(1) In the second quarter of fiscal 2018, the Company recorded its provisional tax estimate of $13.4 million as a result of the U.S. Tax Reform Transition Tax. The Company finalized its calculation of this Transition Tax in the fourth quarter of fiscal 2018, reducing it to approximately $12.5 million.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

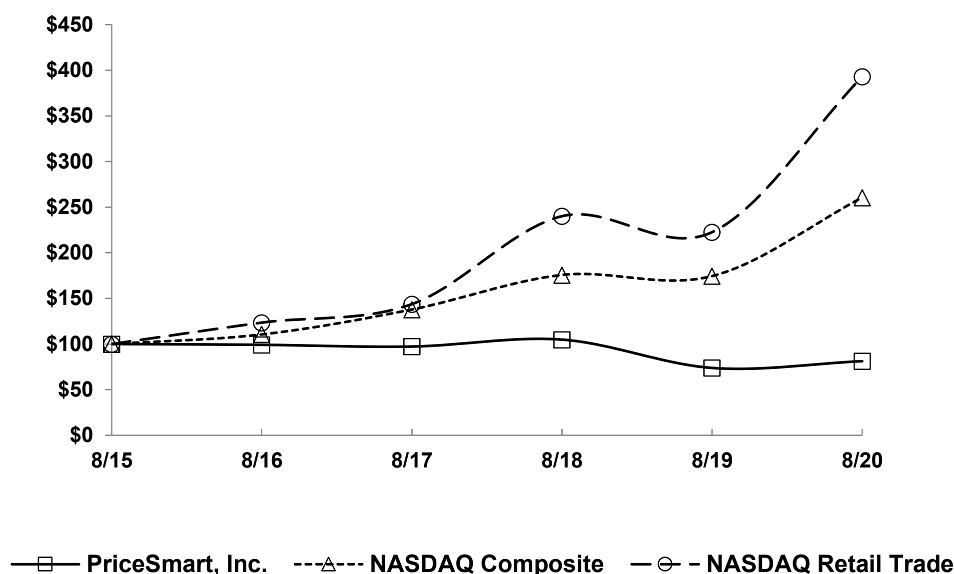
The Company's common stock has been quoted and traded on the NASDAQ Global Select Market under the symbol "PSMT" since September 2, 1997. As of October 19, 2020, there were approximately 20,354 holders of record of the common stock.

	Dates		Stock Price	
	From	To	High	Low
2020 FISCAL QUARTERS				
First Quarter	9/1/2019	11/30/2019	$ 77.11	$ 58.25
Second Quarter	12/1/2019	2/29/2020	74.70	55.69
Third Quarter	3/1/2020	5/31/2020	65.09	42.94
Fourth Quarter	6/1/2020	8/31/2020	$ 67.26	$ 54.57
2019 FISCAL QUARTERS				
First Quarter	9/1/2018	11/30/2018	$ 88.05	$ 64.81
Second Quarter	12/1/2018	2/28/2019	67.45	55.78
Third Quarter	3/1/2019	5/31/2019	64.69	48.60
Fourth Quarter	6/1/2019	8/31/2019	$ 62.37	$ 48.69

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the fiscal year ended August 31, 2020.

The graph below matches PriceSmart, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Retail Trade index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from 8/31/2015 to 8/31/2020.



*$100 invested on 8/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending August 31.

	8/15	8/16	8/17	8/18	8/19	8/20
PriceSmart, Inc.	**100.00**	**99.15**	**97.24**	**104.84**	**73.82**	**81.21**
NASDAQ Composite	**100.00**	**110.53**	**137.86**	**175.70**	**174.44**	**260.50**
NASDAQ Retail Trade	**100.00**	**123.46**	**143.72**	**240.12**	**222.61**	**392.98**

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Dividends

Declared	Amount	First Payment Record Date	First Payment Date Paid	First Payment Amount	Second Payment Record Date	Second Payment Date Paid	Second Payment Amount
2/6/2020	$ 0.70	2/15/2020	2/28/2020	$ 0.35	8/15/2020	8/31/2020	$ 0.35
1/30/2019	$ 0.70	2/15/2019	2/28/2019	$ 0.35	8/15/2019	8/30/2019	$ 0.35
1/24/2018	$ 0.70	2/14/2018	2/28/2018	$ 0.35	8/15/2018	8/31/2018	$ 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.

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 2020, the Company repurchased a total of 56,503 shares in the indicated months. These were the only repurchases of equity securities made by the Company during fiscal 2020. 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, 2019 - September 30, 2019	515	$ 72.83	—	N/A
October 1, 2019 - October 31, 2019	4,746	68.90	—	N/A
November 1, 2019 - November 30, 2019	1,357	71.45	—	N/A
December 1, 2019 - December 31, 2019	—	—	—	N/A
January 1, 2020 - January 31, 2020	14,468	63.59	—	N/A
February 1, 2020 - February 29, 2020	—	—	—	N/A
March 1, 2020 - March 31, 2020	3,914	48.17	—	N/A
April 1, 2020 - April 30, 2020	296	53.70	—	N/A
May 1, 2020 - May 31, 2020	—	—	—	N/A
June 1, 2020 - June 30, 2019	—	—	—	N/A
July 1, 2019 - July 31, 2020	3,672	67.16	—	N/A
August 1, 2020 - August 31, 2020	27,535	66.09	—	N/A
Total	56,503	$ 64.64	—	N/A

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
Thursday, February 4, 2021 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.pricesmart.com.

DIRECTORS & OFFICERS OF PRICESMART, INC.
As of December 18, 2020

Robert E. Price	Chairman
Mitch Lynn	Vice Chairman
Sherry S. Bahrambeygui	Director
Jeffrey Fisher	Director
Gordon Hanson	Director
Beatriz Infante	Director
Leon Janks	Director
Gary Malino	Director
Edgar Zurcher	Director
Patricia Márquez	Director Nominee
David Snyder	Director Nominee
Sherry S. Bahrambeygui	Chief Executive Officer
Michael L. McCleary	Executive Vice President & Chief Financial Officer
William J. Naylon	Executive Vice President & Chief Operating Officer
Francisco Velasco	Executive Vice President — General Counsel, Chief Ethics & Compliance Officer and Corporate Secretary
Ana Luisa Bianchi	Executive Vice President — Chief Merchandising Officer
Juan Ignacio Biehl	Executive Vice President — Digital Experience and Chief Technology Officer
Rodrigo Calvo	Executive Vice President — Real Estate
Frank Diaz	Executive Vice President — Logistics and Distribution
Brud E. Drachman	Executive Vice President — Environmental Responsibility, Construction & Facilities
John D. Hildebrandt	Executive Vice President — Operations
Laura Santana	Executive Vice President — Information Technology
Jesus Von Chong	Executive Vice President — Local/Regional Merchandising
Catherine D. Alvarez-Smith	Senior Vice President — Operational Controlling
Eduardo Franceschi	Senior Vice President — Regional Operations
Carlos Herrera	Senior Vice President — Omnichannel Initiatives
Paul Kovaleski	Senior Vice President — Food Service, Bakery and Optical
Dhanraj Mahabir	Senior Vice President — Regional Operations
Nicolas Maslowski	Senior Vice President — Member Experience
Alberto Morales	Senior Vice President — Human Resources
Atul Patel	Senior Vice President — Treasurer
Rafael Rodriguez	Senior Vice President — Distribution
Chris Souhrada	Senior Vice President — Business Development
Melissa Twohey	Senior Vice President — Merchandising – Corporate Foods
Pedro Vera	Senior Vice President — Regional Operations
Benjamin M. Woods	Senior Vice President — Merchandising – Non-Foods
Alma Adajar-Aban	Vice President — Internal Audit and Controls
Briana Anderson	Vice President — Buying – Non-Foods
Alexa Bodden	Vice President — Membership & Marketing
George Burkle	Vice President — US Export Sales
Guadalupe Cefalu	Vice President — Forecasting & Planning
Maynor Chavez	Vice President — Compensation & Benefits
Sergio Cuevas	Vice President — Regional Operations
Daniel Fairbanks	Vice President — Private Label
Dave Hahn	Vice President — IT Development
Patricia M. Klassen	Vice President — Associate General Counsel and Assistant Corporate Secretary
Jonathan Mendoza	Vice President — Construction & Facilities

Hana Nizel	Vice President — Merchandising – Corporate Fresh Foods
Kelly Orme	Vice President — Merchandising – Global Sourcing
Dennis Palma	Vice President — Business Services
David Price	Vice President — Omnichannel Initiatives & Social and Environmental Responsibility
Meshach Ramkissoon	Vice President — Merchandising – Regional Fresh Foods
Emma Reyes	Vice President — International Logistics & Trade Compliance
Ronald Rodriquez	Vice President — Logistics
Christina Santmyre	Vice President — Distribution
Eric Torres	Vice President — Facilities Maintenance & Equipment
Marco Torres	Vice President — Regional Operations
Robert Uno	Vice President — IT Infrastructure

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