

PRICESMART INC
Form 10-K
November 12, 2008

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

FORM 10-K

(Mark One)

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

For the fiscal year ended August 31, 2008

OR

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

Commission File Number: 000-22793

PRICESMART, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of other jurisdiction of
incorporation or organization)

33-0628530
(I.R.S. Employer
Identification Number)

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

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

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

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

Common Stock, \$0.0001 Par Value

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant as of February 29, 2008 was \$357,548,126, based on the last reported sale of \$24.26 per share on February 29, 2008.

As of November 5, 2008, a total of 29,608,772 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Annual Report for the fiscal year ended August 31, 2008 are incorporated by reference into Part II of this Form 10-K.

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 28, 2009 are incorporated by reference into Part III of this Form 10-K.

PRICESMART, INC.

ANNUAL REPORT ON FORM 10-K FOR
THE FISCAL YEAR ENDED AUGUST 31, 2008

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	3
<u>Item 1A.</u> <u>Risk Factors</u>	6
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	10
<u>Item 2.</u> <u>Properties</u>	10
<u>Item 3.</u> <u>Legal Proceedings</u>	10
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	11
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of</u> <u>Equity Securities</u>	12
<u>Item 6.</u> <u>Selected Financial Data</u>	12
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	12
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	12
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	12
<u>Item 9A.</u> <u>Controls and Procedures</u>	13
<u>Item 9B.</u> <u>Other Information</u>	15
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	15
<u>Item 11.</u> <u>Executive Compensation</u>	15
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder</u> <u>Matters</u>	15

<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	15
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	15
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	16
	<u>Signatures</u>	25

PART I

Item 1. Business

This Form 10-K contains forward-looking statements concerning PriceSmart, Inc.'s ("PriceSmart" or the "Company") anticipated future revenues and earnings, adequacy of future cash flow and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect," "believe," "will," "may," "should," "project," "estimate," "scheduled" and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements, including foreign exchange risks, political or economic instability of host countries, and competition as well as those risks described in the Company's U.S. Securities and Exchange Commission reports, including the risk factors referenced in this Form 10-K. See Part I, Item 1A "Risk Factors."

PriceSmart's business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. The number of warehouse clubs in operation, as of August 31, 2008 and 2007, the Company's ownership percentages and basis of presentation for financial reporting purposes by each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation (as of August 31, 2008)	Number of Warehouse Clubs in Operation (as of August 31, 2007)	Ownership (as of August 31, 2008)	Basis of Presentation
Panama	4	4	100%	Consolidated
Costa Rica	4	4	100%	Consolidated
Dominican Republic	2	2	100%	Consolidated
Guatemala	3	2	100%	Consolidated
El Salvador	2	2	100%	Consolidated
Honduras	2	2	100%	Consolidated
Trinidad	3	2	95%	Consolidated
Aruba	1	1	100%	Consolidated
Barbados	1	1	100%	Consolidated
U.S. Virgin Islands	1	1	100%	Consolidated
Jamaica	1	1	100%	Consolidated
Nicaragua	1	1	100%	Consolidated
Totals	25	23		

In November and December 2007 (fiscal year 2008), the Company opened its third warehouse clubs in each of Guatemala and Trinidad. Also during the second quarter of fiscal year 2008, the Company acquired the remaining 49% of minority interest in PriceSmart Nicaragua, increasing the Company's ownership to 100%. In addition, during the fourth quarter of fiscal year 2008, the Company acquired the remaining 10% of minority interest in PriceSmart Aruba, increasing its ownership to 100%.

As of August 31, 2008, the total number of consolidated warehouse clubs in operation was 25 operating in 11 countries and one U.S. territory, in comparison to 23 consolidated warehouse clubs operating in 11 countries and one U.S. territory at the end of August 2007. The average age of the warehouse clubs included in continuing operations was 86 months and 80 months as of the end of fiscal year 2008 and fiscal year 2007, respectively.

The Company announced on October 1, 2008 that it had entered into agreements to acquire properties in Panama and Costa Rica for the construction of new warehouse clubs. In Costa Rica, this will bring the number of warehouse clubs in that country to five. In Panama, the Company will relocate an existing warehouse club to this new site and close the existing warehouse club after the relocation has been completed. The Company is completing due diligence

reviews on two sites, one in Trinidad and the second one in the Dominican Republic as to which the Company has entered into a purchase agreement (subject to due diligence contingencies) and an option agreement, respectively. In addition, the Company is closely examining Colombia as a potential new market for multiple PriceSmart warehouse clubs. Related to the recently acquired sites in Panama and Costa Rica, the Company purchased a 50% interest in additional land adjacent to the warehouse club sites which will be developed as community shopping centers by the joint venture. The Company will continue to consider the acquisition of additional land adjacent to new PriceSmart locations with or without a joint-venture (JV) partner.

In addition to the warehouse clubs operated directly by the Company. There is one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people, from which the Company earns a royalty fee.

International Warehouse Club Business

The Company owns and operates U.S.-style membership shopping warehouse clubs through majority or wholly owned ventures operating in Central America and the Caribbean using the trade name "PriceSmart." In addition, there is one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people, from which the Company earns a royalty fee. The warehouse clubs sell basic consumer goods to individuals and businesses, sales are typically comprised of approximately 48% U.S.-sourced merchandise and approximately 52% locally sourced merchandise, with an emphasis on quality and low prices. By offering low prices on brand name and private label merchandise, the warehouse clubs seek to generate sufficient sales volumes to operate profitably at relatively low gross profit margins.

The Company acquires its U.S. and Asian sourced merchandise from suppliers and routes it directly to our warehouse clubs or to the Company's consolidation points ("distribution centers"). The goods are allocated for container-based shipment via ocean freight from the distribution centers to our individual warehouse clubs. This maximizes freight volume per shipment and handling efficiencies, thereby lowering supply chain costs.

The typical no-frills warehouse club-type buildings range in size from 48,000 to 78,000 square feet and are located primarily in urban areas to take advantage of dense populations and relatively higher levels of disposable income. Product selection includes perishable foods and basic consumer products. Ancillary services include food services, bakery, tire centers, and photo centers. The shopping format includes an annual membership fee.

Business Strategy

PriceSmart's mission is to efficiently operate U.S.-style membership warehouse clubs in Central America and the Caribbean that sell high quality merchandise at low prices to PriceSmart members and that provide fair wages and benefits to PriceSmart employees, as well as a fair return to PriceSmart stockholders. The Company delivers U.S. brand-name and locally sourced products to its small business and consumer members in a warehouse club format that provides high value to its members. By focusing on providing exceptional value on quality merchandise in a low cost operating environment, the Company seeks to grow sales volume and increase membership which in turn will allow for further efficiencies, resulting in price reductions and improved value to our members.

Membership Policy

PriceSmart believes that membership reinforces customer loyalty. In addition, membership fees provide a continuing source of revenue, which allows us to continue lowering prices for the members. PriceSmart has two types of members: Business and Diamond (individual).

Business owners and managers qualify for Business membership. PriceSmart promotes Business membership through its merchandise selection and its marketing programs primarily targeting small businesses like restaurants, hotels and convenience stores. Business members pay an annual membership fee of approximately \$25 for a primary and spouse membership card and approximately \$10 for additional add-on membership cards. Diamond (individual) members pay an annual membership fee of approximately \$20 and approximately \$10 for an add-on membership card.

The Company recognizes membership income over the term of the membership, which is 12 months. Deferred membership income is presented separately on the consolidated balance sheet and totaled \$7.8 million and \$6.6 million as of August 31, 2008 and 2007, respectively. PriceSmart's membership agreements contain an explicit right to refund if its customers are dissatisfied with their membership. The Company's historical rate of membership fee refunds has been approximately 0.5% of membership income.

Expansion Plans

In the past, the Company rapidly expanded into new countries and markets as part of its strategy to gain volume buying benefits and to move quickly into underserved areas. The Company is currently focusing its management attention on improving the operations of its current locations and believes that its existing portfolio provides the opportunity for improved sales and profitability. However, the Company continues to evaluate various options for expansion, particularly in the countries in which it has already established a strong market presence. In that regard, the Company announced on October 1, 2008 that it had entered into agreements to acquire properties in Panama and Costa Rica for the construction of new warehouse clubs. In Costa Rica, this will bring the number of warehouse clubs in that country to five. In Panama, the Company will relocate an existing warehouse club to this new site and close the existing warehouse club after the relocation has been completed. The Company is conducting due diligence reviews on two sites, one in Trinidad and the second one in the Dominican Republic, under purchase a argeement (subject to due diligence contingencies) and an option to purchase agreement respectively. In addition, the Company is closely examining Colombia as a potential new market for multiple PriceSmart warehouse clubs. Related to the recently acquired sites in Panama and Costa Rica, the Company purchased a 50% interest in additional land adjacent to the warehouse club sites which will be developed as community shopping centers by the joint venture. The Company will continue to consider the acquisition of additional land adjacent to new PriceSmart locations with or without a JV partner.

Warehouse Club Closings and Asset Impairment

During fiscal year 2006, the Company recorded \$1.8 million in asset impairment and closure costs, which were primarily due to the write-down of the buildings and land that previously housed warehouse clubs, one in Honduras and one in the Dominican Republic. The Company's original San Pedro Sula, Honduras location was vacated and the warehouse club was relocated to a new site which was acquired during fiscal year 2006 in another section of the city. The charge in the Dominican Republic relates to the previously closed warehouse club in East Santo Domingo.

During fiscal year 2007, the Company recorded \$1.6 million in asset impairment and closure costs. These costs were primarily due to the write down of the vacated San Pedro Sula, Honduras location and the loss on the sale of the East Santo Domingo, Dominican Republic location. In addition there were closure costs recorded in Guatemala for the closed Plaza warehouse, and closure costs in the Dominican Republic and Honduras incurred in operating and preparing the respective properties for sale. In September 2007 (fiscal year 2008), the Company finalized the sale of the vacated San Pedro Sula, Honduras location at the net book value of the asset.

During fiscal year 2008, the Company recorded approximately \$1.1 million in asset impairment and closure costs. These were primarily due to the write down of bulk packaging equipment for approximately \$449,000, as this packaging is now substantially performed in vendor installations. In addition, the Company recorded closing costs in Guatemala for the closed Plaza warehouse, and closure costs in Honduras associated with the final closure and sale of the San Pedro Sula club warehouse location. The major effect on these closure costs was the revaluation of the Guatemala Plaza lease liability for approximately \$605,000 to reflect the increase in rental costs over the remaining period of the lease. Interest related to income generated from the note receivable related to the sale of the East Side Santo Domingo club warehouse which was located in the Dominican Republic is also included within the Asset impairment and closure costs reported in fiscal year 2008.

Discontinued Operations

With the disposition of the Company's interest in PSMT Philippines, Inc. in fiscal 2005 this entity, as well as the Company's Guam operation, which was closed in fiscal 2004, qualify for treatment as "discontinued operations" in the Company's consolidated financial statements. The prior periods have been reclassified for comparative purposes.

International Licensee Business

The Company had one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people at the end of fiscal year 2008, through which the Company earns a royalty fee.

Intellectual Property Rights

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

There can be no assurance that third parties will not assert claims against the Company with respect to existing and future trademarks, trade names, domain names, sales techniques or other intellectual property matters. In the event of litigation to determine the validity of any third-party's claims, such litigation could result in significant expense to the

Company and divert the efforts of the Company's management, whether or not such litigation is concluded in favor of the Company.

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

Employees

As of August 31, 2008, the Company and its consolidated subsidiaries had a total of 4,200 employees. Approximately 94.4% of the Company's employees were employed outside of the United States.

Seasonality

Historically, the Company's merchandising businesses have experienced holiday retail seasonality in their markets. In addition to seasonal fluctuations, the Company's operating results fluctuate quarter-to-quarter as a result of economic and political events in markets served by the Company, 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 the Company's future results will be consistent with past results or the projections of securities analysts.

Item 1A. Risk Factors

In evaluating our business, you should consider the following discussion of risk factors, in addition to other information contained in this report as well as our other public filings with the Securities and Exchange Commission.

The Company's financial performance is dependent on international operations, which exposes it to various risks. The Company's international operations account for nearly all of the Company's total sales. The Company's financial performance is subject to risks inherent in operating and expanding the Company's international membership business, which include: (i) changes in and interpretation of tariff and tax laws and regulations, as well as inconsistent enforcement of laws and regulations; (ii) the imposition of foreign and domestic governmental controls; (iii) trade restrictions; (iv) greater difficulty and costs associated with international sales and the administration of an international merchandising business; (v) thefts and other crimes; (vi) limitations on U.S. company ownership in certain foreign countries; (vii) product registration, permitting and regulatory compliance; (viii) volatility in foreign currency exchange rates; (ix) the financial and other capabilities of the Company's joint venturers and licensees; and (x) general political as well as economic and business conditions.

Any failure by the Company to manage its widely dispersed operations could adversely affect the Company's business. As of August 31, 2008, the Company had in operation 25 consolidated warehouse clubs in 11 countries and one U.S. territory (four in Panama; four in Costa Rica; three each in Guatemala and Trinidad; two each in the Dominican Republic, El Salvador and Honduras; and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands). The success of the Company's business will depend to a significant degree on the Company's ability to (i) efficiently operate warehouse clubs on a profitable basis and (ii) maintain positive comparable warehouse club sales growth in the applicable markets. In addition, the Company will need to continually evaluate the adequacy of the Company's existing personnel, systems and procedures, including warehouse management and financial and inventory control. Moreover, the Company will be required to continually analyze the sufficiency of the Company's inventory distribution channels and systems and may require additional facilities in order to support the Company's operations. The Company may not adequately anticipate all the changing demands that will be imposed on these systems. An inability or failure to retain effective warehouse personnel or to update the Company's internal systems or procedures as required could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company faces significant competition. The Company's international merchandising businesses compete with exporters, wholesalers, local retailers and trading companies in various international markets. Some of the Company's competitors may have greater resources, buying power and name recognition. There can be no assurance that additional competitors will not decide to enter the markets in which the Company operates or that the Company's

existing competitors will not compete more effectively against the Company. The Company may be required to implement price reductions in order to remain competitive should any of the Company's competitors reduce prices in any of the Company's markets. Moreover, the Company's ability to operate profitably in its markets, particularly small markets, may be adversely affected by the existence or entry of competing warehouse clubs or discount retailers.

The Company faces difficulties in the shipment of and inherent risks in the importation of merchandise to its warehouse clubs. The Company's warehouse clubs typically import half or more of the merchandise that they sell, which originates from various countries and is transported over great distances, typically over water, which results in: (i) substantial lead times needed between the procurement and delivery of product, thus complicating merchandising and inventory control methods; (ii) the possible loss of product due to theft or potential damage to, or destruction of, ships or containers delivering goods; (iii) product markdowns as a result of it being cost prohibitive to return merchandise upon importation; (iv) product registration, tariffs, customs and shipping regulation issues in the locations the Company ships to and from; and (v) substantial ocean freight and duty costs. Moreover, each country in which the Company operates has different governmental rules and regulations regarding the importation of foreign products. Changes to the rules and regulations governing the importation of merchandise may result in additional delays, costs or barriers in the Company's deliveries of products to its warehouse clubs or product it selects to import. For example, several of the countries in which the Company's warehouse clubs are located have imposed restrictions on the importation of some U.S. beef products because of concerns about Bovine Spongiform Encephalopathy (BSE), commonly referred to as "mad cow disease." As a result of these restrictions, the sales of U.S. beef products may be impaired for the duration of these restrictions and may continue following the lifting of these restrictions because of perceptions about the safety of U.S. beef among people living in these countries. In addition, only a limited number of transportation companies service the Company's regions. The inability or failure of one or more key transportation companies to provide transportation services to the Company, any collusion among the transportation companies regarding shipping prices or terms, changes in the regulations that govern shipping tariffs or the importation of products, or any other disruption in the Company's ability to transport the Company's merchandise could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is exposed to weather and other risks associated with international operations. The Company's operations are subject to the volatile weather conditions and natural disasters such as earthquakes and hurricanes, which are encountered in the regions in which the Company's warehouse clubs are located and which could result in significant damage to, or destruction of, or temporary closure of, the Company's warehouse clubs. For example, during September 2004, while no damage was sustained from the multiple hurricanes in the Caribbean, a total of eight days of sales were lost due to selected warehouse club closures resulting from heavy rains, local flooding and government advisories to stay off the roads. Losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on the Company's business, financial condition and results of operations.

General economic conditions could adversely impact our business in various respects. A further slowdown in the U.S. economy or other economic conditions affecting discretionary consumer spending, such as employment rates, business conditions, inflation fuel and energy costs, consumer debt levels, lack of available credit, interest rates, tax rates, consumer spending patterns, customer preferences and other economic factors in each of the Company's foreign markets may adversely affect our business by reducing overall consumer purchasing power and could negatively impact the Company's growth, sales and profitability. In addition, a significant decline in these economies may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States. Factors such as reduced expatriate remittances, reduced tourism, and less foreign investment could negatively impact Central America and the Caribbean. The current global general economic instability, the potential for further economic dislocations, the potential impact of a recession, the potential for failures or realignments of financial institutions and the related impact on available credit could have a material adverse effect on the Company's business, financial condition and results of operations.

A few of the Company's stockholders own nearly one-half of the Company's voting stock, which may make it difficult to complete some corporate transactions without their support and may impede a change in control. A group comprised of Robert E. Price, who is the Company's Chairman of the Board and Chief Executive Officer, Jose Luis Laparte, the Company's President, Sol Price, a significant stockholder of the Company and father of Robert E. Price, Jack McGrory, Murray Galinson, Keene Wolcott, members of our Board of Directors, and affiliates of these

individuals, including Price Charities, and The Price Group, LLC filed an amended Schedule 13D reflecting that their collective ownership approximates 48% of the Company's outstanding shares of common stock and stating their intention to act as a group with respect to voting of the Company's common stock. As a result of their beneficial ownership, these stockholders have the ability to significantly affect the outcome of all matters submitted to the Company's stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of the Company's common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of the Company's common stock.

The loss of key personnel could harm the Company's business. The Company depends to a large extent on the performance of its senior management team and other key employees, such as U.S. expatriates in certain locations where the Company operates, for strategic business direction. The loss of the services of any members of the Company's senior management or other key employees could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is subject to volatility in foreign currency exchange rates. The Company, primarily through majority or wholly owned subsidiaries, conducts operations in Central America and the Caribbean, and as such is subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of August 31, 2008, the Company had a total of 25 consolidated warehouse clubs operating in 11 foreign countries and one U.S. territory, 18 of which operate under currencies other than the U.S. dollar. For fiscal year 2008, approximately 79% of the Company's net warehouse club sales were in foreign currencies. The Company may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net warehouse sales denominated in foreign currencies.

Foreign currencies in most of the countries where the Company operates have historically devalued against the U.S. dollar and are expected to continue to devalue. For example, the Dominican Republic experienced a net currency devaluation of 81% between the end of fiscal year 2002 and the end of fiscal year 2003 and 13% (significantly higher at certain points of the year) between the end of fiscal year 2003 and the end of fiscal year 2004. Foreign exchange transaction gains (losses), including repatriation of funds, which are included as part of the costs of goods sold in the consolidated statement of income, for fiscal years 2008, 2007 and 2006 were approximately (\$1.6 million), \$5,000 and (\$1.5 million), respectively.

The Company faces the risk of exposure to product liability claims, a product recall and adverse publicity. The Company markets and distributes products purchased from third-party suppliers and products prepared by the Company for resale, including meat, dairy and other food products which exposes the Company to the risk of product liability claims, a product recall and adverse publicity. The Company may inadvertently redistribute food products or prepare food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the foodservice or consumer level. The Company generally seeks contractual indemnification and insurance coverage from its major suppliers for product purchased from third-party suppliers and carries product liability insurance for product prepared by the Company. However, if the Company does not have adequate insurance or contractual indemnification available, product liability claims relating to products that are contaminated or otherwise harmful could have a material adverse effect on the Company's ability to successfully market its products and on the Company's business, financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding a product recall or any assertion that the Company's products caused illness or injury could have a material adverse effect on the Company's reputation with existing and potential customers and on the Company's business, financial condition and results of operations.

Potential future impairments under Financial Accounting Standards Board Statement of Financial Accounting Standard No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" could adversely affect the Company's future results of operations and financial position. In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets are assessed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be measured and recognized if the sum of the expected future discounted cash flows is less than the carrying amount of the asset. If the carrying amount of the asset were determined to be impaired, an impairment loss to write-down the carrying value of the asset to fair value by using quoted market prices, when available, would be required. When a quoted market price is not available, an estimated fair value would be determined through other valuation techniques. The Company has used projected cash flows discounted to reflect the expected commercial, competitive and other factors related to its long-lived assets and comparisons to similar asset sales and valuations by others to estimate the fair value of its intangible assets. These future tests may result in a determination that these assets have been impaired. If at any time the Company determines that an impairment has occurred, it will be required to reflect the impaired value as a charge, resulting in a reduction in earnings in the quarter such impairment is identified and a corresponding reduction in our net asset value.

For example, in fiscal year 2008 the Company was required to take an impairment charge pursuant to SFAS No. 144 of approximately \$449,000 on bulk packaging equipment located in its club warehouses. This was due to the Company's decision to outsource the bulk packaging of product. The Company was also required to take an impairment charge pursuant to SFAS No. 144 on the old San Pedro Sula, Honduras warehouse site in fiscal year 2007 of approximately \$897,000. This was due to the revised fair valuation of the land and building as a result of the disposal agreement. In addition, the Company recorded a \$2.6 million impairment charge related to the write down of the Company's interest in its Mexico joint venture as a result of the disposal agreement. A material reduction in earnings resulting from such a charge could cause the Company to fail to be profitable in the period in which the charge is taken or otherwise to fail to meet the expectations of investors and securities analysts, which could cause the price of the Company's stock to decline.

Write-offs pursuant to Financial Accounting Standards Board Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets" could adversely affect the Company's future results of operations and financial position. Under statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the Statement. As of August 31, 2008, the Company had goodwill of approximately \$39.2 million, net of accumulated amortization originating prior to the adoption of SFAS 142. The Company performed its impairment test on goodwill as of August 31, 2008 and August 31, 2007, and no impairment losses were recorded. In the future, the Company will test for impairment at least annually. Such tests may result in a determination that these assets have been impaired. If at any time the Company determines that an impairment has occurred, the Company will be required to reflect the impaired value as a part of operating income, resulting in a reduction in earnings in the period such impairment is identified and a corresponding reduction in the Company's net asset value. A material reduction in earnings resulting from such a charge could cause the Company to fail to be profitable or increase the amount of its net loss in the period in which the charge is taken or otherwise to fail to meet the expectations of investors and securities analysts, which could cause the price of the Company's stock to decline.

The Company faces increased compliance risks associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Like many smaller public companies, the Company faces a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management of public companies to evaluate, and the independent auditors to attest to the effectiveness of internal control over financial reporting and the evaluation performed by management. The Securities and Exchange Commission has adopted rules implementing Section 404 for public companies as well as disclosure requirements. The Public Company Accounting Oversight Board, or PCAOB, has adopted documentation and attestation standards that the independent auditors must follow in conducting its attestation under Section 404.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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

If remediation costs or hazardous substance contamination levels at certain properties for which the Company maintains financial responsibility exceed management's current expectations, the Company's financial condition and results of operations could be adversely impacted. In connection with its spin-off from Price Enterprises, Inc. ("PEI") in 1997, the Company agreed to indemnify PEI for all of PEI's liabilities (including indemnification obligations for environmental liabilities) arising out of PEI's prior ownership of certain properties. The Company's ownership of real properties and its agreement to indemnify PEI could subject it to certain environmental liabilities. Certain of these properties are located in areas of current or former industrial activity, where environmental contamination may have occurred. For example, PEI sold an unimproved, 12.9-acre site located in Meadowlands, New Jersey in August 1995. A prior owner used this site as a debris disposal area. Elevated levels of heavy metals (including a small area contaminated with polychlorinated biphenyl) and petroleum hydrocarbons are present in soil at the Meadowlands site. To date, the Company has not been advised that PEI has been notified by any governmental authority, and is not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with the Meadowlands site. Nevertheless, PEI's previous ownership of the Meadowlands site creates the potential of liability for remediation costs associated with groundwater beneath the site. The Company also retains certain environmental indemnification obligations with respect to a parcel of land in Silver City, New Mexico, which PEI sold in March 1996 but agreed to retain responsibility for certain environmental matters. This site contains petroleum hydrocarbons in the soil and groundwater. There are no known receptors (groundwater users) down gradient of the Silver City site and the extent of soil and groundwater contamination is limited and has been reducing in mass and extent under naturally attenuating processes. The Company is continuing to monitor the soil and groundwater at this property under supervision of local authorities. If the Company were to incur

costs for remediating contamination at the Meadowlands or Silver City sites (or any other site for which the Company maintains environmental responsibility) which exceed management's current expectations, the Company's financial condition and results of operations could be adversely impacted.

Available Information

The PriceSmart, Inc. website or internet address is www.pricesmart.com. On this website the Company makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, and the annual report to the security holders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). The Company's SEC reports can be accessed through the investor relations section of its website under "SEC Filings." All of the Company's filings with the SEC may also be obtained at the SEC's Public Reference Room at Room 1580, 100 F Street NE, Washington, DC 20549. For information regarding the operation of the SEC's Public Reference Room, please contact the SEC at 1-800-SEC-0330. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Company makes available its annual report on Form 10-K and its annual Proxy Statement for the fiscal year 2008 at the internet address <http://materials.proxyvote.com/741511> as soon as reasonably practicable after electronically filing such material with or furnishing it to the SEC.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At August 31, 2008, PriceSmart operated 25 membership warehouse clubs.

Number of warehouse clubs	Own land and building	Lease land and/or building	Anticipated warehouse club openings
CENTRAL AMERICA			
Panama	3	1	— (3)
Guatemala	1	2	—
Costa Rica	4	—	1(4)
El Salvador	2	—	—
Honduras	1	1	—
Nicaragua	1	—	—
CARIBBEAN			
Dominican Republic	2	—	—
Aruba	—	1	—
Barbados(2)	1	—	—
Trinidad	2	1	—
U.S. Virgin Islands	—	1	—
Jamaica	1	—	—
Total	18	7(1)	1

(1) Former clubs located in Guam and Guatemala are not included; these warehouse clubs were closed in fiscal 2004 and 2003, respectively. The respective land and building is currently subleased to third-parties

(2) The Company acquired the land and building formerly leased in Barbados on November 15, 2007 (fiscal year 2008).

(3) An existing PriceSmart warehouse club in Panama City, Panama (known as the Los Pueblos club) will be relocated to a new site (Brisas) in fiscal 2010 and the Company will close the existing warehouse club after the relocation has been completed.

(4) This warehouse club is expected to open in the spring of 2009 (Alajuela).

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At August 31, 2008, our warehouse clubs occupied approximately a total of 1,577,755 square feet of which 410,249 square feet were on leased property. The following is a summary of the warehouse clubs located on leased property:

Location (1)	Facility Type	Date Opened	Approximate Square Footage	Current Lease Expiration Date	Remaining Options to Extend
Via Brazil, Panama	Warehouse Club	December 4, 1997	68,696	October 31, 2026	10 years
Miraflores, Guatemala	Warehouse Club	April 8, 1999	66,059	December 31, 2020	5 years
Pradera, Guatemala	Warehouse Club	May 29, 2001	48,438	May 28, 2025	5 year option/ indefinite periods
Tegucigalpa, Honduras	Warehouse Club	May 31, 2000	64,735	May 30, 2020	none
Oranjestad, Aruba	Warehouse Club	March 23, 2001	54,229	March 23, 2021	10 years
Port of Spain, Trinidad	Warehouse Club	December 5, 2001	54,046	July 5, 2031	none
St. Thomas, U.S.V.I.	Warehouse Club	May 4, 2001	54,046	February 28, 2020	10 years
Barbados	Storage Facility	May 5, 2006	4,800	April 30, 2009	1 year
San Diego, CA	Corporate Headquarters	April 1, 2004	35,000	March 31, 2011	5 years
Miami, FL	Distribution Facility	March 1, 2008	200,709	August 31, 2018	10 years
Miami, FL	Distribution Facility	September 1, 2001	31,575	February 28, 2010	18 months

(1) Former clubs located in Guam and Guatemala are not included; these warehouse clubs were closed in fiscal 2004 and 2003, respectively. The respective land and building is currently subleased to third-parties.

Item 3. Legal Proceedings

In the ordinary course of business, the Company is periodically named as a defendant in various lawsuits, claims and pending actions and is exposed to tax risks (other than income tax). The principal risks that the Company insures against are workers' compensation, general liability, vehicle liability, property damage, employment practices, errors and omissions, fiduciary liability and fidelity losses. If a potential loss arising from these lawsuits, claims, actions and non-income tax issues is probable and reasonably estimable, the Company records the estimated liability based on circumstances and assumptions existing at the time in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies." While the Company believes the recorded liabilities are adequate, there are inherent limitations in the estimation process whereby future actual losses may exceed projected losses, which could materially adversely affect the Company's results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

The Company did not submit any matters to a vote of security holders during the fourth quarter of fiscal year 2008.

PART II

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

The information required by Item 5 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2008 under the heading "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

Item 6. Selected Financial Data

The information required by Item 6 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2008 under the heading "Selected Financial Data."

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

The information required by Item 7 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2008 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by Item 7A is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2008 under the heading "Quantitative and Qualitative Disclosures about Market Risk."

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2008 under the heading "Financial Statements and Supplementary Data."

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As of August 31, 2008, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Accounting Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). These disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in its periodic reports with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that the information is accumulated and communicated to the Company's management, including the principal executive officer and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure. The design of any disclosure controls and procedures also is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their evaluation, the Principal Executive Officer and Principal Accounting Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level.

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

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

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

Management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Management has used the framework set forth in the report entitled "Internal Control—Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting. Based on its evaluation, management has concluded that our internal control over financial reporting was effective as of August 31, 2008, the end of our most recent fiscal year. Ernst & Young LLP, our independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of August 31, 2008, as stated in their report which is included herein.

(c) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting, during the fourth quarter of the fiscal year ended August 31, 2008 that have materially affected or are reasonably likely to affect, the Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

We have audited PriceSmart, Inc.'s internal control over financial reporting as of August 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PriceSmart, Inc.'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, PriceSmart, Inc. maintained, in all material respects, effective internal control over financial reporting as of August 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of PriceSmart, Inc. and our report dated November 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
November 6, 2008

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

PriceSmart has adopted a code of ethics that applies to its Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and Controller, and to all of its other officers, directors, employees and agents. The code of ethics is available on PriceSmart's web site at <http://pricesmart.com/Investor/Corporate-Governance/Conduct.aspx>. PriceSmart intends to disclose on its website future amendments to, or waivers from, certain provision of its code of ethics within four business days following the date of such amendment or waiver.

The additional information required by Item 10 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the headings "Election of Directors," "Information Regarding Directors," "Executive Officers of the Company" and "Compliance with Section 16(a) of the Exchange Act."

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference from PriceSmart's definitive Proxy Statement for the Annual Meeting of Stockholders under the headings "Information Regarding the Board," and "Executive Compensation and Other Information."

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

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

Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The documents listed in the following table, which are included in our Annual Report to Stockholders, are incorporated herein by reference to the portions of this Annual Report on Form 10-K filed as Exhibit 13.1 hereto.

(1) and (2) Financial Statements

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

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

(3) The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company.
3.2(33)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.3(10)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.4(1)	Amended and Restated Bylaws of the Company.
3.5(34)	Amendment to Amended and Restated Bylaws of the Company.
4.1(36)	Specimen of Common Stock certificate.
10.1(1)**	1997 Stock Option Plan of PriceSmart, Inc.
10.2(2)	Agreement Concerning Transfer of Certain Assets dated as of November 1996 by and among Price Enterprises, Inc., Costco Companies, Inc. and certain of their respective subsidiaries.

- 10.2(a)(39) Settlement Agreement and General Release of All Claims, entered into on August 5, 2005, by and among William Go, E-Class Corporation, PSMT Philippines, Inc., National Import and Export Company, San Marino International Corporation, Arcadia International Corporation, Christine Merchandising, Inc. and PriceSmart, Inc.
- 10.2(b)(48) International Loan Swap Agreement with Citibank, N.A. dated as of February 13, 2008.
- 10.2(c)(48) Settlement Agreement and Release entered into as of February 8, 2008 by and among PriceSmart, Inc. and PSMT entities (collectively known as PriceSmart) and PSC, S.A. and PSC entities (collectively known as "PSC Parties").
- 10.3(a)(3)** Employment Agreement dated September 20, 1994 between Price Enterprises, Inc. and Robert M. Gans.
- 10.3(b)(4)** Third Amendment to Employment Agreement dated April 28, 1997 between Price Enterprises, Inc. and Robert M. Gans.
- 10.3(c)(1)** Fourth Amendment to Employment Agreement dated as of September 2, 1997 between the Company and Robert M. Gans.
- 10.3(d)(5)** Fifth Amendment to Employment Agreement dated as of March 31, 1999 between the Company and Robert M. Gans.

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Exhibit Number	Description
10.3(e)(6)**	Sixth Amendment to Employment Agreement dated as of November 22, 1999 between the Company and Robert M. Gans.
10.3(f)(6)**	Seventh Amendment to Employment Agreement dated as of July 18, 2000 between the Company and Robert M. Gans.
10.3(g)(7)**	Eighth Amendment to Employment Agreement dated as of September 26, 2001 between the Company and Robert M. Gans.
10.3(h)(7)**	Amendment of Employment Agreement dated as of October 16, 2001 between the Company and Robert M. Gans.
10.3(i)(8)**	Ninth Amendment to Employment Agreement dated as of November 19, 2002 between the Company and Robert M. Gans.
10.3(j)(9)**	Tenth Amendment to Employment Agreement dated as of January 22, 2003 between the Company and Robert M. Gans
10.3(k)(30)**	Eleventh Amendment to Employment Agreement dated as of July 24, 2003 between the Company and Robert M. Gans.
10.3(l)(46)**	Twelfth Amendment to Employment Agreement dated as of September 24, 2004 between the Company and Robert M. Gans.
10.3(m)(37)**	Thirteenth Amendment to Employment Agreement dated as of February 10, 2005 between the Company and Robert M. Gans.
10.3(n)(40)	Fourteenth Amendment to Employment Agreement dated as of September 26, 2005 between the Company and Robert M. Gans.
10.3(o)(42)	Fifteenth Amendment to Employment Agreement dated as of March 1, 2006 between the Company and Robert M. Gans.
10.3(p)(47)	Sixteenth Amendment to Employment Agreement dated as of September 25, 2006 between the Company and Robert M. Gans.
10.3(q)(44)	Seventeenth Amendment to Employment Agreement dated as of January 1, 2007 between the Company and Robert M. Gans.
10.3(r)(50)	Eighteenth Amendment to Employment Agreement dated as of October 1, 2007 between the Company and Robert M. Gans.
10.3(s)(48)	Nineteenth Amendment to Employment Agreement dated as of January 1, 2008 between the Company and Robert M. Gans.
10.3(t)*	Twentieth Amendment to Employment Agreement dated as of October 1, 2008 between the Company and Robert M. Gans.

- 10.4(11) Tax Sharing Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
- 10.5(12)** Form of Indemnity Agreement.
- 10.6(1)** Assignment and Assumption of Employment Agreement dated August 29, 1997 between the Company and Price Enterprises, Inc.
- 10.8(a)(16)** Employment Agreement dated March 31, 1998 between the Company and Thomas D. Martin.
- 10.8(b)(5)** First Amendment to Employment Agreement between the Company and Thomas D. Martin, dated March 31, 1999.
- 10.8(c)(6)** Second Amendment of Employment Agreement between the Company and Thomas D. Martin, dated November 22, 1999.
- 10.8(d)(13)** Third Amendment of Employment Agreement between the Company and Thomas Martin dated January 11, 2000.

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Exhibit Number	Description
10.8(e)(17)**	Fourth Amendment of Employment Agreement between the Company and Thomas Martin dated January 24, 2001.
10.8(f)(7)**	Amendment of Employment Agreement between the Company and Thomas Martin dated October 16, 2001.
10.8(g)(14)**	Fifth Amendment of Employment Agreement between the Company and Thomas Martin, dated January 16, 2002.
10.8(h)(30)**	Sixth Amendment of Employment Agreement between the Company and Thomas Martin, dated January 22, 2003.
10.8(i)(34)**	Seventh Amendment to Employment Agreement between the Company and Thomas Martin, dated March 15, 2004.
10.8(j)(38)**	Eighth Amendment to Employment Agreement between the Company and Thomas Martin, dated March 3, 2005.
10.8(k)(42)	Ninth Amendment to Employment Agreement between the Company and Thomas Martin dated March 1, 2006.
10.8(l)(44)	Tenth Amendment to Employment Agreement between the Company and Thomas Martin dated January 1, 2007.
10.8(m)(45)	Eleventh Amendment to Employment Agreement between the Company and Thomas Martin dated March 1, 2007.
10.8(n)(48)	Twelfth Amendment to Employment Agreement between the Company and Thomas Martin dated January 1, 2008.
10.8(o)(49)	Thirteenth Amendment to Employment Agreement between the Company and Thomas Martin dated March 1, 2008.
10.9(19)**	1998 Equity Participation Plan of PriceSmart, Inc.
10.12(18)	Trademark Agreement between the Company and Associated Wholesale Grocers, Inc., dated August 1, 1999.
10.20(a)(6)	Registration Rights Agreement dated as of June 5, 2000 by and among the Company and the Shareholders of PSC, S.A.
10.23(17)	Master Agreement between the Company and Payless ShoeSource Holdings, Ltd., dated November 27, 2000.
10.29(a)(14)**	Employment Agreement between the Company and William Nylon, dated January 16, 2002.
10.29(b)(9)**	

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First Amendment of Employment Agreement between the Company and William J. Nylon, dated January 22, 2003.

- 10.29(c)(33)** Second Amendment to Employment Agreement between the Company and William Nylon, dated February 1, 2004.
- 10.29(d)(37)** Third Amendment to Employment Agreement dated as of February 16, 2005 by and between the Company and William Nylon.
- 10.29(e)(41) Fourth Amendment to Employment Agreement dated as of January 11, 2006 by and between the Company and William Nylon.
- 10.29(f)(42) Fifth Amendment to Employment Agreement dated as of March 1, 2006 by and between the Company and William Nylon.
- 10.29(g)(44) Sixth Amendment to Employment Agreement dated as of January 1, 2007 by and between the Company and William Nylon.
- 10.29(h)(48) Seventh Amendment to Employment Agreement dated as of January 1, 2008 by and between the Company and William Nylon.
- 10.30(a)(7)** Employment Agreement between the Company and John D. Hildebrandt, dated as of June 1, 2001.

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Exhibit Number	Description
10.30(b)(7)**	Amendment to Employment Agreement between the Company and John Hildebrandt, dated as of October 16, 2001.
10.30(c)(14)**	First Amendment of Employment Agreement between the Company and John Hildebrandt, dated January 16, 2002.
10.30(d)(30)**	Second Amendment of Employment Agreement between the Company and John Hildebrandt, dated January 22, 2003.
10.30(e)(34)**	Third Amendment to Employment Agreement between the Company and John Hildebrandt, dated March 15, 2004.
10.30(f)(38)**	Fourth Amendment to Employment Agreement dated March 9, 2005 between the Company and John Hildebrandt.
10.30(g)(42)	Fifth Amendment to Employment Agreement dated March 1, 2006 between the Company and John Hildebrandt.
10.30(h)(44)	Sixth Amendment to Employment Agreement dated January 1, 2007 between the Company and John Hildebrandt.
10.30(i)(45)	Seventh Amendment to Employment Agreement dated March 1, 2007 between the Company and John Hildebrandt.
10.30(j)(48)	Eighth Amendment to Employment Agreement dated January 1, 2008 between the Company and John Hildebrandt.
10.30(k)(49)	Ninth Amendment to Employment Agreement dated March 1, 2008 between the Company and John Hildebrandt.
10.33(22)**	2001 Equity Participation Plan of PriceSmart, Inc.
10.43(a)(8)**	Employment Agreement dated as of January 11, 2000 between the Company and Edward Oats.
10.43(b)(8)**	First Amendment to Employment Agreement between the Company and Edward Oats, dated January 24, 2001.
10.43(c)(8)**	Amendment to Employment Agreement between the Company and Edward Oats, dated October 16, 2001.
10.43(d)(8)**	Second Amendment to Employment Agreement between the Company and Edward Oats, dated January 16, 2002.
10.43(e)(30)**	Third Amendment to Employment Agreement between the Company and Edward Oats, dated November 19, 2002.
10.43(f)(30)**	

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Fourth Amendment to Employment Agreement between the Company and Edward Oats, dated January 22, 2003.

10.43(g)(34)** Fifth Amendment to Employment Agreement between the Company and Edward Oats, dated March 15, 2004.

10.43(g)(38)** Sixth Amendment to Employment Agreement dated March 9, 2005 between the Company and Edward Oats.

10.43(h)(42) Seventh Amendment to Employment Agreement dated March 1, 2006 between the Company and Edward Oats.

10.43(i)(44) Eighth Amendment to Employment Agreement dated January 1, 2007 between the Company and Edward Oats.

10.43(j)(45) Ninth Amendment to Employment Agreement dated March 1, 2007 between the Company and Edward Oats.

10.43(k)(48) Tenth Amendment to Employment Agreement dated January 1, 2008 between the Company and Edward Oats.

10.43(l)(49) Eleventh Amendment to Employment Agreement dated March 1, 2008 between the Company and Edward Oats.

10.44(a)(8)** Employment Agreement dated as of January 11, 2000 between the Company and Brud Drachman.

Exhibit Number	Description
10.44(b)(8)**	First Amendment to Employment Agreement between the Company and Brud Drachman, dated January 24, 2001.
10.44(c)(8)**	Second Amendment to Employment Agreement between the Company and Brud Drachman, dated June 1, 2001.
10.44(d)(8)**	Amendment to Employment Agreement between the Company and Brud Drachman, dated October 16, 2001.
10.44(e)(8)**	Third Amendment to Employment Agreement between the Company and Brud Drachman, dated January 16, 2002.
10.44(f)(30)**	Fourth Amendment to Employment Agreement between the Company and Brud Drachman, dated November 19, 2002.
10.44(g)(30)**	Fifth Amendment to Employment Agreement between the Company and Brud Drachman, dated January 22, 2003.
10.44(h)(34)**	Sixth Amendment to Employment Agreement between the Company and Brud Drachman, dated March 15, 2004.
10.44(h)(38)**	Seventh Amendment to Employment Agreement dated March 9, 2005 between the Company and Brud Drachman.
10.44(i)(42)	Eighth Amendment to Employment Agreement dated March 1, 2006 between the Company and Brud Drachman.
10.44(j)(44)	Ninth Amendment to Employment Agreement dated January 1, 2007 between the Company and Brud Drachman.
10.44(k)(45)	Tenth Amendment to Employment Agreement dated March 1, 2007 between the Company and Brud Drachman.
10.44(l)(48)	Eleventh Amendment to Employment Agreement dated January 1, 2008 between the Company and Brud Drachman.
10.44(m)(49)	Twelfth Amendment to Employment Agreement dated March 1, 2008 between the Company and Brud Drachman.
10.46(27)**	2002 Equity Participation Plan of PriceSmart, Inc.
10.54(a)(35)**	Employment Agreement by and between the Company and Jose Luis Laparte, dated as of June 3, 2004.
10.54(b)(35)**	First Amendment to Employment Agreement by and between the Company and Jose Luis Laparte, dated as of August 2, 2004.

10.54(c)(40)

Second AmendmeIES

This section describes the terms of the debt securities that Kellogg Company may offer from time to time. The particular terms of the debt securities offered by any prospectus supplement and the extent to which the general provisions described below may apply to such debt securities will be outlined in the applicable prospectus supplement. The debt securities may be issued from time to time in one or more series. As used in this section we, us, our, Kellogg or the Company refers to Kellogg Company, and not to any of our subsidiaries, unless explicitly stated.

The debt securities covered by this prospectus will be issued under the indenture between Kellogg and The Bank of New York Mellon Trust Company, N.A., as trustee, dated as of May 21, 2009 (the indenture).

Numerical references in parentheses below are to sections in the indenture. Wherever we refer to particular sections or defined terms of the indenture, those sections or defined terms are incorporated by reference in this description as part of the statement made, and the statement is qualified in its entirety by such reference. Because we have included only a summary of the material indenture terms below, you must read the indenture in full to understand every detail of the terms of the debt securities. The indenture has been incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

General

The indenture provides that we may issue debt securities in separate series from time to time in an unlimited amount. We may specify a maximum aggregate principal amount for the debt securities of any series. (Section 2.3) The debt securities will have terms and provisions that are not inconsistent with the indenture, including our determination as to maturity, principal and interest. The debt securities will be our unsecured and unsubordinated obligations and will rank on parity with all other unsecured and unsubordinated indebtedness.

Table of Contents

Our assets consist primarily of the common stock of our subsidiaries, and we conduct no substantial business or operations of our own. Accordingly, our right, and the right of our creditors (including the holders of the debt securities), to participate in any distribution of assets of any of our subsidiaries upon liquidation or reorganization will be subject to the prior claims of creditors of such subsidiary, except to the extent that our claims as a creditor of such subsidiary may be recognized.

We will prepare a prospectus supplement for each series of debt securities that we issue. Each prospectus supplement will set forth the applicable terms of the debt securities to which it relates. These terms will include some or all of the following:

the title of the debt securities;

any limit on the aggregate principal amount of the debt securities or the series of which they are a part;

the person to whom any interest on any of the debt securities will be payable, if other than the person in whose name that debt security is registered at the close of business on the record date for such interest payment;

the date or dates on which the principal of any of the debt securities will be payable;

the rate or rates at which the debt securities will bear interest, if any, the date or dates from which any interest will accrue, the interest payment dates on which any interest will be payable and the record date for any such interest payable;

the place or places where the principal of and any premium and interest on any of such debt securities will be payable;

the obligation, if any, we have to redeem or purchase any of the debt securities out of any sinking fund or at the option of the holder, and the period or periods within which, the price or prices at which and the terms and conditions on which any of such debt securities will be redeemed or purchased, in whole or in part;

the denominations in which any of the debt securities will be issuable, if other than denominations of \$1,000 and any integral multiple thereof;

if the amount of principal, premium, if any, or interest on any of the debt securities may be determined with reference to an index or by a formula, the manner in which such amounts will be determined;

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if other than the currency of the United States, the currency, currencies or currency units in which the principal, premium, if any, or interest on any of the debt securities will be payable;

if the principal, premium, if any, or interest on any of the debt securities is to be payable, at our election or the election of the holder, in one or more currencies other than those in which the debt securities are stated to be payable, the currencies in which payment of the principal, premium, if any, and interest on the debt securities as to which such election is made will be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable;

if other than the entire principal amount thereof, the portion of the principal amount of debt securities which will be payable upon declaration of acceleration of the maturity thereof;

if the principal amount payable at the stated maturity of any of the debt securities is not determinable upon original issuance, the amount which will be deemed to be the principal amount of the debt securities for any other purpose thereunder or under the indentures, including the principal amount which will be due and payable upon any maturity, other than the stated maturity, or which will be deemed to be outstanding as of any date (or, in any such case, any manner in which such principal amount is to be determined);

whether any of the debt securities will be issuable in whole or in part in the form of one or more global securities;

Table of Contents

any deletions from, modifications of or additions to the events of default applicable to any of the debt securities and any change in the right of an indenture trustee or the holders to declare the principal amount of any debt securities due and payable;

any deletions from, modifications of or additions to the covenants applicable to any debt securities; and

any other terms of the debt securities not inconsistent with the provisions of the indentures but which may modify or delete any provision of the indentures insofar as it applies to such series; provided that no term of the indentures may be modified or deleted if imposed under the Trust Indenture Act of 1939, as amended, and that any modification or deletion of the rights, duties or immunities of the indenture trustee shall have been consented to in writing by the indenture trustee.

(Section 2.3)

Debt securities, including original issue discount securities, may be sold at a substantial discount below their principal amount. Special United States federal income tax considerations applicable to debt securities sold at an original issue discount will be described in the applicable prospectus supplement. Special United States tax and other considerations applicable to any debt securities which are denominated in a currency or currency unit other than United States dollars will be described in the applicable prospectus supplement.

The above is not intended to be an exclusive list of the terms that may be applicable to any debt securities and we are not limited in any respect in our ability to issue debt securities with terms different from or in addition to those described above or elsewhere in this prospectus, provided that the terms are not inconsistent with the indenture. Any applicable prospectus supplement will also describe any special provisions for the payment of additional amounts with respect to the debt securities.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, payment of interest on any interest payment date will be made to the person in whose name the debt security is registered at the close of business on the record date for the interest payment. (Section 2.7)

Unless otherwise indicated in the applicable prospectus supplement, principal of and any premium and interest on the debt securities of a particular series will be payable at the office of the paying agent or paying agents as we may designate for that purpose from time to time. Notwithstanding, at our option, payment of any interest may be made by check mailed to the address of the person entitled to the interest, as the address appears in the security register. (Section 2.12)

So long as debt securities remain outstanding, we will maintain an office or agency where the debt securities may be presented or payment. We will give notice to the trustee of the location of any office or agency or any change in the location of the office or agency. In the case we fail to designate an office or agency, presentations and demands may be made at the corporate trust office. (Section 3.2)

Covenants

The indenture contains, among others, the covenants described below, which, unless otherwise described in an applicable prospectus supplement, will apply to all debt securities. The indenture permits us to delete or modify the following covenants with respect to any

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series of debt securities we issue, and also add to the following covenants with respect to any such series. Except as described in this prospectus, there are no covenants or other provisions which would offer protection to security holders in the event of a highly leveraged transaction, rating downgrade or similar occurrence. We will describe any additional covenants applicable to debt securities we issue in the applicable prospectus supplement.

Table of Contents

Limitations on Liens

Under the indenture, if we or any of our Restricted Subsidiaries (as defined below) incur debt that is secured by a Principal Property (as defined below) or stock or debt of a Restricted Subsidiary, we must secure the debt securities that we issue under the indenture at least equally and ratably with the secured debt.

The foregoing restriction shall not apply to:

mortgages on property, shares of stock or indebtedness (referred to in this prospectus as *property*) of any corporation existing at the time the corporation becomes a Restricted Subsidiary;

mortgages existing at the time of an acquisition;

purchase money and construction mortgages which are entered into or for which commitments are received within a certain time period;

mortgages in our favor or in favor of a Restricted Subsidiary;

mortgages on property owned or leased by us or a Restricted Subsidiary in favor of a governmental entity or in favor of the holders of debt securities issued by any such entity, pursuant to any contract or statute (including mortgages to secure debt of the pollution control or industrial revenue bond type) or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to the mortgages;

mortgages existing at the date of the indenture;

certain landlords' liens;

mortgages to secure partial, progress, advance or other payments or any debt incurred for the purpose of financing all or part of the purchase price or cost of construction, development or substantial repair, alteration or improvement of the property subject to such mortgage if the commitment for such financing is obtained within one year after completion of or the placing into operation of such constructed, developed, repaired, altered or improved property;

mortgages arising in connection with contracts with or made at the request of governmental entities;

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mechanics and similar liens arising in the ordinary course of business in respect of obligations not due or being contested in good faith;

mortgages arising from deposits with or the giving of any form of security to any governmental authority required as a condition to the transaction of business or exercise of any privilege, franchise or license;

mortgages for taxes, assessments or governmental charges or levies which, if delinquent, are being contested in good faith;

mortgages (including judgment liens) arising from legal proceedings being contested in good faith; or

any extension, renewal or replacement of these categories of mortgages.

However, if the total amount of our secured debt and the present value of any remaining rent payments for certain sale and leaseback transactions involving a Principal Property would not exceed 10% of our total assets, this requirement does not apply. (Section 3.6)

Sale and Leaseback

The indenture provides that we will not enter, nor will we permit any Restricted Subsidiary to enter, into a sale and leaseback transaction of any Principal Property (except for temporary leases for a term of not more than three years and except for leases between us and a Restricted Subsidiary or between Restricted Subsidiaries) unless: (a) we or such Restricted Subsidiary would be entitled to issue, assume or guarantee debt secured by the

Table of Contents

property involved at least equal in amount to the Attributable Debt (as defined below) in respect of such transaction without equally and ratably securing the debt securities issued pursuant to the indenture (provided that such Attributable Debt shall thereupon be deemed to be debt subject to the provisions of the preceding paragraph), or (b) an amount in cash equal to such Attributable Debt is applied to the non-mandatory retirement of our long-term non-subordinated debt or long-term debt of a Restricted Subsidiary. Attributable Debt is defined as the present value (discounted at an appropriate rate) of the obligation of a lessee for rental payments during the remaining term of any lease. (Section 3.7)

Merger, Consolidation or Sale of Assets

Under the indenture, if, as a result of any consolidation or merger of Kellogg or any Restricted Subsidiary with or into any other corporation, or upon any sale, conveyance or lease of substantially all the properties of Kellogg or any Restricted Subsidiary, any Principal Property or any shares of stock or indebtedness of any Restricted Subsidiary becomes subject to a mortgage, pledge, security interest or other lien or encumbrance, we will effectively provide that the debt securities issued pursuant to the indenture shall be secured equally and ratably by a direct lien on such Principal Property, shares of stock or indebtedness. The lien should be prior to all liens other than any liens already existing on the Principal Property, so long as the Principal Property, shares of stock or indebtedness are subject to the mortgage, security interest, pledge, lien or encumbrance. (Section 9.2).

Defined Terms

The following are certain key definitions used in the indenture.

The term *Subsidiary* is defined to mean any corporation which is consolidated in our accounts and any corporation of which at least a majority of the outstanding stock having voting power under ordinary circumstances to elect a majority of the board of directors of that corporation is at the time owned or controlled solely by us or in conjunction with or by one or more Subsidiaries.

The term *Restricted Subsidiary* is defined to mean any Subsidiary:

substantially all of the property of which is located within the continental United States,

which owns a Principal Property, and

in which our investment exceeds 1% of our consolidated assets as shown on our latest quarterly financial statements.

However, the term *Restricted Subsidiary* does not include any Subsidiary which is principally engaged in certain types of leasing and financing activities.

The term *Principal Property* is defined to mean any manufacturing plant or facility which is located within the continental United States and is owned by us or any Restricted Subsidiary. Our board of directors (or any duly authorized committee of the board of directors) by resolution may create an exception by declaring that any such plant or facility, together with all other plants and facilities previously so declared, is not of material importance to the total business conducted by us and our Restricted Subsidiaries as an entirety. (Section 1.1)

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The term *Outstanding*, when used with respect to debt securities, means, as of the date of determination, all debt securities authenticated and delivered by the trustee under the indenture, except:

debt securities cancelled by the trustee or delivered to the trustee for cancellation;

debt securities, or portions thereof, for whose payment or redemption money in the necessary amount and in the specified currency has been deposited with the indenture trustee or any paying agent (other than Kellogg) in trust or set aside and segregated in trust by Kellogg (if Kellogg shall act as its own paying agent) for the holders of such debt securities and, if such debt securities are to be redeemed, notice of such redemption has been given according to the indenture or provisions satisfactory to the trustee have been made; and

Table of Contents

debt securities which have been paid pursuant to the indenture or in exchange for or in lieu of which other debt securities have been authenticated and delivered pursuant to the indenture, other than any debt securities in respect of which there shall have been presented to the trustee proof satisfactory to it that such debt securities are held by a *bona fide* purchaser in whose hands such debt securities are valid obligations of Kellogg.

The indenture provides that in determining whether the holders of the requisite aggregate principal amount of the outstanding debt securities have concurred in any direction, consent or waiver under the indenture, debt securities which are owned by us or any other obligor upon the debt securities or any affiliate of Kellogg or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only debt securities which a responsible officer of the trustee knows to be so owned shall be so disregarded. (Section 7.4)

Events of Default

An Event of Default with respect to any series of debt securities is defined as:

a default for 30 days in payment of interest on any security of that series;

a default in payment of principal (or premium, if any) on any security of that series as and when the same becomes due either upon maturity, by declaration or otherwise;

a default by us in the performance of any of the other covenants or agreements in the indenture relating to the debt securities of that series which shall not have been remedied within a period of 90 days after notice by the trustee or holders of at least 25% in aggregate principal amount of the debt securities of that series then outstanding; and

certain events of bankruptcy, insolvency or reorganization of Kellogg. (Section 5.1)
The indenture provides that the trustee shall, with certain exceptions, notify the holders of the debt securities of Events of Default known to it and affecting that series within 90 days after the occurrence of the Event of Default. (Section 5.11)

The indenture provides that if an Event of Default with respect to any series of debt securities shall have occurred and is continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the debt securities of the relevant series then outstanding may declare the principal amount of all of the debt securities of that series to be due and payable immediately. However, upon certain conditions such declaration may be annulled and past uncured defaults may be waived by the holders of a majority in principal amount of the debt securities of that series then outstanding. (Sections 5.1 and 5.10)

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default shall occur and be continuing, the indenture trustee shall be under no obligation to exercise any of the rights or powers in the indentures at the request or direction of any of the holders of the debt securities, unless the holders shall have offered to the trustee reasonable security or indemnity. (Sections 6.1 and 6.2) Subject to the provisions for security or indemnification and certain limitations contained in the indenture, the holders of a majority in principal amount of the outstanding debt securities of any series affected by an Event of Default shall have the right to direct the time, method and place of conducting any

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proceeding for any remedy available to the trustee under the indenture or exercising any trust or power conferred on the trustee with respect to the debt securities of that series.

(Section 5.9) The indenture requires the annual filing by us with the trustee of a certificate as to compliance with certain covenants contained in the indenture. (Section 4.3)

No holder of any security of any series will have any right to institute any proceeding with respect to the indentures or for any remedy thereunder, unless the holder shall have previously given the trustee written notice of an Event of Default with respect to the debt securities and also the holders of at least 25% in aggregate

Table of Contents

principal amount of the outstanding debt securities of the relevant series shall have made written request, and offered reasonable indemnity, to the trustee to institute such proceeding as trustee, and the trustee shall not have received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with such request and shall have failed to institute such proceeding within 60 days. However, any right of a holder of any security to receive payment of the principal of (and premium, if any) and any interest on such security on or after the due dates expressed in such security and to institute suit for the enforcement of any such payment on or after such dates shall not be impaired or affected without the consent of such holder. (Sections 5.6 and 5.7)

Satisfaction and Discharge of Indenture

The indenture, except for certain specified surviving obligations, will be discharged and canceled with respect to the debt securities of any series upon the satisfaction of certain conditions, including the payment of all the debt securities of the applicable series or the deposit with the indenture trustee as trust funds of cash or appropriate government obligations or a combination of the two sufficient for the payment or redemption in accordance with the indentures and the terms of the applicable series of debt securities. (Section 10.1)

Modification and Waiver

The indenture contains provisions permitting us and the trustee to execute supplemental indentures adding, changing or eliminating certain specified provisions to the indenture or any supplemental indenture with respect to the debt securities of any series or modifying in any manner the rights of the holders of the debt securities of any series. However, no supplemental indenture may, among other things, (1) extend the final maturity of any debt security, or reduce the rate or extend the time of payment of any interest on the debt security, or reduce the principal amount of any debt security, premium on any debt security, or reduce any amount payable upon any redemption of any debt security, without the consent of the holder of each debt security so affected, or (2) reduce the percentage of debt securities of any series that is required to approve a supplemental indenture (which percentage under the indenture is equal to a majority in principal amount of the debt securities outstanding), without the consent of the holders of each debt security so affected. (Section 8.2)

Governing Law

The indenture provides that it and the debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

Trustee

Kellogg maintains customary banking relationships with The Bank of New York Mellon Trust Company, N.A., the trustee under the indenture, and its affiliates.

Table of Contents

PLAN OF DISTRIBUTION

We may sell the debt securities offered pursuant to this prospectus in any of the following ways:

directly to one or more purchasers;

through agents, dealers or brokers;

to or through underwriters; or

through a combination of any of these methods of sale.

We will identify the specific plan of distribution, including any underwriters, brokers, dealers, agents or direct purchasers and their compensation in a prospectus supplement.

LEGAL MATTERS

The validity of the debt securities offered pursuant to this prospectus and any prospectus supplement will be passed upon for us by Kirkland & Ellis LLP, Chicago, Illinois, and for any underwriters or agents by counsel named in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2011 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file periodic reports, proxy statements and other information with the SEC. You may read and copy (at prescribed rates) any such reports, proxy statements and other information at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. For further information concerning the SEC's Public Reference Room, you may call the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. Our filings are also available at the offices of the New York Stock Exchange. For further information on obtaining copies of our public filings at the New York Stock Exchange, you should call (212) 656-5060.

This prospectus is part of a registration statement filed on Form S-3 with the SEC under the Securities Act. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information concerning us and the securities, you should read the entire registration statement and the additional information described under "Incorporation of Certain Information by Reference" below. The registration statement has been filed electronically and may be obtained in any manner listed above. Any statements contained herein concerning the

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provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the registration statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference.

Table of Contents

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus, which means that we can disclose important information about us by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus. This prospectus incorporates by reference the documents and reports listed below filed by us with the SEC (File No. 1-4171) (other than portions of these documents that are furnished under Item 2.02 or Item 7.01 of a Current Report on Form 8-K, including any exhibits included with such Items):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2011;

our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012; and

our Current Reports on Form 8-K filed on January 19, 2012, February 17, 2012, February 23, 2012, March 21, 2012, and April 25, 2012.

We also incorporate by reference the information contained in all other documents we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than portions of these documents that are furnished under Item 2.02 or Item 7.01 of a Current Report on Form 8-K, including any exhibits included with such Items, unless otherwise indicated therein) after the date of this prospectus and prior to the termination of this offering. The information contained in any such document will be considered part of this prospectus from the date the document is filed with the SEC.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We undertake to provide without charge to you, upon oral or written request, a copy of any or all of the documents that have been incorporated by reference in this prospectus, other than exhibits to such other documents (unless such exhibits are specifically incorporated by reference therein). We will furnish any exhibit not specifically incorporated by reference upon the payment of a specified reasonable fee, which fee will be limited to our reasonable expenses in furnishing such exhibit. All requests for such copies should be directed to Investor Relations, Kellogg Company, P.O. Box 3599, Battle Creek, Michigan 49016-3599, (269) 961-2800.

Table of Contents