PRICESMART INC
Form 10-K
October 25, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended August 31, 2018

OR

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

For the transition period from to

COMMISSION FILE NUMBER 000-22793

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

Delaware	33-0628530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9740 Scranton Road, San Diego, CA 92121

(Address of principal executive offices)

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

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

Common Stock, $0.0001 Par Value

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant as of the last day of the Registrant's most recently completed second fiscal quarter was $1,720,480,781 based on the last reported sale price of $78.75 per share on the Nasdaq Global Select Market on February 28, 2018.

As of October 17, 2018, 30,460,353 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 30, 2019 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, 2018

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Explanatory Note

Note Regarding Restatement of Previously Issued Consolidated Financial Statements

In this Annual Report on Form 10-K, we have restated certain historical financial statements as of, and for the three, six and nine month interim periods of fiscal year 2018 ended November 30, 2017, February 28, 2018, and May 31, 2018 to reflect a revision in presentation of short-term investments within current assets. In the aforementioned financial statements, the Company presented certain Certificates of Deposit and similar time-based deposits with financial institutions (collectively referred to herein as "CDs") with maturities greater than three months and up to one year as Cash and cash equivalents, when they should have been presented as Short-term investments. This misclassification did not impact any key financial reporting metrics or ratios, including Revenue, Operating Income, Net income, Cash flows from operations, Total assets or Total current assets.

In the past, the Company has disclosed a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity), which impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. Also, as we have previously disclosed, during fiscal year 2017 and fiscal year 2018, we experienced this situation in Trinidad. We are working with our banks in Trinidad to source tradeable currencies (including Euros and Canadian dollars), but until the central bank in Trinidad makes more U.S. dollars available, this condition is likely to continue. As part of the actions taken in Trinidad, the Company began investing the excess Trinidad and Tobago (TT) dollars into Certificates of Deposit or similar time-based deposits with financial institutions (referred to collectively herein as "CDs") with terms of three months or less, which the Company correctly presented as Cash and cash equivalents on the consolidated balance sheet. As the Company's balance of TT dollars increased, the Company began investing in CDs with terms of four months and up to twelve months. The Company entered into these four to twelve month CDs to gain priority with the respective financial institutions to make more U.S. dollars available for conversion of TT dollars, as well as in order to take advantage of the higher interest rates on these CDs for cash that was not otherwise needed for operations, capital commitments or debt service. During the first three quarters of fiscal year 2018, the Company presented these four to twelve month CDs as Cash and cash equivalents in its consolidated balance sheet. However, in accordance with generally accepted accounting principles, these four to twelve month CDs should have been presented as Short-term investments. The correction of the misclassification of these investments within the Total current assets section of the consolidated balance sheets also requires the Company to disclose in the Cash provided by (used in) investing activities section of the consolidated statements of cash flows the cash used in Investments in and Settlements of short-term investments. Tables summarizing the effects of this restatement on the specific line items presented in our historical financial statements for the periods indicated are included in Note 18 of the notes to our consolidated financial statements included with this Annual Report on Form 10-K.

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PART I

Item 1. Business

General

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

Our Company

PriceSmart owns and operates U.S. style membership shopping warehouse clubs in Central America, the Caribbean and Colombia. These regions have a population of approximately 100 million people and a combined gross domestic product of just under $1.0 trillion. We also function as a wholesale supplier to a retailer in the Philippines. We sell high quality brand name and private label consumer products at low prices to individuals and businesses. Currently, our typical no-frills warehouse buildings range in sales floor size from 50,000 to 60,000 square feet and are located primarily in and around the major cities in our markets to take advantage of dense populations and relatively higher levels of disposable income. We have recently begun to construct smaller sales floor warehouse clubs. We believe the smaller format can expand our reach into additional geographic areas and provides more convenience for our members.

During fiscal year 2018, we acquired Aeropost, Inc. (“Aeropost”). Located in Miami, Aeropost is a cross border freight forwarding business that also operates an online marketplace. Aeropost provides logistics, payment, and e-commerce services in Latin America and the Caribbean and currently serves customers in 38 countries with Costa Rica, Trinidad and Jamaica as its largest markets. Aeropost leases and operates small retail stores that enable customers to pick up and pay for merchandise. Aeropost has distribution and administration facilities in Miami, Florida. We are leveraging Aeropost’s technology, its management’s experience in developing software and systems for e-commerce and logistics, and its distribution and logistics systems to advance PriceSmart’s development of an omni-channel shopping experience for our members.

As warehouse club operators, we believe that our business success depends on our ability to be the lowest cost operators in our markets and, in turn, to offer the lowest prices in our markets. Lower prices drives sales volume, which increases the Company's buying leverage, which in turn leads to better pricing that we can then offer to our members, validating the membership investment that our customers are making. In fiscal year 2018, our average net merchandise sales were approximately $1,500 per square foot of sales floor space.

We believe that paying our employees well and providing good benefits is not only the right thing to do, but also fosters a more motivated and loyal workforce resulting in less turnover and costs associated with loss of talent.

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

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The numbers of warehouse clubs in operation as of August 31, 2018 for each country or territory were as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2017	Number of Warehouse Clubs in Operation as of August 31, 2018	Anticipated Additional Warehouse Club Openings In Fiscal Year 2019	Anticipated Additional Warehouse Club Openings In Fiscal Year 2020
Colombia	7	7	—	—
Costa Rica	6	7	—	—
Panama	5	5	1 (1)	—
Trinidad	4	4	—	—
Dominican Republic	3	4	1 (1)	—
Guatemala	3	3	—	1
Honduras	3	3	—	—
El Salvador	2	2	—	—
Nicaragua	2	2	—	—
Aruba	1	1	—	—
Barbados	1	1	—	—
U.S. Virgin Islands	1	1	—	—
Jamaica	1	1	—	—
Totals	39	41	2	1

(1) Small format warehouse club.

We opened a new warehouse club in Santa Ana, Costa Rica in October 2017 (fiscal year 2018), bringing the total number of PriceSmart warehouse clubs operating in Costa Rica to seven. In May 2018, we opened a new warehouse club in the Dominican Republic. This brought the number of PriceSmart warehouse clubs operating in the Dominican Republic to four.

In May 2018, the Company acquired land in Panama and the Dominican Republic upon which the Company plans to construct new warehouse clubs. In Panama, the site is in the city of Santiago, which is a smaller city three hours west of Panama City by car and, upon completion, will be the sixth warehouse club in Panama. In the Dominican Republic, the site is in the city of Santo Domingo, a major metropolitan area, and upon completion, will be the fifth warehouse club in the Dominican Republic. Both warehouse clubs are currently expected to open in the spring of 2019. Both of these warehouse clubs have been designed using our new small warehouse club format with sales floor square footage between 30,000 to 40,000 square feet, compared to 50,000 to 60,000 sales floor square footage within our most recent standard format warehouse club openings. These smaller format warehouse clubs represent our first developments of these format stores that are intended to reach into additional geographic areas and provide more convenience for our members.

In September 2018 (fiscal year 2019), the Company acquired land in San Cristobal, Guatemala, upon which the Company plans to construct a standard format warehouse club. San Cristobal is expected to open in the fall of 2019 (fiscal year 2020). We continue to explore other potential sites for future warehouse clubs, which could open as soon as fiscal year 2020, in Central America, the Caribbean and Colombia.

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

We also operate a cross-border logistics and e-commerce business through our Aeropost, Inc. subsidiary which we acquired in March 2018. Aeropost operates in 38 countries directly or via agency relationships in Latin America and the Caribbean and has distribution and administration facilities in Miami, Florida.

Competitive Strengths

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

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Worldwide Sourcing. Approximately 51.0% of our sales come from merchandise sourced in the U.S., Asia and Europe. One of the primary advantages we have compared to most of our competitors is our United States-based buying team that sources merchandise from suppliers in the U.S. and around the world. Our U.S.-based buyers identify and purchase new and exciting products, including our own Member's Selection private label products. Many of these products are available only at PriceSmart in the markets in which we operate.

Membership. Membership has been a basic operating characteristic in the warehouse club industry beginning over 42 years ago at Price Club, the first warehouse club. Membership fees are an additional component of enabling us to operate our business on lower margins than conventional retail and wholesalers and represent approximately 1.7% of net merchandise sales. In addition, membership serves to promote customer loyalty.

Our membership represents a desirable demographic concentration with strong purchasing power in our markets. Most recently we have begun to expand our Platinum Membership program, which offers enhanced membership rewards and access to services such as discounts offered via our PriceSmart Travel website, future enhancement of our co-branded credit cards benefits, and expanding our service and product offering as exemplified by our new optical departments and our white goods direct delivery programs. We believe that untapped opportunities exist to further enhance the value of our membership in various areas. We continue to explore opportunities to provide our members with products and services that are particularly attractive to our unique membership base.

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

Innovation. The warehouse club industry has been operating for over forty years, following the founding of Price Club in 1976. The world of merchandising has changed greatly over this period, particularly related to technology, the worldwide sourcing of products, a growing middle class in developing countries and ever changing consumer preferences. We have developed know-how to operate effectively in multiple markets, many of which are relatively small, each with different legal requirements, local buying opportunities, cultural norms, unique distribution and logistical challenges and member preferences that require our unique ability to source the correct mix of local versus imported merchandise. We believe that fundamental to our future success is our capacity to continue to adapt and innovate to meet the needs of our current and future members. While not yet as prevalent as in the U.S., online sales penetration is clearly increasing in the markets where we operate. This past year we established an Innovation Committee, a standing committee reporting to our Board of Directors. The Innovation Committee is charged with the responsibility of ensuring that Aeropost is successfully integrated into PriceSmart for the benefit of PriceSmart members. The Innovation Committee is also responsible for ensuring that our company has the right talent and expertise to provide our company the appropriate technology resources to effectively operate our business now and for the future.

Experienced Management Team. Our management team has extensive career experience in the warehouse club business. Most of our executive team learned the warehouse club business at Price Club or Sam's Club (a division of Walmart). The Aeropost executive team has deep experience in developing online technology and marketing for e-commerce and logistics in the Latin America marketplace.

Growth Strategy

Our Board of Directors has approved a growth strategy that includes the following elements:

Increasing same "store" sales. We are committed to increasing same store sales by increasing the number of member transactions and by increasing the average order size. There are a number of ways to increase same store sales. In some of our highest volume locations, we have enlarged our buildings to expand sales floors and add more parking, including projects in our Pradera, Guatemala, San Salvador, El Salvador, Barranquilla, Colombia and Kingston, Jamaica locations. We are planning to invest in a number of our locations in 2019 to improve the shopping experience for our members, including the development and implementation of new technology to expedite membership sign-up and renewal that we believe will drive same store sales growth. Another way to increase same store sales is to operate more efficiently and improve the tracking and flow of merchandise to our locations in order to reduce out of stocks. We believe that the use of technologies to identify member shopping patterns will help us to design targeted marketing campaigns, which will further drive sales. Additionally, we believe that continuing to enhance the member value proposition by offering new services, such as optical and discounts on external services like travel and insurance, helps drive member loyalty and overall sales. Finally, we believe that online sales will increase same store sales, both by enabling our members to purchase online and having products delivered, as well as relocating certain products, such as bulky big ticket items, from the clubs to our distribution centers. We expect to test online sales opportunities in a few markets in late fiscal year 2019.

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Adding New Warehouse Clubs in Existing Markets. We currently operate in 13 countries/territories, with the largest in terms of population and gross domestic product being Colombia. In our non-Colombia markets, we plan to add additional warehouse clubs in our existing standard warehouse club format and in our new small warehouse club format where we believe the markets can support additional clubs. We also plan to continue to add warehouse clubs in Colombia which, due to the size of the market, we believe can potentially provide significant expansion opportunities.

New Markets. This past year our management team has visited a number of potential new markets in order to evaluate the feasibility for expansion in conjunction with our online sales growth. Our management team is currently reviewing these market studies. We anticipate that the market visits and market studies will lead to a decision to enter one or more new markets.

On-line Shopping and Other Services. We have identified the following online strategic opportunities we intend to pursue through the application of Aeropost's technology and management know how:

1. Cross-border shopping: Using the sourcing expertise and buying power of PriceSmart, we plan to extend the range of products that our members can purchase. For now, these new products will be sourced in the U.S., fulfilled through the Aeropost distribution center in Miami and shipped to our members. Members will be able to receive orders at their homes or businesses, at designated pick-up areas within PriceSmart locations or at Aeropost locations in PriceSmart countries.

2. Online orders of club merchandise: We plan to transfer certain large ticket products from our clubs to our distribution center, initially in a few markets, so that members can order these products online and have them shipped directly to their home or business or picked up at a PriceSmart location. We are also exploring the opportunity to add products to our in-country selection and fulfilling online orders directly from the distribution center.

3. Small club format: Increasing capabilities enabled by technology is essential to the success of our urban and smaller city small club format. These smaller clubs will have reduced selection of non-food products, but we plan to enable members to order online any product typically available at our larger format clubs.

4. Home delivery: Consumers increasingly are requesting home delivery or store pick up for larger items as well as for their everyday basic shopping needs, such as consumable merchandise. We are developing solutions, through technology and partnerships, to enable our members to order online and have products delivered to their homes or made available for pick up at a PriceSmart location.

5. Additional expansion opportunities: We are currently exploring the possibilities of combining PriceSmart's purchasing power with Aeropost's wider geographic presence and online capabilities to sell merchandise in markets where PriceSmart does not currently have a presence.

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

Historically, our international suppliers and especially our U.S. suppliers have shipped to Miami where their products are received and assigned to various containers for direct shipment to our locations. Regional and in-country suppliers have also shipped directly to our locations. As our location sales volumes have grown, this system no longer provides all the answers we need. We now understand that we need to route more of our products from both international, regional and local suppliers to major regional distribution centers in order to improve in-stocks, reduce inventory weeks of supply and reduce expense inefficiencies, all with the goal of giving better prices to our members.

We recently opened our first regional distribution center, which is located in Costa Rica within the metropolitan area of San Jose. This 165,000 square foot building is designed to receive, store and ship dry, refrigerated and frozen products to our clubs in Central America with the exception of Panama. This regional distribution center will also have the capacity to ship products such as major appliances and eventually online products directly to our members or to convenient pick-up locations, including our clubs. Assuming we are able to validate the benefits of this regional distribution center, we will consider other strategic locations for similar distribution centers.

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Specifically related to produce, we have recently opened our own produce distribution facility in Panama and also plan to distribute produce from our new regional distribution facility in Costa Rica. Historically, we have purchased produce products from wholesalers. We believe buying direct from growers and handling the distribution will allow us to better control quality and drive lower prices for our members. Depending on the success of our facility in Panama, we plan to consider establishing produce distribution facilities in other markets where sufficient locally grown produce is available.

Our Membership Policy

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

The Diamond membership is targeted at individuals and families. The annual fee for a Diamond membership in most markets is approximately $35 (entitling members to two cards). We increased the fee in June 2012 from approximately $30. In Colombia, the Diamond membership fee has been 75,000 (COP) (including VAT) since February 2017, providing a converted membership price of approximately $25.

The Company began offering Platinum memberships in Costa Rica during fiscal year 2013 and expanded this offering into Panama, Dominican Republic and Trinidad during fiscal year 2018. The annual fee for a Platinum membership in most markets is approximately $75. The Platinum membership provides members with a 2% rebate on most items, up to an annual maximum of $500. Platinum members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. The Company records this 2% rebate as a reduction of revenue at the time of the sales transaction. Accordingly, the Company has reduced warehouse sales and has accrued a liability within other accrued expenses. The rebate is issued annually to Platinum members on March 1 and expires August 31. Any rebate amount not redeemed by August 31 is recognized as breakage revenue. During October 2018 (fiscal year 2019) we began offering Platinum memberships in the United States Virgin Islands. Over the next two years, we expect to continue expanding Platinum membership to all our other PriceSmart markets.

We recognize membership income over the 12-month term of the membership. Deferred membership income is presented separately on the consolidated balance sheet and totaled $22.9 million and $22.1 million as of August 31, 2018 and August 31, 2017, respectively. Our membership agreements provide that our members may cancel their membership and may receive a refund of the prorated share of their remaining membership fee if they so request.

Our Intellectual Property Rights

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

Our Competition

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

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Our Employees

As of August 31, 2018, we had a total of 8,680 employees. Approximately 93% of our employees were employed outside of the United States, and unions represent approximately 1,568 employees. Our policy is to provide employees with good wages relative to the competition in the markets in which they work and to provide good benefits which often exceed the legal requirements for countries in which we do business. We believe that investing in our employees, treating them as partners in our business and providing opportunities for career advancement lead to long-serving, loyal employees, which in turn creates efficiencies in operations and results in better service to our members. We consider our employee relations to be very good.

Seasonality and Quarterly Fluctuations

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

Working Capital Practices

Information about our working capital practices is disclosed in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.”

Financial Information about Segments and Geographic Areas

Financial information about segments and geographic areas is incorporated herein within Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Net Merchandise Sales by Segments” and Part II, Item 8 “Financial Statements and Supplementary Data Segment: Notes to Financial Statements, Note 16-Segments.”

Other Information

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

Available Information

The PriceSmart, Inc. website or internet address is www.pricesmart.com. On this website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, and the annual report to the stockholders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website under “SEC Filings.” Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. We will make available our annual report on Form 10-K and our annual Proxy Statement for the fiscal year 2018 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.

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Item 1A. Risk Factors

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

External Risks:

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

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

- changes in, and inconsistent enforcement of, laws and regulations, including those related to tariffs and taxes;
- the imposition of foreign and domestic governmental controls, including expropriation risks;
- natural disasters;
- trade restrictions, including import-export quotas and general restrictions on importation;
- difficulty and costs associated with international sales and the administration of an international merchandising business;
- crime and security concerns, which can adversely affect the economies of the countries in which we operate and which require us to incur additional costs to provide additional security at our warehouse clubs;
- Political instability, such as recent unrest in Honduras, the ongoing anti-government protests in Nicaragua that have disrupted our operations there, and a general strike in Costa Rica led by public-sector unions that disrupted normal commerce in September 2018;
- product registration, permitting and regulatory compliance;
- volatility in foreign currency exchange rates;
- general political as well as economic and business conditions; and
- interruption of our supply chain.

These risks may result in disruption to our sales, banking transactions, operations and merchandise shipments, any of which could have a material adverse effect on our business and results of operations.

President Donald Trump said in October 2018 that the U.S. will cut off or substantially reduce aid to Guatemala, Honduras and El Salvador if sufficient actions are not taken by the respective countries to stop the flow of people from these countries, seeking to immigrate to the U.S. In addition, Congress is considering legislation to terminate U.S. aid to Nicaragua. We believe the termination or substantial reduction of U.S. aid to such countries could adversely affect the economies of such countries with a corresponding impact on our sales and our ability to receive timely tax refunds owed to us by some of these countries, and could even lead to further political instability.

We are exposed to significant weather events and other natural disaster risks that might not be adequately compensated by insurance.

Our operations are subject to volatile weather conditions and natural disasters, such as earthquakes, hurricanes and volcanic activity, which are encountered periodically in the regions in which our warehouse clubs are located. Natural disasters could result in many days of lost sales at our warehouse clubs or adversely affect our distribution chain. For example, in early fiscal year 2018 operations at our USVI warehouse club were adversely affected by Hurricanes Irma and Maria. The warehouse club was closed for nine days, and after re-opening, the warehouse club operated with limited hours for 16 days due to a government-imposed curfew. Damaged and destroyed roads restricted traffic flow, adversely affecting customer access for some time after the hurricane. Future losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on our business, financial condition and results of operations.

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

A slowdown in the economies of one or more of the countries in which we operate or adverse changes in economic conditions affecting discretionary consumer spending, such as employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, availability of credit, interest rates and tax rates in each of our foreign markets, could adversely affect consumer demand for the products we sell, change the mix of products we sell to one with a lower average gross margin, cause a slowdown in discretionary purchases of goods, adversely affect our net sales and result in slower inventory turnover and greater markdowns of inventory, or otherwise materially adversely affect our operating results. Factors such as declining expatriate remittances, reduced tourism and less foreign investment also could negatively impact the economies of Latin America and the

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Caribbean. A significant decline in the economies of the countries in which our warehouse clubs are located may lead to increased governmental ownership or regulation of the economy, higher interest rates and increased barriers to entry such as higher tariffs and taxes. The economic factors that affect our operations also may adversely affect the operations of our suppliers, which can result in an increase in the cost to us of the goods we sell to our customers or, in more extreme cases, in certain suppliers not producing goods in the volume typically available to us for sale.

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

We compute our income tax based on enacted tax rates in the countries in which we operate. As the tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall taxes. Changes in tax laws, increases in the enacted tax rates, adverse outcomes in connection with tax audits in any jurisdiction, including transfer pricing disputes, or any change in the pronouncements relating to accounting for income taxes could have a material adverse effect on our financial condition and results of operations. In some countries, there have been changes in the method of computing minimum tax prepayments and there are no clear rules that allow the Company to obtain refunds or to offset prepayments that are substantially in excess of the actual computed tax liability. Additionally, in one country the government alleges that there is not a clearly defined process in the laws and regulations to allow the tax authorities to refund Value Added Tax ("VAT") receivables. We, together with our tax and legal advisers, are currently appealing these interpretations in court. If we do not prevail on our appeal, we may be required to establish a valuation reserve against these tax receivables and take an accompanying charge, which would adversely affect our financial condition and results of operation.

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

A recent example of the significant impact of taxes is the December 2017 U.S. Tax Reform. The resulting reduction in the tax rate from 35% to 21% will have a beneficial impact on the Company on a go-forward basis. However, in fiscal year 2018, we incurred charges of $12.5 million due to a one time transitional tax on unremitted foreign earnings and $222,000 to reduce the value of deferred tax assets due to the reduction in U.S. tax rates. Furthermore, while the statutory tax rate will decrease in the U.S., we currently do not expect to receive the full benefit of this rate reduction. This is due to the fact that we currently expect that the foreign tax credits that we can apply to our U.S. tax payable (from foreign withholdings), will exceed taxes owed at the 21% U.S. Tax rate, for which our U.S. segment will create a valuation allowance against the amount of this excess.

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

We currently have labor unions at our distribution center in Miami, FL and in three of our subsidiaries (Trinidad, Barbados, and Panama). A work stoppage or other limitation on operations from union or other labor-related matters could occur for any number of reasons, including as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiation of new collective bargaining agreements. A lengthy work stoppage or significant limitation on operations could have a substantial adverse effect on our financial condition and results of operations. For example, a work stoppage at our Miami distribution facility could affect our ability to supply adequate inventories of U.S. goods to our warehouse clubs, and work stoppages at one or more clubs would adversely affect sales within the affected warehouse clubs.

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

As of August 31, 2018, we had a total of 41 warehouse clubs operating in 12 foreign countries and one U.S. territory, 31 of which operate under currencies other than the U.S. dollar. For fiscal year 2018, approximately 77% of our net merchandise sales were in foreign currencies. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net merchandise sales denominated in foreign currencies.

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

In addition, devaluing foreign local currencies compared to the U.S. dollar could negatively impact the purchasing power of our members for imported merchandise in those countries. Merchandise imported into our markets are generally purchased

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by the Company in U.S. dollars and priced and sold in the local currency of that country. If the local currency devalues against the U.S. dollar, we may elect to increase prices in the local currency to maintain our target margins, making the products more expensive for our members. Depending on the severity of the devaluation and corresponding price increase (as experienced in Colombia in 2015) the demand for, and sales of, those products could be negatively impacted.

Finally, the ability of the Company to convert local currency into U.S. dollars to settle U.S. dollar invoices can be impacted in certain markets due to economic factors or government policies creating illiquidity of the local currency. This was the case in Trinidad at the end of 2016 which led us to reduce shipments from the U.S. to Trinidad to amounts that our Trinidad subsidiary could pay for using the amount of tradeable currency that could be sourced in that market, resulting in lost sales.

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

We face compliance risks related to our international operations.

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

In foreign countries in which we have operations, a risk exists that our employees, contractors or agents could, in contravention of our policies, engage in business practices prohibited by U.S. laws and regulations applicable to us, such as the Foreign Corrupt Practices Act and the laws and regulations of other countries. We maintain policies prohibiting such business practices and have in place global anti-corruption compliance programs designed to ensure compliance with these laws and regulations. Nevertheless, we remain subject to the risk that one or more of our employees, contractors or agents, including those based in or from countries where practices that violate such U.S. laws and regulations or the laws and regulations of other countries may be customary, will engage in business practices that are prohibited by our policies, circumvent our compliance programs and, by doing so, violate such laws and regulations. Our Aeropost subsidiary operates as a freight forwarder, dealing with local customs officials, in many jurisdictions in which we have not previously operated. In some countries, Aeropost operates through agents. We have not fully integrated Aeropost into our compliance program, and we have limited control over actions by Aeropost's agents. Any violations of anti-corruption laws, even if prohibited by our internal policies, could adversely affect our business or financial performance.

Internal Risks:

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

As of August 31, 2018, the Company had 41 warehouse clubs in operation, located in 12 countries and one U.S. territory (seven each in Colombia and Costa Rica; five in Panama; four each in Trinidad and Dominican Republic; three each in Guatemala and Honduras, two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica, and the United States Virgin Islands). We will need to continually evaluate the adequacy of our existing infrastructure, systems and procedures, financial controls, inventory controls and safety controls and make upgrades from time to time. Moreover, we will be required to continually analyze the sufficiency of our inventory distribution channels and systems and may require additional or expanded facilities in order to support our operations. We may not adequately anticipate all the changing demands that will be imposed on these systems. Any inability to effectively update our internal systems or procedures as required could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition.

Our international warehouse club business competes with exporters, importers, wholesalers, local retailers and trading companies in various international markets. Some of our competitors have greater resources, buying power and name recognition than we have.

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

We also face competition from on-line retailers who serve our markets, and we expect that this type of competition will grow and intensify in the future.

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

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

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

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

We operate in comparatively small markets. Given the growth of our sales over the past few years, market saturation could impact the rate of future sales growth.

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

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

From time to time we may consider acquisition opportunities and new business initiatives. During fiscal year 2018, we acquired Aeropost, Inc. ("Aeropost"). Located in Miami, Aeropost is a cross border freight forwarding business that also operates an online marketplace. Aeropost provides logistics, payment, and e-commerce services in Latin America and the Caribbean and currently serves customers in 38 countries with Costa Rica, Trinidad and Jamaica as its largest markets. We are leveraging Aeropost's technology, its management's experience in developing software and systems for e-commerce and logistics, and its distribution and logistics systems to advance PriceSmart's development of an omni-channel shopping experience for our members. Acquisitions and new business initiatives involve certain inherent risks, including the failure to retain key personnel from an acquired business; undisclosed or subsequently arising liabilities or accounting, internal control, regulatory or compliance issues associated with an acquired business; challenges in the successful integration of operations, and alignment of standards, policies and systems; future developments that may impair the value of our purchased goodwill or intangible assets; and the potential diversion of management resources from existing operations to respond to unforeseen issues arising in the context of the integration of a new business or initiative.

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

Our success depends, in part, on our ability to identify and respond to trends in demographics and changes in consumer preferences for merchandise. It is difficult to consistently and successfully predict the products and services our members will demand. Failure to timely identify or respond effectively to changing consumer tastes, preferences or spending patterns could adversely affect our relationship with our members, the demand for our products and our market share. If we are not successful at predicting sales trends and adjusting purchases accordingly, we might have too much or too little inventory of certain products.

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If we buy too much of a product, we might be required to reduce prices or otherwise liquidate the excess inventory, which could have an adverse effect on margins (net sales less merchandise costs) and operating income. If we do not have sufficient quantities of a popular product, we might lose sales and profits we otherwise could have made.

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

Online sales currently represent a small fraction of the total sales in our markets of the types of merchandise we offer, but online shopping may become more prevalent in our markets as we and our competitors begin to offer more opportunities for online shopping and as delivery systems in our markets improve. While major international online retailers have not established a significant penetration in any of our markets, it is possible that they or smaller regional companies will increase the penetration of online shopping in our markets. We continue to invest in our websites and systems with the long-term objective of offering our members a seamless multichannel experience. If we do not successfully develop and maintain a relevant multichannel experience for our members, our ability to compete and our results of operations could be adversely affected.

Failure to grow our e-commerce business through the integration of physical and digital retail or otherwise, and the cost of our increasing e-commerce investments, may materially adversely affect our market position, net sales and financial performance.

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

Our profitability is vulnerable to cost increases.

Future increases in costs such as the cost of merchandise, wage and benefits costs, shipping rates, freight costs, fuel costs, utilities and other store occupancy costs may reduce our profitability. We seek to adjust our product sales pricing, operate more efficiently, and increase our comparable store net sales to offset currency rate changes, changes in tax rates or in the methods used to calculate or collect taxes on our sales or income, inflation and other factors that can increase costs. We might not be able to adjust prices, operate more efficiently or increase our comparable store net sales in the future to a great enough extent to offset increased costs. Please see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Form 10-K for further discussion of the effect of currency rate changes, inflation and other economic factors on our operations.

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

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

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

Civil unrest in certain countries in which we operate may adversely affect the flow of goods through those countries. For example, in September 2018, protestors in Costa Rica blocked major highways around the country and impeded access to Costa Rica's main commerce ports and fuel distribution sites, and ongoing anti-government protests and government crackdowns in Nicaragua have involved roadblocks in many portions of the country. Any restriction in the movement of goods through Costa

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Rica's ports or over Nicaragua's highways could impair our ability to supply warehouse clubs not just in those countries, but in countries throughout the region as well.

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

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

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

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

We market and distribute products purchased from third-party suppliers and products prepared by us for resale, including meat, dairy and other food products, which exposes us to the risk of product liability claims, a product recall and adverse publicity. We may inadvertently redistribute food products or prepare food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the food service or consumer level. As we begin to package and market fresh produce products within our markets, we may be exposed to additional risk of product liability and adverse publicity if those fresh food products are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at our packaging service centers.

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

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

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

Aeropost's marketplace business provides a platform for customers to make purchases of products from Amazon and eBay, providing our customers with one-stop shopping. Aeropost does not have long-term commitments from either Amazon or eBay that they will continue to allow direct access to their merchandise from our marketplace platform.

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

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

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

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

In 2017 we began evaluating options to replace our existing Enterprise Resource Planning (ERP) system. However, due to the rapidly evolving retail and technological landscape, as well as our recent acquisition of Aeropost, we have delayed this evaluation project. After evaluating more holistically our overall IT landscape and strategy, we will reconsider the need, timing, scope, and approach to our ERP replacement project. Not updating our systems on a timely basis could leave us at a disadvantage with respect to operational capabilities of our competitors. Our current ERP system is not supported by the developer of the software, which could increase the risk of a system disruption, but we have an experienced internal team complemented by experienced external consultants who provide support to the current system.

Any failure by us to maintain the security of the information that we hold relating to our company, members, employees and vendors, whether as a result of cybersecurity attacks on our information systems, failure of internal controls, employee negligence or malfeasance or otherwise, could damage our reputation with members, employees, vendors and others, could disrupt our operations, could cause us to incur substantial additional costs and to become subject to litigation and could materially adversely affect our operating results.

We receive and store in our digital information systems certain personal information about our members, and we receive and store personal information concerning our employees and vendors. We also utilize third-party service providers for a variety of reasons, including, without limitation, cloud services, back-office support, and other functions. In addition, our online operations and our websites in our Aeropost operations and in certain of our warehouse club foreign markets depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. Each year, computer hackers, cyber terrorists, and others make numerous attempts to access the information stored in companies' information systems.

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

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providers' security measures and breach our or our third-party service providers' information systems (whether digital or otherwise).

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

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

We are subject to payment related risks.

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

Failure to manage our chief executive officer transition, failure to attract and retain other qualified employees, increases in wage and benefit costs, changes in laws and other labor issues could materially adversely affect our financial performance.

Our success depends to a significant degree on the continued contributions of members of our senior management and other key operations, merchandising and administrative personnel, and the loss of any such persons could have a material adverse effect on our business. On October 24, 2018, our Chief Executive Officer and President Jose Luis Laparte submitted his resignation effective November 16, 2018, which the Board of Directors accepted the same day. We announced that Robert E. Price, Company Founder and our Chairman, will serve as Executive Chairman and that Sherry S. Bahrambeygui, a member of our Board of Directors, will serve as Interim Chief Executive Officer while the Company conducts a search for a permanent Chief Executive Officer. Any failure by us to manage this leadership transition or a failure to timely identify a qualified permanent chief executive could have a material adverse effect on our business, financial condition and results of operations.

We must develop and retain a growing number of qualified employees, while controlling related labor costs and maintaining our core values. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to adequately develop, retain and attract highly qualified employees in the future, or to replace retiring key executives which could have a material adverse effect on our business, financial condition and results of operations. We do not maintain key man insurance.

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

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

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A few of our stockholders own approximately 25.0% of our voting stock as of August 31, 2018, which may make it difficult to complete some corporate transactions without their support and may impede a change in control.

Robert E. Price, the Company's Chairman of the Board, and affiliates of Mr. Price, including Price Charities, Price Philanthropies, The Price Group, LLC, The Robert & Allison Price Charitable Remainder Trust and various other trusts, collectively beneficially own approximately 25.0% of our outstanding shares of common stock. Of this amount, approximately 79.6% (i.e. 19.9% of our total outstanding shares) is held by charitable entities. As a result of their beneficial ownership, these stockholders have the ability to significantly affect the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At August 31, 2018, PriceSmart operated 41 membership warehouse clubs, as detailed below:

Location	Own land and building	Lease land and/or building
COLOMBIA SEGMENT		
Colombia	6	1
CENTRAL AMERICA SEGMENT		
Panama	4	1
Guatemala	1	2
Costa Rica(1)	7	—
El Salvador	2	—
Honduras	2	1
Nicaragua	2	—

CARIBBEAN SEGMENT		
Dominican Republic(2)	4	—
Aruba	—	1
Barbados	1	—
Trinidad	3	1
U.S. Virgin Islands	—	1
Jamaica	1	—
Total	33	8

(1) We opened a new warehouse club in Santa Ana, Costa Rica in October 2017 (fiscal year 2018), bringing the total of warehouse clubs operating in Costa Rica to seven.

(2) We opened a new warehouse club in San Isidro, Dominican Republic in May 2018, bringing the total of warehouse clubs operating in the Dominican Republic to four.

Although we have entered into real estate leases in the past and will likely do so in the future, our preference is to own rather than lease real estate. We lease land and in some cases land and buildings when sites within market areas are not available to purchase. The term on these leases generally run for 20 to 30 years and contain options to renew from 5 to 20 years. As current leases expire, we believe that we generally will be able to obtain lease renewals, if desired, for present store locations, or to obtain leases for equivalent or better locations in the same general area. As of August 31, 2018, sales floors of the Company’s warehouse club buildings occupied a total of approximately 2,074,471 square feet, of which 367,134 square feet were on leased property.

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The following is a summary of other leased/and or owned facilities as of August 31, 2018:

Location	Facility Type	Own land and building	Lease land and/or building
COLOMBIA SEGMENT			
Bogota, Colombia	Central Offices	—	1
CENTRAL AMERICA SEGMENT			
Panama	Central Offices	—	1
Panama	Distribution Center	—	2
Panama	Storage Facility	—	1
Guatemala	Member Parking	—	1
Guatemala	Accounting Office	—	1
Costa Rica	Construction and Real Estate Development Offices	—	1
Costa Rica	Storage and Distribution Facility	—	2
El Salvador	Employee Parking	—	1
CARIBBEAN SEGMENT			
Barbados	Storage Facility	—	1
Chaguanas, Trinidad	Employee Parking	—	1
Chaguanas, Trinidad	Container Parking	—	1
Trinidad	Storage and Distribution Facility	—	1
Jamaica	Storage Facility	—	1
Santo Domingo, Dominican Republic	Central Offices	—	2
U.S. SEGMENT			
San Diego, CA	Corporate Headquarters	—	1
Miami, FL	Dry Distribution Facility and Offices	1	—
Miami, FL	Cold Distribution Facility	—	1
Miami, FL	Distribution Facility (Subleased to third parties)	—	1
Miami, FL	Aeropost Corporate Headquarters and Distribution Facility	—	1
Costa Rica	Aeropost Central Office	—	1
Costa Rica	Aeropost Distribution Center	—	1
Total		1	24

We lease most non-warehouse club facilities and expect to continue to lease these types of facilities as we expand. Our leases typically provide for initial lease terms between five and ten years, with options to extend; however, in some cases we have lease terms over ten years, mainly related to our Corporate Headquarters and Panama Central Offices. We believe this leasing strategy for non-warehouse clubs enhances our flexibility to pursue various expansion opportunities resulting from changing market conditions. As current leases expire, we believe that we will be able to obtain lease renewals, if desired, for these present locations, or to obtain leases for equivalent or better locations in the same general area.

In January 2017, we purchased a distribution center in Medley, Miami-Dade County, Florida. We transferred our Miami dry distribution center activities that were previously in a leased facility to the new facility during the third quarter of fiscal year 2017. As of August 31, 2018 all of the vacated space has been subleased (and/or subsequently returned to the landlord). We believe that the purchase of this distribution center will enable us to increase our ability to efficiently receive, handle and distribute merchandise.

In March 2018, we acquired Aeropost, Inc., which provides logistics, payment, and e-commerce services in Latin America and the Caribbean. Aeropost currently serves customers in 38 countries, with Costa Rica, Trinidad and Jamaica as its largest markets. Aeropost leases and operates small retail stores that enable customers to pick up and pay for merchandise. These leased small retail locations are immaterial individually and collectively and have been excluded from the table above.

In April 2018, we began leasing a new facility in Alajuela, Costa Rica, which will operate as our regional distribution center for the Central America segment. We expect to begin operations in late fall 2018. We expect this facility to increase our ability to efficiently handle and distribute our merchandise for the region.

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Item 3. Legal Proceedings

We are often involved in claims arising in the ordinary course of business seeking monetary damages and other relief. Based upon information currently available to us, none of these claims is expected to have a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company's common stock has been quoted and traded on the Nasdaq Global Select Market under the symbol "PSMT" since September 2, 1997. As of October 17, 2018, there were approximately 30,137 holders of record of the common stock.

	Dates		Stock Price	
	From	To	High	Low
2018 FISCAL QUARTERS				
First Quarter	9/1/2017	11/30/2017	$ 91.10	$ 79.90
Second Quarter	12/1/2017	2/28/2018	88.05	78.35
Third Quarter	3/1/2018	5/31/2018	90.75	78.60
Fourth Quarter	6/1/2018	8/31/2018	93.83	77.90
2017 FISCAL QUARTERS				
First Quarter	9/1/2016	11/30/2016	$ 92.40	$ 80.35
Second Quarter	12/1/2016	2/29/2017	92.15	82.50
Third Quarter	3/1/2017	5/31/2017	93.60	85.85

Fourth Quarter	6/1/2017	8/31/2017	89.20	80.50

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended August 31, 2018.

Dividends

		First Payment			Second Payment		
		Record	Date		Record	Date	
Declared	Amount	Date	Paid	Amount	Date	Paid	Amount
1/24/2018	$ 0.70	2/14/2018	2/28/2018	$ 0.35	8/15/2018	8/31/2018	$ 0.35
2/1/2017	$ 0.70	2/15/2017	2/28/2017	$ 0.35	8/15/2017	8/31/2017	$ 0.35
2/4/2016	$ 0.70	2/15/2016	2/29/2016	$ 0.35	8/15/2016	8/31/2016	$ 0.35

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

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Repurchase of Equity Securities

Upon vesting of restricted stock awarded by the Company to employees, the Company repurchases shares and withholds the amount of the repurchase payment to cover employees' tax withholding obligations. As set forth in the table below, during fiscal year 2018, the Company repurchased a total of 37,414 shares in the indicated months. These were the only repurchases of equity securities made by the Company during fiscal year 2018. The Company does not have a stock repurchase program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
September 1, 2017 - September 30, 2017	—	$ —	—	N/A
October 1, 2017 - October 31, 2017	—	—	—	N/A
November 1, 2017 - November 30, 2017	—	—	—	N/A
December 1, 2017 - December 31, 2017	—	—	—	N/A
January 1, 2018 - January 31, 2018	21,513	85.20	—	N/A
February 1, 2018 - February 29, 2018	—	—	—	N/A
March 1, 2018 - March 31, 2018	1,006	82.50	—	N/A
April 1, 2018 - April 30, 2018	—	—	—	N/A
May 1, 2018 - May 31, 2018	—	—	—	N/A
June 1, 2018 - June 30, 2018	1,158	84.65	—	N/A
July 1, 2018 - July 31, 2018	2,553	80.55	—	N/A
August 1, 2018 - August 31, 2018	11,184	86.25	—	N/A
Total	37,414	$ 85.11	—	N/A

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Item 6. Selected Financial Data

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

SELECTED FINANCIAL DATA

	Years Ended August 31,				
	2018 (1)(2)	2017	2016	2015	2014
	(in thousands, except income per common share)				
OPERATING RESULTS DATA:					
Net merchandise sales	$ 3,053,754	$ 2,910,062	$ 2,820,740	$ 2,721,132	$ 2,444,314
Export sales	40,581	34,244	33,813	33,279	31,279
Membership income	50,821	47,743	45,781	43,673	38,063
Other revenue and income	21,546	4,579	4,842	4,519	3,911
Total revenues	3,166,702	2,996,628	2,905,176	2,802,603	2,517,567
Total cost of goods sold	2,656,520	2,519,752	2,449,626	2,352,839	2,113,664
Selling, general and administrative	379,949	338,642	316,474	297,656	262,420
Pre-opening expenses	913	44	1,191	3,737	3,331
Asset impairment	1,929	—	—	—	—
Loss/(gain) on disposal of assets	1,339	1,961	1,162	2,005	1,445
Operating income	126,052	136,229	136,723	146,366	136,707
Total other income (expense)	(3,464)	(3,486)	(5,483)	(9,770)	(2,458)
Income before provision for income taxes and income (loss) of unconsolidated affiliates	122,588	132,743	131,240	136,596	134,249
Provision for income taxes	(48,177)	(42,018)	(42,849)	(47,566)	(41,372)
Income (loss) of unconsolidated affiliates	(8)	(1)	332	94	9
Net income	$ 74,403	$ 90,724	$ 88,723	$ 89,124	$ 92,886
Less: net income (loss) attributable to noncontrolling interest	(75)	—	—	—	—
Net income attributable to PriceSmart, Inc.	$ 74,328	$ 90,724	$ 88,723	$ 89,124	$ 92,886
NET INCOME ATTRIBUTABLE TO PRICESMART, INC. PER SHARE AVAILABLE FOR DISTRIBUTION:					
Basic	$ 2.44	$ 2.98	$ 2.92	$ 2.95	$ 3.07
Diluted	$ 2.44	$ 2.98	$ 2.92	$ 2.95	$ 3.07

Weighted average common shares - basic	30,115	30,020	29,928	29,848	29,747
Weighted average common shares - diluted	30,115	30,023	29,933	29,855	29,757

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

(2) On March 15, 2018, the Company acquired Aeropost, Inc. During fiscal year 2018 the consolidated net income attributable to PriceSmart Inc. contained approximately $9.3 million in losses, net of tax benefits, associated with our Aeropost operations and Aeropost acquisition-related expense.

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SELECTED FINANCIAL DATA- (Continued)

	As of August 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 93,460	$ 162,434	$ 199,522	$ 157,072	$ 137,098
Short-term investments	$ 32,304	$ —	$ —	$ —	$ —
Short-term and long-term restricted cash	$ 3,454	$ 3,278	$ 3,194	$ 1,525	$ 29,366
Total Assets	$ 1,216,392	$ 1,177,514	$ 1,096,735	$ 991,224	$ 937,338
Long-term debt	$ 102,575	$ 106,297	$ 88,107	$ 90,534	$ 91,439
Total PriceSmart stockholders' equity attributable to PriceSmart, Inc. stockholders	$ 758,002	$ 708,767	$ 638,071	$ 566,584	$ 548,265
Dividends paid on common stock(1)	$ 21,240	$ 21,285	$ 21,274	$ 21,126	$ 21,144

(1) On January 24, 2018, February 1, 2017, February 3, 2016, February 4, 2015, and January 23, 2014 the Company declared cash dividends on its common stock.

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

This annual Report on Form 10-K contains forward-looking statements concerning PriceSmart, Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flows, proposed warehouse club openings, the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words “expect,” “believe,” “will,” “may,” “should,” “proje “estimate,” “anticipated,” “scheduled,” and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to the risks detailed in this Annual Report on Form 10-K under the heading “Part I - Item 1A - Risk Factors”. These risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the accompanying notes included therein.

Our business consists primarily of operating international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. We operate in 13 countries/territories that are located in Latin America and the Caribbean. Our ownership in all operating warehouse club subsidiaries as of August 31, 2018 is 100%, and they are presented on a consolidated basis. The number of warehouse clubs in operation as of August 31, 2018 for each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2017	Number of Warehouse Clubs in Operation as of August 31, 2018	Anticipated Additional Warehouse Club Openings In Fiscal Year 2019		Anticipated Additional Warehouse Club Openings In Fiscal Year 2020
Colombia	7	7	—		—
Costa Rica	6	7	—		—
Panama	5	5	1	(1)	—
Trinidad	4	4	—		—
Dominican Republic	3	4	1	(1)	—
Guatemala	3	3	—		1
Honduras	3	3	—		—

El Salvador	2	2	—	—
Nicaragua	2	2	—	—
Aruba	1	1	—	—
Barbados	1	1	—	—
U.S. Virgin Islands	1	1	—	—
Jamaica	1	1	—	—
Totals	39	41	2	1

(1) Small format warehouse club.

We opened a new warehouse club in Santa Ana, Costa Rica, in October 2017 (fiscal year 2018), bringing the total of warehouse clubs operating in Costa Rica to seven. In May 2018, we opened a new warehouse club in the Dominican Republic. This brought the number of PriceSmart warehouse clubs operating in Dominican Republic to four.

In May 2018, the Company acquired land in Panama and the Dominican Republic upon which the Company plans to construct new warehouse clubs. In Panama, the site is in the city of Santiago, which is a smaller city three hours west of Panama City by car and, upon completion, will be the sixth warehouse club in Panama. In the Dominican Republic, the site is in the city of Santo Domingo, a major metropolitan area, and upon completion, will be the fifth warehouse club in the Dominican Republic. Both warehouse clubs are currently expected to open in the spring of 2019. Both of these warehouse clubs will be designed using our new small warehouse club format with sales floor square footage between 30,000 to 40,000 square feet, compared to 50,000 to 60,000 sales floor square footage within our most recent standard format warehouse club openings. These smaller format warehouse clubs represent our first developments of these format stores intended to reach into additional geographic areas and provide more convenience for our members.

In September 2018 (fiscal year 2019), we acquired land in San Cristobal, Guatemala, upon which the Company plans to construct a standard format warehouse club. San Cristobal is expected to open in the fall of 2019. We continue to explore other potential sites for future warehouse clubs in Central America, the Caribbean and Colombia.

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

We also operate a cross-border logistics and e-commerce business through our Aeropost, Inc. subsidiary which we purchased in March 2018. Aeropost operates in 38 countries directly or via agency relationships in Latin America and the Caribbean and has distribution and administration facilities in Miami, Florida.

General Market Factors

Our sales and profits vary from market to market depending on general economic factors, including GDP growth; consumer spending patterns; foreign currency exchange rates; political policies and social conditions; local demographic characteristics (such as population growth); the number of years we have operated in a particular market; and the level of retail and wholesale competition in that market.

Currency fluctuations can be one of the largest variables affecting our overall sales and profit performance, as we have experienced in prior fiscal years, because many of our markets are susceptible to foreign currency exchange rate volatility. During fiscal year 2018, approximately 77.0% of our net merchandise sales were in currencies other than the U.S. dollar. Of those sales 51.0% were comprised of sales of products we purchased in U.S. dollars.

A devaluation of the local currency reduces the value of sales and membership income that is generated in that country when translated to U.S. dollars for our consolidated results, and we may elect to increase the local currency price of imported merchandise to maintain our target margins, which would impact demand for a significant portion of the Company’s merchandise offering. For example, changes in the value of the Colombian peso (“COP”) relative to the U.S. dollar negatively impacted sales and margins in that market during fiscal years 2015 and 2016. A stabilization of the currency during fiscal year 2017 contributed to improving business conditions in Colombia, resulting in sales growth and a return to operating profitability in our Colombia segment that has continued into fiscal year 2018.

From time to time one or more markets in which we operate may experience economic downturns, which can negatively impact our business. For example, Trinidad, which depends on oil and gas exports as a major source of income, has been experiencing overall difficult economic conditions for the past two years. These adverse economic conditions, combined with government policies intended to manage foreign currency reserves, have adversely affected consumer spending. Other countries where recent general market conditions have provided a difficult operating environment during fiscal year 2018 include Panama and Barbados. Our business in USVI, where Hurricanes Irma and Maria had a severe impact on the infrastructure of the island in September 2017 and October 2017, has rebounded due to the re-construction efforts and the difficulty other retailers are having in becoming fully operational.

Our capture of total retail and wholesale sales can vary from market to market due to competition and the availability of other shopping options for our members. In larger, more developed countries, such as Costa Rica, Panama, and Colombia, customers have many alternatives available to them to satisfy their shopping needs, and therefore, our market share is less than in other smaller countries, such as Jamaica and Nicaragua, where consumers have a limited number of shopping options.

Demographic characteristics within each of our markets can also affect both the overall level of sales and also future sales growth opportunities. Island countries such as Aruba, Barbados and the U.S. Virgin Islands offer us limited upside for sales growth given their overall market size. Countries with a smaller upper and middle class consumer population, such as Honduras, El Salvador, Jamaica and Nicaragua, also have a more limited potential opportunity for sales growth as compared to more developed countries with larger upper and middle class consumer populations.

Political and other factors in each of our markets may have significant effects on our business. For example, in April 2018, protests against social reforms and violent clashes with national security forces significantly impeded normal economic activity in Nicaragua, and labor strikes in Costa Rica disrupted normal commerce in September 2018. Additionally, the need for increased tax revenue in certain countries can cause changes in tax policies affecting consumers' personal tax rates, and/or added consumption taxes, such as VAT (value-added taxes) effectively raising the prices of various products.

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In the past we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products, increasing our foreign exchange exposure to any devaluation of the local currency relative to the U.S. dollar. During fiscal year 2017 and fiscal year 2018, we experienced this situation in Trinidad ("TT"). We are working with our banks in Trinidad to source tradeable currencies (including Euros and Canadian dollars), but until the central bank in Trinidad makes more U.S. dollars available, this illiquidity condition is likely to continue. During part of the first half of fiscal year 2017, we limited shipments of merchandise to Trinidad from our distribution center in Miami to levels that generally aligned with our Trinidad subsidiary's ability to source U.S. dollars to pay for that merchandise. This resulted in a reduced level of shipments, which negatively affected sales in the second quarter of fiscal year 2017, particularly in December 2016, although by less than our initial estimate. These actions did not impact the level of merchandise we obtain locally in Trinidad. Starting in the third quarter of fiscal year 2017, we were able to improve our sourcing of tradeable currencies, which, in addition to other steps we took, allowed for a more normalized flow of imported merchandise during the third and fourth fiscal quarters. Over the past twelve months we have improved our sourcing and have been able to obtain a sufficient level of tradeable currencies in Trinidad consistent with the level of merchandise we are importing. However, this sourcing activity has increased our currency losses, and we have increased our product costs to cover these increased costs. As of August 31, 2018, our Trinidad subsidiary had net U.S. dollar denominated asset position of approximately $13.0 million, an increase of $9.0 million from August 31, 2017 when our Trinidad subsidiary had net U.S. dollar denominated asset position of approximately $4.0 million. We are carefully monitoring the situation, which may require us to limit future shipments from the U.S. to Trinidad in line with our ability to exchange Trinidad dollars for tradeable currencies to manage our exposure to any potential devaluation.

Business Strategy

Our business strategy is to operate membership warehouse clubs in the Caribbean islands, Central America and Colombia with a limited selection of high volume products at the best possible prices. PriceSmart members pay an annual membership fee. That fee, combined with volume purchasing and operating efficiencies throughout the supply chain, enable us to operate our business with lower margins and prices than conventional retail stores and wholesale suppliers. We are in the process of expanding our strategy to include online shopping and the strategic placement of regional distribution centers to support both our traditional warehouse club business and our new online shopping initiatives.

While our traditional membership warehouse club strategy continues to work well in our markets, we recognize that technology is having an increasingly profound impact on shopping habits throughout the world. We are broadening our business strategy to respond to changes in shopping habits so our members will have the shopping experience they desire. Our longer range strategic objective is to combine the traditional membership warehouse club "brick and mortar" business with online shopping to provide the best shopping experience possible for our members.

Growth

We measure our growth primarily by the amount of the period-over-period activity in our net merchandise sales, our comparable net merchandise sales and our membership income. Our investments are focused on the long-term growth of the Company. These investments can impact near-term results, such as when we incur fixed costs in advance of achieving full projected sales, negatively impacting near-term operating profit and net income, or when we open a new warehouse club in an existing market, which can reduce reported comparable net merchandise sales due to the transfer of sales from existing warehouse clubs.

Current and Future Management Actions

Logistics and distribution efficiencies are an important part of what allows us to deliver high quality merchandise at low prices to our members. We acquire approximately 50% of our merchandise internationally, a significant portion of which we receive at our Miami distribution centers. In January 2017, we purchased a distribution center in Medley, Miami-Dade County, Florida, into which we transferred our Miami dry distribution center activities from a leased facility during the third quarter of fiscal year 2017. This distribution facility has increased our ability to efficiently receive, handle and distribute merchandise. The efficiency with which we receive, handle and distribute merchandise to the point where our members put that merchandise into their shopping carts has a significant impact on our level of operating expenses and ultimately how low we can price our merchandise. We continue to explore ways to improve efficiency, reduce costs and ensure a good flow of merchandise to our warehouse clubs. As we continue to refine our logistics and distribution infrastructure, we are investing in regional distribution centers. This past year we entered into a long-term lease for a 165,000 square foot distribution center in Costa Rica. We began operation in this distribution center during the fall of 2018.

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Purchasing land and constructing warehouse clubs is generally our largest ongoing capital investment. Securing land for warehouse club locations is challenging within our markets, especially in Colombia, because suitable sites at economically feasible prices are difficult to find. While our preference is to own rather than lease real estate, we have entered into real estate leases in certain cases and will likely do so in the future. Real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years.

In 2017 we began evaluating options to replace our existing Enterprise Resource Planning (ERP) system. However, due to the rapidly evolving retail and technological landscape, as well as our recent acquisition of Aeropost, we have delayed this evaluation project. After evaluating more holistically our overall IT landscape and strategy, we will reconsider the need, timing, scope and approach to our ERP replacement project.

On March 15, 2018, the Company acquired Aeropost, Inc. (“Aeropost”). The Aeropost business includes a freight forwarding business, known as the Casillero business, an online marketplace and technology capability. The freight forwarding business annually ships goods with a value of approximately $500.0 million into Aeropost’s markets. We expect Aeropost’s capabilities will provide new online shopping options and an opportunity to accelerate the development of an omni-channel shopping experience for our members. We intend for the omni-channel experience to include efficient and low-cost cross-border ordering and delivery services, a wider assortment of products and services available to purchase online, and home delivery for our members. The net cash consideration for Aeropost was approximately $23.9 million. Our total payment for the acquisition also included contingent consideration of $5.0 million that we have recorded as a post-combination compensation expense. Under the merger agreement, this amount has been placed in escrow and its release to the sellers is contingent upon certain key Aeropost executives remaining employed with the Company for 15 months from the date of escrow closing. Because the escrow deposit also may be used to satisfy claims by us for post-closing purchase price adjustments or indemnification claims, the amount we recorded as compensation expense may be reduced by the amount of these adjustments and claims. As of August 31, 2018, this amount has been reduced by expected indemnification claims and purchase price adjustments to approximately $3.9 million. Our management is currently working to facilitate the integration of Aeropost into our business. We have aggregated our Aeropost results of operations within the United States reporting segment. We recorded approximately $4.6 million in net losses from Aeropost operations and acquisition related expenses, net of tax benefits during the fourth quarter of fiscal year 2018 and $9.3 million for the entire fiscal year 2018, related to Aeropost. We began consolidating Aeropost’s financial statements with our financial statements in the third quarter of fiscal year 2018. Consolidation of this entity will create current period to prior period variances, which we have explained below under the heading, “Comparison of Fiscal Year 2018 to 2017 and Fiscal Year 2017 to 2016.”

Financial highlights for the fourth quarter of fiscal year 2018 included:

- Total revenues increased 6.0% over the comparable prior year period. 1.2% of this increase was the result of approximately $9.0 million in non-merchandise revenue from our Aeropost operations acquired in March 2018.
  - Net merchandise sales increased 4.3% over the comparable prior year period. We ended the quarter with 41 warehouse clubs compared to 39 warehouse clubs at the end of the fourth quarter of fiscal year 2017.

- Comparable net merchandise sales (that is, sales in the warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 13 weeks ended September 2, 2018 increased 0.2%.
- Membership income for the fourth quarter of fiscal year 2018 increased 6.0% to $12.9 million.
    - Merchandise gross profits (net merchandise sales less associated cost of goods sold) in the quarter increased 5.2% over the prior-year period, and warehouse gross profits as a percent of net merchandise club sales were 14.7%, an increase of 90 basis points (0.9%) from the same period last year.
- Operating income for the fourth quarter of fiscal year 2018 was $27.2 million, a decrease of $3.6 million compared to the fourth quarter of fiscal year 2017.
- We recorded a $211,000 net currency gain from currency transactions in the current quarter compared to a $153,000 net currency gain in the same period last year.
- Our effective tax rate decreased in the fourth quarter of fiscal year 2018 to 27.5% from 33.9% in the fourth quarter of fiscal year 2017.
- Net income attributable to PriceSmart for the fourth quarter of fiscal year 2018 was $19.0 million, or $0.62 per diluted share, compared to $19.8 million, or $0.64 per diluted share, in the fourth quarter of fiscal year 2017.

Financial highlights for fiscal year 2018 included:

- Total revenues increased 5.7% over the comparable prior year period. 0.6% of this increase was the result of approximately $16.9 million in non-merchandise revenue from our Aeropost operations acquired in March 2018.
- Net merchandise sales increased 4.9% over the comparable prior year period. We ended the year with 41 warehouse clubs compared to 39 warehouse clubs at the end of the fiscal year 2017.
- Comparable net merchandise sales (that is, sales in the warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 52 weeks ended September 2, 2018 increased 2.3%.

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- Membership income for the fiscal year 2018 increased 6.4% to $50.8 million.
- Merchandise gross profits (net merchandise sales less associated cost of goods sold) increased 4.9% over the same prior year period and warehouse gross profits as a percent of net merchandise club sales were 14.5%, which is unchanged from fiscal year 2017.
- Operating income for fiscal year 2018 was $126.1 million, a decrease of $10.2 million compared to fiscal year 2017.
- Currency exchange transactions in the current year resulted in a $192,000 net currency gain compared to a $1.2 million net gain from currency exchange transactions last year.
- The effective tax rate for fiscal year 2018 was 39.3%, as compared to the effective tax rate for fiscal year 2017 of 31.7%.
- Net income attributable to PriceSmart for fiscal year 2018 was $74.3 million, or $2.44 per diluted share, compared to $90.7 million, or $2.98 per diluted share, in the prior year.

Financial highlights for fiscal year 2017 included:

- Total revenues increased 3.1% over the comparable prior year period.
- Net merchandise sales increased 3.2% over the comparable prior year period. We ended the year with 39 warehouse clubs compared to 38 warehouse clubs at the end of the fiscal year 2016.
- Comparable merchandise club sales (that is, sales in the warehouse clubs that had been open for greater than 13 1/2 calendar months) for the 52 weeks ended September 3, 2017 increased 1.5%.
- Membership income for the fiscal year 2017 increased 4.3% to $47.7 million.
- Merchandise gross profits (net merchandise sales less associated cost of goods sold) increased 4.8% over the same prior year period and warehouse gross profits as a percent of net merchandise club sales were 14.5%, an increase of 23 basis points (0.23%) from the same period last year.
- Operating income for fiscal year 2017 was $136.2 million, a decrease of $494,000 compared to fiscal year 2016.
- Currency exchange transactions in fiscal year 2017 resulted in a $1.2 million net gain compared to an $899,000 net loss in the prior year.
- The effective tax rate for fiscal year 2017 was 31.7%, as compared to the effective tax rate for fiscal year 2016 of 32.6%.
- Net income attributable to PriceSmart for fiscal year 2017 was $90.7 million, or $2.98 per diluted share, compared to $88.7 million, or $2.92 per diluted share, in the prior year.

Comparison of Fiscal Year 2018 to 2017 and Fiscal Year 2017 to 2016

The following discussion and analysis compares the results of operations for each of the three fiscal years ended August 31, 2018, 2017 and 2016 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. Unless otherwise noted, all tables present U.S. dollar amounts in thousands. Certain percentages presented are calculated using actual results prior to rounding. Our operations consist of four reportable segments: Central America, the Caribbean, Colombia and the United States. The Company’s reportable segments are based on management’s organization of these locations into operating segments by general geographic location, which are used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. From time to time, we revise the measurement of each segment's operating income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by our chief operating decision maker. When we do so, the previous period amounts and balances are reclassified to conform to the current period's presentation.

Net Merchandise Sales

The following tables indicate the net merchandise club sales in the reportable segments in which we operate, and the percentage growth in net merchandise sales by segment during fiscal years 2018, 2017 and 2016.

	Years Ended August 31, 2018				August 31, 2017	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 1,805,328	59.1 %	$ 48,612	2.8 %	$ 1,756,716	60.4 %
Caribbean	866,120	28.4 %	50,856	6.2 %	815,264	28.0 %
Colombia	382,306	12.5 %	44,224	13.1 %	338,082	11.6 %
Net merchandise sales	$ 3,053,754	100.0 %	$ 143,692	4.9 %	$ 2,910,062	100.0 %

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	Years Ended August 31, 2017				August 31, 2016	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 1,756,716	60.4 %	$ 29,954	1.7 %	$ 1,726,762	61.2 %
Caribbean	815,264	28.0 %	(12,842)	(1.6) %	828,106	29.4 %
Colombia	338,082	11.6 %	72,210	27.2 %	265,872	9.4 %
Net merchandise sales	$ 2,910,062	100.0 %	$ 89,322	3.2 %	$ 2,820,740	100.0 %

Comparison of 2018 and 2017

Overall net merchandise sales grew by 4.9% for fiscal year 2018 compared to fiscal year 2017, resulting from a 4.6% increase in transactions and a 0.3% increase in average ticket.

Net merchandise sales in our Central America segment increased 2.8% for fiscal year 2018 compared to fiscal year 2017. General weakness in Panama, one of our largest markets in that segment, and social unrest starting in May 2018 within our Nicaragua market, resulted in negative combined growth within those two countries of 0.7% when compared to the prior year. All other Central American markets recorded positive growth in warehouse sales for the twelve-month period, with Costa Rica, Guatemala, Honduras, and El Salvador together recording sales growth of greater than 3.5%.

Our Caribbean segment merchandise sales increased 6.2% in fiscal year 2018 compared to fiscal year 2017, driven by sales increases within all of our markets in the segment, with the exception of our Barbados market. The difficult economic environment that affected fiscal year 2017 has improved, though we continue to closely monitor shipments of U.S. goods into our Trinidad market, as a result of continued currency illiquidity in that market. Trinidad net merchandise sales for fiscal year 2018 increased 2.2% when compared to the same period last year. The Company is not currently limiting shipments to Trinidad, but illiquidity concerns remain, which may again cause us to restrict shipments in the future.

Our Colombia segment's net merchandise sales increased 13.1% in fiscal year 2018 compared to fiscal year 2017. With the stabilization of the exchange rate between the Colombian peso and the U.S. dollar over the past two years, we have seen an improving sales picture in all of our warehouse clubs in Colombia. This, coupled with our efforts to source high quality merchandise from local suppliers, resulted in a 12.0% increase in transactions in the fiscal year and average ticket growth of 1.0%.

Comparison of 2017 and 2016

Overall net merchandise sales grew by 3.2% for fiscal year 2017 compared to fiscal year 2016, resulting from a 2.8% increase in transactions and a 1.0% increase in average ticket.

Net merchandise sales in our Central America segment increased 1.7% for fiscal year 2017 compared to fiscal year 2016. General weakness in Costa Rica, our largest market in that segment, resulted in negative growth there of 2.6%. All other Central American countries recorded positive growth in merchandise sales for the fiscal year 2017, with Panama, Guatemala, and Honduras all recording sales growth of between 4% and 5%.

Our Caribbean segment's sales declined 1.6% in fiscal year 2017 compared to fiscal year 2016, driven largely by sales decreases in Trinidad, our largest market in that segment in fiscal year 2017. The difficult economic environment there negatively impacted consumer spending, and earlier in fiscal year 2017, we restricted shipments of U.S. goods for a period of three months as a result of currency illiquidity in the market. Trinidad net merchandise sales for fiscal year 2017 declined 4.8% compared to fiscal year 2016.

Net merchandise sales in our Colombia segment grew 27.2% in fiscal year 2017 compared to fiscal year 2016 with the addition of our new Chia club on September 1, 2016. With the stabilization of the exchange rate between the Colombian peso and the U.S. dollar, we saw an improving sales picture in all of our warehouse clubs in Colombia. This, coupled with our efforts to source high quality merchandise from local suppliers, resulted in a 15.2% increase in transactions in fiscal year 2017 and average ticket growth of 10.4%.

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Net Merchandise Sales by Category

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold during the fiscal years ended August 31, 2018, 2017 and 2016.

	Years Ended August 31,		
	2018	2017	2016
Sundries (including health and beauty aids, tobacco, alcoholic beverages, soft drinks, cleaning and paper products and pet supplies)	27 %	27 %	27 %
Food (including candy, snack foods, dry and fresh foods)	54 %	53 %	53 %
Hardlines (including major appliances, small appliances, electronics, hardware, office supplies, garden and patio, sporting goods, business machines and automotive supplies)	10 %	11 %	11 %
Softlines (including apparel, domestics, cameras, jewelry, housewares, media, toys and home furnishings)	7 %	7 %	7 %
Other (including food court)	2 %	2 %	2 %
	100 %	100 %	100 %

Comparison of 2018 to 2017

The mix of sales by major category changed slightly by 1% for both Food and Hardlines between fiscal year 2018 and 2017.

Comparison of 2017 to 2016

The mix of sales by major category did not change between fiscal year 2017 and 2016.

Comparable Merchandise Sales

We report comparable merchandise club sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher merchandise club sales on the weekends. Each of the warehouse clubs used in the calculations was open for at least 13 ½ calendar months before its results for the current period were compared with its results for the prior period. For example, sales related to the warehouse club opened in Costa Rica on October 5, 2017 will not be used in the calculation of comparable sales until December 2018 and the sales related to our warehouse club in the Dominican Republic opened on May 3, 2018 will not be used in the calculation of comparable sales until July 2019. Sales transacted through our e-commerce platform are included in our calculation of comparable warehouse sales.

The following tables indicate the comparable net merchandise sales in the reportable segments in which we operate, and the percentage growth in net merchandise club sales by segment during fiscal years 2018 and 2017.

	52 Weeks Ended	
	September 2, 2018	September 3, 2017
	% Increase in comparable net merchandise sales	% Increase in comparable net merchandise sales
Central America	(0.7) %	1.4 %
Caribbean	4.4 %	(1.2) %
Colombia	13.4 %	10.2 %
All segments	2.3 %	1.5 %

Comparison of 2018 to 2017

Comparable merchandise sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the 52-week period ended September 2, 2018 grew 2.3%.

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The Central America segment comparable merchandise sales for fiscal year 2018 were impacted by the opening of the Company's seventh warehouse club in Costa Rica in an area called Santa Ana. Often times, new warehouse clubs that we open are not far from existing warehouse clubs that are included in the calculation for comparable net merchandise sales, resulting in a transfer of some sales from an existing club (in this case Escazu) to the new club. This transfer of sales from existing warehouse clubs that are included in the calculation of comparable net merchandise sales to new warehouse clubs that are not included in the calculation can have an adverse impact on reported comparable net merchandise sales. We estimate that the transfer of sales associated with the Santa Ana opening negatively impacted the comparable net merchandise sales for the Central America segment by 180 basis points (1.8%). New warehouse clubs attract new members from areas not previously served by us and also create the opportunity for some existing members, particularly those who now find the new clubs closer to their homes, to shop more frequently. Additionally, general weakness in Panama, one of our largest markets in this segment, and social unrest starting in May 2018 within our Nicaragua market impacted comparable net merchandise sales by approximately 70 basis points (0.7%).

The Caribbean segment experienced positive comparable merchandise sales for fiscal year 2018, on improving conditions in all markets compared to the year earlier period, particularly Trinidad, Dominican Republic, Jamaica and USVI.

Colombia recorded the highest comparable merchandise club sales of 13.4%. The comparable warehouse sales growth benefitted from continued stability in the local currency relative to the U,S. dollar.

Comparison of 2017 to 2016

Comparable merchandise sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the 52-week period ended September 3, 2017 grew 1.5%. Colombia recorded the highest comparable merchandise sales, despite some transfer of sales resulting from the opening of the new warehouse club in Chia, Colombia which is not included in the calculation of comparable merchandise sales for this period.

The Caribbean segment experienced negative comparable net merchandise sales primarily due to the economic downturn in Trinidad.

The Central America segment experienced low single digit growth in comparable merchandise sales primarily due to the general weakness in the Costa Rica market.

Membership Income

Membership income is recognized ratably over the one-year life of the membership. The increase in membership income primarily reflects a growth in membership accounts.

	Years Ended August 31, 2018				August 31, 2017
	Amount	Increase/ (decrease) from prior year	% Change	Membership income % to net warehouse club sales	Amount
Membership income - Central America	$ 31,164	$ 1,332	4.5 %	1.8 %	$ 29,832
Membership income - Caribbean	12,547	683	5.8	1.5	11,864
Membership income - Colombia	7,110	1,063	17.6	2.1	6,047
Membership income - Total	$ 50,821	$ 3,078	6.4 %	1.7 %	$ 47,743
Number of accounts - Central America	840,920	11,185	1.3 %		829,735
Number of accounts - Caribbean	416,859	25,448	6.5		391,411
Number of accounts - Colombia	336,750	15,057	4.7		321,693
Number of accounts - Total	1,594,529	51,690	3.4 %		1,542,839

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	Years Ended August 31, 2017				August 31, 2016
	Amount	Increase (decrease) from prior year	% Change	Membership income % to net warehouse club sales	Amount
Membership income - Central America	$ 29,832	$ 1,264	4.4 %	1.7 %	$ 28,568
Membership income - Caribbean	11,864	250	2.2	1.4	11,614
Membership income - Colombia	6,047	448	8.0	2.3	5,599
Membership income - Total	$ 47,743	$ 1,962	4.3 %	1.7 %	$ 45,781
Number of accounts - Central America	829,735	29,307	3.7 %		800,428
Number of accounts - Caribbean	391,411	(1,800)	(0.5)		393,211
Number of accounts - Colombia	321,693	24,908	8.4		296,785
Number of accounts - Total	1,542,839	52,415	3.5 %		1,490,424

Comparison of 2018 to 2017

The number of member accounts during fiscal year 2018 was 3.4% higher than the year before. Membership income increased 6.4%.

The growth in membership accounts during fiscal year 2018 within our Central America and Caribbean segments is primarily the result of the addition of a new warehouse club within each segment. We opened a new warehouse club in Santa Ana, Costa Rica in October 2017 (fiscal year 2018), bringing the total of warehouse clubs operating in Costa Rica to seven. In May 2018, we opened a new warehouse club in the Dominican Republic. This brought the number of PriceSmart warehouse clubs operating in Dominican Republic to four. The growth in membership accounts during fiscal year 2018 in our Colombia market was primarily attributable to an improving economy and the continued growth in the market's acceptance of the warehouse club concept. The Company's twelve-month renewal rate for the periods ended August 31, 2018 and 2017 remained steady at 85%.

Additionally, during fiscal year 2018, we began to expand our Platinum membership program. We began offering Platinum memberships in Costa Rica during fiscal year 2013 and added Panama, Dominican Republic and Trinidad during fiscal year 2018. We began offering Platinum memberships in the United States Virgin Island in October 2018 (fiscal year 2019).

Comparison of 2017 to 2016

The number of member accounts during fiscal year 2017 was 3.0% higher than the year before. Membership income increased by 4.3%. The income recognized per average member account increased 1.5%. In February 2017, we increased the annual membership fee in Colombia by 15.4% to the equivalent of U.S. $25 (at the year-end exchange rate of 2,937 Colombian pesos per U.S. dollar), which had the effect of increasing the membership income per average membership account in Colombia by 5.1%.

The growth in membership accounts from the end of fiscal year 2016 to the end of fiscal year 2017 in Colombia was primarily attributable to the new warehouse club in Chia which opened on September 1, 2016. The Company's twelve-month renewal rate for the period ended August 31, 2017 improved to 85% from 80% for the twelve months ended August 31, 2016.

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Other Revenue

Other revenue primarily consists of rental income from operating leases where the Company is the lessor and non-merchandise revenue from freight and handling fees generated from our Aeropost subsidiary.

	Years Ended August 31, 2018			August 31, 2017
	Amount	Increase from prior year	% Change	Amount
Rental income	$ 3,009	$ 110	3.8 %	$ 2,899
Non-merchandise revenue	16,863	16,863	100.0 %	—
Miscellaneous income	1,674	(6)	(0.4) %	1,680
Other revenue	$ 21,546	$ 16,967	370.5 %	$ 4,579

	Years Ended August 31, 2017			August 31, 2016
	Amount	(Decrease) from prior year	% Change	Amount
Rental income	$ 2,899	$ (154)	(5.0) %	$ 3,053
Non-merchandise revenue	—	—	— %	—
Miscellaneous income	1,680	(109)	(6.1) %	1,789
Other revenue	$ 4,579	$ (263)	(5.4) %	$ 4,842

Comparison of 2018 to 2017

Other revenue for fiscal year 2018 includes non-merchandise revenue generated by our Aeropost subsidiary primarily from freight and handlings charges for on-line orders placed from customers to retailers in the United States and delivered through Aeropost to locations throughout our markets and Latin America. We acquired Aeropost on March 15, 2018. Rental income and miscellaneous income had no material changes when compared to the prior year.

Comparison of 2017 to 2016

Other revenue for fiscal year 2017 when compared to the prior year had no material changes.

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Results of Operations

Results of Operations Consolidated

Results of Operations Consolidated	Years Ended August 31, 2018		August 31, 2017		August 31, 2016	
(Amounts in thousands, except percentages and number of warehouse clubs)						
Net merchandise sales						
Net merchandise sales	$ 3,053,754		$ 2,910,062		$ 2,820,740	
Merchandise sales gross margin	$ 443,643		$ 422,916		$ 403,374	
Merchandise sales gross margin percentage	14.5	%	14.5	%	14.3	%
Revenues						
Total revenues	$ 3,166,702		$ 2,996,628		$ 2,905,176	
Percentage change from prior period	5.7	%	3.1	%	3.7	%
Comparable merchandise sales						
Total comparable merchandise sales increase (decrease)	2.3	%	1.5	%	(0.8)	%
Gross margin						
Total gross margin	$ 510,182		$ 476,876		$ 455,550	
Gross margin percentage to total revenues	16.1	%	15.9	%	15.7	%
Selling, general and administrative						
Selling, general and administrative	$ 384,130		$ 340,647		$ 318,827	
Selling, general and administrative percentage of total revenues	12.1	%	11.4	%	11.0	%

Results of Operations Consolidated	Years Ended August 31, 2018	% of Total Revenue	August 31, 2017	% of Total Revenue	August 31, 2016	% of Total Revenue

Operating income- by segment												
Central America	$	130,849	4.1	%	$	134,826	4.5	%	$	135,232	4.7	%
Caribbean	$	48,383	1.5	%	$	47,190	1.6	%	$	51,450	1.8	%
Colombia	$	12,086	0.4	%	$	4,932	0.2	%	$	(5,403)	(0.2)	%
United States	$	2,016	0.1	%	$	10,436	0.3	%	$	10,970	0.4	%
Reconciling items (1)	$	(67,282)	(2.1)	%	$	(61,155)	(2.0)	%	$	(55,526)	(1.9)	%
Operating income - Total	$	126,052	4.0	%	$	136,229	4.5	%	$	136,723	4.7	%
Warehouse clubs												
Warehouse clubs at period end		41				39				38		
Warehouse club sales square feet at period end (2)		2,074				1,940				1,862		

(1) The reconciling items reflect the amount eliminated on consolidation of intersegment transactions.
(2) Warehouse club square feet at period end has been updated to reflect sales floor square feet vs. total building square feet to align with industry standards.

Comparison of 2018 to 2017

Of the 5.7% total revenue increase, year on year increases to net merchandise sales contributed 480 basis points (4.8%), non-merchandise revenue from Aeropost contributed 60 basis points (0.6%), increased export sales contributed 20 basis points (0.2%) and increased membership income contributed ten basis points (0.1%).

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Gross margin on merchandise sales as a percentage of total revenue remained unchanged at 14.5% for the twelve months ended August 31, 2018 compared to the same twelve month period a year ago. Total gross margin to total revenues increased to 16.1% from 15.9% the prior year, mainly due to higher margins on non-merchandise revenues of our Aeropost subsidiary, which increased the gross margin to total revenues, by approximately 30 basis points (0.3%) for the year. Membership income, rental income and miscellaneous income gross margin remained unchanged.

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

	Years Ended								
	August 31, 2018	% of Total Revenue		August 31, 2017	% of Total Revenue		August 31, 2016	% of Total Revenue	
Selling, general and administrative detail:									
Warehouse club and other operations	$ 291,488	9.2	%	$ 268,629	9.0	%	$ 252,130	8.7	%
General and administrative	$ 88,461	2.8	%	$ 70,013	2.3	%	$ 64,344	2.2	%
Pre-opening expenses	$ 913	0.0	%	$ 44	0.0	%	$ 1,191	0.0	%
Loss/(gain) on disposal of assets	$ 1,339	0.0	%	$ 1,961	0.1	%	$ 1,162	0.0	%
Asset impairment	$ 1,929	0.1	%	$ —	—	%	$ —	—	%
Total Selling, general and administrative	$ 384,130	12.1	%	$ 340,647	11.4	%	$ 318,827	11.0	%

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The following table summarizes the costs recorded as part of our consolidation of Aeropost's operations, pre-acquisition costs, asset impairment charges associated with the write off of costs for a software platform we were developing prior to the Aeropost acquisition, ongoing costs recorded by the Company as part of the post-acquisition purchase accounting, costs incurred by the Company due to ongoing support of Aeropost, and the net tax benefits recorded by the Company due to the Aeropost operations and support. The table also discloses the classification of these costs into warehouse club and other operations and general and administrative costs.

	Fiscal Year 2018			
(in thousands, except for per share amounts)	Second Quarter	Third Quarter	Fourth Quarter	YTD
Net loss from Aeropost's operations before amortization of intangibles, net of tax benefit	$ —	$ (1,251)	$ (3,369)	$ (4,620)
Amortization of intangibles, trade name and technology, net of tax benefit	—	394	478	872
Amortization of compensation expense	—	645	764	1,409
Net loss from Aeropost's operations, net of tax benefit	$ —	$ (2,290)	$ (4,611)	$ (6,901)
Less:				
Asset impairment of software, net of tax benefit	$ 1,416	$ —	$ —	$ 1,416
Liabilities recorded for software-related impairment, net of tax benefit	514	—	—	514
Acquisition costs, net of tax benefit	490	—	—	490
Total net loss from Aeropost and acquisition related expenses, net of tax benefits	$ (2,420)	$ (2,290)	$ (4,611)	$ (9,321)
Impact of Aeropost acquisition on earnings per share	$ 0.08	$ 0.08	$ 0.15	$ 0.31

Selling, general and administrative expenses consist of warehouse club and other operations, general and administrative expenses, pre-opening expenses, asset impairment and loss/(gain) on disposal of assets. In total, selling, general and administrative expenses increased $43.5 million to 12.1% of total revenues, an increase of 70 basis points (0.7%) compared to 11.4% of total revenues in fiscal year 2017. Warehouse club and other operations contributed 20 basis points (0.2%) of this increase. This was mainly due to approximately $6.4 million (0.2% of total revenues) in additional other operational costs associated with our Aeropost subsidiary during fiscal year 2018. General and administrative expenses contributed the remaining 50 basis points (0.5%) of the year-over-year increase in selling, general and administrative expenses as a percentage of total revenue, with $9.7 million in general and administrative costs associated with Aeropost contributing 30 basis points (0.3%) of this increase. The $9.7 million was composed of $1.1 million in amortization of technology intangibles, $1.4 million in amortization of post-combination compensation costs, and $7.2 million of other general and administrative costs. We also recorded in general and administrative expense during the fiscal year $669,000 in acquisition costs, including legal, accounting and technical consulting related to the acquisition of Aeropost. Additionally, general and administrative expenses also grew as a percentage to total revenues due to increased staffing in our buying department and increased information technology costs. Asset impairment charges for approximately $1.4 million, net of tax benefit, were related to the write-off of costs for a software platform that was under development prior to the acquisition of Aeropost, because of Aeropost's Information Technology ("IT") platform and IT development capability.

Operating income for fiscal year 2018 was $126.1 million (4.0% of total revenue) compared to $136.2 million (4.5% of total revenue) for the same period last year. Within our Central America segment, higher expenses related to the addition of a new warehouse club coupled with lower sales volumes within our Panama and Nicaragua markets accounted for forty basis points (0.4%) of the decrease in operating income to total revenues. Additionally, the increases of approximately $16.1 million in total selling, general and administrative costs due to the additional costs of our Aeropost subsidiary which are recorded within our U.S. segment, were the primary drivers in the decreasing operating income an additional thirty basis points (0.3%). These decreases were partially offset by an increase of operating income within our Colombia segment of 0.2% to total revenue, primarily due to increases in sales from the continued improved economic conditions in Colombia.

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Comparison of 2017 to 2016

Net merchandise sales gross margin as a percent of net merchandise sales increased 23 basis points (0.23%) to 14.5% for the twelve months ended August 31, 2017 compared to the same twelve month period a year ago due to increased margins in Colombia, resulting from improving market conditions and business performance. Net merchandise sales gross margins in Colombia increased 273 basis points (2.73%). Net merchandise sales gross margins in Central America and the Caribbean were approximately equal to the same period a year ago.

Selling, general, and administrative expenses consist of warehouse club and other operations, general and administrative expenses, pre-opening expenses, and loss/(gain) on disposal of assets. In total, selling, general and administrative expenses increased $21.8 million to 11.4% of sales in fiscal year 2017 compared to 11.0% of sales in fiscal year 2016. Warehouse club and other operations expense was 9.2% of sales compared 8.9% in the prior year. Low or negative comparable merchandise club sales growth, particularly in Trinidad and Costa Rica, contributed to an overall increase in warehouse expense as a percent of sales in Central America and the Caribbean. Colombia had a 50 basis point (0.50%) improvement in warehouse club and other operations expense as a percent of sales compared to fiscal year 2016. General and administrative expenses grew 8.8% to 2.4% of sales in fiscal year 2017 compared to 2.2% of sales in the prior year as a result of increased staffing in our buying department, information technology costs and costs associated with the relocation of an executive to our San Diego headquarters. Expenses incurred before a warehouse club is in operation are captured in pre-opening expenses, which in fiscal year 2016 included the preopening expenses for Chia, Colombia and Masaya, Nicaragua.

Operating income of $136.2 million was $494,000 below last year. The primary components of the change are as follows: higher net merchandise sales and membership income and increased warehouse club gross margins resulted in a $10.3 million increase in operating profit in Colombia compared to a year ago. Operating income decreased $406,000 in Central America and $4.3 million in the Caribbean on the low or negative sales growth experienced in those segments.

Interest Expense

	Years Ended August 31, 2018 Amount	Increase/ (decrease) from prior	August 31, 2017 Amount

		year	
Interest expense on loans	$ 5,224	$ (412)	$ 5,636
Interest expense related to hedging activity	981	(607)	1,588
Less: Capitalized interest	(1,134)	(687)	(447)
Net interest expense	$ 5,071	$ (1,706)	$ 6,777

	Years Ended August 31, 2017		August 31, 2016
	Amount	Increase/ (decrease) from prior year	Amount
Interest expense on loans	$ 5,636	$ 645	$ 4,991
Interest expense related to hedging activity	1,588	(394)	1,982
Less: Capitalized interest	(447)	635	(1,082)
Net interest expense	$ 6,777	$ 886	$ 5,891

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

Comparison of 2018 to 2017

Net interest expense for the year ended August 31, 2018 decreased $1.7 million when compared to prior year. Loans decreased year-on-year primarily due to the pay-off of loans within our subsidiaries. Lower average loan balance on both long-term and short-term loans were partially offset by higher variable (“LIBOR”) interest rates. Interest expense related to hedging

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activity decreased in fiscal year 2018 compared to fiscal year 2017 due to the pay-off of the various loans held by our subsidiaries that were hedged and the remaining hedged loans having positive (“in the money”) positions. Additional capitalized interest in fiscal year 2018 compared to fiscal year 2017 resulted from higher levels of construction activities.

Comparison of 2017 to 2016

Net interest expense for fiscal year 2017 increased from the prior year, with an increase in long-term debt, primarily to finance the acquisition of the distribution center in Miami, Florida and an additional loan within our Trinidad subsidiary as part efforts to improve liquidity. Additionally, a decrease in interest capitalized year-over-year, due to lower levels of construction activities also accounted for the increased interest expense. These increases were partially offset by the decrease in interest expense related to hedging activity due to the retirement of loans and their related cross-currency interest rate hedges for our Colombia subsidiary.

Other Income (Expense), net

Other income consists of currency gain or loss and proceeds from insurance reimbursements.

	Years Ended August 31, 2018			August 31, 2017
	Amount	Increase/ (decrease) from prior year	%Change	Amount
Other income (expense), net	$ 192	$ (1,290)	(87.0) %	$ 1,482

	Years Ended August 31, 2017	August 31, 2016

	Amount	Increase/ (decrease) from prior year	%Change	Amount
Other income (expense), net	$ 1,482	$ 2,381	(264.8) %	$ (899)

Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gain (losses), including repatriation of funds, are recorded as currency gain or losses.

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

Comparison of 2018 to 2017

For fiscal year 2018, we recorded net income associated with foreign currency transactions. During fiscal year 2018, we were able to mitigate losses associated with foreign currency transactions that were driven by the weakening of currencies within all of our major markets and high transaction costs associated with converting Trinidad dollars into available tradeable currencies such as Euros or Canadian dollars before converting them to U.S. dollars. We mitigated the higher transaction costs in Trinidad by adding additional costs into our pricing models in order to offset the higher transaction costs in Trinidad. As a result, we reported approximately $192,000 in net gains from foreign currency for fiscal year 2018. For as long as the currency sourcing situation continues in Trinidad, we plan to maintain additional cost in our pricing model and will limit our shipments from the U.S. to Trinidad to levels that generally align with our Trinidad subsidiary’s ability to pay for the merchandise in U.S. dollars.

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Comparison of 2017 to 2016

For fiscal year 2017, we recorded a net gain associated with foreign currency transactions of approximately $1.2 million compared to an approximate $899,000 net loss in fiscal year 2016. We incurred higher transaction costs associated with converting TT dollars into available tradeable currencies such as Euros or Canadian dollars before converting them to U.S. dollars, which partially offset the gains resulting from revaluations. We added additional cost into consideration in our pricing model during fiscal year 2017 in order to offset the higher transaction costs in Trinidad.

During the fourth quarter of fiscal year 2017, we recorded income of approximately $241,000 due to an insurance recovery for losses recognized in fiscal year 2015.

Provision for Income Taxes

U.S. Tax Reform in December 2017 lowered the federal corporate tax rate from 35% to 21% and made numerous other law changes. The Company's results for the fiscal year 2018 include the effect of these changes based on the Company’s preliminary analysis. We made a provisional estimate of the one-time transitional repatriation tax on unremitted foreign earnings (“Transition Tax”) of approximately $13.4 million that was recorded as an income tax expense in the second quarter of fiscal year 2018. The Company finalized its calculation of this Transition Tax in the fourth quarter of fiscal year 2018, reducing its liability to approximately $12.5 million. The Company expects that the cash amounts due for the Transition Tax will be offset by foreign tax credits. Additionally, as a result of U.S. Tax Reform, PriceSmart re-measured certain U.S. deferred tax assets and liabilities based on the reduction in the U.S. corporate income tax rate from 35% to 21% and recorded a non-cash income tax charge of approximately $222,000 due to related re-measurement through the fourth quarter of fiscal year 2018. These impacts to PriceSmart’s income tax provision are based on PriceSmart’s knowledge, assumptions and interpretations of the impact of U.S. Tax Reform.

The table below summarizes the effect that U.S. Tax Reform had on net income and earnings per share attributable to PriceSmart available for distribution:

(In thousands, except per share amounts)	Years Ended August 31, 2018	August 31, 2017
	$ 122,588	$ 132,743

Income before provision for income taxes and income (loss) of unconsolidated affiliates		
Provision for income taxes calculated prior to U.S. tax law change	(38,607)	(42,018)
U.S. Tax Reform: Current tax rate reduction	3,152	—
U.S. Tax Reform: Re-measurement of net deferred tax assets/liabilities	(222)	—
U.S. Tax Reform: Transition Tax	(12,500)	—
Subtotal of U.S. Tax Reform Effects	(9,570)	—
Total provision for income taxes	$ (48,177)	$ (42,018)
Income (loss) of unconsolidated affiliates	(8)	(1)
Net income	$ 74,403	$ 90,724
Less: net income (loss) attributable to noncontrolling interest	(75)	—
Net income attributable to PriceSmart, Inc.	$ 74,328	$ 90,724
Net income attributable to PriceSmart, Inc. per share available for distribution:		
Basic net income per share	$ 2.44	$ 2.98
Diluted net income per share	$ 2.44	$ 2.98
Subtotal of U.S. Tax Reform Effects	$ (9,570)	$ —
Impact of U.S Tax Reform on basic and diluted net income per share	$ (0.32)	$ —

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

	Years Ended August 31, 2018		August 31, 2017
	Amount	Increase/ (decrease) from prior year	Amount
Current tax expense	$ 41,216	$ (3,649)	$ 44,865
Net deferred tax provision (benefit)	6,961	9,808	(2,847)
Provision for income taxes	$ 48,177	$ 6,159	$ 42,018
Effective tax rate	39.3 %		31.7 %

	Years Ended August 31, 2017		August 31, 2016
	Amount	Increase/ (decrease) from prior year	Amount
Current tax expense	$ 44,865	$ 4,891	$ 39,974
Net deferred tax provision (benefit)	(2,847)	(5,722)	2,875
Provision for income taxes	$ 42,018	$ (831)	$ 42,849
Effective tax rate	31.7 %		32.6 %

Comparison of 2018 to 2017

For fiscal year 2018, the effective tax rate was 39.3%. The increase in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably unfavorable impact of 10.2% resulting from the U.S. Tax Reform Transition Tax in fiscal year 2018.

2. The comparably favorable net impact of 2.4%, resulting from the U.S. Tax Reform current rate reduction which favorably impacted our effective tax rate by 2.6%, partially offset by an unfavorable re-measurement of net deferred tax assets/liabilities of 0.2%.

3. The comparably favorable impact of 1.6% resulting from improved financial results in the Company's Colombia subsidiary for which no tax attribute was recognized, net of adjustment to valuation allowance.

4. The comparatively unfavorable impact on the effective tax rate of 1.0% resulting from a decrease in fiscal year 2018 in the magnitude of an intercompany transaction between PriceSmart, Inc. and our Colombian subsidiary in support of PriceSmart's ongoing market development and growth in Colombia compared to the prior year. The intercompany transaction reduces taxable income in the U.S. and increases taxable income in our Colombia subsidiary where the additional taxable income is fully offset by the reversal of valuation allowances on accumulated net losses in that subsidiary. We expect the decrease of the favorable impact to the consolidated Company's effective tax rate to continue into fiscal year 2019.

5. The comparably unfavorable impact of 1.6% resulting from the Company's Aeropost subsidiary's overall effective tax rate and acquisition-related accounting.

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Comparison of 2017 to 2016

For fiscal year 2017, the effective tax rate was 31.7%. The decrease in the effective rate versus the prior year was primarily attributable to the following factors:

1. The favorable impact of 1.3% due predominantly to the non-recurrence in fiscal year 2017 of the adverse impact in the prior year from setting up a valuation allowance against the deferred tax assets of the Company's Barbados subsidiary;

2. A decrease in fiscal year 2017 in the magnitude of an intercompany transaction between PriceSmart, Inc. and our Colombian subsidiary in support of PriceSmart's ongoing market development and growth in Colombia compared to fiscal year 2016. Reduction to this intercompany transaction, year over year, resulted in a comparatively unfavorable impact on the effective tax rate of 0.9% due to less reductions to taxable income in the U.S. and less reciprocal increase in taxable income in our Colombia subsidiary in fiscal year 2017 compared to fiscal year 2016. This income did not generate income tax expense in Colombia, because the additional taxable income in Colombia was fully offset by the reversal of valuation allowances on accumulated net losses in that subsidiary. We expect the decrease of the favorable impact to the consolidated Company's effective tax rate over the next several quarters to continue; and

3. The comparably favorable impact of 1.4% resulting from improved financial results in the Company's Colombia subsidiary for which no tax attribute was recognized, net of adjustment to valuation allowance.

Other Comprehensive Income (Loss)

Other comprehensive income/(loss) for fiscal years 2018 and 2017 resulted primarily from foreign currency translation adjustments related to the assets and liabilities and the translation of the statements of income related to revenue, costs and expenses of our subsidiaries whose functional currency is not the U.S. dollar. When the functional currency in our international subsidiaries is the local currency and not U.S. dollars, the assets and liabilities of such subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will not affect net income until the sale or liquidation of the underlying investment. The reported other comprehensive income or loss reflects the unrealized increase or decrease in the value in U.S. dollars of the net assets of the subsidiaries as of the date of the balance sheet, which will vary from period to period as exchange rates fluctuate.

Summary of Changes in Other Comprehensive Income (Loss)

	Years Ended August 31, 2018			August 31, 2017			August 31, 2016
	Amount	(Decrease) from prior year	% Change	Amount	(Decrease) from prior year	% Change	Amount
Foreign currency translation adjustments	$ (121,429)	$ (12,890)	11.9 %	$ (108,539)	$ (6,297)	6.2 %	$ (102,242)
Defined benefit pension plan	(488)	(46)	10.4 %	(442)	(127)	40.3 %	(315)
Derivative Instruments	701	1,779	165.0 %	(1,078)	316	22.7 %	(1,394)
Total	$ (121,216)	$ (11,157)	10.1 %	$ (110,059)	$ (6,108)	5.9 %	$ (103,951)

Comparison of 2018 to 2017

During fiscal year 2018, the largest translation adjustments were related to the translation of the Colombia, Dominican Republic and Jamaica subsidiaries' balance sheets and statements of income that required us to record additional losses, when compared to the prior year, to comprehensive net income on translation of approximately $8.5 million.

Comparison of 2017 to 2016

During fiscal year 2017, the largest translation adjustments were related to the translation of the Costa Rica, Dominican Republic and Nicaragua subsidiaries' balance sheets and statements of income that required us to record additional losses, when compared to the prior year, to comprehensive net income on translation of approximately $6.8 million.

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LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

Our operations have historically supplied us with a significant source of liquidity. Our cash flows provided by operating activities, supplemented with our long-term debt and short-term borrowings, have generally been sufficient to fund our operations while allowing us to invest in activities that support the long-term growth of our operations and to pay dividends on our common stock. We evaluate our funding requirements on a regular basis to cover any shortfall in our ability to generate sufficient cash from operations to meet our capital requirements. We may consider funding alternatives to provide additional liquidity when necessary.

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

	August 31, 2018	August 31, 2017
Cash and cash equivalents held by foreign subsidiaries	$ 79,454	$ 139,270
Cash and cash equivalents held domestically	17,460	26,442
Total cash and cash equivalents and restricted cash	$ 96,914	$ 165,712

From time to time, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. During fiscal year 2017, and continuing into fiscal year 2018, we experienced this situation in Trinidad and have been unable to source a sufficient level of tradeable currencies in Trinidad. We are working with our banks in Trinidad to source tradeable currencies. We expect the illiquidity market conditions to continue.

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

	Years Ended August 31, 2018	August 31, 2017	August 31, 2016
Net cash provided by (used in) operating activities	$ 119,454	$ 122,856	$ 141,531
Net cash provided by (used in) investing activities	(153,779)	(135,217)	(78,175)
Net cash provided by (used in) financing activities	(27,817)	(21,805)	(16,460)
Effect of exchange rates	(6,656)	(2,838)	(2,777)
Net increase (decrease) in cash and cash equivalents	$ (68,798)	$ (37,004)	$ 44,119

Net cash provided by operating activities totaled $119.4 million and $122.9 million for the twelve months ended August 31, 2018 and 2017, respectively. Cash used in operations generally consists of payments to our merchandise vendors, warehouse operating costs (including payroll, employee benefits and utilities), as well as payments for income taxes. The $3.5 million decrease in net cash provided by operating activities was primarily due to a reduction in net income attributable to PriceSmart for approximately $16.6 million, offset by improvements in net working capital.

Net cash used in investing activities totaled $153.8 million and $135.2 million for the twelve months ended August 31, 2018 and 2017, respectively. Cash used in investing activities is primarily to fund warehouse expansion and remodeling activities. During the current period, we used cash for capital expenditures for two new warehouse clubs and expenditures for ongoing replacement of equipment, building/leasehold improvements, expansion of existing warehouse clubs, and for the acquisition of Aeropost. Additionally, during fiscal year 2018, we used approximately $32.3 million in cash to invest in certificates of deposit and other time-based deposits with financial institutions (collectively referred to as “CDs”) with maturities greater than three months and up to one year. As part of our ongoing efforts to mitigate the lack of availability of U.S. dollars in Trinidad we entered into these CDs to gain priority with the respective financial institutions for converting Trinidad dollars into U.S. dollars as well as enabling us to take advantage of higher interest rates on idle cash assets. In fiscal year 2017, we used cash for capital expenditures related to the acquisition of a distribution center in Medley, Miami-Dade County, Florida in January 2017, construction activities for a warehouse club in Santa Ana, Costa Rica that opened in October 2017, construction activities for a warehouse club in the Santa Domingo, Dominican Republic that opened in the spring of 2018 and construction activities for a warehouse club in Chia, Colombia that opened in September 2016. The Company also used cash for the acquisition of land in Costa Rica and the Dominican Republic and for increased warehouse club expansion activities related to warehouse expansions in Guatemala, Honduras and El Salvador.

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Short-Term Borrowings and Long-Term Debt

Short-term borrowings consist of lines of credit which are secured by certain assets of the Company and its subsidiaries, which, in some cases, are guaranteed by the Company. The following table summarizes the balances of total facilities, facilities used and facilities available (in thousands):

	Total Amount of Facilities	Facilities Used		Facilities Available	Weighted average interest rate
		Short-term Borrowings	Letters of Credit		
August 31, 2018	$ 69,000	$ —	$ 632	$ 68,368	— %
August 31, 2017	$ 69,000	$ —	$ 966	$ 68,034	— %

As of August 31, 2018 and 2017, the Company had approximately $40.0 million of short-term facilities in the U.S. that require compliance with certain quarterly financial covenants. As of August 31, 2018 and 2017, the Company was in compliance with respect to these covenants. Each of these facilities expires annually and is normally renewed.

The following table provides the changes in our long-term debt for the twelve months ended August 31, 2018:

(Amounts in thousands)	Current portion of long-term debt	Long-term debt (net of current portion)	Total	
Balances as of August 31, 2016	$ 14,565	$ 73,542	$ 88,107	(1)
Proceeds from long-term debt incurred during the period:				
MUFG Union Bank	—	35,700	35,700	
Trinidad subsidiary	6,000	6,000	12,000	
Repayments of long-term debt:				
Repayment of loan by Panama subsidiary	(2,000)	(11,333)	(13,333)	
Regularly scheduled loan payments	(225)	(15,837)	(16,062)	
Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar	18	(133)	(115)	
Balances as of August 31, 2017	18,358	87,939	106,297	(2)

Proceeds from long-term debt incurred during the period:			
Panama subsidiary	1,500	13,500	15,000
Honduras subsidiary	1,350	12,150	13,500
Repayments of long-term debt:			
Repayment of loan by Honduras subsidiary with Scotiabank	(600)	(850)	(1,450)
Repayment of loan by Honduras subsidiary with Citibank	(1,850)	(6,063)	(7,913)
Repayment of loan by Trinidad subsidiary	(3,000)	(3,000)	(6,000)
Regularly scheduled loan payments	(4,052)	(12,673)	(16,725)
Reclassifications of long-term debt	3,005	(3,005)	—
Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar (3)	144	(278)	(134)
Balances as of August 31, 2018	$ 14,855	$ 87,720	$ 102,575 (4)

(1) The carrying amount on non-cash assets assigned as collateral for these loans was $102.4 million. No cash assets were assigned as collateral for these loans.

(2) The carrying amount on non-cash assets assigned as collateral for this total was $128.4 million. No cash assets were assigned as collateral for this total.

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

(4) The carrying amount on non-cash assets assigned as collateral for this total was $125.9 million. No cash assets were assigned as collateral for this total.

As of August 31, 2018, the Company had approximately $93.6 million of long-term loans in Trinidad, Panama, El Salvador, Honduras, Costa Rica, and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of August 31, 2018, the Company was in compliance with all covenants or amended covenants.

As of August 31, 2017, the Company had approximately $85.6 million of long-term loans in Trinidad, Panama, El Salvador, Honduras, Costa Rica, Barbados and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants.

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Contractual Obligations	Payments due in:				
	Less than	1 to 3	4 to 5	After	
Contractual obligations	1 Year	Years	Years	5 Years	Total
Long-term debt and interest(1)	$ 14,855	$ 34,304	$ 17,272	$ 36,144	$ 102,575
Operating leases(2)	14,062	23,831	23,010	137,343	198,246
Additional capital contribution commitments to joint ventures(3)	884	—	—	—	884
Data recovery services(4)	372	93	—	—	465
Distribution center services(5)	166	166	—	—	332
Warehouse club construction commitments (6)	10,633	—	—	—	10,633
Total	$ 40,972	$ 58,394	$ 40,282	$ 173,487	$ 313,135

(1) Long-term debt includes debt with both fixed and variable interest rates. We have used rates as of August 31, 2018 to calculate future estimated payments related to the variable rate items. For the portion of the loans subject to interest rate swaps and cross-currency interest rate swaps, we have used the fixed interest rate as set by the interest rate swaps.

(2) Operating lease obligations have been reduced by approximately $3.3 million to reflect the amounts net of expected sublease income. Operating lease obligations include $2.4 million of lease payment obligations for the prior leased Miami distribution center. For the purposes of calculating the minimum lease payments, a reduction is reflected for the actual sublease income the Company expects to receive during the remaining lease term.

(3) Amounts shown are the contractual capital contribution requirements for our investment in the joint ventures that we have agreed to make; however, the parties intend to seek alternate financing for these projects. The parties may mutually agree on changes to the project, which could increase or decrease the amount of contributions each party is required to provide.

(4) Amounts shown are the minimum payments under our off-site data recovery services agreement.

(5) Amounts shown are the minimum payments under distribution center service agreements for Mexico City.

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

Off-Balance Sheet Arrangements

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

Repurchase of Equity Securities and Reissuance of Treasury Shares

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

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

The following table summarizes the shares repurchased during fiscal years 2018, 2017 and 2016:

	Years Ended August 31, 2018	August 31, 2017	August 31, 2016
Shares repurchased	37,414	38,634	43,171
Cost of repurchase of shares (in thousands)	$ 3,183	$ 3,193	$ 3,334

We have reissued treasury shares as part of our stock-based compensation programs but we did not reissue any treasury shares during fiscal years 2018, 2017 and 2016.

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Dividends

The following table summarizes the dividends declared and paid during fiscal years 2018, 2017 and 2016.

		First Payment			Second Payment		
		Record	Date		Record	Date	
Declared	Amount	Date	Paid	Amount	Date	Paid	Amount
1/24/2018	$ 0.70	2/14/2018	2/28/2018	$ 0.35	8/15/2018	8/31/2018	$ 0.35
2/1/2017	$ 0.70	2/15/2017	2/28/2017	$ 0.35	8/15/2017	8/31/2017	$ 0.35
2/4/2016	$ 0.70	2/15/2016	2/29/2016	$ 0.35	8/15/2016	8/31/2016	$ 0.35

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

Derivatives

We are exposed to certain risks relating to our ongoing business operations. We manage the exposure associated with interest rate and foreign currency exchange rate risks by using derivative financial instruments. The objective of entering into derivatives is to eliminate the variability of cash flows resulting from changes in interest rates and foreign currency exchange rates associated with servicing our debt and our subsidiaries’ merchandise-related foreign currency commitments. We measure the fair value for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis during the reporting period.

The following table summarizes the effect of the fair value of interest rate swap and cross-currency interest rate swap derivative instruments that we have designated and qualify for derivative hedge accounting and its associated tax effect on accumulated other comprehensive (income) / loss (in thousands):

Derivatives designated as cash flow hedging instruments	Balance Sheet Location	August 31, 2018 Fair Value	Net Tax Effect	Net OCI	August 31, 2017 Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other non-current assets	$ 2,405	$ (819)	$ 1,586	$ 2,547	$ (950)	$ 1,597
Interest rate swaps	Other non-current assets	1,959	(434)	1,525	—	—	—
Interest rate swaps	Other long-term liabilities	(8)	2	(6)	(231)		