



2019

Annual Report

December 20, 2019

Dear PriceSmart Stockholders,

For the fiscal year ended August 31, 2019, our Company recorded total revenues of \$3.22 billion, a 1.8% increase compared to the prior year of \$3.17 billion. Earnings per share for fiscal year 2019 were \$2.40 per share compared to \$2.44 per share a year earlier. Our fiscal year ending balance sheet included \$102.7 million in cash and cash equivalents and a Company net worth attributable to the Company's stockholders of \$797.4 million.

We currently have 45 PriceSmart warehouse clubs in 12 countries and the United States Virgin Islands. Within the past 12 months, we opened four new PriceSmart locations. We have also announced four additional PriceSmarts scheduled to open during calendar 2020.

During the past fiscal year and continuing into fiscal 2020, we have focused on strengthening our executive management team, opening new locations, improving inventory management, expanding the range of goods and services we offer our members, and investing in technology and development of our e-commerce platform. Following is a brief overview of these priorities, which continue to occupy our attention in fiscal year 2020.

In January 2019, our Board of Directors named Sherry S. Bahrambeygui to be our Chief Executive Officer. Sherry has done a great job in addressing our Company's priorities while leading our management team and building Company spirit. We recently promoted Ana Luisa Bianchi to Executive Vice President of Merchandising. Ana began her PriceSmart career as a founding employee of our Guatemala business more than 20 years ago. Our Chief Financial Officer, Maarten Jager, informed the Company he is resigning because he is getting married early next year and has made the decision to move back east to be closer to family. We continue to work on naming a replacement for the position of Chief Financial Officer. Michael McCleary, our Senior Vice President - Corporate Controller and PriceSmart veteran of 16 years, has been appointed Interim Chief Financial Officer for this transition period.

As noted above, we have opened four new PriceSmart locations within the past 12 months. We also have announced openings for an additional four locations within the next 12 months; two in Colombia (Bogota and Bucaramanga) and one each in Costa Rica and Jamaica. Two of our recently opened PriceSmarts utilize our smaller club format, of which one is in a rural area of Panama and the other in an urban neighborhood in Santo Domingo, Dominican Republic. We are studying the performance of both locations regarding sales and expense characteristics.

Because we do business in so many countries and source merchandise from all over the world, merchandise logistics is a particularly demanding aspect of our business. Logistics affects everything – sales, pricing, attained margin, expenses and inventory levels. To improve merchandise flow, we are investing in better technology and relying more on in-country distribution centers. Our goal is to improve in-stock conditions, reduce overstocks and bring products to our markets more quickly.

Something that we have been working on to increase sales and better serve our members is expanding our selection of products and services, both in our clubs and online. We are now moving forward to locate optical centers in most PriceSmart locations. We believe there are many opportunities to improve the value of the PriceSmart membership card for both business and family members through understanding and responding to our members' needs.

In some respects, the application of technology to our business is the most demanding challenge we face. We are addressing the opportunity afforded by technology in two ways, improving back office efficiency and responding to our members' desire for more product selection and more shopping convenience as can be enabled by an e-commerce platform. We realize that capitalizing on the benefits of technology is neither easy, fast nor inexpensive. We are taking a long-term view to position our Company, through technology, to be more efficient and to improve the purchasing experience for our members.

Our Company is highly mission driven both to maximize the value of the membership card for our members and to improve the quality of life for our nearly 9,000 employees. Most of our employees work at our PriceSmart locations. They are extremely hard working, loyal and dedicated. Our Company is committed to our employees as demonstrated by our goals of paying good wages, providing good benefits and ensuring a high quality work environment and opportunities for advancement for all of our employees. We take our responsibility to our employees very seriously.

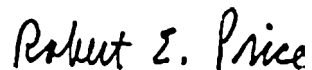
Our Company operates its business in countries that face many challenges. We are committed to high standards of business practices, ethics and social responsibility. We are especially proud of our school supply program, Aprender y Crecer, which has provided school supplies to children in PriceSmart communities. This year alone, more than 100,000 school students in PriceSmart countries received their entire requirements for school supplies free as a result of support from my family's

foundation, Price Philanthropies Foundation, and the cash donations of thousands of PriceSmart members. We recognize that there is much more we can be doing to promote social progress including helping to protect the environment. We look forward to identifying more opportunities to contribute to the welfare of our communities.

As I think about this past year and look to the future, I feel extremely grateful that we have been given such a unique opportunity to improve the quality of life for our members and employees, to make socially responsible contributions in the communities in which we operate and provide a good investment opportunity for our shareholders.

On behalf of myself, Sherry S. Bahrambeygui and our Board of Directors, I want to take this opportunity to thank you, our shareholders, and to extend our best wishes for a joyful holiday season.

Sincerely,

A handwritten signature in black ink that reads "Robert E. Price". The signature is written in a cursive, slightly slanted style.

Robert E. Price

PRICESMART, INC.

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OTHER INFORMATION**

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PRICESMART, INC.

SELECTED FINANCIAL DATA

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

	Years Ended August 31,				
	2019⁽³⁾	2018⁽¹⁾⁽²⁾	2017	2016	2015
	<i>(in thousands, except income per common share)</i>				
OPERATING RESULTS DATA:					
Net merchandise sales	\$ 3,091,648	\$ 3,053,754	\$ 2,910,062	\$ 2,820,740	\$ 2,721,132
Export sales	30,981	40,581	34,244	33,813	33,279
Membership income	52,149	50,821	47,743	45,781	43,673
Other revenue and income	49,140	21,546	4,579	4,842	4,519
Total revenues	<u>3,223,918</u>	<u>3,166,702</u>	<u>2,996,628</u>	<u>2,905,176</u>	<u>2,802,603</u>
Total cost of goods sold	2,695,691	2,656,520	2,519,752	2,449,626	2,352,839
Selling, general and administrative	409,255	379,949	338,642	316,474	297,656
Pre-opening expenses	2,726	913	44	1,191	3,737
Asset impairment	—	1,929	—	—	—
Loss/(gain) on disposal of assets	1,079	1,339	1,961	1,162	2,005
Operating income	<u>115,167</u>	<u>126,052</u>	<u>136,229</u>	<u>136,723</u>	<u>146,366</u>
Total other income (expense)	<u>(4,057)</u>	<u>(3,464)</u>	<u>(3,486)</u>	<u>(5,483)</u>	<u>(9,770)</u>
Income before provision for income taxes and income (loss) of unconsolidated affiliates	111,110	122,588	132,743	131,240	136,596
Provision for income taxes	(37,560)	(48,177)	(42,018)	(42,849)	(47,566)
Income (loss) of unconsolidated affiliates	(61)	(8)	(1)	332	94
Net income	<u>\$ 73,489</u>	<u>\$ 74,403</u>	<u>\$ 90,724</u>	<u>\$ 88,723</u>	<u>\$ 89,124</u>
Less: net income (loss) attributable to noncontrolling interest	<u>(298)</u>	<u>(75)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income attributable to PriceSmart, Inc.	<u>\$ 73,191</u>	<u>\$ 74,328</u>	<u>\$ 90,724</u>	<u>\$ 88,723</u>	<u>\$ 89,124</u>
NET INCOME ATTRIBUTABLE TO PRICESMART, INC. PER SHARE AVAILABLE FOR DISTRIBUTION:					
Basic	<u>\$ 2.40</u>	<u>\$ 2.44</u>	<u>\$ 2.98</u>	<u>\$ 2.92</u>	<u>\$ 2.95</u>
Diluted	<u>\$ 2.40</u>	<u>\$ 2.44</u>	<u>\$ 2.98</u>	<u>\$ 2.92</u>	<u>\$ 2.95</u>
Weighted average common shares - basic	<u>30,195</u>	<u>30,115</u>	<u>30,020</u>	<u>29,928</u>	<u>29,848</u>
Weighted average common shares - diluted	<u>30,195</u>	<u>30,115</u>	<u>30,023</u>	<u>29,933</u>	<u>29,855</u>

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

(2) On March 15, 2018, the Company acquired technology, talent, and cross-border logistics infrastructure that operated a marketplace and casillero business. Investments in the technology, talent, and infrastructure to expand our omni-channel capabilities, together with the operating results from the marketplace and casillero business, negatively impacted Net income attributable to PriceSmart, Inc. by \$9.3 million in for the fiscal year ended August 31, 2018.

(3) During fiscal year 2019, Other revenue and income increased in comparison to 2018 due to the inclusion of an additional six and a half months of non-merchandise revenues from our marketplace and casillero business. Investments in the technology, talent, and infrastructure to expand our omni-channel capabilities, together with the operating results from the marketplace and casillero business, negatively impacted Net income attributable to PriceSmart, Inc. by \$14.5 million in for the fiscal year ended August 31, 2019.

SELECTED FINANCIAL DATA- (Continued)

	As of August 31,				
	2019	2018	2017	2016	2015
	<i>(in thousands)</i>				
BALANCE SHEET DATA:					
Cash and cash equivalents	\$ 102,653	\$ 93,460	\$ 162,434	\$ 199,522	\$ 157,072
Short-term investments	17,045	32,304	—	—	—
Short-term and long-term restricted cash	3,583	3,454	3,278	3,194	1,525
Total Assets	1,296,411	1,216,392	1,177,514	1,096,735	991,224
Long-term debt	89,586	102,575	106,297	88,107	90,534
Total PriceSmart stockholders' equity attributable to PriceSmart, Inc. stockholders	797,351	758,002	708,767	638,071	566,584
Dividends paid on common stock attributable to PriceSmart, Inc. stockholders ⁽¹⁾	\$ 21,341	\$ 21,240	\$ 21,285	\$ 21,274	\$ 21,126

⁽¹⁾ On January 30, 2019, January 24, 2018, February 1, 2017, February 3, 2016, and February 4, 2015 the Company declared cash dividends on its common stock.

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," "project," "estimate," "anticipated," "scheduled," and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially including, but not limited to the risks detailed in this Annual Report on Form 10-K under the heading "Part I - Item 1A - Risk Factors." Forward-looking statements are only as of the date they are made, and we do not undertake to update these statements, except as required by law. In addition, these risks are not the only risks that the Company faces. The Company could also be affected by additional factors that apply to all companies operating globally and in the U.S., as well as other risks that are not presently known to the Company or that the Company currently considers to be immaterial.

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

General Market Factors

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

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 2019, approximately 77.0% of our net merchandise sales were in currencies other than the U.S. dollar. Of those sales, 52.0% were comprised of sales of products we purchased in U.S. dollars.

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

From time to time, one or more markets in which we operate may experience economic slowdowns, which can negatively impact our business. Most countries in our Central America segment experienced general market conditions that resulted in a difficult operating environment during fiscal year 2019. Increasing foreign currency exchange volatility, slowing global economy activity and trade, decreasing levels of public investment and tax reform stalled economic growth for most of our countries in this region. Our Colombia segment, in particular, experienced significant foreign currency exchange volatility during fiscal year 2019, which negatively affected reported sales growth for that segment.

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, Dominican Republic, Guatemala, Panama and Colombia, customers may have more alternatives available to them to satisfy their shopping needs, 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, offer growth potential but they may 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, labor strikes in Costa Rica disrupted normal commerce in September 2018. Social unrest in Honduras in May 2019 caused similar disruptions to commerce. U.S. foreign policy can also have an impact on social and economic stability in the countries where we operate. In 2018, U.S. legislation was approved to restrict U.S. aid to Nicaragua. Additionally, during 2019, the U.S. State Department has announced varying strategies regarding if, when and how it would authorize disbursement of foreign aid, that had been previously approved by the U.S. Congress, to Guatemala, Honduras and El Salvador. Changes in U.S. policies regarding financial assistance could cause political or financial instability in the countries we serve.

In the past, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). 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. We continued to experience this situation in Trinidad (“TT”) during fiscal year 2019. We are working with our banks in Trinidad to source tradeable currencies (including Euros, British Pounds, and Canadian dollars), but until the central bank in Trinidad makes more U.S. dollars available, this illiquidity condition is likely to continue. As of August 31, 2019, our Trinidad subsidiary had a net Trinidad dollar denominated asset position measured in USD of approximately \$24.9 million, a decrease of \$15.4 million from August 31, 2018 when our Trinidad subsidiary had net Trinidad dollar denominated asset position of approximately \$40.3 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.

Mission and Business Strategy

Our mission is to improve the quality of life for our business and family members. To do this, we make available a wide range of high quality merchandise sourced from around the world at exceptional values. The annual membership fee enables us to operate our business, offer a tailored selection of products, and services, with lower margins than traditional retail stores. Through the use of technology and the development of an omni-channel platform, we are pursuing opportunities to respond to how our members expect to shop, create additional efficiencies in the supply chain and increase our significance in our members’ lives. We are working to create a shopping experience that blends the attributes and appeal of our brick and mortar business with the conveniences associated with technology-supported transactions and online shopping.

Growth

We measure our growth primarily by the amount of the period-over-period activity in our net merchandise sales, our comparable store 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 fundamental to delivering high quality merchandise at low prices to our members. We continue to explore ways to improve efficiency, reduce costs and ensure a good flow of merchandise to our warehouse clubs. As we continue to refine our logistics and distribution infrastructure, we are exploring ways to improve our supply chain effectiveness through regional distribution centers that place our merchandise closer to our members.

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. We believe real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. While our preference is to own rather than lease real estate, we have entered into real estate leases in certain cases and will likely do so in the future.

In 2017, we began evaluating options to replace our existing Enterprise Resource Planning (ERP) system. We have deferred that decision in order to more holistically assess our overall IT landscape and strategy. Nevertheless, we continue to enhance our IT systems and infrastructure to respond to evolving business requirements in a manner we believe to be consistent with a future ERP migration process.

We are investing in digital transformation, including omni-channel capabilities that enable e-commerce, by integrating technology, talent, supply chain and operations to enhance the membership shopping experience, drive efficiencies and fuel sales growth. Our focus will be on launching these omni-channel capabilities in a methodical phased manner.

Financial highlights for the fourth quarter of fiscal year 2019 included:

- Total revenues increased 3.0% over the comparable prior year period. Net merchandise sales contributed 400 basis points (4.0%) to this increase; however, this increase was offset by a decrease in export sales, which contributed a 100 basis points (1.0%) decrease to total revenues.
- Net merchandise sales increased 3.7% over the comparable prior year period. We ended the quarter with 43 warehouse clubs compared to 41 warehouse clubs at the end of the fourth quarter of fiscal year 2018. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 2.6%.
- Comparable net merchandise sales (that is, sales in the warehouse clubs that have been open for greater than 13 ½ calendar months) for the 13 weeks ended September 1, 2019 increased 1.5%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 2.7%.
- Membership income for the fourth quarter of fiscal year 2019 increased 4.2% to \$13.4 million primarily due to new member sign-ups for the club openings in Panama and the Dominican Republic.
- Merchandise gross profits (net merchandise sales less associated cost of goods sold) in the quarter increased 7.1% over the prior-year period, and merchandise gross profits as a percent of net merchandise sales were 15.2%, an increase of 50 basis points (0.5%) from the same period in the prior year.
- Operating income for the fourth quarter of fiscal year 2019 was \$32.0 million, an increase of \$4.8 million compared to the fourth quarter of fiscal year 2018.
- We recorded a \$454,000 net currency gain from currency transactions in the current quarter compared to a \$211,000 net currency gain in the same period last year, primarily due to a favorable foreign currency exchange rate fluctuation in Jamaica.
- Our effective tax rate increased in the fourth quarter of fiscal year 2019 to 34.1% from 27.5% in the fourth quarter of fiscal year 2018. The increase in the effective tax rate is primarily related to the unfavorable impact from valuation allowances on deferred tax assets from foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable, offset by U.S. Tax Reform rate reduction and tax incentives.
- Net income attributable to PriceSmart for the fourth quarter of fiscal year 2019 was \$20.7 million, or \$0.67 per diluted share, compared to \$19.0 million, or \$0.62 per diluted share, in the fourth quarter of fiscal year 2018.

Financial highlights for fiscal year 2019 included:

- Total revenues increased 1.8% over the comparable prior year period. Net merchandise sales contributed 120 basis points (1.2%) of the increase and the remaining 60 basis points (0.6%) increase resulted from the inclusion of the full-year revenues from the marketplace and casillero operations that we acquired in March 2018.
- Net merchandise sales increased 1.2% over the comparable prior year period. We ended the year with 43 warehouse clubs compared to 41 warehouse clubs at the end of the fiscal year 2018. Foreign currency exchange rate fluctuations impacted net merchandise sales negatively by 3.2%.
- Comparable net merchandise sales (that is, sales in the warehouse clubs that have been open for greater than 13 ½ calendar months) for the 52 weeks ended September 1, 2019 decreased 0.6%. Foreign currency exchange rate fluctuations impacted comparable net merchandise sales negatively by 3.2%.
- Membership income for the fiscal year 2019 increased 2.6% to \$52.1 million primarily due to new member sign-ups for the club openings in Panama and the Dominican Republic.
- Merchandise gross profits (net merchandise sales less associated cost of goods sold) decreased 0.2% over the same prior year period, and merchandise gross profits as a percent of net merchandise sales were 14.3%, a decrease of 20 basis points (0.2%) from the same period last year.
- Operating income for fiscal year 2019 was \$115.2 million, a decrease of \$10.9 million compared to fiscal year 2018.
- Currency exchange transactions in the current year resulted in a \$1.5 million net currency loss compared to a \$192,000 net gain from currency exchange transactions last year primarily due to unfavorable foreign currency exchange rate fluctuations in Jamaica, Dominican Republic and Colombia.
- The effective tax rate for fiscal year 2019 was 33.8%, as compared to the effective tax rate for fiscal year 2018 of 39.3%. The decrease in the effective tax rate is primarily related to the nonrecurrence of the U.S. Tax Reform Transition Tax and the U.S. Tax Reform rate reduction and tax incentives, offset by the unfavorable impact from valuation allowances on deferred tax assets from excess foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable.
- Net income attributable to PriceSmart for fiscal year 2019 was \$73.2 million, or \$2.40 per diluted share, compared to \$74.3 million, or \$2.44 per diluted share, in the prior year.

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 ½ calendar months) for the 52 weeks ended September 2, 2018 increased 2.3%.
- 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 merchandise gross profits as a percent of net merchandise 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 in the prior 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.

Comparison of Fiscal Year 2019 to 2018 and Fiscal Year 2018 to 2017

The following discussion and analysis compares the results of operations for each of the three fiscal years ended August 31, 2019, 2018 and 2017 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 2019, 2018 and 2017.

	Years Ended					
	August 31, 2019			August 31, 2018		
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	\$ 1,789,943	57.9 %	\$ (15,385)	(0.9) %	\$ 1,805,328	59.1 %
Caribbean	919,395	29.7	53,275	6.2	866,120	28.4
Colombia	382,310	12.4	4	0.0	382,306	12.5
Net merchandise sales	\$ 3,091,648	100.0 %	\$ 37,894	1.2 %	\$ 3,053,754	100.0 %

	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 %

Comparison of 2019 and 2018

Overall net merchandise sales grew by 1.2% for fiscal year 2019 compared to fiscal year 2018, resulting from a 2.9% increase in transactions offset by a 1.7% decrease in average ticket. In addition, we had 43 clubs in operation as of August 31, 2019 compared to 41 clubs as of August 31, 2018.

Net merchandise sales in our Central America segment decreased 0.9% for fiscal year 2019 compared to fiscal year 2018. These declines had a 50 basis point (0.5%) negative impact on total net merchandise sales growth. Economic weakness, currency devaluation and political instability led to decreased sales within our Costa Rica, Panama, Guatemala, and Nicaragua markets, offset by year-on-year increased merchandise sales within our El Salvador and Honduras markets.

Net merchandise sales in our Caribbean segment grew 6.2% for fiscal year 2019, when compared to fiscal year 2018. This increase had a 170 basis point (1.7%) positive impact on total net merchandise sales growth. Our Jamaica and Dominican Republic markets led the way in this segment by having 11.5% and 11.6% growth, respectively. In the Dominican Republic, we launched our fifth club in June 2019, while Jamaica had exceptional comparable net merchandise sales growth of 11.6%. With the exception of our Barbados market, all other markets within this segment showed increased net merchandise sales year-on-year.

Net merchandise sales in our Colombia segment experienced no material change for fiscal year 2019, when compared to fiscal year 2018. Net merchandise sales in our Colombia segment had no material impact on total net merchandise sales growth. The minimal growth for fiscal year 2019 is due to significant unfavorable foreign currency devaluation of the Colombian peso during the year.

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 3.7% increase in transactions and a 1.2% 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 net 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 an 8.9% increase in transactions in the fiscal year and average ticket growth of 3.9%.

Comparison of 2019 and 2018 in Constant Currency

In discussing our operating results, the term "currency exchange rates" refers to the currency exchange rates we use to convert the operating results for all countries where the functional currency is not the U.S. dollar into U.S. dollars. We calculate the effect of changes in currency exchange rates as the difference between current period activities translated using the current period's currency exchange rates, and the comparable prior year period's currency exchange rates. The disclosure of constant currency amounts or results permits investors to better understand our underlying performance without the effects of currency exchange rate fluctuations.

The following table indicates the impact that currency exchange rates had on our net merchandise sales in dollars and the percentage change from the year ended August 31, 2019.

**Currency Exchange Rate Fluctuations for the
Twelve Months Ended
August 31, 2019**

	Amount	% change to prior year
Central America	\$ (48,622)	(2.7)%
Caribbean	(11,039)	(1.3)
Colombia	(37,651)	(9.8)
Net merchandise sales	<u>\$ (97,312)</u>	<u>(3.2)%</u>

Overall, the effects of currency devaluations within our markets had an approximate \$97.3 million or 320 basis point (3.2%) negative constant currency impact on net merchandise sales for the year ended August 31, 2019.

Currency devaluations had a \$48.6 million or 270 basis point (2.7%) negative constant currency impact on net merchandise sales in our Central America segment for the year ended August 31, 2019. The currency devaluations contributed approximately 160 basis points (1.6%) of the total negative impact on total net merchandise sales. Costa Rica, Guatemala, Honduras and our Nicaragua markets all experienced currency devaluation when compared to the same period last year.

Currency devaluations had an \$11.0 million or 130 basis point (1.3%) negative constant currency impact on reported net merchandise sales in our Caribbean segment for the year ended August 31, 2019. The currency devaluations contributed approximately 40 basis points (0.4%) of the total negative impact on total net merchandise sales. This is reflective of the offsetting devaluation and appreciation of the mix of currencies within the markets in this segment when compared to the same period a year ago.

Currency devaluations had a \$37.7 million or 980 basis point (9.8%) negative constant currency impact on net merchandise sales in our Colombia segment for the year ended August 31, 2019. The currency devaluations contributed approximately 120 basis points (1.2%) to the total negative impact on total net merchandise sales.

Comparison of 2018 and 2017 in Constant Currency

The following table indicates the impact that currency exchange rates had on our net merchandise sales in dollars and the percentage change from the year ended August 31, 2018.

**Currency Exchange Rate Fluctuations for the
Twelve Months Ended
August 31, 2018**

	Amount	% change
Central America	\$ (14,051)	(0.8)%
Caribbean	(7,650)	(0.9)
Colombia	7,558	2.0
Net merchandise sales	<u>\$ (14,143)</u>	<u>(0.5)%</u>

Overall, the effects of currency devaluations within our markets had an approximate \$14.1 million or 50 basis point (0.5%) negative constant currency impact on net merchandise sales for the year ended August 31, 2018.

Currency devaluations had a \$14.1 million or 80 basis point (0.8%) negative constant currency impact on net merchandise sales in our Central America segment for the year ended August 31, 2018. The currency devaluations contributed approximately 50 basis points (0.5%) of the total negative impact on total net merchandise sales.

Currency devaluations had a \$7.7 million or 90 basis point (0.9%) negative constant currency impact on reported net merchandise sales in our Caribbean segment for the year ended August 31, 2018. The currency devaluations contributed approximately 30 basis points (0.3%) of the total negative impact on total net merchandise sales.

Currency appreciation had a \$7.6 million or 20 basis point (0.2%) positive constant currency impact on net merchandise sales in our Colombia segment for the year ended August 31, 2018. The currency appreciations contributed approximately 30 basis points (0.3%) to the total negative impact on total net merchandise sales.

Net Merchandise Sales by Category

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold during the fiscal years ended August 31, 2019, 2018 and 2017.

	Years Ended August 31,		
	2019	2018	2017
Foods & Sundries	51 %	51 %	51 %
Fresh Foods	27	27	26
Hardlines	12	12	13
Softlines	5	5	5
Other Business	5	5	5
	100 %	100 %	100 %

Comparison of 2019 to 2018

The mix of sales by major category remained unchanged between fiscal year 2019 and 2018.

Comparison of 2018 to 2017

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

Comparable Merchandise Sales

We report comparable net merchandise sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close 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 our warehouse club in Panama opened on May 1, 2019 will not be used in the calculation of comparable sales until July 2020, and the sales related to our warehouse club opened in the Dominican Republic on June 27, 2019 will not be used in the calculation of comparable sales until September 2020. Therefore, comparable net merchandise sales includes 41 warehouse clubs for the fifty-two week period ended September 1, 2019.

The following table indicates the comparable net merchandise sales in the reportable segments in which we operate and the percentage growth in net merchandise sales by segment during fiscal years 2019 and 2018.

	Fifty-Two Weeks Ended	
	September 1, 2019	September 2, 2018
	% Increase/(decrease) in comparable net merchandise sales	% Increase/(decrease) in comparable net merchandise sales
Central America	(2.0) %	(0.7) %
Caribbean	2.2	4.4
Colombia	(0.3)	13.4
Consolidated segments	(0.6) %	2.3 %

Comparison of 2019 to 2018

Comparable net merchandise sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the fifty-two week period ended September 1, 2019 decreased 0.6%.

Comparable net merchandise sales in our Central America segment decreased 2.0% for the fifty-two week period ended September 1, 2019. This decrease contributed approximately 120 basis points (1.2%) of the decrease in total comparable merchandise sales.

For the year, the negative economic conditions, foreign currency devaluation, and socio-political conditions within our Costa Rica, Panama, Guatemala, and Nicaragua markets contributed approximately 100 basis points (1.0%) of the decrease, which was offset by a 30 basis point (0.3%) increase in Honduras and El Salvador. The Central America segment comparable

merchandise sales for fiscal year 2019 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 50 basis points (0.5%). 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.

Comparable net merchandise sales in our Caribbean segment increased 2.2% for the fifty-two week period ended September 1, 2019. This increase contributed approximately 60 basis points (0.6%) of positive impact in total comparable merchandise sales.

The opening of our fourth and fifth warehouse clubs in the Dominican Republic in May 2018 and June 2019 impacted this segment's comparable merchandise sales. We estimate that the transfer of sales associated with the opening of these warehouse clubs negatively impacted the Caribbean segment comparable merchandise sales by 160 basis points (1.6%) for the fifty-two week period ended September 1, 2019. All other markets in this segment, with the exception of Barbados, showed strong growth compared to the prior year. Notably, investments we made in our Jamaica market contributed to growth of 11.6% in comparable net merchandise sales during the year.

Comparable net merchandise sales in our Colombia segment decreased 0.3% for the fifty-two week period ended September 1, 2019. The decrease had an immaterial negative impact in total comparable sales. The decline was largely due to the significantly unfavorable devaluation of the Colombia peso relative to the U.S. dollar.

Comparison of 2018 to 2017

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

In the Central America segment, we estimate that cannibalization from the opening of the Company's seventh warehouse club in Costa Rica negatively impacted the comparable net merchandise sales 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 2019 to 2018 in Constant Currency

The following table illustrates the impact that changes in foreign currency exchange rates had on our comparable merchandise sales in dollars and the percentage change from the fifty-two week periods ended September 1, 2019.

Currency Exchange Rate Fluctuations for the Fifty-Two Weeks Ended September 1, 2019			
	Amount		% change
Central America	\$ (48,427)		(2.8) %
Caribbean	(9,688)		(1.1)
Colombia	(37,878)		(10.0)
Comparable merchandise sales	\$ (95,993)		(3.2) %

Overall, the effects of currency devaluations within our markets had an approximate \$96.0 million, or 320 basis point (3.2%), negative constant currency impact on comparable net merchandise for the fifty-two week period ended September 1, 2019.

Currency devaluations within our Central America segment accounted for approximately 160 basis points (1.6%) of the impact of currency devaluations on total comparable merchandise sales for the fifty-two week period ended September 1, 2019. Our Costa Rica, Guatemala, Honduras and Nicaragua markets all experienced currency devaluation when compared to the same period last year.

Currency devaluations within our Caribbean segment accounted for approximately 30 basis points (0.3%) of the impact of currency devaluations on total comparable merchandise for the fifty-two week period ended September 1, 2019. Our Dominican Republic and Jamaica markets experienced currency devaluation when compared to the same period last year.

Currency devaluations within our Colombia segment accounted for approximately 130 basis points (1.3%) of the impact of currency devaluations on total comparable merchandise sales for the fifty-two week period ended September 1, 2019. This reflects the devaluation of the Colombia peso when compared to the same period a year ago.

Comparison of 2018 to 2017 in Constant Currency

Comparable net merchandise sales included 39 warehouse clubs for the fifty-two week period ended September 2, 2018. The following table illustrates the impact that changes in foreign currency exchange rates had on our comparable merchandise sales in dollars and the percentage change from the fifty-two week periods ended September 2, 2018.

Currency Exchange Rate Fluctuations for the Fifty-Two Weeks Ended September 2, 2018			
	Amount	% change	
Central America	\$ (13,302)	(0.8)	%
Caribbean	(7,020)	(0.8)	
Colombia	7,447	2.0	
Comparable merchandise sales	<u>\$ (12,875)</u>	<u>(0.4)</u>	<u>%</u>

Overall, the effects of currency devaluations within our markets had an approximate \$12.9 million, or 40 basis point (0.4%), negative constant currency impact on comparable net merchandise for the fifty-two week period ended September 2, 2018.

Currency devaluations within our Central America segment accounted for approximately 40 basis points (0.4%) of the impact of currency devaluations on total comparable merchandise sales for the fifty-two week period ended September 2, 2018. Our Costa Rica, Nicaragua and Honduras markets all experienced currency devaluation when compared to the same period last year.

Currency devaluations within our Caribbean segment accounted for approximately 30 basis points (0.3%) of the impact of currency devaluations on total comparable merchandise for the fifty-two week period ended September 2, 2018. This is reflective of the offsetting devaluation and appreciation of the mix of currencies within the markets in this segment when compared to the same period a year ago.

Currency devaluations within our Colombia segment accounted for approximately 30 basis points (0.3%) of positive impact of currency appreciation on total comparable merchandise sales for the fifty-two week period ended September 2, 2018. This reflects the appreciation of the Colombia peso when compared to the same period a year ago.

Membership Income

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

	Years Ended				
	August 31, 2019			August 31, 2018	
	Amount	Increase (decrease) from prior year	% Change	Membership income % to net merchandise club sales	Amount
Membership income - Central America	\$ 31,505	\$ 341	1.1 %	1.8 %	\$ 31,164
Membership income - Caribbean	13,670	1,123	9.0	1.5	12,547
Membership income - Colombia	6,974	(136)	(1.9)	1.8	7,110
Membership income - Total	<u>\$ 52,149</u>	<u>\$ 1,328</u>	<u>2.6 %</u>	<u>1.7 %</u>	<u>\$ 50,821</u>
Number of accounts - Central America	861,469	20,549	2.4 %		840,920
Number of accounts - Caribbean	430,869	14,010	3.4		416,859
Number of accounts - Colombia	342,661	5,911	1.8		336,750
Number of accounts - Total	<u>1,634,999</u>	<u>40,470</u>	<u>2.5 %</u>		<u>1,594,529</u>

	Years Ended				
	August 31, 2018			August 31, 2017	
	Amount	Increase/ (decrease) from prior year	% Change	Membership income % to net merchandise club sales	Amount
Membership income - Central America	\$ 31,164	\$ 1,332	4.5 %	1.7 %	\$ 29,832
Membership income - Caribbean	12,547	683	5.8	1.4	11,864
Membership income - Colombia	7,110	1,063	17.6	1.9	6,047
Membership income - Total	<u>\$ 50,821</u>	<u>\$ 3,078</u>	<u>6.4 %</u>	<u>1.7 %</u>	<u>\$ 47,743</u>
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	<u>1,594,529</u>	<u>51,690</u>	<u>3.4 %</u>		<u>1,542,839</u>

Comparison of 2019 to 2018

The number of member accounts during fiscal year 2019 was 2.5% higher than the year before. Membership income increased 2.6% over the same period.

The growth in membership accounts during fiscal year 2019 in our Caribbean market was primarily attributable to the opening of the new Bolivar warehouse club in the Dominican Republic in June 2019. Membership accounts in Colombia increased during the same period primarily due to an improving economy and the continued growth in the market's acceptance of the warehouse club concept. Membership accounts in Central America increased during the same period primarily due to the opening of the new Veraguas warehouse club in Panama in May 2019. The Company's twelve-month renewal rate increased to 85.7% for the year ended August 31, 2019 from 85.1% for the year ended August 31, 2018.

Additionally, we continued expanding our Platinum membership program. We began offering Platinum memberships in Honduras, Jamaica, Aruba, USVI and Barbados in fiscal year 2019.

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).

Other Revenue

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

	Years Ended			
	August 31, 2019			August 31, 2018
	Amount	Increase from prior year	% Change	Amount
Non-merchandise revenue	\$ 36,837	\$ 19,974	118.4 %	\$ 16,863
Miscellaneous income	9,049	7,375	440.6	1,674
Rental income	3,254	245	8.1	3,009
Other revenue	\$ 49,140	\$ 27,594	128.1 %	\$ 21,546

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

Comparison of 2019 to 2018

Other revenue for the year ended August 31, 2019 includes non-merchandise revenue generated by our marketplace and casillero operations primarily from freight and handlings charges for online orders placed from customers in Latin America to retailers in the United States and delivered to locations throughout Latin America from a business we acquired in March 2018. The \$20.0 million increase in non-merchandise revenue compared to the prior year represents the inclusion of twelve months of non-merchandise revenue during fiscal year 2019 versus the inclusion of only five-and-a-half months of non-merchandise revenue during fiscal year 2018. For the year ended August 31, 2019, the net increase of \$7.4 million in Miscellaneous income was primarily due to a \$4.5 million increase mainly resulting from the adoption of the new revenue standard ASC 606, which results in interest generating portfolio ("IGP") income being included in Miscellaneous income. The remaining \$2.9 million is a reimbursement we received during the second and third quarter of this fiscal year for underpayment of income earned on our co-branded credit card IGP.

Comparison of 2018 to 2017

Other revenue for the year ended August 31, 2018, includes non-merchandise revenue generated by our marketplace and casillero operations primarily from freight and handlings charges for online orders placed from customers in Latin America to retailers in the United States and delivered to locations throughout Latin America from a business we acquired in March 2018. Rental income and miscellaneous income had no material changes when compared to the prior year.

Results of Operations

Results of Operations Consolidated

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

<i>Results of Operations Consolidated</i>	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Net merchandise sales			
Net merchandise sales	\$ 3,091,648	\$ 3,053,754	\$ 2,910,062
Merchandise sales gross margin	\$ 442,983	\$ 443,643	\$ 422,916
Merchandise sales gross margin percentage	14.3 %	14.5 %	14.5 %
Revenues			
Total revenues	\$ 3,223,918	\$ 3,166,702	\$ 2,996,628
Percentage change from prior period	1.8 %	5.7 %	3.1 %
Comparable merchandise sales			
Total comparable merchandise sales increase (decrease)	(0.6)%	2.3 %	1.5 %
Gross margin			
Total gross margin	\$ 528,227	\$ 510,182	\$ 476,876
Gross margin percentage to total revenues	16.4 %	16.1 %	15.9 %
Selling, general and administrative			
Selling, general and administrative	\$ 413,060	\$ 384,130	\$ 340,647
Selling, general and administrative percentage of total revenues	12.8 %	12.1 %	11.4 %

<i>Results of Operations Consolidated</i>	Years Ended					
	August 31, 2019	% of Total Revenue	August 31, 2018	% of Total Revenue	August 31, 2017	% of Total Revenue
Operating income- by segment						
Central America	\$ 122,629	3.8 %	\$ 130,849	4.1 %	\$ 134,826	4.5 %
Caribbean	50,724	1.6	48,383	1.5	47,190	1.6
Colombia	14,909	0.5	12,086	0.4	4,932	0.2
United States	3,805	0.1	2,016	0.1	10,436	0.3
Reconciling items ⁽¹⁾	(76,900)	(2.4)	(67,282)	(2.1)	(61,155)	(2.0)
Operating income - Total	\$ 115,167	3.6 %	\$ 126,052	4.0 %	\$ 136,229	4.5 %
Warehouse clubs						
Warehouse clubs at period end	43		41		39	
Warehouse club sales square feet at period end ⁽²⁾	2,158		2,074		1,940	

⁽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.

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

	Years Ended					
	August 31, 2019	% of Total Revenue	August 31, 2018	% of Total Revenue	August 31, 2017	% of Total Revenue
Selling, general and administrative detail:						
Warehouse club and other operations	\$ 307,823	9.5 %	\$ 291,488	9.2 %	\$ 268,629	9.0 %
General and administrative	101,432	3.1	88,461	2.8	70,013	2.3
Pre-opening expenses	2,726	0.1	913	0.0	44	0.0
Loss/(gain) on disposal of assets	1,079	0.0	1,339	0.0	1,961	0.1
Asset impairment	—	—	1,929	0.1	—	—
Total Selling, general and administrative	<u>\$ 413,060</u>	<u>12.8 %</u>	<u>\$ 384,130</u>	<u>12.1 %</u>	<u>\$ 340,647</u>	<u>11.4 %</u>

The following table summarizes the costs recorded as part of our consolidation of Aeropost-related activities (net of tax benefit), including costs to expand our omni-channel capabilities, the net operating results of our marketplace and casillero business and ongoing costs we recorded as part of our post-acquisition purchase accounting.

(in thousands, except for per share amounts)	Years Ended	
	August 31, 2019	August 31, 2018 ⁽¹⁾
Negative impact of Aeropost-related activities (net of tax benefit) on Net income attributable to PriceSmart, Inc., before amortization	\$ 10,319	\$ 4,620
Amortization of intangibles (net of tax benefit)	1,870	872
Amortization of compensation expense	<u>2,273</u>	<u>1,409</u>
Negative impact of Aeropost-related activities (net of tax benefit) on Net income attributable to PriceSmart, Inc.	\$ 14,462	\$ 6,901
Less:		
Asset impairment of software (net of tax benefit)	\$ —	\$ 1,416
Liabilities recorded for software-related impairment (net of tax benefit)	—	514
Acquisition costs (net of tax benefit)	—	490
Negative impact from Aeropost-related activities (net of tax benefit)	<u>\$ 14,462</u>	<u>\$ 9,321</u>
Impact of Aeropost-related activities (net of tax benefit) on earnings per share	<u>\$ 0.47</u>	<u>\$ 0.31</u>

⁽¹⁾ Our marketplace and casillero business was acquired in March 2018. This impact represents five and a half months of activity versus the entire twelve months of activity in the current year.

Comparison of 2019 to 2018

On a consolidated basis, net merchandise sales gross margin for fiscal year 2019 as a percentage of total net merchandise sales were 14.3%, 20 basis points (0.2%) lower than fiscal year 2018. Net merchandise margins decreased across all segments with the Central America segment contributing 10 basis points (0.1%), the Caribbean segment contributing 10 basis points (0.1%), and the Colombia segment contributed an immaterial amount to the overall decline. The 20 basis point (0.2%) decline compared to the prior year is a 30 basis point (0.3%) improvement from the nine-month period end May 31, 2019 when the year over year decline was 50 basis points (0.5%).

Total gross margin to total revenues increased 30 basis points (0.3%) for the twelve months ended August 31, 2019. The year to date increase is due to six and a half months of additional revenue of our marketplace and casillero business compared to the prior year, which increased the gross margin to total revenues ratio by approximately 30 basis points (0.3%). Membership income, rental income and miscellaneous income gross margin percentage remained unchanged. The reclassification of income generated from the IGP as a result of the implementation of new revenue recognition standards along with a refund payment from a credit card vendor increased total gross margins by approximately 20 basis points (0.2%) for the year to date period. This 50 basis point (0.5%) increase was offset by a net merchandise sales gross margin decline of 20 basis points (0.2%).

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 \$28.9 million to 12.8% of total revenues for the twelve month period ended August 31, 2019 compared to 12.1% for the same period during fiscal year 2018.

Warehouse club and other operations expense increased to 9.5% of total revenues compared to 9.2% for the twelve month period ended August 31, 2019. Our marketplace and casillero business added approximately \$9.9 million or 30 basis points (0.3%) for the twelve-month period due to six and a half months of additional non-merchandise operations expense of our marketplace and casillero business compared to the prior year.

General and administrative expenses increased to 3.1% compared to 2.8% for the twelve month period ended August 31, 2019. Our investments to expand our omni-channel capabilities, together with our marketplace and casillero business added approximately \$9.8 million or 30 basis points (0.3%), in costs to this line item for the twelve-month period. Additionally, in the first fiscal quarter was a \$3.8 million, separation and other related termination benefits charge for our former Chief Executive Officer and President who resigned in October 2018 by mutual agreement with the Board of Directors.

Pre-opening expense increased \$1.8 million or 0.1% of total revenues compared to the prior year period. This increase is attributable to costs incurred to open our 42nd and 43rd warehouse club and for the two remaining warehouse clubs expected to open this calendar year.

Operating income for the twelve months ended August 31, 2019, decreased to \$115.2 million (3.6% of total revenue) compared to \$126.1 million (4.0% of total revenue) for the same period last year. As described above, lower merchandise margins as a percent of sales, higher expenses year-on-year related to investments to expand our omni-channel capabilities and the inclusion for the full twelve months ended August 31, 2019 of the net operating results from our marketplace and casillero business acquired in March 2018 were the primary factors for the decrease in operating income.

Comparison of 2018 to 2017

Total revenue increased 5.7% from the twelve months ended August 31, 2017 to the same period ended August 31, 2018, 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%).

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 twelve month period ended August 31, 2017. Total gross margin to total revenues increased to 16.1% from 15.9% for the twelve months ended August 31, 2018, mainly due to higher margins on nonmerchandise revenues of our Aeropost subsidiary, which increased the gross margin on total revenues, by approximately 30 basis points (0.3%) for the year. Membership income, rental income and miscellaneous income gross margin remained unchanged

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 fiscal year 2018 \$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 increase 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 of our decreased operating income by 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% of total revenue, primarily due to increases in sales from the continued improved economic conditions in Colombia.

Interest Expense

	Years Ended		
	August 31, 2019		August 31, 2018
	Amount	Increase/ (decrease) from prior year	Amount
Interest expense on loans	\$ 5,544	\$ 320	\$ 5,224
Interest expense related to hedging activity	511	(470)	981
Less: Capitalized interest	(2,116)	(982)	(1,134)
Net interest expense	<u>\$ 3,939</u>	<u>\$ (1,132)</u>	<u>\$ 5,071</u>

	Years Ended		
	August 31, 2018		August 31, 2017
	Amount	Increase/ (decrease) from prior year	Amount
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	<u>\$ 5,071</u>	<u>\$ (1,706)</u>	<u>\$ 6,777</u>

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 2019 to 2018

Net interest expense decreased \$1.1 million for the year ended August 31, 2019. Interest expense related to loans increased for the year ended August 31, 2019 due to increased use of more expensive short-term borrowing facilities. However, interest expense related to hedging activity decreased during the year ended August 31, 2019 due to the pay off of the various loans held by our subsidiaries that were hedged, and we capitalized more interest for fiscal year 2019 compared to fiscal year 2018 because of higher levels of construction activities for the two clubs opened during the fiscal year and the two additional clubs to opened in the fall of calendar year 2019.

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 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.

Other Income (Expense), net

Other income consists of currency gain or loss, as well as net benefit costs related to our defined benefit plans.

	Years Ended		
	August 31, 2019	August 31, 2018	
	Amount	(Decrease) from prior year	Amount
Other income (expense), net	\$ (1,607)	\$ (1,799)	\$ 192

	Years Ended		
	August 31, 2018	August 31, 2017	
	Amount	(Decrease) from prior year	Amount
Other income (expense), net	\$ 192	\$ (1,290)	\$ 1,482

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

Comparison of 2019 to 2018

For the twelve-month period ended August 31, 2019, we had a net expense associated with foreign currency transactions of approximately \$1.5 million, of which our Jamaica and Dominican Republic markets contributed \$687,000 and \$519,000, respectively. The main drivers for the year-to-date period loss is attributable to significant increases in our average U.S. dollar asset position in Jamaica and our average U.S. dollar liability position in the Dominican Republic compared to a year ago. We increased these positions to provide capital resources for our current and future warehouse club construction activities and other investments. In Jamaica our average U.S. dollar asset position was \$19.8 million in fiscal year 2019 compared to \$16.6 million in fiscal year 2018, or a 19% increase year-over-year. In the Dominican Republic our average U.S. dollar liability position was \$26.6 million in fiscal year 2019 compared to \$8.0 million in fiscal year 2018, or a 235% increase year-over-year.

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 exchange 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.

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 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, 2019	August 31, 2018
Income before provision for income taxes and income (loss) of unconsolidated affiliates	\$ 111,110	\$ 122,588
Provision for income taxes calculated prior to U.S. tax law change	(35,927)	(38,607)
U.S. Tax Reform: Current tax rate reduction	2,269	3,152
U.S. Tax Reform: Re-measurement of net deferred tax assets/liabilities	—	(222)
U.S. Tax Reform: Transition Tax	—	(12,500)
U.S. Tax Reform: Other tax incentives	2,833	—
Incidental to U.S. Tax Reform: Valuation of allowances on deferred tax assets	(6,735)	—
Subtotal of U.S. Tax Reform Effects	(1,633)	(9,570)
Total provision for income taxes	\$ (37,560)	\$ (48,177)
Income (loss) of unconsolidated affiliates	(61)	(8)
Net income	\$ 73,489	\$ 74,403
Less: net income (loss) attributable to noncontrolling interest	(298)	(75)
Net income attributable to PriceSmart, Inc.	\$ 73,191	\$ 74,328
Net income attributable to PriceSmart, Inc. per share available for distribution:		
Basic net income per share	\$ 2.40	\$ 2.44
Diluted net income per share	\$ 2.40	\$ 2.44
Subtotal of U.S. Tax Reform Effects	\$ (1,633)	\$ (9,570)
Impact of U.S. Tax Reform on basic and diluted net income per share	\$ (0.05)	\$ (0.32)

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

	Years Ended		
	August 31, 2019		August 31, 2018
	Amount	Increase/ (decrease) from prior year	Amount
Current tax expense	\$ 40,553	\$ (663)	\$ 41,216
Net deferred tax provision (benefit)	(2,993)	(9,954)	6,961
Provision for income taxes	\$ 37,560	\$ (10,617)	\$ 48,177
Effective tax rate	33.8 %		39.3 %

	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 %

Comparison of 2019 to 2018

For fiscal year 2019, the effective tax rate was 33.8%. The decrease in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably favorable impact of 10.2% resulting from nonrecurrence of the U.S. Tax Reform Transition Tax.
2. The comparably unfavorable net impact of 3.5%, resulting from the favorable impact of 2.6% resulting from new export-related sales and service tax incentives; and the unfavorable impact of 6.1% from valuation allowances on deferred tax assets from foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable.
3. The comparably unfavorable impact of 1.0% resulting from the effective tax rate impact of costs incurred to expand our omni-channel capabilities and the net operating results of our marketplace and casillero business.
4. The comparably favorable impact of 1.3% resulting from the reversal of valuation allowances on net deferred tax assets in the Company's Colombia subsidiary, due to the ongoing improvement in our business in Colombia.
5. The comparatively unfavorable impact on the effective tax rate of 0.9% resulting from a decrease in fiscal year 2019 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 Company does not expect these intercompany transactions to continue in the future.
6. The comparably unfavorable impact of 0.7% resulting from severance compensation of one of our officers.

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.

Other Comprehensive Income (Loss)

Other comprehensive income/(loss) for fiscal years 2019 and 2018 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, 2019			August 31, 2018			August 31, 2017
	(Decrease) from prior year	% Change		(Decrease) from prior year	% Change		Amount
	Amount			Amount			Amount
Foreign currency translation adjustments	\$ (141,146)	\$ (19,717)	16.2 %	\$ (121,429)	\$ (12,890)	11.9 %	\$ (108,539)
Defined benefit pension plan	(526)	(38)	7.8	(488)	(46)	10.4	(442)
Derivative Instruments	(2,667)	(3,368)	(480.5)	701	1,779	165.0	(1,078)
Total	<u>\$ (144,339)</u>	<u>\$ (23,123)</u>	<u>19.1 %</u>	<u>\$ (121,216)</u>	<u>\$ (11,157)</u>	<u>10.1 %</u>	<u>\$ (110,059)</u>

Comparison of 2019 to 2018

During fiscal year 2019, the largest translation adjustments were related to the translation of the Colombia, 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 \$19.4 million. Additionally, there was a comprehensive loss of approximately \$3.3 million related to unrealized losses on changes in derivative obligations due to declining benchmark interest rates.

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.

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 and allow us to invest in activities that support long-term growth and pay dividends on our common stock. We evaluate our funding requirements on a regular basis and use long-term and short-term borrowings 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.

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

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

	August 31, 2019	August 31, 2018
Amounts held by foreign subsidiaries	\$ 98,964	\$ 79,454
Amounts held domestically	7,272	17,460
Total cash and cash equivalents, including restricted cash	\$ 106,236	\$ 96,914

From time to time, we have experienced a lack of availability of U.S. dollars in certain markets (U.S. dollar illiquidity). This impedes our ability to convert local currencies obtained through merchandise sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. Since fiscal year 2017, we have 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 illiquid market conditions in Trinidad to continue.

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

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Net cash provided by (used in) operating activities	\$ 170,332	\$ 119,454	\$ 123,021
Net cash provided by (used in) investing activities	(124,704)	(153,779)	(135,217)
Net cash provided by (used in) financing activities	(31,955)	(27,817)	(21,970)
Effect of exchange rates	(4,351)	(6,656)	(2,838)
Net increase (decrease) in cash and cash equivalents	\$ 9,322	\$ (68,798)	\$ (37,004)

Net cash provided by operating activities totaled \$170.3 million and \$119.5 million for the twelve months ended August 31, 2019 and 2018, respectively. Our cash flow provided by operations is primarily derived from net merchandise sales and membership fees. Cash flows used in operations generally consists of payments to our merchandise vendors, warehouse operating costs (including payroll, employee benefits and utilities), as well as payments for income taxes. The \$50.9 million increase in net cash provided by operating activities was primarily due to an increase of accounts payable of \$25.3 million in fiscal year 2019 compared to a decrease in accounts payable of \$16.5 million in fiscal year 2018, which resulted in a \$41.8 million change year-over-year. In addition, the net increase in other current and non-current assets and liabilities resulted in a \$16.1 million change year-over-year. The accounts payable increase resulted from several factors, including a shift in the timing of inventory purchases in anticipation of the holiday season versus a year ago and working capital efficiency improvements. The other current and non-current assets and liabilities decrease is primarily the result of increases in salary and benefit accruals, deferred income, and other accruals due to the opening of two new clubs, which added additional headcount and membership income.

Net cash used in investing activities totaled \$124.7 million and \$153.8 million for the twelve months ended August 31, 2019 and 2018, respectively. Our cash used in investing activities is primarily for the construction of and improvements to our warehouse clubs. The \$29.1 million decrease in investing activities is the result of a net \$47.6 million decrease in certificate of deposits purchases and settlements compared to a year-ago and a \$23.9 million decrease in acquisition activity versus a year-ago as we made no acquisitions in fiscal year 2019 offset by \$42.0 million of additional construction expenditures and land purchases made for our expected future warehouse club openings.

Net cash used in financing activities total \$32.0 million and \$27.8 million for the twelve months ended August 31, 2019 and 2018, respectively. Our cash flows provided or used for financing activities are used primarily to fund our working capital needs and our warehouse club expansions and investments. The \$4.2 million increase in cash used in financing activities is primarily the result of a net decrease of proceeds from long-term borrowings of \$9.4 million compared to a year ago as we did not have any additional long-term borrowings in fiscal year 2019. Additionally, the amount of cash we used to repurchase shares of restricted stock upon vesting to cover employees' tax withholding obligations increased \$1.4 million in fiscal year 2019 primarily as a result of the acceleration of vesting as a component of severance for one of our officers. We received \$7.5 million of proceeds from short-term borrowings to fund our working capital and capital investment needs, offsetting this \$10.8 million of cash used.

Short-Term Borrowings and Long-Term Debt

Our financing strategy is to ensure liquidity and access to capital markets while minimizing our borrowing costs. The proceeds of these borrowings were or will be used for general corporate purposes, which may include, among other things, funding for working capital, capital expenditures, acquisitions, and repayment of existing debt. Please see Item 8 Note 11 – Debt for further discussion.

Contractual Obligations	Payments due in:				
	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Contractual obligations					
Long-term debt and interest ⁽¹⁾	\$ 25,875	\$ 15,528	\$ 19,390	\$ 28,793	\$ 89,586
Operating leases ⁽²⁾	14,049	26,305	25,623	180,913	246,890
Warehouse club construction commitments ⁽³⁾	14,937	—	—	—	14,937
Total	\$ 54,861	\$ 41,833	\$ 45,013	\$ 209,706	\$ 351,413

- (1) Long-term debt includes debt with both fixed and variable interest rates. We have used rates as of August 31, 2019 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 \$2.3 million to reflect the amounts net of expected sublease income. Operating lease obligations include \$1.6 million of lease payment obligations for the prior leased Miami distribution center. For the purposes of calculating the minimum lease payments, a reduction is reflected for the actual sublease income the Company expects to receive during the remaining lease term.
- (3) The amounts shown represent contractual obligations for construction services not yet rendered.

Off-Balance Sheet Arrangements

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

Repurchase of Equity Securities and Reissuance of Treasury Shares

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

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

The following table summarizes the shares repurchased during fiscal years 2019, 2018 and 2017:

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Shares repurchased	75,462	37,414	38,634
Cost of repurchase of shares (in thousands)	\$ 4,604	\$ 3,183	\$ 3,193

We reissued 63,000 treasury shares as part of our stock-based compensation programs during fiscal year 2019, but we did not reissue any treasury shares during fiscal years 2018 and 2017.

Dividends

Please refer to the Notes to Consolidated Financial Statements - Note 6 - Stockholders' Equity for further discussion.

Derivatives

Please refer to the Notes to Consolidated Financial Statements - Note 13 – Derivative Instruments and Hedging Activities for further discussion.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that management make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of our accounting policies require management to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Management continues to review its accounting policies and evaluate its estimates, including those related to business acquisitions, contingencies and litigation, income taxes, value added taxes, and long-lived assets. We base our estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances. Using different estimates could have a material impact on our financial condition and results of operations.

Income Taxes

We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized. As of August 31, 2019, we evaluated our deferred tax assets and liabilities and determined that a valuation allowance was necessary for certain deferred tax asset balances, primarily because of the existence of significant negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, indicating that certain net operating loss carry-forward periods are not sufficient to realize the related deferred tax assets. We also specifically considered whether foreign tax credit balances could be utilized in the foreseeable future in light of current and future U.S. tax liabilities. We have historically applied foreign tax credits, generated from taxes withheld on certain payments PriceSmart receives from our foreign subsidiaries, to reduce U.S. income tax liabilities. However, as an incidental result of U.S. tax reform, following the reduction of the U.S. corporate income tax rate from 35% to 21%, we expect foreign tax credits generated to exceed U.S. income tax liability for the foreseeable future. Therefore, as of August 31, 2019, we have recorded valuation allowance of \$6.7 million against our foreign tax credits.

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

We accrue an amount for our estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has 50% or less likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate. There were no material changes in our uncertain income tax positions for the periods ended on August 31, 2019 and 2018.

Tax Receivables

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

In most countries where we operate, the VAT refund process is defined and structured with regular refunds or offsets. However, we, together with our tax and legal advisers, are currently seeking clarification in court and pursuing other alternatives in one country without a clearly defined process and expect to prevail. The balance of the VAT receivable in the country with undefined refund mechanisms was approximately \$5.1 million and \$3.1 million as of August 31, 2019 and August 31, 2018, respectively. In another country in which we have warehouse clubs, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires us to pay taxes based on a percentage of sales rather than income. As a result, we are making income tax payments substantially in excess of those we would expect to pay based on taxable income. The rules (which we have challenged in court), effective for fiscal years 2015 to 2018, do not clearly allow us to obtain a refund or offset this excess income tax against other taxes. As of August 31, 2019, we had deferred tax assets of approximately \$2.6 million in this country. Also, we had an income tax receivable balance of \$7.8 million as of August 31, 2019 related to excess payments from fiscal year 2015 to 2019. In fiscal year 2018, a revised minimum tax law was passed in this country, which beginning in fiscal year 2020 will reduce the minimum tax rate. Additionally, this law clarifies on a go-forward basis the reimbursement process for excess minimum tax paid beginning in fiscal year 2019, but does not address periods prior to fiscal year 2019. Nevertheless, we have not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because we believe that it is more likely than not that we will ultimately succeed in our refund requests, related appeals and/or court challenge on this matter.

Our policy for classification and presentation of VAT receivables, income tax receivables and other tax receivables is as follows:

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where our subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. We also classify as short-term any approved refunds or credit notes to the extent that we expect to receive the refund or use the credit notes within one year.
- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where our subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when we do not expect to eventually prevail in our recovery of such balances. We do not currently have any allowances provided against VAT and income tax receivables.

Long-lived Assets

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

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

Management's judgments are based on market and operational conditions at the time of the evaluation and can include management's best estimate of future business activity, which in turn drives estimates of future cash flows from these assets. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges. No impairment charges have been recorded during fiscal year 2019 related to the loss of legal ownership or title to assets; significant changes in the Company's strategic business objectives or utilization of assets; or the impact of significant negative industry or economic trends. Loss/(gain) on disposal of assets recorded during the years reported resulted from improvements to operations and normal preventive maintenance.

Goodwill and Other Indefinite-Lived Intangibles

Goodwill and other indefinite-lived acquired intangible assets are not amortized, but are evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. Generally, this evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If we determine, after performing an assessment based on the qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, or that a fair value of the reporting unit substantially in excess of the carrying amount cannot be assured, then a quantitative impairment test would be performed. The quantitative test for impairment requires management to make judgments relating to future cash flows, growth rates and economic and market conditions. These evaluations are based on determining the fair value of a reporting unit or asset using a valuation method such as discounted cash flow or a relative, market-based approach. Historically, our reporting units and other indefinite-lived acquired intangible assets have generated sufficient returns to recover the cost of goodwill and other indefinite-lived acquired intangible assets. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted. For approximately \$46.1 million of certain acquired indefinite-lived intangible assets, the fair value approximated the carrying value; any deterioration in the fair value may result in an impairment charge.

Seasonality

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

Interest Rate Risk

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

The table below provides information about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table represents the principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, including cross-currency interest rate swaps, the table represents the contractual cash flows and weighted-average interest rates by the contractual maturity date, unless otherwise noted. The notional amounts are used to calculate contractual cash flows to be exchanged under the contracts. The weighted-average variable rates are based upon prevailing market interest rates and the outstanding balances as of August 31, 2019.

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

	Twelve Months Ended August 31, (Amounts in thousands)						
	2020	2021	2022	2023	2024	Thereafter	Total
Long-Term Debt:							
Long-term debt with fixed interest rate	\$ 911	\$ 911	\$ 380	\$ —	\$ —	\$ —	\$ 2,202 ⁽¹⁾
Weighted-average interest rate	7.00%	7.00%	7.00%	—%	—%	—%	7.00%
Long-term debt with variable interest rate	\$ 24,964	\$ 8,307	\$ 5,930	\$ 17,848	\$ 1,542	\$ 28,793	\$ 87,384
Weighted-average interest rate	5.90%	5.50%	5.60%	5.60%	3.80%	3.70%	5.30%
Total long-term debt	\$ 25,875	\$ 9,218	\$ 6,310	\$ 17,848	\$ 1,542	\$ 28,793	\$ 89,586 ⁽¹⁾
Derivatives:							
Interest Rate Swaps:							
Variable to fixed interest	\$ 8,025	\$ 2,775	\$ 2,775	\$ 9,900	\$ 1,275	\$ 28,794	\$ 53,544
Weighted-average pay rate	5.08%	4.91%	4.91%	5.69%	3.65%	3.65%	4.37%
Weighted-average receive rate	5.24%	4.61%	4.61%	5.12%	3.77%	3.77%	4.33%
Cross-Currency Interest Rate Swaps:							
Variable to fixed interest	\$ 14,100	\$ 1,350	\$ 1,350	\$ 7,424	\$ —	\$ —	\$ 24,224
Weighted-average pay rate	8.20%	9.75%	9.75%	9.75%	—%	—%	8.85%
Weighted-average receive rate	5.05%	5.32%	5.32%	5.32%	—%	—%	5.16%

- (1) The Company has disclosed the future annual maturities of long-term debt, for which it has entered into cross-currency interest rate swaps, using the derivative obligation as of August 31, 2019 to estimate the future commitments. Therefore, the total annual commitments reflects these obligations, including the effect of the cross-currency interest rate swaps on the total-long term debt as disclosed on the consolidated balance sheet.

Foreign Currency Risk

We have foreign currency risks related to sales, operating expenses and financing transactions in currencies other than the U.S. dollar. As of August 31, 2019, we had a total of 43 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 34 of which operate under currencies other than the U.S. dollar. Approximately 52.0% of our net merchandise sales are comprised of products we purchased in U.S. dollars and were sold in countries whose currencies were other than the U.S. dollar. Approximately 77.0% of our net merchandise sales are in markets whose functional currency is other than the U.S. dollar. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net merchandise sales denominated in foreign currencies.

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

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

Country	Revaluation/(Devaluation) Twelve Months Ended August 31,	
	2019	2018
	% Change	% Change
Colombia	(13.21)%	(3.07) %
Costa Rica	0.84 %	(0.25) %
Dominican Republic	(3.02)%	(4.48) %
Guatemala	(1.57)%	(3.73) %
Honduras	(2.25)%	(2.78) %
Jamaica	(0.28)%	(5.48) %
Nicaragua	(5.00)%	(5.00) %
Trinidad	0.01 %	(0.12) %

We seek to manage foreign exchange risk by (1) adjusting prices on goods acquired in U.S. dollars on a periodic basis to maintain our target margins after taking into account changes in exchange rates; (2) obtaining local currency loans from banks within certain markets where it is economical to do so and where management believes the risk of devaluation and the level of U.S. dollar denominated liabilities warrants this action; (3) reducing the time between the acquisition of product in U.S. dollars and the settlement of that purchase in local currency; (4) maintaining a balance between assets held in local currency and in U.S. dollars; and (5) by entering into cross-currency interest rate swaps and forward currency derivatives. We have local-currency-denominated long-term loans in Costa Rica, Trinidad and Tobago, Guatemala and Barbados; we have cross-currency interest rate swaps in Costa Rica, Colombia, and Honduras; and we have interest rate swaps in Panama and in the United States. Turbulence in the currency markets can have a significant impact on the value of the foreign currencies within the countries in which we operate. We report the gains or losses associated with the revaluation of these monetary assets and liabilities on our Consolidated Statements of Income under the heading “Other income (expense), net.” Future volatility and uncertainties regarding the currencies in the countries that we operate in could have a material impact on our operations in future periods. However, there is no way to accurately forecast how currencies may trade in the future and, as a result, we cannot accurately project the impact of the change in rates on our future demand for imported products, reported sales, or financial results.

We are exposed to foreign exchange risks related to U.S. dollar-denominated and other foreign-denominated cash, cash equivalents and restricted cash, to U.S. dollar-denominated intercompany debt balances and to other U.S. dollar-denominated debt/asset balances (excluding U.S. dollar-denominated debt obligations for which we hedge a portion of the currency risk inherent in the interest and principal payments), within entities whose functional currency is not the U.S. dollar. The following table discloses the net effect on other income (expense) for these U.S. dollar-denominated and other foreign-denominated accounts relative to hypothetical simultaneous currency devaluation in all the countries listed in the table above, based on balances as of August 31, 2019:

Overall weighted negative currency movement	Gains based on change in U.S. dollar denominated and other foreign denominated cash, cash equivalents and restricted cash balances (in thousands)	(Losses) based on change in U.S. dollar denominated inter-company balances (in thousands)	(Losses) based on change in U.S. dollar denominated other asset/liability balances, (in thousands)	Net gain (loss)
5%	\$ 2,152	\$ (494)	\$ (1,787)	\$ (129)
10%	\$ 4,303	\$ (987)	\$ (3,575)	\$ (259)
20%	\$ 8,608	\$ (1,974)	\$ (7,149)	\$ (515)

Examples of countries where we have significant U.S. dollar net asset positions subjecting us to exchange rate losses if the local currency strengthens against the U.S. dollar are our Trinidad and Jamaica subsidiaries with balances of \$38.9 million and \$20.5 million, respectively as of August 31, 2019. An example of a country where we have a significant U.S. dollar net liability position subjecting us to exchange rate losses if the local currency weakens against the U.S. dollar, as of August 31, 2019 is our Dominican Republic subsidiary with a \$31.3 million balance.

We are also exposed to foreign exchange risks related to local-currency-denominated cash and cash equivalents, to local-currency-denominated debt obligations, to local-currency-denominated current assets and liabilities and to local-currency-denominated long-term assets and liabilities within entities whose functional currency is not the U.S. dollar. The following table discloses the net effect on other comprehensive income (loss) for these local currency denominated accounts relative to hypothetical simultaneous currency devaluation in all the countries listed in the table above, based on balances as of August 31, 2019:

Overall weighted negative currency movement	Other comprehensive loss on the decline in local currency denominated cash and cash equivalents and restricted cash (in thousands)	Other comprehensive gain on the decline in foreign currency denominated debt obligations (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated current assets net of current liabilities (in thousands)	Other comprehensive loss on the decline in all other foreign currency denominated long-term assets net of long-term liabilities (in thousands)
5%	\$ 1,865	\$ (1,009)	\$ 3,398	\$ 19,443
10%	\$ 3,730	\$ (2,018)	\$ 6,796	\$ 38,885
20%	\$ 7,460	\$ (4,035)	\$ 13,593	\$ 77,770

In addition, we are exposed to foreign currency exchange rate fluctuations associated with our U.S. dollar-denominated debt obligations that we hedge. We hedge a portion of the currency risk inherent in the interest and principal payments associated with this debt through the use of cross-currency interest rate swaps. The terms of these swap agreements are commensurate with the underlying debt obligations. The aggregate fair value of these swaps was in a net asset position of approximately \$2.0 million at August 31, 2019 and approximately \$1.9 million at August 31, 2018. A hypothetical 10% increase in the currency exchange rates underlying these swaps from the market rates at August 31, 2019 would have resulted in a further increase in the value of the swaps of approximately \$810,000. Conversely, a hypothetical 10% decrease in the currency exchange rates underlying these swaps from the market rates at August 31, 2019 would have resulted in a net decrease in the value of the swaps of approximately \$1.0 million.

From time to time we use non-deliverable forward foreign exchange contracts primarily to address exposure to U.S. dollar merchandise inventory expenditures made by our international subsidiaries whose functional currency is other than the U.S. dollar. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The market risk related to foreign currency forward contracts would be measured by estimating the potential impact of a 10% change in the value of the U.S. dollar relative to the local currency exchange rates. The net increase or decrease in the fair value of these derivative instruments would be economically offset by the gains or losses on the underlying transactions.

Commodity Price Risk

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

Opinion on Internal Control over Financial Reporting

We have audited PriceSmart, Inc.'s internal control over financial reporting as of August 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the COSO criteria). In our opinion, PriceSmart, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of August 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCOAB), the accompanying consolidated balance sheets of PriceSmart, Inc. as of August 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended August 31, 2019 and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated October 29, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

San Diego, California

October 29, 2019

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

	August 31,	
	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 102,653	\$ 93,460
Short-term restricted cash	54	405
Short-term investments	17,045	32,304
Receivables, net of allowance for doubtful accounts of \$144 as of August 31, 2019 and \$97 as of August 31, 2018, respectively.	9,872	8,859
Merchandise inventories	331,273	321,025
Prepaid expenses and other current assets (includes \$2,736 and \$0 as of August 31, 2019 and August 31, 2018, respectively, for the fair value of derivative instruments)	30,999	31,800
Total current assets	491,896	487,853
Long-term restricted cash	3,529	3,049
Property and equipment, net	671,151	594,403
Goodwill	46,101	46,329
Other intangibles, net	12,576	14,980
Deferred tax assets	15,474	10,166
Other non-current assets (includes \$0 and \$4,364 as of August 31, 2019 and August 31, 2018, respectively, for the fair value of derivative instruments)	44,987	48,854
Investment in unconsolidated affiliates	10,697	10,758
Total Assets	\$ 1,296,411	\$ 1,216,392
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	\$ 7,540	\$ —
Accounts payable	286,219	255,739
Accrued salaries and benefits	25,401	22,836
Deferred income	25,340	23,018
Income taxes payable	4,637	4,636
Other accrued expenses	32,442	28,281
Long-term debt, current portion	25,875	14,855
Total current liabilities	407,454	349,365
Deferred tax liability	2,015	1,894
Long-term portion of deferred rent	11,198	8,885
Long-term income taxes payable, net of current portion	5,069	4,622
Long-term debt, net of current portion	63,711	87,720
Other long-term liabilities (includes \$2,910 and \$502 for the fair value of derivative instruments and \$5,421 and \$4,715 for post-employment plans as of August 31, 2019 and August 31, 2018, respectively)	8,685	5,268
Total Liabilities	498,132	457,754
Stockholders' Equity:		
Common stock \$0.0001 par value, 45,000,000 shares authorized; 31,461,359 and 31,372,752 shares issued and 30,538,788 and 30,460,353 shares outstanding (net of treasury shares) as of August 31, 2019 and August 31, 2018, respectively	3	3
Additional paid-in capital	443,084	432,882
Tax benefit from stock-based compensation	11,486	11,486
Accumulated other comprehensive loss	(144,339)	(121,216)
Retained earnings	525,804	473,954
Less: treasury stock at cost, 924,332 shares as of August 31, 2019 and 912,399 shares as of August 31, 2018	(38,687)	(39,107)
Total stockholders' equity attributable to PriceSmart, Inc. stockholders	797,351	758,002
Noncontrolling interest in consolidated subsidiaries	928	636
Total stockholders' equity	798,279	758,638
Total Liabilities and Equity	\$ 1,296,411	\$ 1,216,392

See accompanying notes.

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

	Years Ended August 31,		
	2019	2018	2017
Revenues:			
Net merchandise sales	\$ 3,091,648	\$ 3,053,754	\$ 2,910,062
Export sales	30,981	40,581	34,244
Membership income	52,149	50,821	47,743
Other revenue and income	49,140	21,546	4,579
Total revenues	3,223,918	3,166,702	2,996,628
Operating expenses:			
Cost of goods sold:			
Net merchandise sales	2,648,665	2,610,111	2,487,146
Export sales	29,524	38,740	32,606
Non-merchandise	17,502	7,669	—
Selling, general and administrative:			
Warehouse club and other operations	307,823	291,488	268,629
General and administrative	101,432	88,461	70,013
Pre-opening expenses	2,726	913	44
Asset impairment	—	1,929	—
Loss on disposal of assets	1,079	1,339	1,961
Total operating expenses	3,108,751	3,040,650	2,860,399
Operating income	115,167	126,052	136,229
Other income (expense):			
Interest income	1,489	1,415	1,809
Interest expense	(3,939)	(5,071)	(6,777)
Other income (expense), net	(1,607)	192	1,482
Total other income (expense)	(4,057)	(3,464)	(3,486)
Income before provision for income taxes and income (loss) of unconsolidated affiliates	111,110	122,588	132,743
Provision for income taxes	(37,560)	(48,177)	(42,018)
Income (loss) of unconsolidated affiliates	(61)	(8)	(1)
Net income	\$ 73,489	\$ 74,403	\$ 90,724
Less: net (income) loss attributable to noncontrolling interest	(298)	(75)	—
Net income attributable to PriceSmart, Inc.	\$ 73,191	\$ 74,328	\$ 90,724
Net income attributable to PriceSmart, Inc. per share available for distribution:			
Basic	\$ 2.40	\$ 2.44	\$ 2.98
Diluted	\$ 2.40	\$ 2.44	\$ 2.98
Shares used in per share computations:			
Basic	30,195	30,115	30,020
Diluted	30,195	30,115	30,023
Dividends per share	\$ 0.70	\$ 0.70	\$ 0.70

See accompanying notes.

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

	Years Ended August 31,		
	2019	2018	2017
Net income	\$ 73,489	\$ 74,403	\$ 90,724
Less: net (income) loss attributable to noncontrolling interest	(298)	(75)	—
Net income attributable to PriceSmart, Inc.	\$ 73,191	\$ 74,328	\$ 90,724
Other Comprehensive Income, net of tax:			
Foreign currency translation adjustments ⁽¹⁾	(19,717)	(12,890)	\$ (6,297)
Defined benefit pension plan:			
Net gain (loss) arising during period	(112)	(87)	(166)
Amortization of prior service cost and actuarial gains included in net periodic pensions cost	74	41	39
Total defined benefit pension plan	(38)	(46)	(127)
Derivative instruments: ⁽²⁾			
Unrealized gains/(losses) on change in derivative obligations	(267)	(97)	81
Unrealized gains/(losses) on change in fair value of interest rate swaps	(3,102)	1,882	254
Amounts reclassified from accumulated other comprehensive income (loss) to other income (expense), for settlement of derivatives	1	(6)	(19)
Total derivative instruments	(3,368)	1,779	316
Other comprehensive income (loss)	(23,123)	(11,157)	(6,108)
Comprehensive income	50,068	63,171	84,616
Less: comprehensive income/(loss) attributable to noncontrolling interest	21	(1)	—
Comprehensive income attributable to PriceSmart, Inc. stockholders	\$ 50,047	\$ 63,172	\$ 84,616

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

⁽²⁾ See Note 13 - Derivative Instruments and Hedging Activities.

See accompanying notes.

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

	Common Stock		Additional Paid-in Capital	Tax Benefit From Stock Based Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock		Total Stockholders' Equity		
	Shares	Amount					Shares	Amount	Attributable to PriceSmart, Inc.	Noncontrolling Interest	Total Equity
Balance at August 31, 2016	31,238	\$ 3	\$ 412,369	\$ 11,321	\$ (103,951)	\$ 351,060	836	\$ (32,731)	\$ 638,071	\$ (3,193)	\$ 638,071
Purchase of treasury stock	—	—	—	—	—	—	39	(3,193)	—	—	(3,193)
Issuance of restricted stock award	63	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(37)	—	—	—	—	—	—	—	—	—	—
Exercise of stock options	12	—	704	—	—	—	—	—	704	—	704
Stock-based compensation	—	—	9,689	165	—	—	—	—	9,854	—	9,854
Dividend paid to stockholders	—	—	—	—	—	(21,285)	—	—	(21,285)	—	(21,285)
Net income	—	—	—	—	—	90,724	—	—	90,724	—	90,724
Other comprehensive income (loss)	—	—	—	—	(6,108)	—	—	—	(6,108)	—	(6,108)
Balance at August 31, 2017	31,276	\$ 3	\$ 422,762	\$ 11,486	\$ (110,059)	\$ 420,499	875	\$ (35,924)	\$ 708,767	\$ —	\$ 708,767
Acquisition of Aeropost	—	—	—	—	—	—	—	—	—	—	562
Cumulative effect of accounting change for the adoption of ASU 2016-09	—	—	(367)	—	—	367	—	—	(3,183)	—	(3,183)
Purchase of treasury stock	—	—	—	—	—	—	37	(3,183)	—	—	—
Issuance of restricted stock award	109	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(16)	—	—	—	—	—	—	—	—	—	—
Exercise of stock options	4	—	269	—	—	—	—	—	269	—	269
Stock-based compensation	—	—	10,218	—	—	—	—	—	10,218	—	10,218
Dividend paid to stockholders	—	—	—	—	—	(21,240)	—	—	(21,240)	—	(21,240)
Net income	—	—	—	—	—	74,328	—	—	74,328	75	74,403
Other comprehensive income (loss)	—	—	—	—	(11,157)	—	—	—	(11,157)	(1)	(11,158)
Balance at August 31, 2018	31,373	\$ 3	\$ 432,882	\$ 11,486	\$ (121,216)	\$ 473,954	912	\$ (39,107)	\$ 758,002	\$ 636	\$ 758,638
Purchase of treasury stock	—	—	—	—	—	—	75	(4,604)	(4,604)	—	(4,604)
Issuance of treasury stock	(63)	—	(5,024)	—	—	—	(63)	5,024	—	—	—
Issuance of restricted stock award	178	—	—	—	—	—	—	—	—	—	—
Forfeiture of restricted stock awards	(27)	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	15,512	—	—	—	—	—	15,512	—	15,512
Dividend paid to stockholders	—	—	—	—	—	(21,341)	—	—	(21,341)	(313)	(21,654)
Net income	—	—	—	—	—	73,191	—	—	73,191	298	73,489
Other comprehensive income (loss)	—	—	—	—	(23,123)	—	—	—	(23,123)	21	(23,102)
Other	—	—	(286)	—	—	—	—	—	(286)	—	(286)
Balance at August 31, 2019	31,461	\$ 3	\$ 443,084	\$ 11,486	\$ (144,339)	\$ 525,804	924	\$ (38,687)	\$ 797,351	\$ 928	\$ 798,279

See accompanying notes.

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

	Years Ended August 31,		
	2019	2018	2017
Operating Activities:			
Net income	\$ 73,489	\$ 74,403	\$ 90,724
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	54,958	52,640	46,292
Allowance for doubtful accounts	47	(369)	—
Asset impairment and closure costs	—	1,929	—
(Gain)/loss on sale of property and equipment	1,079	1,339	1,961
Deferred income taxes	(4,401)	6,962	(2,845)
Equity in (gains)/losses of unconsolidated affiliates	61	8	1
Stock-based compensation	15,061	10,218	9,689
Change in operating assets and liabilities:			
Receivables, prepaid expenses and other current assets, non-current assets, accrued salaries and benefits, deferred membership income and other accruals	14,961	(1,108)	1,894
Merchandise inventories	(10,248)	(10,079)	(28,039)
Accounts payable	25,325	(16,489)	3,344
Net cash provided by (used in) operating activities	170,332	119,454	123,021
Investing Activities:			
Business acquisition, net of cash acquired	—	(23,895)	—
Additions to property and equipment	(140,061)	(98,109)	(135,294)
Short-term investments	(15,244)	(77,997)	—
Proceeds from settlements of short-term investments	30,527	45,693	—
Deposits for land purchase option agreements	—	(100)	(300)
Proceeds from disposal of property and equipment	74	629	377
Net cash provided by (used in) investing activities	(124,704)	(153,779)	(135,217)
Financing Activities:			
Proceeds from long-term bank borrowings	—	28,500	47,700
Repayment of long-term bank borrowings	(12,939)	(32,088)	(29,395)
Proceeds from short-term bank borrowings	18,403	81,851	678
Repayment of short-term bank borrowings	(10,863)	(81,851)	(17,179)
Cash dividend payments	(21,654)	(21,240)	(21,285)
Purchase of treasury stock for tax withholding on stock compensation	(4,604)	(3,183)	(3,193)
Proceeds from exercise of stock options	—	269	704
Other financing activities	(298)	(75)	—
Net cash provided by (used in) financing activities	(31,955)	(27,817)	(21,970)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(4,351)	(6,656)	(2,838)
Net increase (decrease) in cash, cash equivalents	9,322	(68,798)	(37,004)
Cash, cash equivalents and restricted cash at beginning of period	96,914	165,712	202,716
Cash, cash equivalents and restricted cash at end of period	\$ 106,236	\$ 96,914	\$ 165,712
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest, net of amounts capitalized	\$ 3,504	\$ 4,955	\$ 3,765
Income taxes	\$ 48,312	\$ 52,151	\$ 44,261
Dividends declared but not paid	\$ —	\$ —	\$ —

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

	Years Ended August 31,		
	2019	2018	2017
Cash and cash equivalents	\$ 102,653	\$ 93,460	\$ 162,434
Short-term restricted cash	54	405	460
Long-term restricted cash	\$ 3,529	\$ 3,049	\$ 2,818
Total cash, cash equivalents, and restricted cash shown in the Consolidated statements of cash flows	<u>\$ 106,236</u>	<u>\$ 96,914</u>	<u>\$ 165,712</u>

See accompanying notes.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart," the "Company," or "we") business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of August 31, 2019, the Company had 43 warehouse clubs in operation in 12 countries and one U.S. territory (seven each in Colombia and Costa Rica; six in Panama; five in Dominican Republic; four in Trinidad; 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), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). In October 2019, the Company opened a new warehouse club in Panama City, Panama, bringing the Company's total to 44 warehouse clubs as of the date of this filing. The Company is currently constructing and plans to open another warehouse club in San Cristobal, Guatemala, in November 2019. The Company also plans to build or is building new warehouse clubs in Liberia, Costa Rica; Bogota and Bucaramanga, Colombia; and Portmore, Jamaica. The new warehouse club in Liberia is expected to open in the summer of 2020, while the Bogota, Bucaramanga, and Portmore clubs are expected to open in the fall of 2020. Once these five new clubs are open, the Company will operate 49 warehouse clubs.

PriceSmart is expanding its omni-channel capabilities, including through its e-commerce platform, by investing in and integrating technology, talent and cross-border logistics infrastructure obtained as part of the acquisition of a company in March 2018. PriceSmart expects these investments and this integration to enhance the membership shopping experience, drive efficiencies and fuel sales growth. The Company acquired by PriceSmart also operates a legacy marketplace and casillero business through the Aeropost brand in 38 countries in Latin America and the Caribbean, many of which overlap with markets where PriceSmart operates its warehouse clubs.

Basis of Presentation – The consolidated financial statements have been prepared in accordance with the instructions to Form 10-K for annual financial reporting pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and U.S. generally accepted accounting principles (GAAP) for annual financial information. The consolidated financial statements include the accounts of PriceSmart, Inc., a Delaware corporation, and its subsidiaries. Inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company's wholly owned subsidiaries, subsidiaries in which it has a controlling interest, and the Company's joint ventures for which the Company has determined that it is the primary beneficiary. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. The Company's net income excludes income attributable to its noncontrolling interests. Additionally, the consolidated financial statements also include the Company's investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows for the periods presented.

The Company determines whether any of the joint ventures in which it has made investments is a Variable Interest Entity ("VIE") at the start of each new venture and if a reconsideration event has occurred. At this time, the Company also considers whether it must consolidate a VIE and/or disclose information about its involvement in a VIE. A reporting entity must consolidate a VIE if that reporting entity has a variable interest (or combination of variable interests) that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A reporting entity must consider the rights and obligations conveyed by its variable interests and the relationship of its variable interests with variable interests held by other parties to determine whether its variable interests will absorb a majority of a VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE. If the Company determines that it is not the primary beneficiary of the VIE, then the Company records its investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. Due to the nature of the joint ventures that the Company participates in and the continued commitments for additional financing, the Company determined these joint ventures are VIEs.

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

The Company has determined that for its ownership interest in store-front joint ventures within its marketplace and casillero business, the Company has the power to direct the activities that most significantly impact the economic performance of these VIE's. Therefore, the Company has determined that it is the primary beneficiary of these VIEs and has consolidated these entities within its consolidated financial statements. The Company's ownership interest in these store-front joint ventures, for which the Company has consolidated their financial statements as of August 31, 2019 are listed below:

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

In the case of the Company's ownership interest in real estate development joint ventures, both parties to each joint venture share all rights, obligations and the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. As a result, the Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method. Under the equity method, the Company's investments in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted for the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of the initial investment. The Company's ownership interest in real estate development joint ventures the Company has recorded under the equity method as of August 31, 2019 are listed below:

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

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

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

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

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

	August 31, 2019	August 31, 2018
Short-term restricted cash:		
Restricted cash for land purchase option agreements	\$ 50	\$ 400
Other short-term restricted cash	4	5
Total short-term restricted cash	<u>\$ 54</u>	<u>\$ 405</u>
Long-term restricted cash:		
Other long-term restricted cash ⁽¹⁾	\$ 3,529	\$ 3,049
Total long-term restricted cash	<u>\$ 3,529</u>	<u>\$ 3,049</u>
Total restricted cash	<u>\$ 3,583</u>	<u>\$ 3,454</u>

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

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

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

Goodwill and Other Intangibles – Goodwill and other intangibles totaled \$58.7 million as of August 31, 2019 and \$61.3 million as of August 31, 2018. The Company reviews reported goodwill and other intangibles at the cash-generating unit level for impairment. The Company tests Goodwill for impairment at least annually or when events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

The changes in the carrying amount of goodwill for the year ended August 31, 2019 are as follows (in thousands):

	August 31, 2019
Goodwill at August 31, 2018	\$ 46,329
Foreign currency exchange rate changes	(228)
Goodwill at August 31, 2019	<u>\$ 46,101</u>

	August 31, 2019
Other intangibles at August 31, 2018	\$ 14,980
Amortization	(2,404)
Net other intangibles at August 31, 2019	<u>\$ 12,576</u>
Total goodwill and other intangibles, net	<u>\$ 58,677</u>

The table below shows our estimated amortization of intangibles for fiscal years 2020 through 2024 and thereafter (in thousands):

Twelve Months Ended August 31,	Amount
2020	\$ 2,411
2021	2,404
2022	2,404
2023	1,373
2024	205
Thereafter	3,779
Total	<u>\$ 12,576</u>

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

In most countries where the Company operates, the VAT refund process is defined and structured with regular refunds or offsets. However, the Company, together with its tax and legal advisers, is currently seeking clarification in court and pursuing other alternatives in one country without a clearly defined process and expects to prevail. The balance of the VAT receivable in the country with undefined refund mechanisms was approximately \$5.1 million and \$3.1 million as of August 31, 2019 and August 31, 2018, respectively. In another country in which the Company has warehouse clubs, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The rules (which the Company has challenged in court), effective for fiscal years 2015 to 2018, do not clearly allow the Company to obtain a refund or offset this excess income tax against other taxes. As of August 31, 2019, the Company had deferred tax assets of approximately \$2.6 million in this country. Also, the Company had an income tax receivable

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

balance of \$7.8 million as of August 31, 2019 related to excess payments from fiscal years 2015 to 2019. In fiscal year 2018, a revised minimum tax law was passed in this country, which beginning in fiscal year 2020 will reduce the minimum tax rate. Additionally, this law clarifies, on a go-forward basis, the reimbursement process for excess minimum tax paid beginning in fiscal year 2019, but does not address periods prior to fiscal year 2019. Nevertheless, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests, related appeals and/or court challenge on these matters.

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

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where the Company's subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. The Company also classifies as short-term any approved refunds or credit notes to the extent that the Company expects to receive the refund or use the credit notes within one year.
- Long-term VAT and Income tax receivables, recorded as Other non-current assets: This classification is used for amounts not approved for refund or credit in countries where the Company's subsidiary has not demonstrated the ability to obtain refunds within one year and/or for amounts which are subject to outstanding disputes. An allowance is provided against VAT and income tax receivable balances in dispute when the Company does not expect to eventually prevail in its recovery. The Company does not currently have any allowances provided against VAT and income tax receivables.

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

	August 31, 2019	August 31, 2018
Prepaid expenses and other current assets	\$ 1,639	\$ 5,921
Other non-current assets	22,691	19,224
Total amount of VAT receivable reported	\$ 24,330	\$ 25,145

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

	August 31, 2019	August 31, 2018
Prepaid expenses and other current assets	\$ 9,009	\$ 6,344
Other non-current assets	16,381	18,165
Total amount of income tax receivable reported	\$ 25,390	\$ 24,509

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

Operating leases where the Company is the lessor with lease payments that have fixed and determinable rent increases are recognized as revenue on a straight-line basis over the lease term. The Company also accounts in its straight-line computation for the effect of any "rental holidays."

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

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

Stock Based Compensation – The Company utilizes three types of equity awards: restricted stock awards (“RSAs”), restricted stock units (“RSUs”) and performance based restricted stock units (“PSUs”). Compensation related to RSAs, RSUs and PSUs is based on the fair market value at the time of grant. The Company recognizes the compensation cost related to RSAs and RSUs over the requisite service period as determined by the grant, amortized ratably or on a straight-line basis over the life of the grant. The Company recognizes compensation cost for PSUs over the performance period. The Company assesses the probability of vesting for awards with performance conditions and adjusts compensation cost based on the probability that performance metrics will be achieved. If the Company determines that an award is unlikely to vest, any previously recorded expense is then reversed.

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

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

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

In October 2018, the Company’s then Chief Executive Officer (“former C.E.O.”), resigned by mutual agreement with the Board of Directors. In connection with his departure, the Company recognized a one-time separation charge of approximately \$3.8 million (\$3.6 million net of tax) in the first quarter of fiscal year 2019. This amount was comprised of approximately \$2.9 million of non-cash charges related to the acceleration of certain equity awards and approximately \$892,000 for other separation costs. Given that the former C.E.O. had substantially rendered the required services per his separation agreement, the Company recorded these charges in the first quarter of fiscal 2019. This charge was recorded in the General and administrative caption within the Consolidated Statements of Income and is recorded in the Company’s United States segment. The Company will substantially fulfill all payment obligations by the end of the third quarter of fiscal year 2020.

Treasury Stock – Shares of common stock repurchased by the Company are recorded at cost as treasury stock and result in the reduction of stockholders’ equity in the Company’s Consolidated Balance Sheets. The Company may reissue these treasury shares as part of its stock-based compensation programs. When treasury shares are reissued, the Company uses the first in/first out (“FIFO”) cost method for determining cost of the reissued shares. If the issuance price is higher than the cost, the excess of the issuance price over the cost is credited to additional paid-in capital (“APIC”). If the issuance price is lower than the cost, the difference is first charged against any credit balance in APIC from treasury stock and the balance is charged to retained earnings. During the twelve months ended August 31, 2019, the Company reissued approximately 63,000 treasury shares.

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

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

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

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

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

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

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

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

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

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

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

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

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

Long-term debt: The fair value of debt is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments. These inputs are not quoted prices in active markets but they are either directly or indirectly observable; therefore, they are classified as Level 2 inputs. The carrying value and fair value of the Company's debt as of August 31, 2019 and August 31, 2018 is as follows (in thousands):

	August 31, 2019		August 31, 2018	
	Carrying Value	Fair Value ⁽¹⁾	Carrying Value	Fair Value
Long-term debt, including current portion	\$ 89,586	\$ 84,833	\$ 102,575	\$ 96,959

⁽¹⁾ The Company has disclosed the fair value of long-term debt, including debt for which it has entered into cross-currency interest rate swaps, using the derivative obligation as of August 31, 2019 to estimate the fair value of long-term debt, which includes the effects that the cross-currency interest rate swaps have had on the fair value of long-term debt.

Derivatives Instruments and Hedging Activities – The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest and currency exchange rates. In using derivative financial instruments for the purpose of hedging the Company's exposure to interest and currency exchange rate risks, the contractual terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria (effective hedge) are recorded using hedge accounting. If a derivative financial instrument is an effective hedge, changes in the fair value of the instrument will be reported in accumulated other comprehensive income (loss) until the hedged item completes its contractual term. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. The Company did not change valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company's consolidated balance sheets from previous practice during the reporting period. The Company seeks to manage counterparty risk associated with these contracts by limiting transactions to counterparties with which the Company has an established banking relationship. There can be no assurance, however, that this practice effectively mitigates counterparty risk.

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

Cash Flow Instruments. The Company is a party to receive floating interest rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain U.S. dollar denominated debt within its international subsidiaries. The swaps are designated as cash flow hedges of interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive variable interest rate, pay fixed interest rate cross-currency interest rate swaps to hedge the interest rate and currency exposure associated with the expected payments of principal and interest of U.S. denominated debt within its international subsidiaries whose functional currency is other than the U.S. dollar. The swaps are designated as cash flow hedges of the currency risk and interest-rate risk related to payments on the U.S. denominated debt. These instruments are also considered to be effective hedges and are recorded using hedge accounting. Under cash flow hedging, the entire gain or loss of the derivative, calculated as the net present value of the future cash flows, is reported on the consolidated balance sheets in accumulated other comprehensive loss. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. See Note 13 - Derivative Instruments and Hedging Activities for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of August 31, 2019 and August 31, 2018.

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

Revenue Recognition – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company adopted this ASU on September 1, 2018, using the modified retrospective approach. The accounting policies and other disclosures such as the disclosure of disaggregated revenues are in Note 3 – Revenue Recognition. The impact of adopting this ASU was not material to the Consolidated Financial Statements.

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

Self-Insurance – PriceSmart, Inc. became self-insured in fiscal year 2018 for its U.S. employee medical health benefits and in doing so the Company has assumed the financial risk for providing health care benefits to its employees. The Company contracted with Cigna Health and Life Insurance Company (“CHLIC”), a third party administrator, to process claims on its behalf under an Administrative Services Only (ASO) agreement. The Company has elected to purchase “Stop Loss Insurance” to cover the risk in excess of certain dollar limits. The Company establishes an estimated accrual for its insurance program based on available comparable claims data, trends and projected ultimate costs of claims. This accrual is based on estimates prepared with the assistance of outside actuaries, and the ultimate cost of these claims may vary from initial estimates and established accrual. The actuaries periodically update their estimates, and the Company records such adjustments in the period in which such determination is made. The accrued obligation for this self-insurance program is included in “Accrued salaries and benefits” in the consolidated balance sheets and is \$965,000 as of August 31, 2019 and \$801,000 as of August 31, 2018. However, as of September 30, 2019, the Company has changed health insurance providers and will no longer be self-insured as of October 1, 2019.

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

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

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

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

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

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

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

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

Foreign Currency Translation – The assets and liabilities of the Company's foreign operations are translated to U.S. dollars when the functional currency in the Company's international subsidiaries is the local currency and not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will affect net income upon the sale or liquidation of the underlying investment.

The following table discloses the net effect of translation into the reporting currency on other comprehensive income (loss) for these local currency denominated accounts for the years ended August 31, 2019, 2018 and 2017:

	Years Ended August 31,		
	2019	2018	2017
Effect on other comprehensive (loss) income due to foreign currency restatement	\$ (19,717)	\$ (12,890)	\$ (6,297)

Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including transactions recorded involving these monetary assets and liabilities, are recorded as Other income (expense) in the consolidated statements of income.

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

	Years Ended August 31,		
	2019	2018	2017
Currency gain (loss)	\$ (1,476)	\$ 192	\$ 1,241

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

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

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate.

Recent Accounting Pronouncements – Not Yet Adopted

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

In October 2018, the Financial Accounting Standards Board “FASB” issued Accounting Standards Update (ASU) No. 2018-16, Derivatives and Hedging—Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, which expands the list of United States benchmark interest rates permitted in the application of hedge accounting. The amendments in this ASU allow use of the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, Derivatives and Hedging. The amendments in this ASU are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. The Company will adopt ASU 2018-16 on September 1, 2019, the first quarter of fiscal year 2020. The Company does not expect this guidance to have a material impact on the Company’s consolidated financial statements.

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

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). As such, the amendment in this ASU requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in subtopic 350-40 in order to determine which implementation costs to capitalize as an asset and which costs to expense.

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

Additionally, the amendments in this ASU require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this ASU are effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted. The Company will evaluate the impact adoption of this guidance may have on the Company's consolidated financial statements.

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

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope to include share-based payment transactions for acquiring goods and services from non-employees. The amendments in this ASU apply to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in the grantor's own operations by issuing share-based payment awards. The amendments in this ASU are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company will adopt ASU 2018-07 on September 1, 2019, the first quarter of fiscal year 2020. The Company does not expect this guidance to have a material impact on the Company's consolidated financial statements.

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

In January 2017, the FASB issued Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under the amendments in this ASU, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Additionally, ASU 2017-04 requires any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. The amendments in this ASU are effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company will evaluate the impact adoption of this guidance may have on the Company's consolidated financial statements.

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

In February 2016, the FASB issued guidance codified in ASC 842, *Leases*, which amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which means that it became effective for the Company in the first quarter of fiscal year 2020, beginning September 1, 2019.

The Company will adopt ASU 2016-02 on September 1, 2019, the first quarter of fiscal year 2020, using the modified retrospective transition method and will not restate comparative periods. The Company will elect the package of practical expedients permitted under the transition guidance, which allows the Company to carry forward the Company's historical lease classification, assessment of whether a contract is or contains a lease, and initial direct costs for any leases that existed prior to adoption of the new standard. However, the Company will not elect to combine lease and non-lease components. The Company estimates that the adoption of ASU 2016-02 will have a material impact on the Company's consolidated balance sheets due to the recognition of lease liabilities with corresponding right-of-use assets, resulting in a significant increase in the assets and liabilities on the consolidated balance sheet upon adoption. The initial right-of-use assets recognized will be equal to the initial operating lease liabilities, adjusted for the balance on adoption date of prepaid and accrued rent. The Company does not expect the adoption of ASU 2016-02 to have a material impact on the Company's consolidated statement of operations or consolidated statement of cash flows. However, several of the Company's leases are denominated in a currency that is not the functional currency of the Company's local subsidiary, which will result in additional potential foreign currency exchange rate fluctuation exposure. Lastly, the Company is currently implementing a new lease system and changes to business processes and controls to support the adoption of this accounting standard update.

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

Recent Accounting Pronouncements Adopted

FASB SEC Sections ASU 2019-07 - Codification Updates to SEC Sections

In June 2019, the FASB issued ASU 2019-07, Codification Updates to SEC Sections, which amends various SEC guidance pursuant to the issuance of SEC Final Rule Release No. 33-10532, 33-10231, and 33-10442. This ASU clarifies or improves the disclosure and presentation requirements of a variety of Codification Topics by aligning them with the SEC's regulations, eliminating redundancies, and making the Codification easier to apply. There was no material impact to the Company's consolidated financial statements and related disclosures upon such adoption.

FASB ASC 718 ASU 2017-09 - Compensation—Stock Compensation (Topic 718)—Scope of Modification Accounting

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which seeks to provide clarity, reduce diversity in practice, and reduce cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, regarding a change to the terms or conditions of a share-based payment award. This ASU provides guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Specifically, an entity is to account for the effects of a modification unless all of the following are satisfied: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or as a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The Company adopted this guidance, prospectively, as of September 1, 2018.

FASB ASC 715 ASU 2017-07- Compensation—Retirement Benefits (Topic 715) — Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715) — Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU is designed to improve guidance related to the presentation of defined benefit costs in the income statement. In particular, ASU 2017-07 requires that an employer report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The Company adopted this ASU retrospectively, beginning September 1, 2018, and elected to use the practical expedient as the estimation basis for applying the retrospective presentation requirements. The service cost component of the Company's pension and postretirement expenses is reported in the Warehouse club and other operations financial statement line item. The other components of pension and post-retirement expenses are classified in Other income (expense), net. Adoption of this guidance did not have a material impact on the Company's financial statements.

FASB ASC 606 ASU 2014-09 - Revenue from Contracts with Customers

In May 2014, the FASB issued guidance on the recognition of revenue from contracts with customers. The guidance converges the requirements for reporting revenue and requires disclosures sufficient to describe the nature, amount, timing, and uncertainty of revenue and cash flows. The new standard is effective for fiscal years and interim periods within those years beginning after December 15, 2017. The Company adopted this guidance at the beginning of its first quarter of fiscal year 2019, using the modified retrospective approach through a cumulative effect adjustment to retained earnings. The Company has disclosed the impact that adoption of this guidance had for the Company's consolidated financial statements in Note 3 – Revenue Recognition.

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

NOTE 3 – REVENUE RECOGNITION

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

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

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

Performance Obligations

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

Non-merchandise Sales. The Company recognizes non-merchandise revenue, net of sales taxes, on transactions where the Company has determined that it is the agent in the transaction. These transactions primarily consist of contracts the Company enters into with its customers to provide delivery, insurance and customs processing services for products its customers purchase online in the United States either directly from other vendors utilizing the vendor's website or through the Company's marketplace site. Revenue is recognized when the Company's performance obligations have been completed (that is when delivery of the items have been made to the destination point) and is recorded in "non-merchandise revenue" on the Consolidated Statements of Income. Prepayment of orders for which the Company has not fulfilled its performance obligation are recorded as unearned revenue. Additionally, the Company records revenue at the net amounts retained, i.e., the amount paid by the customer less amounts remitted to the respective merchandise vendors, as the Company is acting as an agent and is not the principal in the sale of those goods being purchased from the vendors by the Company's customers.

Membership Fee Revenue. Membership income represents annual membership fees paid by the Company's warehouse club members, which are recognized ratably over the 12-month term of the membership. Membership refunds are prorated over the remaining term of the membership; accordingly, no refund reserve is required to be established for the periods presented. Membership fee revenue is included in membership income in the Company's Consolidated Statements of Income. The deferred membership fee is included in deferred income in the Company's Condensed Consolidated Balance Sheets.

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

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

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

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

Co-branded Credit Card Revenue Sharing Agreements. As part of the co-branded credit card agreements that the Company has entered into with financial institutions within its markets, the Company often enters into revenue sharing agreements. As part of these agreements, in some countries, the Company receives a portion of the interest income generated from the average outstanding balances on the co-branded credit cards from these financial institutions ("interest generating portfolio" or "IGP"). The Company recognizes its portion of interest received as revenue. As a result of the adoption of ASC 606, the Company has determined that this revenue should be recognized as "Other revenue and income" on the consolidated statements of income. In prior periods, this income was recognized as a reduction of credit card transaction fees in "Warehouse club and other operations" financial statement line item under Selling, general, and administrative expenses. Since the Company determined to adopt this guidance under the modified retrospective approach, this reclassification slightly reduces the comparability year over year of "Other revenue and income" and "Warehouse club and other operations." Please see "Item 7: Management and Discussion Analysis – Other Revenue" for the Company's explanation of the changes.

Determining the Transaction Price

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

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

Agent Relationships

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

Significant Judgments

For arrangements that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation on a relative standalone selling price basis.

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

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

Policy Elections

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

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

Contract Performance Liabilities

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

	Contract Liabilities	
	August 31, 2019	August 31, 2018
Deferred membership income	\$ 24,901	\$ 22,996
Other contract performance liabilities	\$ 4,048	\$ 2,773

Disaggregated Revenues

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

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Foods & Sundries	\$ 1,563,162	\$ 1,548,237	\$ 1,493,502
Fresh Foods	847,496	821,412	765,771
Hardlines	358,276	366,487	361,410
Softlines	167,149	164,115	142,431
Other Business	155,565	153,503	146,948
Net Merchandise Sales	\$ 3,091,648	\$ 3,053,754	\$ 2,910,062

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

NOTE 4 – PROPERTY AND EQUIPMENT

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

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

	August 31, 2019	August 31, 2018
Land	\$ 207,167	\$ 172,051
Building and improvements	464,025	424,736
Fixtures and equipment	258,543	228,891
Construction in progress	49,555	38,495
Total property and equipment, historical cost	979,290	864,173
Less: accumulated depreciation	(308,139)	(269,770)
Property and equipment, net	<u>\$ 671,151</u>	<u>\$ 594,403</u>

Depreciation and amortization expense (in thousands):

	Years Ended August 31,		
	2019	2018	2017
Depreciation and amortization expense, Property and equipment	\$ 52,554	\$ 51,520	\$ 46,292

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

Total interest capitalized (in thousands):

	Balance as of	
	August 31, 2019	August 31, 2018
Total interest capitalized	\$ 11,082	\$ 9,043

Total interest capitalized (in thousands):

	Years Ended August 31,		
	2019	2018	2017
Interest capitalized during the period	\$ 2,116	\$ 1,134	\$ 447

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

A summary of asset disposal activity for fiscal years 2019, 2018 and 2017 is as follows (in thousands):

	Historical Cost	Accumulated Depreciation	Receivables and Proceeds from Disposal	Gain/(Loss) Recognized
Fiscal Year 2019	\$ 10,740	\$ 9,587	\$ 74	\$ (1,079)
Fiscal Year 2018	\$ 10,465	\$ 8,388	\$ 738	\$ (1,339)
Fiscal Year 2017	\$ 19,774	\$ 17,436	\$ 377	\$ (1,961)

The Company also recorded within accounts payable and other accrued expenses approximately \$322,000 and \$6.3 million, respectively, as of August 31, 2019 and \$81,000 and \$1.4 million, respectively, as of August 31, 2018 of liabilities related to the acquisition and/or construction of property and equipment.

NOTE 5 – EARNINGS PER SHARE

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

The following table sets forth the computation of net income per share attributable to PriceSmart for the twelve months ended August 31, 2019, 2018 and 2017 (in thousands, except per share amounts):

	Years Ended August 31,		
	2019	2018	2017
Net income attributable to PriceSmart, Inc. per share available for distribution:	\$ 73,191	\$ 74,328	\$ 90,724
Less: Allocation of income to unvested stockholders	(721)	(897)	(1,321)
Net earnings available to common stockholders	<u>\$ 72,470</u>	<u>\$ 73,431</u>	<u>\$ 89,403</u>
Basic weighted average shares outstanding	30,195	30,115	30,020
Add dilutive effect of equity awards (two-class method)	—	—	3
Diluted average shares outstanding	<u>30,195</u>	<u>30,115</u>	<u>30,023</u>
Basic net income per share	<u>\$ 2.40</u>	<u>\$ 2.44</u>	<u>\$ 2.98</u>
Diluted net income per share	<u>\$ 2.40</u>	<u>\$ 2.44</u>	<u>\$ 2.98</u>

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

NOTE 6 – STOCKHOLDERS’ EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2019, 2018 and 2017.

Declared	Amount	First Payment			Second Payment		
		Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
1/30/2019	\$ 0.70	2/15/2019	2/28/2019	\$ 0.35	8/15/2019	8/30/2019	\$ 0.35
1/24/2018	\$ 0.70	2/14/2018	2/28/2018	\$ 0.35	8/15/2018	8/31/2018	\$ 0.35
2/1/2017	\$ 0.70	2/15/2017	2/28/2017	\$ 0.35	8/15/2017	8/31/2017	\$ 0.35

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

Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Attributable to PriceSmart	Noncontrolling Interests	Total
Beginning balance, August 31, 2016	\$ (103,951)	\$ —	\$ (103,951)
Foreign currency translation adjustments	(6,297)	—	(6,297)
Defined benefit pension plans ⁽¹⁾	(166)	—	(166)
Derivative Instruments ⁽²⁾	316	—	316
Amounts reclassified from accumulated other comprehensive income (loss)	39	—	39
Ending balance, August 31, 2017	\$ (110,059)	\$ —	\$ (110,059)
Foreign currency translation adjustments	\$ (12,890)	\$ (1)	\$ (12,891)
Defined benefit pension plans ⁽¹⁾	(87)	—	(87)
Derivative Instruments ⁽²⁾	1,779	—	1,779
Amounts reclassified from accumulated other comprehensive income (loss)	41	—	41
Ending balance, August 31, 2018	\$ (121,216)	\$ (1)	\$ (121,217)
Foreign currency translation adjustments	\$ (19,717)	\$ 21	\$ (19,696)
Defined benefit pension plans ⁽¹⁾	(112)	—	(112)
Derivative Instruments ⁽²⁾	(3,369)	—	(3,369)
Amounts reclassified from accumulated other comprehensive income (loss)	75	—	75
Ending balance, August 31, 2019	\$ (144,339)	\$ 20	\$ (144,319)

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

⁽²⁾ See Note 13 - Derivative Instruments and Hedging Activities.

Retained Earnings Not Available for Distribution

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

	August 31, 2019	August 31, 2018
Retained earnings not available for distribution	\$ 7,843	\$ 6,798

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

NOTE 7 – POST EMPLOYMENT PLANS

Defined Contribution Plans

PriceSmart offers a defined contribution 401(k) retirement plan to its U.S. employees, including warehouse club employees in the U.S. Virgin Islands, which auto-enrolls employees in the plan immediately on the first day of employment. The Company makes nondiscretionary contributions to the 401(k) plan with a 4% “Company Contribution” based on the employee’s salary regardless of the employee’s own contributions to the plan up to the IRS maximum allowed. The Company also makes nondiscretionary contributions to the 401(k) plan to the non-officer employees that defer up to 2% of their salary. Employer contributions to the 401(k) plan for the Company’s U.S. employees were \$2.1 million, \$2.0 million and \$1.8 million during fiscal years 2019, 2018 and 2017, respectively.

PriceSmart also offers defined contribution retirement plans in many of its subsidiaries. The Company makes nondiscretionary contributions to these plans based on the employee’s salary, regardless of the employee’s own contributions to the plan, up to the maximum allowed. The expenses associated with the plans for the Company’s non-U.S. employees were \$3.0 million, \$2.9 million and \$3.1 million during fiscal years 2019, 2018, and 2017, respectively.

Defined Benefit Plans

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

The following table summarizes the amount of the funding obligation and the line items in which it is recorded on the consolidated balance sheets as of August 31, 2019 and 2018 and consolidated statements of income for the fiscal years ended August 31, 2019, 2018 and 2017 (in thousands):

	<u>Other Long-Term Liability</u>		<u>Accumulated Other Comprehensive Loss</u>		<u>Operating Expenses</u>				
	<u>August 31,</u>						<u>Year Ended August 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>		
Start of period	\$ (1,290)	\$ (1,070)	\$ 719	\$ 650	\$ —	\$ —	\$ —		
Service cost	(70)	(17)	—	—	187	117	119		
Interest cost	(80)	(64)	—	—	80	64	80		
Prior service cost (amortization)	—	—	(55)	(52)	55	52	55		
Actuarial gains/(losses)	(139)	(139)	108	121	19	13	(45)		
Totals	<u>\$ (1,579)</u>	<u>\$ (1,290)</u>	<u>\$ 772</u>	<u>\$ 719⁽¹⁾</u>	<u>\$ 341</u>	<u>\$ 246</u>	<u>\$ 209</u>		

⁽¹⁾ The Company has recorded a deferred tax asset of \$246,000 and \$231,000 as of August 31, 2019 and 2018, respectively, relating to the unrealized expense on defined benefit plans. The Company also recorded accumulated other comprehensive loss, net of tax, for \$(526,000) and \$(488,000) as of August 31, 2019 and 2018, respectively.

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

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

Valuation Assumptions:	Year Ended August 31,	
	2019	2018
Discount rate	3.5% to 10.7%	3.5% to 10.8%
Future salary escalation	3.0% to 4.1%	3.0% to 5.0%
Percentage of employees assumed to withdraw from Company without a benefit (“turnover”)	10.5% to 17.5%	9.6% to 19.5%
Percentage of employees assumed to withdraw from Company with a benefit (“disability”)	0.5% to 2.6%	0.5% to 4.5%

For the fiscal year ending August 31, 2020, the Company expects to recognize, as components of net periodic benefit cost, the following amounts currently recorded in accumulated other comprehensive income (in thousands):

Prior service cost	\$	55
Actuarial gain/loss		47
	\$	102

Other Post-Employment Benefit Plans

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

	Accrued Salaries and Benefits		Other Long-Term Liability		Restricted Cash Held ⁽¹⁾		Operating Expenses		
	Years Ended August 31,								
	2019	2018	2019	2018	2019	2018	2019	2018	2017
Other Post-Employment Plans	\$ 471	\$ 443	\$ 3,404	\$ 3,077	\$ 3,153	\$ 2,772	\$ 1,259	\$ 1,187	\$ 1,017

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

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

NOTE 8 – STOCK BASED COMPENSATION

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

The Company adopted the 2013 Equity Incentive Award Plan (the “2013 Plan”) for the benefit of its eligible employees, consultants and non-employee directors on January 22, 2013. The 2013 Plan provides for awards covering up to (1) 600,000 shares of common stock plus (2) the number of shares that remained available for issuance as of January 22, 2013 under three equity participation plans previously maintained by the Company. The number of shares reserved for issuance under the 2013 Plan increases during the term of the plan by the number of shares relating to awards outstanding under the 2013 Plan or any of the prior plans that expire, or are forfeited, terminated, canceled or repurchased, or are settled in cash in lieu of shares. However, in no event will more than an aggregate of 827,250 shares of the Company’s common stock be issued under the 2013 Plan. The following table summarizes the shares authorized and shares available for future grants:

	Shares authorized for issuance as of August 31, 2019 (including shares originally authorized for issuance under prior plans)	Shares available to grant	
		August 31, 2019	August 31, 2018
2013 Plan	827,250	464,424	566,324

The following table summarizes the components of the stock-based compensation expense for the twelve-month periods ended August 31, 2019, 2018 and 2017 (in thousands), which are included in general and administrative expense and warehouse club and other operations in the consolidated statements of income:

	Years Ended August 31,		
	2019	2018	2017
Options granted to directors	\$ —	\$ —	\$ 18
Restricted stock awards	11,477	7,476	7,301
Restricted stock units	2,820	2,742	2,370
Performance based restricted stock units	764	—	—
Stock-based compensation expense	<u>\$ 15,061</u>	<u>\$ 10,218</u>	<u>\$ 9,689</u>

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

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

	Balance as of		
	August 31, 2019	August 31, 2018	August 31, 2017
Remaining unrecognized compensation cost (in thousands)	\$ 21,116	\$ 29,473	\$ 26,382
Weighted average period of time over which this cost will be recognized (years)	3	3	3

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Excess tax benefit (deficiency) on stock-based compensation (in thousands)	\$ (1,829)	\$ 530 ⁽¹⁾	\$ 165

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

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

The restricted stock awards and units vest from a one-year to ten-year period and the unvested portion of the award is forfeited if the employee or non-employee director leaves the Company before the vesting period is completed. Restricted stock awards, restricted stock units, and performance based restricted stock units activity for the twelve-months ended August 31, 2019, 2018 and 2017 was as follows:

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Grants outstanding at beginning of period	385,417	404,368	509,880
Granted	193,489	132,031	56,724
Forfeited	(16,127)	(23,119)	(40,023)
Vested	(199,953)	(127,863)	(122,213)
Grants outstanding at end of period	<u>362,826</u>	<u>385,417</u>	<u>404,368</u>

The following table summarizes the weighted average per share grant date fair value for restricted stock awards, restricted stock units, and performance based restricted stock units for fiscal years 2019, 2018 and 2017:

Weighted Average Grant Date Fair Value	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
RSAs, RSUs, and PSUs granted	\$ 65.11	\$ 84.83	\$ 87.43
RSAs, RSUs, and PSUs vested	\$ 79.28	\$ 79.36	\$ 77.85
RSAs, RSUs, and PSUs forfeited	\$ 75.02	\$ 73.27	\$ 77.19

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

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Total fair market value of RSAs, RSUs, and PSUs vested (in thousands)	\$ 12,302	\$ 10,886	\$ 10,135

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

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

The following table summarizes the shares repurchased during fiscal years 2019, 2018 and 2017:

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Shares repurchased	75,462	37,414	38,634
Cost of repurchase of shares (in thousands)	\$ 4,604	\$ 3,183	\$ 3,193

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

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

	Years Ended		
	August 31, 2019	August 31, 2018	August 31, 2017
Reissued treasury shares	63,130	—	—

Due to the shift from the use of stock options to restricted stock awards and units, the Company no longer has any outstanding stock options, no further disclosure on options is necessary.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business related to the Company’s operations and property ownership. The Company evaluates such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which the Company believes are without merit. The Company believes that the final disposition of these matters will not have a material adverse effect on its financial position, results of operations or liquidity. It is possible, however, that the Company’s results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to such matters.

The Company establishes an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Company monitors those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjusts the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, the Company does not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, the Company will provide disclosure regarding the contingency.

On May 22, 2019, a class action complaint was filed against PriceSmart, Inc., as well as certain former and current officers in the United States District Court for the Southern District of California. The Complaint alleges violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, in connection with the Company’s 2017 Form 10-K and 2018 Form 10-Qs. On October 7, 2019, the Court granted Public Employees Retirement Association of New Mexico’s (PERA’s) Motion for Appointment as Lead Plaintiff. PERA has until December 6, 2019, to file an amended complaint. The Company intends to vigorously defend itself against any obligations or liability to the plaintiffs with respect to such claims. The Company believes the claims are without merit.

Taxes

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

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has a 50% or less likelihood of being sustained (see Note 10 - Income Taxes for additional information).

In evaluating the exposure associated with various non-income tax filing positions, the Company accrues for probable and estimable exposures for non-income tax related tax contingencies. As of August 31, 2019 and 2018, the Company has recorded within other accrued expenses a total of \$3.2 million and \$3.0 million, respectively, for various non-income tax related tax contingencies.

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

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

Other Commitments

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

In January 2017, the Company purchased a distribution center in Medley, Miami-Dade County, Florida. The Company transferred its Miami dry distribution center activities that were previously in the leased facility to the new facility during the third quarter of fiscal year 2017. As of August 31, 2019, all of the vacated space has been subleased (and/or returned to the landlord). As part of the subleases the Company provided the landlord of the leased facility a letter of credit (“LOC”) for the initial amount of \$500,000 which entitled the landlord to draw on the LOC based on a decreasing scale over four years, if certain conditions occur related to nonpayment by the new tenant. The balance of this LOC decreases at an annual rate of \$125,000 starting in August 2018. As of August 31, 2019, the remaining balance of the LOC was \$250,000. Although this agreement is considered a guarantee, in measuring the fair value, the Company considers the risk and probability of default by the third party tenant as not likely nor probable based on the Company’s review of the third party tenant’s financial position as well as the third party’s considerable capital investment into the leased facility. Therefore, the Company has not recorded a liability for this guarantee.

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

The Company has entered into land purchase option agreements that have not been recorded as commitments, for which the Company has recorded within restricted cash and deposits of approximately \$50,000 as of August 31, 2019. The Company’s land purchase option agreements are typically subject to various conditions, including, but not limited to, the ability to obtain necessary governmental permits or approvals. A deposit under an agreement is typically returned to the Company if all permits or approvals are not obtained. Generally, the Company has the right to cancel any of our agreements to purchase land without cause by forfeiture of some or all of the deposits we have made pursuant to the agreement. The Company does not have a timetable of when or if it will exercise these land purchase options, due to the uncertainty related to the completion of the Company's due diligence reviews. The Company's due diligence reviews include evaluations of the legal status of each property, the zoning and permitting issues related to acquiring approval for the construction and operation of a warehouse club and any other issues related to the property itself that could render the property unsuitable or limit the property's economic viability as a warehouse club site. If the purchase option agreements are exercised, the cash use would be approximately \$17.8 million.

See Note 15 – “Unconsolidated Affiliates” for a description of additional capital contributions that may be required in connection with joint ventures to develop commercial centers adjacent to PriceSmart warehouse clubs in Panama and Costa Rica.

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

NOTE 10 – INCOME TAXES

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

	Years Ended August 31,		
	2019	2018	2017
United States	\$ 25,167	\$ 19,723	\$ 24,773
Foreign	85,943	102,865	107,970
Income from continuing operations before provision for income taxes and loss of unconsolidated affiliates	<u>\$ 111,110</u>	<u>\$ 122,588</u>	<u>\$ 132,743</u>

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

	Years Ended August 31,		
	2019	2018	2017
Current:			
U.S. tax expense (benefit)	\$ 10,878	\$ 10,827	\$ 12,185
Foreign tax expense (benefit)	29,675	30,389	32,680
Total	<u>\$ 40,553</u>	<u>\$ 41,216</u>	<u>\$ 44,865</u>
Deferred:			
U.S. tax expense (benefit)	\$ (5,978)	\$ 8,223	\$ (2,420)
U.S. valuation allowance change	6,171	2	(164)
Foreign tax expense (benefit)	966	3,516	(1,750)
Foreign valuation allowance change	(4,152)	(4,780)	1,487
Total	<u>\$ (2,993)</u>	<u>\$ 6,961</u>	<u>\$ (2,847)</u>
Provision for income taxes	<u>\$ 37,560</u>	<u>\$ 48,177</u>	<u>\$ 42,018</u>

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

	Years Ended August 31,		
	2019	2018	2017
Federal tax provision at statutory rates	21.0 %	25.7 %	35.0 %
State taxes, net of federal benefit	0.3	0.2	0.3
Differences in foreign tax rates	10.6	3.9	(5.2)
Permanent items and other adjustments	(2.1)	10.8	1.5
(Decrease)/increase in valuation allowance	4.0	(1.3)	0.1
Provision for income taxes	<u>33.8 %</u>	<u>39.3 %</u>	<u>31.7 %</u>

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

Significant components of the Company's deferred tax assets as of August 31, 2019 and 2018 are shown below (in thousands):

	August 31,	
	2019	2018
Deferred tax assets:		
U.S. net operating loss carryforward	\$ 3,763	\$ 4,470
Foreign tax credits	7,170	126
Deferred compensation	927	907
U.S. timing differences	2,598	1,609
Foreign net operating losses	4,481	5,276
Foreign timing differences:		
Accrued expenses and other timing differences	5,581	5,122
Depreciation and amortization	8,819	10,406
Deferred income	4,504	3,545
Gross deferred tax assets	37,843	31,461
U.S. deferred tax liabilities (depreciation and other timing differences)	(5,286)	(5,844)
Foreign deferred tax liabilities netted against deferred tax assets	(5,360)	(5,722)
U.S. valuation allowance	(7,177)	(1,005)
Foreign valuation allowance	(4,546)	(8,724)
Net deferred tax assets	<u>\$ 15,474</u>	<u>\$ 10,166</u>

For fiscal year 2019, the effective tax rate was 33.8%. The decrease in the effective rate versus the prior year was primarily attributable to the following factors:

1. The comparably favorable impact of 10.2% resulting from nonrecurrence of the U.S. Tax Reform Transition Tax.
2. The comparably unfavorable net impact of 3.5%, resulting from the unfavorable impact of 6.1% from valuation allowances on deferred tax assets from foreign tax credits that, incidental to U.S. Tax Reform, are no longer deemed recoverable; and the favorable impact of 2.6% resulting from new export-related sales and service tax incentives.
3. The comparably unfavorable impact of 1.0% resulting from the effective tax rate impact of costs incurred to expand our omni-channel capabilities and the net operating results of our marketplace and casillero business.
4. The comparably favorable impact of 1.3% resulting from the reversal of valuation allowances on net deferred tax assets in the Company's Colombia subsidiary, due to the ongoing improvement in our business in Colombia.
5. The comparatively unfavorable impact on the effective tax rate of 0.9% resulting from a decrease in fiscal year 2019 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 Company does not expect these intercompany transactions to continue in the future.
6. The comparably unfavorable impact of 0.7% resulting from severance compensation of one of our officers.

For fiscal year 2019, management concluded that a valuation allowance continues to be necessary for certain U.S. and foreign deferred tax assets, primarily because of the existence of negative objective evidence, such as the fact that certain subsidiaries are in a cumulative loss position for the past three years, and the determination that certain net operating loss carryforward periods are not sufficient to realize the related deferred tax assets. The Company factored into its analysis the inherent risk of forecasting revenue and expenses over an extended period of time and also considered the potential risks associated with its business. The Company had net foreign deferred tax assets of \$13.5 million and \$9.9 million as of August 31, 2019 and 2018, respectively.

The Company had U.S. federal and state tax NOLs at August 31, 2019 of approximately \$14.5 million and \$17.1 million, respectively. Substantially all of the federal and state NOLs expire during periods ranging from 2020 through 2036 unless previously utilized. In calculating the tax provision and assessing the likelihood that the Company will be able to utilize the deferred tax assets, the Company considered and weighed all of the evidence, both positive and negative, and both objective and subjective. The Company factored in the inherent risk of forecasting revenue and expenses over an extended period of time and considered the potential risks associated with its business. Using the Company's U.S. income from continuing operations and projections of future taxable income in the U.S., the Company was able to determine that there was sufficient positive evidence

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

to support the conclusion that it was more likely than not that the Company would be able to realize substantially all of its U.S. NOLs by generating sufficient taxable income during the carry-forward period. Further, based on current projections and using current apportionment factors, the Company maintains a partial valuation allowance on its Florida state NOLs (\$17.1 million in gross) originating from its acquisition of its Aeropost, Inc. subsidiary, as the Company expects that \$11.1 million of this NOL will expire before being utilized.

The Company has determined that due to a deemed change of ownership (as defined in Section 382 of the Internal Revenue Code) in October 2004, for PriceSmart, Inc., and March 2018 for Aeropost, Inc., there will be annual limitations in the amount of U.S. taxable income that may be offset by NOLs of approximately \$6.0 million, through 2022. The Company expects substantially all recoverable NOLs will be recovered by 2023.

The Company does not provide for income taxes which would be payable if undistributed earnings of its foreign subsidiaries were remitted to the U.S. because the Company considers these earnings to be permanently reinvested as management has no plans to repatriate undistributed earnings and profits of foreign affiliates. As of August 31, 2019 and 2018, the undistributed earnings of these foreign subsidiaries are approximately \$108.9 million and \$45.2 million, respectively. Undistributed earnings were substantially reduced this year by action of the transition tax imposed upon the Company by the U.S. Tax Reform.

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

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

	Years Ended August 31,		
	2019	2018	2017
Balance at beginning of fiscal year	\$ 7,005	\$ 7,694	\$ 7,754
Gross increase - tax positions in prior period	530	1,600 ⁽¹⁾	—
Gross decrease - tax positions in prior period	—	(2,526) ⁽²⁾	—
Additions based on tax positions related to the current year	94	258	36
Settlements	—	—	(65)
Expiration of the statute of limitations for the assessment of taxes	(1,139)	(21)	(31)
Balance at end of fiscal year	<u>\$ 6,490</u>	<u>\$ 7,005</u>	<u>\$ 7,694</u>

⁽¹⁾ Aeropost related unrecognized tax benefits, with corresponding increase to Goodwill, due to current year acquisition.

⁽²⁾ Beneficial impact of US tax rate change, with corresponding detrimental rate change offset in deferred tax assets.

As of August 31, 2019, the liability for income taxes associated with unrecognized tax benefits was \$6.5 million and can be reduced by \$3.6 million of tax benefits recorded as deferred tax assets and liabilities. The total \$6.5 million unrecognized tax benefit includes \$400,000 of associated timing adjustments. The net amount of \$6.1 million would, if recognized, favorably affect the Company's financial statements and favorably affect the Company's effective income tax rate.

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense. As of August 31, 2019 and 2018, the Company had accrued an additional \$2.0 million and \$2.1 million, respectively, for the payment of interest and penalties related to the above mentioned unrecognized tax benefits.

The Company expects changes in the amount of unrecognized tax benefits in the next 12 months as the result of a lapse in various statutes of limitations. The lapse of statutes of limitations in the twelve-month period ending August 31, 2019 could result in a total income tax benefit amounting up to \$3.1 million.

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

In one country in which the Company has warehouse clubs, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The current rules (which the Company has challenged in court), effective for fiscal years 2015-2018, do not clearly allow the Company to obtain a refund or to offset this excess income tax against other taxes. As of August 31, 2019, the Company had

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

deferred tax assets of approximately \$2.6 million in this country. Also, the Company had an income tax receivable balance of \$7.8 million as of August 31, 2019 related to excess payments from fiscal years 2015 and 2019. In fiscal year 2018, a revised minimum tax law was passed in this country, which beginning in fiscal year 2020 will reduce the minimum tax rate. Additionally, this law clarifies, on a go-forward basis, the reimbursement process for excess minimum tax paid beginning in fiscal year 2019, but does not address periods prior to fiscal year 2019. Nevertheless, the Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will succeed in its refund request, related appeals and/or court challenge on this matter.

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

Tax Jurisdiction	Fiscal Years Subject to Audit
U.S. federal	2003 to 2005, 2007, 2011* to 2015*, 2016 to the present
California (U.S.) (state return)	2005 and 2015 to the present
Florida(U.S.) (state return)	2011 to 2015*, 2016 to the present
Aruba	2013 to the present
Barbados	2013 to the present
Costa Rica	2011 to 2012, 2014*, 2015 to the present
Colombia	2015 to the present
Dominican Republic	2011 to 2012 and 2016 to the present
El Salvador	2016 to the present
Guatemala	2009, 2012 to 2013, 2015 the present
Honduras	2014 to the present
Jamaica	2013 to the present
Mexico	2014 to the present
Nicaragua	2015 to the present
Panama	2015*, 2016 to the present
Trinidad	2013 to the present
U.S. Virgin Islands	2001 to the present
Spain	2016 to the present
Chile	2016* to the present

*Aeropost only

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

NOTE 11 – DEBT

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

	Total Amount of Facilities	Facilities Used		Facilities Available	Weighted average interest rate
		Short-term Borrowings	Letters of Credit		
August 31, 2019	\$ 69,000	\$ 7,540	\$ 486	\$ 60,974	6.1 %
August 31, 2018	\$ 69,000	\$ —	\$ 632	\$ 68,368	— %

As of August 31, 2019 and August 31, 2018, 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, 2019 and August 31, 2018, the Company was in compliance with respect to these covenants. Each of the facilities expires annually except for the U.S. facility, which expires bi-annually. The facilities are normally renewed.

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

The following table provides the changes in long-term debt for the twelve months ended August 31, 2019:

<i>(Amounts in thousands)</i>	Current portion of long- term debt	Long-term debt (net of current portion)	Total
Balances as of August 31, 2017	\$ 18,358	\$ 87,939	\$ 106,297 ⁽¹⁾
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	144	(278)	(134)
Balances as of August 31, 2018	14,855	87,720	102,575 ⁽²⁾
Regularly scheduled loan payments	(4,467)	(8,472)	(12,939)
Reclassifications of long-term debt	15,394	(15,394)	—
Translation adjustments on foreign currency debt of subsidiaries whose functional currency is not the U.S. dollar ⁽³⁾	93	(143)	(50)
Balances as of August 31, 2019	<u>\$ 25,875</u>	<u>\$ 63,711</u>	<u>\$ 89,586</u> ⁽⁴⁾

- (1) The carrying amount on non-cash assets assigned as collateral for these loans was \$128.4 million. No cash assets were assigned as collateral for these loans.
- (2) The carrying amount on non-cash assets assigned as collateral for these loans was \$125.9 million. No cash assets were assigned as collateral for these loans.
- (3) These foreign currency translation adjustments are recorded within other comprehensive income.
- (4) The carrying amount on non-cash assets assigned as collateral for these loans was \$111.3 million. No cash assets were assigned as collateral for these loans.

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

	August 31, 2019	August 31, 2018
Loans entered into by the Company's subsidiaries with a balloon payment due at the end of the loan term and with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	\$ 7,481	\$ 9,509
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into an interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	53,544	60,849
Loans entered into by the Company's subsidiaries with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	4,337	4,392
Loans entered into by the Company's subsidiaries for which the subsidiary has entered into a cross-currency interest rate swap with non-cash assets and/or cash or cash equivalents assigned as collateral and with/without established debt covenants	24,224	27,825
Total long-term debt	<u>89,586</u>	<u>102,575</u>
Less: current portion	<u>25,875</u>	<u>14,855</u>
Long-term debt, net of current portion	<u>\$ 63,711</u>	<u>\$ 87,720</u>

As of August 31, 2019, the Company had approximately \$83.1 million of long-term loans in several foreign subsidiaries that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of August 31, 2019, the Company was in compliance with all covenants or amended covenants.

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

As of August 31, 2018, the Company had approximately \$93.6 million of long-term loans in several foreign subsidiaries that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of August 31, 2018, the Company was in compliance with all covenants or amended covenants.

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

Twelve Months Ended August 31,	Amount
2020	\$ 25,875
2021	9,218
2022	6,310
2023	17,848
2024	1,542
Thereafter	28,793
Total	\$ 89,586

NOTE 12 – LEASES

The Company is committed under non-cancelable operating leases for the rental of facilities and land. These leases expire or become subject to renewal between December 31, 2019 and September 13, 2049.

The following table summarizes the components of rental expense charged for operating leases of open locations for fiscal years 2019, 2018 and 2017 (in thousands):

	Years Ended August 31,		
	2019	2018	2017
Minimum rental payments	\$ 11,895	\$ 12,963	\$ 11,223
Deferred rent accruals	2,706	127	(80)
Total straight line rent expense	14,601	13,090	11,143
Contingent rental payments	3,568	3,399	3,320
Common area maintenance expense	704	723	1,174
Rental expense	\$ 18,873	\$ 17,212	\$ 15,637

Future minimum lease commitments for facilities under these leases with an initial term in excess of one year are as follows (in thousands):

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

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

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

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

The following table summarizes the components of rental income recorded for operating leases for fiscal years 2019, 2018 and 2017 (in thousands):

	Years Ended August 31,		
	2019	2018	2017
Minimum rental receipts	\$ 2,924	\$ 2,750	\$ 2,654
Deferred rent accruals	8	(26)	(17)
Total straight line rent income	2,932	2,724	2,637
Contingent rental receipts	136	130	121
Common maintenance area income	186	155	141
Rental income	<u>\$ 3,254</u>	<u>\$ 3,009</u>	<u>\$ 2,899</u>

The Company is the landlord for rental of land and/or building space for properties it owns. The following is a schedule of future minimum rental income on non-cancelable operating leases with an initial term in excess of one year from owned property as of August 31, 2019 (in thousands):

Years Ended August 31,	Amount
2020	\$ 3,394
2021	2,964
2022	1,411
2023	1,127
2024	845
Thereafter	3,084
Total	<u>\$ 12,825</u>

NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

These derivative instruments (cash flow hedging instruments) are designated and qualify as cash flow hedges, with the entire gain or loss on the derivative reported as a component of other comprehensive income (loss). Amounts are deferred in other comprehensive income (loss) and reclassified into earnings in the same income statement line item that is used to present earnings effect of the hedged item when the hedged item affects earnings.

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

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

Cash Flow Hedges

As of August 31, 2019, all of the Company's interest rate swap and cross-currency interest rate swap derivative financial instruments are designated and qualify as cash flow hedges. The Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting.

The following table summarizes agreements for which the Company has recorded cash flow hedge accounting transactions during the twelve months ended August 31, 2019:

Subsidiary	Date Entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Initial US\$ Notional Amount	Bank US\$ loan Held with	Floating Leg (swap counter-party)	Fixed Rate for PSMT Subsidiary	Settlement Dates	Effective Period of swap
Panama	25-Jun-18	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	\$ 14,625,000	Bank of Nova Scotia	Variable rate 3-month Libor plus 3.0%	5.99 %	23rd day of each month beginning on July 23, 2018	June 25, 2018 - March 23, 2023
Honduras	26-Feb-18	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 13,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 3.00%	9.75 %	29th day of May, August, November and February beginning May 29, 2018	February 26, 2018 - February 24, 2024
PriceSmart, Inc	7-Nov-16	MUFG Union Bank, N.A. ("Union Bank")	Interest rate swap	\$ 35,700,000	Union Bank	Variable rate 1-month Libor plus 1.7%	3.65 %	1st day of each month beginning on April 1, 2017	March 1, 2017 - March 1, 2027
Costa Rica	28-Aug-15	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 7,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.50%	7.65 %	28th day of August, November, February, and May beginning on November 30, 2015	August 28, 2015 - August 28, 2020
Colombia	10-Dec-14	Citibank, N.A. ("Citi")	Cross currency interest rate swap	\$ 15,000,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.8%	8.25 %	4th day of March, June, Sept, Dec. beginning on March 4, 2015	December 4, 2014 - December 3, 2019
Panama	9-Dec-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	\$ 10,000,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	5.16 %	28th day of each month beginning December 29, 2014	November 28, 2014 - November 29, 2019

For the twelve-month periods ended August 31, 2019, 2018 and 2017 the Company included the gain or loss on the hedged items (that is, variable-rate borrowings) in the same line item—interest expense—as the offsetting gain or loss on the related interest rate swaps as follows (in thousands):

Income Statement Classification	Interest expense on borrowings ⁽¹⁾	Cost of swaps ⁽²⁾	Total
Interest expense for the year ended August 31, 2019	\$ 4,732	\$ 511	\$ 5,243
Interest expense for the year ended August 31, 2018	\$ 4,100	\$ 981	\$ 5,081
Interest expense for the year ended August 31, 2017	\$ 3,605	\$ 1,588	\$ 5,193

(1) This amount is representative of the interest expense recognized on the underlying hedged transactions.

(2) This amount is representative of the interest expense recognized on the interest rate swaps designated as cash flow hedging instruments.

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

Floating Rate Payer (Swap Counterparty)	Notional Amount as of	
	August 31, 2019	August 31, 2018
Union Bank	\$ 35,169	\$ 35,700
Citibank N.A.	24,225	27,825
Scotiabank	18,375	25,149
Total	\$ 77,769	\$ 88,674

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

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

Derivatives designated as cash flow hedging instruments	Balance Sheet Location	August 31, 2019			August 31, 2018		
		Fair Value	Net Tax Effect	Net OCI	Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other current assets	\$ 2,736	\$ (903)	\$ 1,833	\$ —	\$ —	\$ —
Cross-currency interest rate swaps	Other non-current assets	—	—	—	2,405	(819)	1,586
Interest rate swaps	Other non-current assets	—	—	—	1,959	(434)	1,525
Interest rate swaps	Other long-term liabilities	(2,178)	517	(1,661)	(8)	2	(6)
Cross-currency interest rate swaps	Other long-term liabilities	(732)	220	(512)	(494)	148	(346)
Net fair value of derivatives designated as hedging instruments		<u>\$ (174)</u>	<u>\$ (166)</u>	<u>\$ (340)</u>	<u>\$ 3,862</u>	<u>\$ (1,103)</u>	<u>\$ 2,759</u>

NOTE 14 – RELATED-PARTY TRANSACTIONS

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

Relationships with Edgar Zurcher: Mr. Zurcher is also a director of a company that owns 40% of Payless ShoeSource Holdings, Ltd., which rents retail space from the Company. The Company recorded approximately \$1.6 million, \$1.3 million and \$1.5 million in rental income for this space during the fiscal years ended August 31, 2019, 2018 and 2017. Additionally, Mr. Zurcher is a director of Molinos de Costa Rica S.A. The Company paid approximately \$741,000, \$754,000 and \$636,000 for products purchased from this entity during the fiscal years ended August 31, 2019, 2018 and 2017, respectively. Also, Mr. Zurcher is a director of Roma Prince S.A. PriceSmart purchased products from this entity for approximately \$1.0 million, \$1.1 million and \$1.1 million for the years ended August 31, 2019, 2018 and 2017, respectively.

Relationships with Price Family Charitable Organizations: During the years ended August 31, 2019, 2018 and 2017, the Company sold approximately \$527,000, \$457,000 and \$393,000, respectively, of supplies to Price Philanthropies Foundation. Robert Price, Executive Chairman of the Company's Board of Directors, is the Chairman of the Board and President of Price Philanthropies Foundation and Price Charities. Sherry S. Bahrambeygui, a director and the Chief Executive Officer of the Company, serves as Executive Vice President, Secretary and Vice Chairman of the Boards of Price Charities, fka San Diego Revitalization Corp., and Price Philanthropies Foundation.

Relationships with Mitchell G. Lynn: Mr. Lynn has been a director of the Company since November 2011. Mr. Lynn is a founder and a limited partner of CRI 2000, LP, dba Combined Resources International ("CRI") and Lightspeed Outdoors, LP ("LSO"). CRI designs and imports consumer products for wholesale distribution, primarily through warehouse clubs. LSO designs and imports recreational products for wholesale distribution and online retailing. The Company paid approximately \$65,000, \$305,000 and \$437,000 for products purchased from these entities during the years ended August 31, 2019, 2018 and 2017, respectively.

Relationship with Golf Park Plaza, S.A.: Golf Park Plaza, S.A. is a real estate joint venture located in Panama entered into by the Company in 2008 (see Note 15 - Unconsolidated Affiliate). On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company constructed its central offices in Panama. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. The Company recognized \$105,700 in rent expense for each of the fiscal years ended August 31, 2019, 2018 and 2017.

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

Relationships with Pierre Mignault: Pierre Mignault was elected to the Board of Directors, effective August 1, 2015. Mr. Mignault has been a consultant for the Company since September 2009, serving as an independent sourcing agent with Canadian suppliers. In his role as an independent sourcing agent, Mr. Mignault received commissions of \$240,000, \$268,000, and \$224,000 from certain vendors related to the sale of product to the Company in fiscal years 2019, 2018 and 2017, respectively.

NOTE 15 – UNCONSOLIDATED AFFILIATES

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

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

On December 12, 2013, the Company entered into a lease agreement for approximately 17,976 square feet (1,670 square meters) of land with Golf Park Plaza, S.A. upon which the Company constructed its central offices in Panama. Construction of the offices was completed in October 2014. The lease term is for 15 years with three options to renew for five years each at the Company's discretion. The Company recognized \$105,700 in rent expense for each of the fiscal years ended August 31, 2019, 2018 and 2017.

The table below summarizes the Company's interest in these VIEs and the Company's maximum exposure to loss as a result of its involvement with these VIEs as of August 31, 2019 (in thousands):

Entity	% Ownership	Initial Investment	Additional Investments	Net (Loss)/Income Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Investments⁽¹⁾	Company's Maximum Exposure to Loss in Entity⁽²⁾
GolfPark Plaza, S.A.	50 %	\$ 4,616	\$ 2,402	\$ 164	\$ 7,182	\$ 99	\$ 7,281
Price Plaza Alajuela, S.A.	50 %	2,193	1,236	86	3,515	785	4,300
Total		\$ 6,809	\$ 3,638	\$ 250	\$ 10,697	\$ 884	\$ 11,581

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	August 31, 2019	August 31, 2018
Current assets	\$ 1,344	\$ 1,528
Noncurrent assets	10,949	10,883
Current liabilities	156	239
Noncurrent liabilities	\$ 8	\$ 10

	Years Ended August 31,		
	2019	2018	2017
PriceSmart's share of net income (loss) of unconsolidated affiliates	\$ (61)	\$ (8)	\$ (1)

NOTE 16 – ACQUISITION

On March 15, 2018, the Company acquired technology, talent and cross-border logistics infrastructure through a marketplace and casillero business operated by Aeropost, Inc. This acquisition has been accounted for in conformity with ASC Topic 805, *Business Combinations*. PriceSmart is actively integrating and investing in the technology, talent and infrastructure from this business to expand its omni-channel capabilities. The Company paid \$29.0 million in cash for this acquisition. Under the merger agreement, \$5.0 million of the total consideration has been placed in escrow and its release to the sellers is contingent upon certain key Aeropost, Inc. executives remaining employed with the Company for 15 months from the date of closing. The amount placed in escrow also can be used to satisfy any indemnification claims and post-closing adjustments in favor of the Company. This contingent consideration is accounted for as post-combination compensation expense, reduces the total consideration and will be recorded over this 15 month period. The post-acquisition compensation expense is recorded as prepaid expenses and other current assets on the consolidated balance sheet, and has been treated as use of cash from operating activities on the consolidated statement of cash flows. The 15-month period lapsed on June 15, 2019, and the key Aeropost, Inc. executives remained employed with the Company during this time, as such, no claim in this respect has been made against the escrow balance for this concept. Subsequent to the balance sheet date, all indemnification claims and post-closing adjustments submitted by the Company and the sellers have been settled with no material adjustments to the escrow balance.

Below is the table that summarizes the total purchase price consideration (in thousands):

Estimated consideration on the acquisition date	\$ 30,046
Estimated assumed net liabilities at acquisition date	(1,093)
Total cash consideration	28,953
Post-combination compensation expense, net of claims	(3,754)
Business acquisition, net assets acquired	\$ 25,199
Cash acquired	1,208
Business acquisition, net of cash acquired	\$ 23,991

Below is the table that summarizes the fair value of the assets acquired and liabilities assumed (in thousands):

Current assets	\$ 4,196
Other non-current assets	746
Property, plant and equipment	2,059
Intangible assets	16,100
Goodwill	11,411
Deferred tax assets, long-term	4,078
Total assets acquired	\$ 38,590
Current liabilities	(5,862)
Non-current liabilities	(6,967)
Noncontrolling interest	(562)
Net assets acquired	\$ 25,199

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

Goodwill represents the excess of the total purchase price over the fair value of the underlying assets. The goodwill is not expected to be deductible for tax purposes.

The following sets forth the results of the amounts preliminarily assigned to the identifiable intangible assets acquired (in thousands):

	Amortization Period	Fair value of Assets Acquired
Trade name	25 years	\$ 5,100
Developed technology	5 years	11,000
Total assets acquired		<u>\$ 16,100</u>

The fair value of the intangible assets is measured based on assumptions and estimations with regards to variable factors such as the amount and timing of future cash flows, appropriate risk-adjusted discount rates, nonperformance risk or other factors that market participants would consider. The trade name and developed technology were valued using the income-based approach and royalty income method, respectively. Intangible assets are amortized on a straight-line basis over the amortization periods noted above, which is included in general and administrative expenses on the accompanying consolidated statements of income.

The following unaudited pro forma financial information shows the combined results of operations of the Company, including Aeropost, Inc., as if the acquisition had occurred as of the beginning of the periods presented (in thousands):

	Twelve Months Ended	
	2018	2017
Pro forma total revenues	\$ 3,197,307	\$ 3,040,168
Pro forma net income attributable to PriceSmart, Inc. ⁽¹⁾	\$ 67,734	\$ 82,587
Pro forma net income attributable to noncontrolling interest	\$ 444	\$ 248

⁽¹⁾ Includes the pro forma recognition of \$3.0 million of post-combination compensation expense, which represents completion of twelve of the fifteen months of continued service required to satisfy the \$3.8 million remaining purchase price contingency, and \$2.1 million for the amortization of intangible assets for the twelve months ended August 31, 2018.

The following is summary financial information for Aeropost, Inc., including costs to expand omni-channel capabilities for fiscal year 2019 (in thousands):

	Twelve Months Ended		
	2019	2018	2017
Total revenue	\$ 37,162	16,863	N/A
Net Loss (net of tax benefits)	\$ (14,462)	(6,901)	N/A

NOTE 17 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international operation of membership shopping in 43 warehouse clubs located in 12 countries and one U.S. territory that are located in Central America, the Caribbean and Colombia. In addition, the Company operates distribution centers and corporate offices in the United States. The Company has aggregated its warehouse clubs, distribution centers and corporate offices into reportable segments. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues, operating costs and inter-company charges included in the United States segment are not allocated to the segments within this presentation, as it is impractical to do so, and they appear as reconciling items to reflect the amount eliminated on consolidation of intersegment transactions. From time to time, the Company revises the measurement of each segment's operating income and net income, including certain corporate overhead allocations, and other measures as determined by the information regularly reviewed by the Company's chief operating decision maker. When the Company does so, the previous period amounts and balances are reclassified to conform to the current period's presentation.

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

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

	United States Operations	Central American Operations	Caribbean Operations ⁽¹⁾	Colombia Operations	Reconciling Items ⁽²⁾	Total
Years Ended August 31, 2019						
Revenue from external customers	\$ 68,335	\$ 1,831,761	\$ 933,886	\$ 389,936	\$ —	\$ 3,223,918
Intersegment revenues	1,205,986	11,185	4,507	1,498	(1,223,176)	—
Depreciation, Property and equipment	5,334	24,684	14,052	8,484	—	52,554
Amortization, Intangibles	2,404	—	—	—	—	2,404
Operating income (loss)	3,805	122,629	50,724	14,909	(76,900)	115,167
Interest income from external sources	74	499	568	348	—	1,489
Interest income from intersegment sources	1,408	1,877	724	—	(4,009)	—
Interest expense from external sources	1,377	2,368	(401)	595	—	3,939
Interest expense from intersegment sources	60	1,505	2,132	8	(3,705)	—
Provision for income taxes	11,280	19,429	6,615	236	—	37,560
Net income (loss) attributable to PriceSmart, Inc. ⁽³⁾	(8,518)	100,614	44,168	14,124	(77,197)	73,191
Long-lived assets (other than deferred tax assets)	65,278	383,665	165,584	115,838	—	730,365
Intangibles, net	12,576	—	—	—	—	12,576
Goodwill	11,315	24,593	10,193	—	—	46,101
Investment in unconsolidated affiliates	—	10,697	—	—	—	10,697
Total assets	161,583	614,579	340,216	180,033	—	1,296,411
Capital expenditures, net	8,439	85,962	28,434	22,832	—	145,667
Years Ended August 31, 2018						
Revenue from external customers	\$ 57,445	\$ 1,839,810	\$ 879,423	\$ 390,024	\$ —	\$ 3,166,702
Intersegment revenues	1,184,530	—	4,472	993	(1,189,995)	—
Depreciation, Property and equipment	7,373	23,391	11,596	9,160	—	51,520
Amortization, Intangibles	1,120	—	—	—	—	1,120
Operating income (loss)	2,016	130,849	48,383	12,086	(67,282)	126,052
Interest income from external sources	25	487	767	136	—	1,415
Interest income from intersegment sources	747	1,245	730	—	(2,722)	—
Interest expense from external sources	1,465	3,210	(353)	750	—	5,072
Interest expense from intersegment sources	16	1,042	1,576	3	(2,637)	—
Provision for income taxes	19,977	20,767	5,624	1,809	—	48,177
Net income (loss) attributable to PriceSmart, Inc. ⁽³⁾	(19,811)	107,401	44,178	9,917	(67,357)	74,328
Long-lived assets (other than deferred tax assets)	67,650	320,612	150,516	118,284	—	657,062
Intangibles, net	14,980	—	—	—	—	14,980
Goodwill	11,230	24,903	10,196	—	—	46,329
Investment in unconsolidated affiliates	—	10,758	—	—	—	10,758
Total assets	164,008	550,874	318,837	182,673	—	1,216,392
Capital expenditures, net	2,252	50,982	39,379	3,237	—	95,850
Years Ended August 31, 2017						
Revenue from external customers	\$ 34,244	\$ 1,789,889	\$ 827,920	\$ 344,575	\$ —	\$ 2,996,628
Intersegment revenues	1,138,526	—	4,796	110	(1,143,432)	—
Depreciation, Property and equipment	6,653	20,252	10,205	9,182	—	46,292
Amortization, Intangibles	—	—	—	—	—	—
Operating income (loss)	10,436	134,826	47,190	4,932	(61,155)	136,229
Interest income from external sources	13	914	740	142	—	1,809
Interest income from intersegment sources	739	882	546	—	(2,167)	—
Interest expense from external sources	762	4,127	548	1,340	—	6,777
Interest expense from intersegment sources	42	1,106	990	34	(2,172)	—
Provision for income taxes	9,560	23,368	7,654	1,436	—	42,018
Net income (loss) attributable to PriceSmart, Inc.	3,893	107,797	38,403	1,786	(61,155)	90,724
Long-lived assets (other than deferred tax assets)	70,353	296,915	122,616	126,206	—	616,090
Goodwill	—	25,375	10,267	—	—	35,642
Investment in unconsolidated affiliates	—	10,765	—	—	—	10,765
Total assets	147,650	544,683	303,234	181,947	—	1,177,514
Capital expenditures, net	56,229	50,977	26,586	3,232	—	137,024

(1) Management considers its club in the U.S. Virgin Islands to be part of its Caribbean operations.

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

(3) In March 2018, the Company acquired technology, talent and cross-border logistics infrastructure that operated a marketplace and casillero business. Investments in the technology, talent and infrastructure to expand our omni-channel capabilities, together with the operating results from the marketplace and casillero business, negatively impacted Net income attributable to PriceSmart, Inc. \$14.5 million for the twelve months ended August 31, 2019. Management considers this business to be part of its United States operations.

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

NOTE 18 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of August 31, 2019 through the date of issuance of these consolidated financial statements and has determined that, except as set forth below, there are no subsequent events that require disclosure.

Real Estate Transactions

In September 2019, the Company secured land in Portmore City, Jamaica, upon which the Company plans to construct a warehouse club. Portmore is expected to open, in the fall of 2020. This will bring the number of PriceSmart warehouse clubs operating in Jamaica to two.

In October 2019, the Company acquired land in Bucaramanga, Colombia, upon which the Company plans to construct a warehouse club. Bucaramanga is expected to open, in the fall of 2020. This will bring the number of PriceSmart warehouse clubs operating in Colombia to nine.

NOTE 19 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 2019, 2018 and 2017 is as follows (in thousands, except per share data):

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

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

Fiscal Year 2017	Three Months Ended,				Year Ended,
	Nov 30, 2016	Feb 28, 2017	May 31, 2017	Aug 31, 2017	Aug 31, 2017
Total revenues	\$ 739,572	\$ 793,296	\$ 730,258	\$ 733,502	\$ 2,996,628
Total cost of goods sold	\$ 618,671	\$ 667,563	\$ 617,598	\$ 615,920	\$ 2,519,752
Net income attributable to PriceSmart, Inc.	\$ 24,869	\$ 27,219	\$ 18,838	\$ 19,798	\$ 90,724
Basic net income per share	\$ 0.82	\$ 0.90	\$ 0.62	\$ 0.64	\$ 2.98
Diluted net income per share	\$ 0.82	\$ 0.90	\$ 0.62	\$ 0.64	\$ 2.98

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

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2019, there were approximately 19,383 holders of record of the common stock.

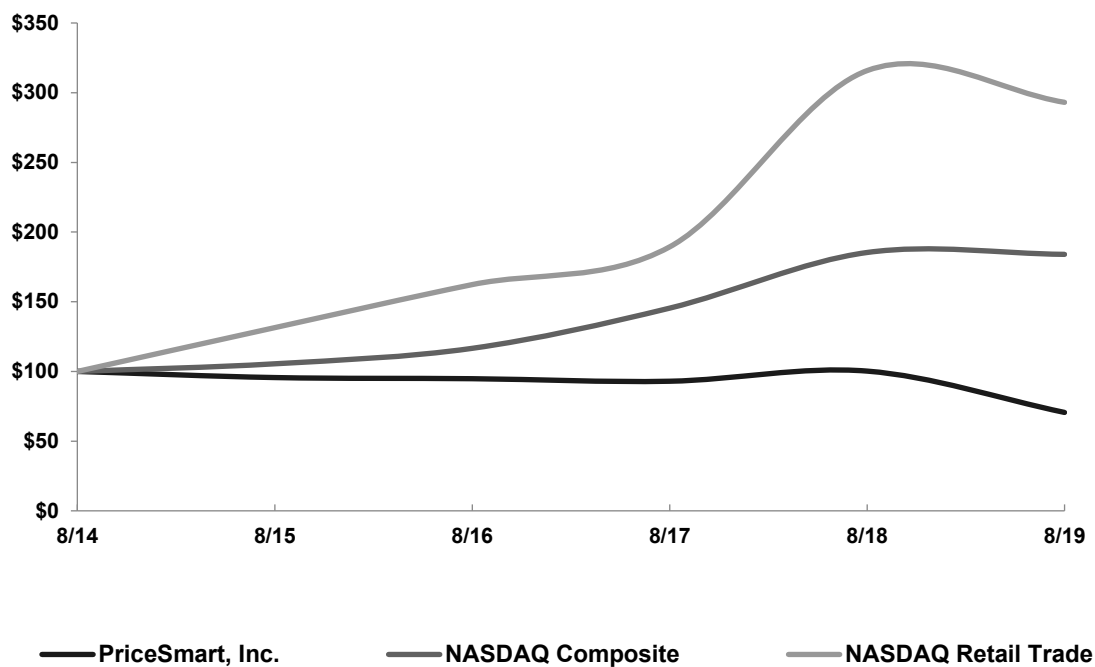
	Dates		Stock Price	
	From	To	High	Low
2019 FISCAL QUARTERS				
First Quarter	9/1/2018	11/30/2018	\$ 88.05	\$ 64.81
Second Quarter	12/1/2018	2/28/2019	67.45	55.78
Third Quarter	3/1/2019	5/31/2019	64.69	48.60
Fourth Quarter	6/1/2019	8/31/2019	62.37	48.69
2018 FISCAL QUARTERS				
First Quarter	9/1/2017	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

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended August 31, 2019.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among PriceSmart, Inc., the NASDAQ Composite Index
and the NASDAQ Retail Trade Index



*\$100 invested on 8/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending August 31.

	8/14	8/15	8/16	8/17	8/18	8/19
PriceSmart, Inc.	100.00	95.61	94.81	92.98	100.25	70.59
NASDAQ Composite	100.00	105.49	116.59	145.43	185.35	184.02
NASDAQ Retail Trade	100.00	131.43	162.32	189.38	315.86	293.09

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

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dividends

Declared	Amount	First Payment			Second Payment		
		Record Date	Date Paid	Amount	Record Date	Date Paid	Amount
1/30/2019	\$ 0.70	2/15/2019	2/28/2019	\$ 0.35	8/15/2019	8/30/2019	\$ 0.35
1/24/2018	\$ 0.70	2/14/2018	2/28/2018	\$ 0.35	8/15/2018	8/31/2018	\$ 0.35
2/1/2017	\$ 0.70	2/15/2017	2/28/2017	\$ 0.35	8/15/2017	8/31/2017	\$ 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.

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 2019, the Company repurchased a total of 75,462 shares in the indicated months. These were the only repurchases of equity securities made by the Company during fiscal year 2019. 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, 2018 - September 30, 2018	—	\$ —	—	N/A
October 1, 2018 - October 31, 2018	—	—	—	N/A
November 1, 2018 - November 30, 2018	—	—	—	N/A
December 1, 2018 - December 31, 2018	—	—	—	N/A
January 1, 2019 - January 31, 2019	38,270	62.09	—	N/A
February 1, 2019 - February 28, 2019	674	60.33	—	N/A
March 1, 2019 - March 31, 2019	3,698	61.99	—	N/A
April 1, 2019 - April 30, 2019	8,502	58.66	—	N/A
May 1, 2019 - May 31, 2019	—	—	—	N/A
June 1, 2019 - June 30, 2019	224	51.60	—	N/A
July 1, 2019 - July 31, 2019	2,622	61.11	—	N/A
August 1, 2019 - August 31, 2019	21,472	59.92	—	N/A
Total	75,462	\$ 61.00	—	N/A

ADDITIONAL INFORMATION

Corporate Offices

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

Stock Exchange Listing

NASDAQ Global Select Market
Stock Symbol: PSMT

Annual Meeting

Thursday, February 6, 2020 at 10:00 AM
PriceSmart, Inc. Corporate Headquarters
9740 Scranton Road
San Diego, CA 92121

Transfer Agent

Computershare Inc.
462 South 4th Street, Suite 1600
Louisville, KY, 40202
Telephone: (888) 867-6003
TDD for Hearing Impaired: (800) 952-9245
Outside U.S.: (201) 680-6578

Independent Registered Public Accounting Firm

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

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

DIRECTORS & OFFICERS OF PRICESMART, INC.

As of December 20, 2019

Robert E. Price	Executive Chairman
Leon Janks	Lead Director
Sherry S. Bahrambeygui	Director
Gonzalo Barrutieta	Director
Jeffrey Fisher	Director
Gordon Hanson	Director
Beatriz Infante	Director
Mitch Lynn	Director
Gary Malino	Director
Pierre Mignault	Director
Edgar Zurcher	Director
Sherry S. Bahrambeygui	Chief Executive Officer
Michael L. McCleary	Senior Vice President & Interim Chief Financial Officer
William J. Naylor	Executive Vice President & Chief Operating Officer
Francisco Velasco	Executive Vice President — General Counsel, Chief Ethics & Compliance Officer, and Secretary
Ana Luisa Bianchi	Executive Vice President — Chief Merchandising Officer
Rodrigo Calvo	Executive Vice President — Real Estate
Frank Diaz	Executive Vice President — Logistics and Distribution
Brud E. Drachman	Executive Vice President — Environmental Responsibility, Construction & Facilities
John D. Hildebrandt	Executive Vice President — Operations
Laura Santana	Executive Vice President — Information Technology
Jesus Von Chong	Executive Vice President — Regional Merchandising
Catherine D. Alvarez-Smith	Senior Vice President — International Controller
Juan Ignacio Biehl	Senior Vice President — Digital Experience
Bob Coulson	Senior Vice President — Merchandising – Softlines
Paul Kovalski	Senior Vice President — Food Service, Bakery and Optical
Nicolas Maslowski	Senior Vice President — Member Experience
Alberto Morales	Senior Vice President — Human Resources
Atul Patel	Senior Vice President — Treasurer
Rafael Rodriguez	Senior Vice President — Distribution
Chris Souhrada	Senior Vice President — Regional Operations
Melissa Twohey	Senior Vice President — Merchandising – Corporate Foods
Pedro Vera	Senior Vice President — Regional Operations
Benjamin M. Woods	Senior Vice President — Merchandising – Non-Foods
Alma Adajar-Aban	Vice President — Internal Audit and Controls
Alexa Bodden	Vice President — Membership & Marketing
George Burkle	Vice President — US Export Sales
Guadalupe Cefalu	Vice President — Forecasting & Planning
Maynor Chavez	Vice President — Compensation & Benefits
Nelly Concepcion	Vice President — Human Resources
Paula Dempsey	Vice President — Finance
Eduardo Franceschi	Vice President — Regional Operations
Patricia M. Klassen	Vice President — Associate General Counsel and Assistant Corporate Secretary
Dhanraj Mahabir	Vice President — Regional Operations
Jonathan Mendoza	Vice President — Construction & Facilities

Hana Nizel
Michelle Obediente
Kelly Orme
Dennis Palma
Meshach Ramkissoon
Emma Reyes
Ronald Rodriquez
Christina Santmyre
Eric Torres

Vice President — Merchandising – Corporate Fresh Foods
Vice President — Merchandising – Regional Foods
Vice President — Merchandising – Global Sourcing
Vice President — Business Services
Vice President — Merchandising – Regional Fresh Foods
Vice President — International Logistics & Trade Compliance
Vice President — Logistics
Vice President — Distribution
Vice President — Facilities Maintenance & Equipment

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The logo for PriceSmart, featuring the word "PRICE" in a serif font and "SMART" in a bold sans-serif font, with a registered trademark symbol. Above the text is a red dashed line forming an upward-pointing arc.

PRICESMART®