PRICESMART INC
Form 10-K
October 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended August 31, 2016

OR

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

For the transition period from to

COMMISSION FILE NUMBER 000-22793

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

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

9740 Scranton Road, San Diego, CA 92121

(Address of principal executive offices)

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

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

Common Stock, $0.0001 Par Value

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

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

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

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

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

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

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

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

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

The aggregate market value of the Registrant’s voting and non-voting common equity held by non-affiliates of the Registrant as of the last day of the Registrant's most recently completed second fiscal quarter was $1,635,638,161 based on the last reported sale price of $77.26 per share on the NASDAQ Global Select Market on February 29, 2016.

As of October 21, 2016, 30,401,022 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company’s Annual Report for the fiscal year ended August 31, 2016 are incorporated by reference into Part II of this Form 10-K.

Portions of the Company’s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 1, 2017 are incorporated by reference into Part III of this Form 10-K.

PRICESMART, INC.

ANNUAL REPORT ON FORM 10-K FOR

THE FISCAL YEAR ENDED August 31, 2016

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

General

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

Our Company

PriceSmart owns and operates U.S.-style membership shopping warehouse clubs in Latin America and the Caribbean that offer high quality brand name and private label consumer goods at low prices to individuals and businesses. Our typical no-frills warehouse club-type buildings range in size from 48,000 to 100,000 square feet and are located primarily in and around the major cities in our markets to take advantage of dense populations and relatively higher levels of disposable income. During fiscal year 2016, average net sales per warehouse club were approximately $74.2 million. By offering our members high quality merchandise at competitive prices, we seek to reinforce the value of a PriceSmart membership. We also seek to provide above market and fair wages and benefits to all of our employees as well as a fair return to our stockholders.

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

The numbers of warehouse clubs in operation as of August 31, 2016 for each country or territory were as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2015	Number of Warehouse Clubs in Operation as of August 31, 2016	Actual and Anticipated warehouse club openings in fiscal year 2017
Colombia	6	6	1
Costa Rica	6	6	—
Panama	5	5	—
Trinidad	4	4	—
Dominican Republic	3	3	—
Guatemala	3	3	—
El Salvador	2	2	—
Honduras	3	3	—
Aruba	1	1	—
Barbados	1	1	—
U.S. Virgin Islands	1	1	—
Jamaica	1	1	—
Nicaragua	1	2	—
Totals	37	38	1

In fiscal year 2014, we purchased land in Pereira and Medellin, Colombia and leased land in the city of Bogota, Colombia. We built new warehouse clubs on these three sites. During fiscal year 2015 we opened the Bogota location in October 2014 and the Pereira and Medellin locations in November 2014. Together with the three warehouse clubs that were already operating in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of operating PriceSmart warehouse clubs in Colombia to six at the end of fiscal year 2015. We constructed a new warehouse club on land acquired in May 2015 in Chia, Colombia that opened in September 2016, fiscal year 2017, bringing the total of warehouse clubs operating in Colombia to seven. In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which we opened our fifth PriceSmart warehouse club in Panama in June 2015. In April 2015, we acquired land in Managua, Nicaragua. We constructed and then opened a warehouse club on this site in November 2015. On December 4, 2015

Table of Contents

we signed an option to acquire two properties and then swap them for 59,353 square feet of land adjacent to our San Pedro Sula warehouse club in Honduras. We exercised this option and completed the swap during May 2016. We will use the acquired land to expand the parking lot for the San Pedro Sula warehouse club. The expansion is scheduled to be completed by the end of calendar year 2016.

Competitive Strengths

Low Operating Costs. Our format is designed to move merchandise from our suppliers to our members at a lower expense ratio than our competitors. We focus on achieving efficiencies in product distribution, minimizing the labor required to stock and display merchandise, limiting non-payroll operating expenses and maintaining low occupancy costs. For example, we offer a limited number of stock keeping units (SKUs) (approximately 2,400 per warehouse club) with large pack sizes, which allows us to keep shelves stocked with less labor cost than competitors that offer a greater number of SKUs. We also have opened distribution centers in certain of our high volume markets to improve in-stock rates on high volume products. Our focus on driving down operating costs relative to net warehouse club sales allows us to offer lower prices to our members, which we believe helps generate member loyalty and increased sales.

Membership. Membership has been a basic operating characteristic in the warehouse club industry beginning 40 years ago at Price Club, the first warehouse club. Membership fees enable us to operate our business on lower margins than conventional retail and wholesalers and represent approximately 1.4% of net warehouse club sales. In addition, membership serves to promote customer loyalty.

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

Innovation. The warehouse club industry recently reached a milestone celebrating forty years since the founding of Price Club in 1976. The world of merchandising has changed greatly in those 40 years, particularly related to technology, the worldwide sourcing of products, a growing middle class in developing countries and ever changing consumer preferences. We have developed know-how to operate effectively in multiple markets, many of which are relatively small, each with different legal requirements, local buying opportunities, cultural norms, unique distribution and logistical challenges and member preferences that require a studied mix of local versus imported merchandise. We believe that fundamental to our future success is our capacity to continue to adapt and innovate to meet the needs of our current and future members.

Experienced Management Team. Our Chairman of the Board, Chief Executive Officer and many of our senior executives and managers have worked in the warehouse club business most, if not all, of their careers. Their experience and knowledge represent a key strength and competitive advantage for our company.

Growth Strategy

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

Increasing Sales in Current PriceSmart Locations. Our approach for increasing sales at current PriceSmart locations focuses primarily on expanding or reconfiguring our buildings to add selling space and additional parking in our higher volume locations; identifying and purchasing the right products at the lowest possible prices to provide value to our members; and expanding the number of private label products we sell under our Member's Selection brand.

Adding New Warehouse Clubs in Existing Markets. We operate in 13 countries. All of our country markets are small in terms of population and gross domestic product ("GDP") except Colombia. In our non-Colombia markets, we plan to add additional warehouse clubs where we believe the markets can support additional clubs. We also plan to continue to add warehouse clubs in Colombia, which is a large market that we believe can potentially provide significant expansion opportunities.

Efficient Distribution Center Network. Our distribution center network is an extremely important component of our business success. Our primary distribution center is in Medley, Florida, a suburb of Miami. We recently entered into an agreement to purchase a new 322,000 square foot distribution center in Medley that is designed to improve product handling efficiencies and to replace our current Medley dry products warehouse that we rent. Our distribution centers, both in the Miami area and in many of our countries, enable us to purchase products at low prices, maintain high in-stock levels, increase inventory turns and support efficient product handling. Not only are our distribution centers currently contributing to efficiencies in buying and product handling, but we believe that our in-country distribution centers will continue to expand their range of operations to increase PriceSmart sales and to lower operating expenses.

Table of Contents

New Products and Services. PriceSmart markets have a combined population of approximately 100 million people and a combined GDP of $800 billion. We currently have a total of 1.5 million membership accounts and 2.9 individual membership card holders. We believe that there is significant opportunity to increase sales and profits with our current and future members through increasing online shopping opportunities; providing home and business product delivery; and offering additional products and services not currently available to our members.

New Markets. We are focused on efforts to expand in Colombia, a market where our membership concept has proven to be well-received and holds significant potential to grow our business, while we continually evaluate potential opportunities for future expansion into new markets in South America.

Our Membership Policy

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

The Diamond membership is targeted at individuals and families. The annual fee for a Diamond membership in most markets is approximately $35 (entitling members to two cards). We increased the fee in June 2012 from approximately $30.

The Company began offering Platinum memberships in Costa Rica during fiscal year 2013, which provides members with a 2% rebate on most items, up to an annual maximum of $500.00. Platinum members can apply this rebate to future purchases at the warehouse club at the end of the annual membership period. The Company records this 2% rebate as a reduction of revenue at the time of the sales transaction. Accordingly, the Company has reduced warehouse sales and has accrued a liability within other accrued expenses. The rebate is issued annually to Platinum members on March 1 and expires August 31. Any rebate amount not redeemed by August 31 is recognized as breakage revenue. The Company periodically reviews expired unused rebates outstanding, and the expired unused rebates are recognized as Revenues: Other income on the consolidated statements of income. The Company has determined that breakage revenue is insignificant; therefore, it records 100% of the Platinum membership liability at the time of sale, rather than estimating breakage. We are considering expanding Platinum membership to other PriceSmart markets and may do so during fiscal year 2017.

We recognize membership income over the 12-month term of the membership. Deferred membership income is presented separately on the consolidated balance sheet and totaled $20.9 million and $20.2 million as of August 31, 2016 and August 31, 2015, respectively. Our membership agreements provide that our members may cancel their membership and may receive a refund of the prorated share of their remaining membership fee if they so request.

Our Intellectual Property Rights

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

Our Competition

Our international merchandising business competes with a wide range of international, regional, national and local retailers, and traditional wholesale distributors. Our industry is highly competitive, based on factors such as price, merchandise quality and selection, warehouse location and member service. Some of our competitors may have greater resources, buying power and name recognition. In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers and specialty stores, including those within Latin America that are owned and operated by large U.S. and international retailers, including Wal-Mart Stores, Inc. in Central America and Grupo Éxito and Cencosud in Colombia. We have competed effectively in these markets in the past and expect to continue to do so in the future due to the unique nature of the membership warehouse club format. We have noted that certain retailers are making investments in upgrading their locations within our markets. These actions may result in increased competition within our markets. Further, it is possible that additional U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format.

Table of Contents

Our Employees

As of August 31, 2016, we had a total of 7,835 employees. Approximately 95% of our employees were employed outside of the United States, and approximately 1,276 employees are represented by unions. Our policy is to provide employees with good wages relative to the competition in the markets in which they work and to provide good benefits which often exceed the legal requirements for countries in which we do business. We believe that investing in our employees, treating them as partners in our business and providing opportunities for career advancement lead to long-serving, loyal employees, which in turn creates efficiencies in operations and results in better service to our members. We consider our employee relations to be very good.

Seasonality and Quarterly Fluctuations

Historically, our merchandising businesses have experienced holiday retail seasonality in our markets. In addition fluctuations in our comparable store net sales, operating income and net income occur as a result of a variety of factors in our markets. These factors, include but are not limited to:

- shifts in the timing of certain holidays, especially Easter;
- the timing of new store openings;
- the net sales contributed by new stores;
- changes in our merchandise mix;
- changes in the currency exchange rates that affect 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;
- weather; and
- competition.

Because of such fluctuations, the results of operations of any quarter are not indicative of the results that may be achieved for a full fiscal year or any future quarter. In addition, there can be no assurance that our future results will be consistent with past results or the projections of securities analysts.

Working Capital Practices

Information about our working capital practices is incorporated herein by reference to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources.”

Financial Information about Segments and Geographic Areas

Financial information about segments and geographic areas is incorporated herein by reference to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations--Net Warehouse Club Sales by Segments” and Part II, Item 8 “Financial Statements and Supplementary Data Segment: Notes to Financial Statements, Note 15-Segments.”

Other Information

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

Available Information

The PriceSmart, Inc. website or internet address is www.pricesmart.com. On this website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, and the annual report to the stockholders as soon as reasonably practicable after electronically filing such material with or furnishing it to the U.S. Securities and Exchange Commission (SEC). Our SEC reports can be accessed through the investor relations section of our website under “SEC Filings.” All of our filings with the SEC may also be obtained at the SEC’s Public Reference Room at Room 1580, 100 F Street NE, Washington, DC 20549. For information regarding the operation of the SEC’s Public Reference Room, please contact the SEC at 1-800-SEC-0330. Additionally, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. We will make available our annual report on Form 10-K and our annual Proxy Statement for the fiscal year 2016 at the internet address http://materials.proxyvote.com/741511 as soon as reasonably practicable after electronically filing such material with or furnishing it to the SEC.

Table of Contents

Item 1A. Risk Factors

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

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

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

- changes in, and inconsistent enforcement of laws and regulations, including those related to tariffs and taxes;
- the imposition of foreign and domestic governmental controls, including expropriation risks;
- natural disasters;
- trade restrictions, including import-export quotas and general restrictions on importation;
- limitations on foreign investment;
- difficulty and costs associated with international sales and the administration of an international merchandising business;
- crime and security concerns;
- product registration, permitting and regulatory compliance;
- volatility in foreign currency exchange rates;
- general political as well as economic and business conditions; and
- interruption of our supply chain.

Circumstances relating to these risks may arise, which may then result in disruption to our sales, banking transactions, operations, merchandise shipments, and currency exchange rates, any of which could have a material adverse effect on our business and results of operations.

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

As of August 31, 2016, the Company had in operation 38 warehouse clubs located in 12 countries and one U.S. territory (six each in Costa Rica and Colombia; five in Panama, four in Trinidad; three each in Guatemala, Honduras, and in the Dominican Republic; two in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica, and the United States Virgin Islands). We will need to continually evaluate the adequacy of our existing infrastructure, systems and procedures, financial controls, inventory controls and safety controls and make upgrades from time to time. Moreover, we will be required to continually analyze the sufficiency of our inventory distribution channels and systems and may require additional or expanded facilities in order to support our operations. We may not adequately anticipate all the changing demands that will be imposed on these systems. Any inability to effectively update our internal systems or procedures as required could have a material adverse effect on our business, financial condition and results of operations.

We face significant competition.

Our international warehouse club business competes with exporters, importers, wholesalers, local retailers and trading companies in various international markets. Some of our competitors have greater resources, buying power and name recognition than we have. In the countries in which we operate, we do not currently face direct competition from U.S. membership warehouse club operators. However, we do face competition from various retail formats such as hypermarkets, supermarkets, cash and carry, home improvement centers, electronic retailers and specialty stores, including those within Latin America that are owned and operated by large U.S. and international retailers, including Wal-Mart Stores, Inc. in Central America and Grupo Éxito and Cencosud in Colombia. We have noted that certain retailers are making investments in upgrading their locations which may result in increased competition. Further, it is possible that current U.S. warehouse club operators may decide to enter our markets and compete more directly with us in a similar warehouse club format. We may be required to implement price reductions to remain competitive if any of our competitors reduce prices in any of our markets. Moreover, our ability to operate profitably in our markets, particularly small markets, may be adversely affected by the existence or entry of competing warehouse clubs or discount retailers.

5

Table of Contents

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

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

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

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

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

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

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

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

Online sales currently represent a small fraction of the total sales in our markets of the types of merchandise we offer, but online shopping may become more prevalent in our markets as we and our competitors begin to offer more opportunities for online shopping and as delivery systems in our markets improve. While major international online retailers have not established a significant presence in any of our markets, it is possible that they or smaller regional companies will offer online shopping in our markets. In most markets, our members can order products from our website that are shipped from the U.S. to the members' local warehouse clubs for pickup. In Colombia, members can order items for delivery to them from the U.S. and our warehouse clubs. We continue to invest in our websites and systems with the long-term objective of offering our members a seamless multichannel experience. If we do not successfully develop and maintain a relevant multichannel experience for our members, our ability to compete and our results of operations could be adversely affected.

Our profitability is vulnerable to cost increases.

Future increases in costs such as the cost of merchandise, wage and benefits costs, shipping rates, freight costs, fuel costs, utilities and other store occupancy costs may reduce our profitability. We are dependent on our ability to adjust our product sales pricing, to operate more efficiently, or to increase our comparable store net sales in order to offset currency rate changes, changes in tax rates or in the methods used to calculate or collect taxes on our sales or income, inflation, or other factors that can

Table of Contents

increase costs. We might not be able to adjust prices, operate more efficiently or increase our comparable store net sales in the future to a great enough extent to offset increased costs. Please see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this Form 10-K for further discussion of the effect of currency rate changes, inflation and other economic factors on our operations.

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

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

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

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

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

Our operations are subject to volatile weather conditions and natural disasters, such as earthquakes and hurricanes, which are encountered periodically in the regions in which our warehouse clubs are located. Natural disasters could result in many days of lost sales at our warehouse clubs or adversely affect our distribution chain. Losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on our business, financial condition and results of operations.

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

A slowdown in the economies of one or more of the countries in which we operate or adverse changes in economic conditions affecting discretionary consumer spending, such as employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, interest rates, tax rates and consumer spending patterns in each of our foreign markets, may adversely affect our business by reducing overall consumer purchasing power and could negatively impact our growth, sales and profitability. In addition, a significant decline in the economies of the countries in which our warehouse clubs are located may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for imported goods. Factors such as declining expatriate remittances, reduced tourism, and less foreign investment could negatively impact the economies of Latin America and the Caribbean. The potential for economic instability, the impact of a global recession and its duration, the potential for failures or realignments of financial institutions and the related impact on available consumer credit could have a material adverse effect on our financial condition and results of operations.

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

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

Table of Contents

We are subject to risks associated with possible changes in our relationships with third parties with which we do business, as well as the performance of such third parties.

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

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

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

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

From time to time, we make technology investments to improve or replace our information processes and systems that are key to managing our business. The risk of system disruption is increased when system changes are undertaken. The potential problems and interruptions associated with implementing technology initiatives could disrupt or reduce the efficiency of our operations in the short term. In addition, these initiatives might not provide the anticipated benefits or may provide them on a delayed schedule or at a higher cost.

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

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

We file federal and state tax returns in the United States and various other tax returns in foreign jurisdictions. The preparation of these tax returns requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions, which affects the amount of tax paid by us. We, in consultation with our tax advisors, base our tax returns on interpretations that we believe to be reasonable under the prevailing circumstances. The tax returns, however, are subject to routine reviews by the

Table of Contents

various taxing authorities in the jurisdictions in which we file our returns. As part of these reviews, a taxing authority may disagree with respect to the interpretations we used to calculate our tax liability and therefore require us pay additional taxes.

A few of our stockholders own approximately 25.3% of our voting stock as of August 31, 2016, which may make it difficult to complete some corporate transactions without their support and may impede a change in control.

Robert E. Price, the Company’s Chairman of the Board, and affiliates of Mr. Price, including Price Charities, Price Philanthropies, The Price Group, LLC, The Robert & Allison Price Charitable Remainder Trust and various other trusts, collectively beneficially own approximately 25.3% of our outstanding shares of common stock. Of this amount, approximately 14.4% is held by charitable entities. As a result of their beneficial ownership, these stockholders have the ability to significantly affect the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

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

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

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

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

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

As of August 31, 2016, we had a total of 38 warehouse clubs operating in 12 foreign countries and one U.S. territory, 29 of which operate under currencies other than the U.S. dollar. For fiscal year 2016, approximately 77% of our net warehouse club sales were in foreign currencies. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net warehouse sales denominated in foreign currencies.

Our consolidated financial statements are denominated in U.S. dollars, and to prepare those financial statements we must translate the amounts of the assets, liabilities, net sales, other revenues and expenses of our operations outside of the U.S. from foreign currencies into U.S. dollars using exchange rates for the current period. As a result of such translations, future fluctuations in currency exchange rate over time that are unfavorable to us may result in our consolidated financial statements reflecting significant adverse period-over-period changes in our financial performance. Such unfavorable currency exchange rate fluctuations will have an adverse effect on our reported consolidated results of operations.

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 warehouse sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. In the second half of fiscal year 2016 and continuing into fiscal year 2017, we are experiencing this situation in Trinidad (“TT”). We are limited in our ability to convert TT dollars that we generate through sales of merchandise into U.S. dollars to settle U.S. dollar liabilities, increasing our foreign exchange exposure to any devaluation of the TT dollar. The June 2016 International Monetary Fund Country Report for Trinidad and Tobago suggests that the TT dollar could be overvalued, in the range of 20%-50% per U.S. dollar. We are working with our banks to source other tradeable currencies (such as Euros and Canadian dollars), but until the central bank makes more U.S. dollars available, this condition will continue. As of August 31, 2016, we have net U.S. dollar denominated liabilities of approximately $18.9 million that would be exposed to a potential devaluation of Trinidad dollars. If for example, a hypothetical 20% devaluation of the TT currency occurred, the net effect on other expense would be approximately $3.8 million. To the extent we are unable to exchange TT dollars for U.S. dollars, this causes delays in payments owed to PriceSmart, Inc. by our Trinidad subsidiary. This, in turn, reduces PriceSmart, Inc.’s ability to deploy that cash for corporate purposes. The Trinidad government is aware that having limited tradable currency poses challenges to U.S. companies doing business in Trinidad, including PriceSmart. However, until such time that the uncertain state

Table of Contents

of tradable currency is resolved, we plan to take steps to limit our exposure. We plan to reduce new shipments of merchandise to Trinidad from our distribution center in Miami to levels that generally align with our Trinidad subsidiary's ability to pay for the merchandise in U.S. dollars. Although the situation is dynamic, based on recent levels of tradable currency available, we anticipate reducing U.S. shipments to Trinidad by approximately 20% over the next three months. This is likely to result in our Trinidad subsidiary running out of certain merchandise, which could negatively impact sales in Trinidad in the second fiscal quarter by an estimated $8-$10 million. These actions do not impact merchandise on hand or currently in route from our Miami distribution center to Trinidad, nor do they impact our plans to stock merchandise we obtain locally in Trinidad. We plan to increase or decrease shipments from the U.S. in line with our ability to exchange TT dollars for other hard currencies. We will continue to seek to maximize the level of tradable currency our Trinidad subsidiary can obtain.

In addition, devaluing foreign local currencies compared to the U.S. dollar could negatively impact the purchasing power of our members for imported merchandise in those countries. For example, during fiscal year 2016, the Colombian peso appreciated approximately 5.4% compared to the U.S. dollar but during fiscal year 2015 the Colombian peso devalued approximately 60.3% compared to the U.S. dollar which negatively affected sales and margins in that market. Volatility and uncertainty regarding the currencies and economic conditions in the countries where we operate could have a material impact on our operations in future periods.

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

We market and distribute products purchased from third-party suppliers and products prepared by us for resale, including meat, dairy and other food products, which exposes us to the risk of product liability claims, a product recall and adverse publicity. We may inadvertently redistribute food products or prepare food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the food service or consumer level. We generally seek contractual indemnification and proof of insurance from our major suppliers and carry product liability insurance for all products sold to our members by us. However, if we do not have adequate insurance or contractual indemnification available, product liability claims relating to products that are contaminated or otherwise harmful could have a material adverse effect on our ability to successfully market our products and on our financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding a product recall or any assertion that our products caused illness or injury could have a material adverse effect on our reputation with existing and potential members and on our business, financial condition and results of operations.

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

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

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

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

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

We are subject to payment related risks.

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

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

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business are highly complex and involve many subjective assumptions, projections, estimates and judgments by our management. These include, but are not limited to, revenue recognition, impairment of long-lived assets, goodwill, merchandise inventories, vendor rebates and other vendor consideration, income taxes, unclaimed property laws and litigation, the carrying value of deferred tax assets and tax receivables, and other contingent liabilities. Changes in these rules or their interpretation or changes in underlying assumptions, projections, estimates or judgments by our management could significantly change our reported or expected financial performance.

We face compliance risks related to our international operations.

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

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

Table of Contents

If remediation costs or hazardous substance contamination levels at certain properties for which we maintain financial responsibility exceed management’s current expectations, our financial condition and results of operations could be adversely impacted.

In connection with our spin-off from Price Enterprises, Inc., or PEI, in 1997, we agreed to indemnify PEI for all of PEI's liabilities (including indemnification obligations for environmental liabilities) arising out of PEI's prior ownership of certain properties. Our ownership of real properties and our agreement to indemnify PEI could subject us to certain environmental liabilities. Certain of these properties are located in areas of current or former industrial activity, where environmental contamination may have occurred. We monitor the soil and groundwater at these locations as may be required by law. If we were to incur costs for remediating contamination at these sites which exceed management’s current expectations, our financial condition and results of operations could be adversely impacted.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

At August 31, 2016, PriceSmart operated 38 membership warehouse clubs, as detailed below:

Location	Own land and building	Lease land and/or building
COLOMBIA SEGMENT		
Colombia(1)	5	1
CENTRAL AMERICA SEGMENT		
Panama(2)	4	1
Guatemala	1	2
Costa Rica	6	—
El Salvador	2	—
Honduras	2	1
Nicaragua(3)	2	—
CARIBBEAN SEGMENT		
Dominican Republic	3	—
Aruba	—	1
Barbados	1	—
Trinidad	3	1
U.S. Virgin Islands	—	1
Jamaica	1	—
Total	30	8

(1) In January of fiscal year 2014, we acquired land in the southern area of Pereira, Colombia and in the city of Medellin, Colombia and leased land in the city of Bogota, Colombia. We constructed new warehouse clubs at these three sites, opening the Bogota location in October 2014 and opening the other two sites in November 2014. Together with the three warehouse clubs that were operating prior to these openings in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of PriceSmart warehouse clubs operating in Colombia to six as of August 31, 2016. We constructed a new warehouse club on land acquired in May 2015 in Chia, Colombia that opened in September 2016, fiscal year 2017, bringing the total of warehouse clubs operating in Colombia to seven as of September 2016. The Company continues to explore other potential sites for future warehouse clubs in other major cities in Colombia.

(2) In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama. We constructed a warehouse club on this site, and opened it in June 2015. This brought the number of PriceSmart warehouse clubs operating in Panama to five.

(3) In April 2015, we acquired land in Managua, Nicaragua. We constructed and then opened a warehouse club on this site in November 2015. This brought the number of PriceSmart warehouse clubs operating in Nicaragua to two.

Although we have entered into real estate leases in the past and will likely do so in the future, our preference is to own rather than lease real estate. We lease land and in some cases land and buildings when sites within market areas are not available to purchase. The term on these leases generally run for 20 to 30 years and contain options to renew from 5 to 20 years. As current leases expire, we believe that we will be able to obtain lease renewals, if desired, for present store locations, or to obtain leases for equivalent or better locations in the same general area. As of August 31, 2016, the Company’s warehouse club buildings occupied a total of approximately 2,835,117 square feet, of which 522,131 square feet were on leased property.

Table of Contents

The following is a summary of other leased facilities as of August 31, 2016:

Location	Facility Type	Lease land and/or building
COLOMBIA SEGMENT		
Bogota, Colombia	Central Offices	1
CENTRAL AMERICA SEGMENT		
Panama	Central Offices	1
Costa Rica	Storage and Distribution Facility	1
CARIBBEAN SEGMENT		
Barbados	Storage Facility	1
Chaguanas, Trinidad	Employee Parking	1
Chaguanas, Trinidad	Container Parking	1
Trinidad	Storage and Distribution Facility	1
Jamaica	Storage Facility	1
Santo Domingo, Dominican Republic	Central Offices	1
U.S. SEGMENT		
San Diego, CA	Corporate Headquarters	1
Miami, FL	Distribution Facility	1
Total		11

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

In March 2016, we entered into a contract, subject to customary contingencies, to acquire a distribution center in Medley, Miami-Dade County, Florida, into which we will transfer the majority of our current Miami distribution center activities once the construction of the building is complete and the building is ready for occupancy. We currently expect completion to be in first half of calendar year 2017. We believe that the purchase of this distribution center will enable us to increase our ability to efficiently receive, handle and distribute merchandise.

14

Table of Contents

The following is a summary of the warehouse clubs and Company facilities located on leased property as of August 31, 2016:

Location	Facility Type	Date Opened	Approximate Square Footage	Current Lease Expiration Date	Remaining Option(s) to Extend
Salitre, Colombia	Warehouse Club	October 29, 2014	98,566	January 29, 2044	20 years
Via Brazil, Panama	Warehouse Club	December 4, 1997	68,696	October 31, 2026	10 years
Miraflores, Guatemala (1)	Warehouse Club	April 8, 1999	68,977	December 31, 2020	5 years
Pradera, Guatemala	Warehouse Club	May 29, 2001	48,438	May 28, 2021	none
Tegucigalpa, Honduras	Warehouse Club	May 31, 2000	64,735	May 30, 2020	none
Oranjestad, Aruba	Warehouse Club	March 23, 2001	64,627	March 23, 2021	10 years
Port of Spain, Trinidad	Warehouse Club	December 5, 2001	54,046	July 5, 2031	none
St. Thomas, U.S.V.I.	Warehouse Club	May 4, 2001	54,046	February 28, 2020	10 years
Barbados	Storage Facility	December 1, 2012	12,517	November 30, 2025	3 years
Chaguanas, Trinidad	Employee Parking	May 1, 2009	4,944	April 30, 2024	none
Chaguanas, Trinidad	Container Parking	April 1, 2010	65,340	March 31, 2025	none
Jamaica	Storage and Distribution Facility	September 1, 2012	17,000	July 14, 2019	2 years
Santo Domingo, Dominican Republic	Central Offices	June 1, 2010	2,002	January 14, 2021	5 years
Bogota, Colombia (2)	Central Offices	October 21, 2010	7,812	December 31, 2017	none
San Diego, CA (3)	Corporate Headquarters	April 1, 2004	43,027	May 31, 2026	5 years
Miami, FL(4)	Distribution Facility	March 1, 2008	371,476	December 31, 2027	5 years
Panama	Central Offices	November 4, 2014	17,975	December 12, 2028	15 years
Costa Rica	Storage and Distribution Facility	January 28, 2013	37,674	January 27, 2019	3 years
Trinidad	Storage and Distribution Facility	August 18, 2014	17,110	August 17, 2017	none

(1) In April 2016, the Company executed an amendment to the existing lease to expand the facility's parking lot by 2,918 square feet of space.

(2) On August 31, 2016, the Company executed a contract to expand the central office space to include an additional 1,884 square feet of space, effective September 1, 2016. The additional space is not included in the table above; however, the lease is included in the calculation of future minimum lease commitments.

(3) In January 2015, the Company executed a fourth amendment to include 2,799 square feet of space, in which the Company sub-leased all 2,799 square feet of space to another party through October 2016. The 2,799 square feet of space is not included in the above table.

(4) In August 2016, the Company executed a fourth amendment to the existing lease, to extend the portion of the lease pertaining to 100,295 square feet of space through December 31, 2027.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

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

The information required by Item 5 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2016 under the heading “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

Item 6. Selected Financial Data

The information required by Item 6 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2016 under the heading “Selected Financial Data.”

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

The information required by Item 7 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2016 under the heading “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by Item 7A is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2016 under the heading “Quantitative and Qualitative Disclosures about Market Risk.”

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated herein by reference to PriceSmart's Annual Report to Stockholders for the fiscal year ended August 31, 2016 under the heading “Financial Statements and Supplementary Data.”

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As of August 31, 2016, under the supervision and with the participation of the Company’s management, including the Company’s principal executive officer and principal financial officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). These disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in its periodic reports with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and that the information is accumulated and communicated to the Company’s management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The design of any disclosure controls and procedures also is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

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

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

Table of Contents

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision, and with the participation, of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting. Management has used the 2013 framework set forth in the report entitled "Internal Control-Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of its internal control over financial reporting. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was effective as of August 31, 2016, the end of its most recent fiscal year.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of August 31, 2016, as stated in their report which is included herein.

(c) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act), during the fiscal year ended August 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Item 9B. Other Information

Not applicable.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PriceSmart, Inc.

We have audited PriceSmart, Inc.’s internal control over financial reporting as of August 31, 2016, 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). PriceSmart, Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, PriceSmart, Inc. maintained, in all material respects, effective internal control over financial reporting as of August 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2016 consolidated financial statements of PriceSmart, Inc. and our report dated October 27, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

October 27, 2016

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

(1) and (2) Financial Statements

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

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

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Company.
3.2(8)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.3(7)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
3.4(1)	Amended and Restated Bylaws of the Company.
4.1(9)	Specimen of Common Stock certificate.
10.1(13)**	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the 2002 Equity Participation Plan of PriceSmart, Inc.
10.2(a)(16)**	Form of Non-Qualified Stock Option Agreement (Director Option) under the 2002 Equity Participation Plan of PriceSmart, Inc.
10.2(b)(14)	Loan Agreement between PSMT (Barbados) Inc. and Citicorp Merchant Bank Limited, dated August 30, 2012.
10.2(c)(17)	Loan Agreement dated March 31, 2014 between PriceSmart Panama, S.A. and The Bank of Nova Scotia.
10.2(d)(18)	Fourth Amendment to the Amended and Restated Loan Agreement between PriceSmart, Inc. and MUFG Union Bank, N.A., executed as of August 30, 2014.
10.2(e)(18)	Loan renewal agreement between The Bank of Nova Scotia and PSMT El Salvador, S.A. de C.V., executed August 27, 2014.
10.2(f)(18)	Amendment to Loan Agreement dated August 28, 2014 made between PSMT (Barbados) Inc. and Citicorp Merchant Bank Limited.

Table of Contents

10.2(g)(18)	Promissory Note Amendment Agreement dated August 28, 2014 between PSMT (Barbados) Inc. and Citibank N.A.
10.2(h)(18)	Loan Agreement between The Bank of Nova Scotia and PriceSmart Panama, S.A. dated March 31, 2014.
10.2(i)(19)	Third Amendment to Lease (expansion) Agreement between the Company and CREA Centrewest LP, dated September 18, 2014.
10.2(j)(20)	Fourth Amendment to Lease (expansion) Agreement between the Company and CREA Centrewest LP, dated January 29, 2015.
10.2(k)(19)	Term Loan between the Bank of Nova Scotia and PriceSmart Honduras S.A. de C.V. dated October 1, 2014.
10.2(l)(19)	Promissory Note between PriceSmart Honduras S.A. de C.V. and Citibank, N.A. dated October 22, 2014.
10.2(m)(21)	Loan between PriceSmart Honduras, S.A. de C.V. and Citibank, N.A. dated March 24, 2015.
10.2(n)(22)	Promissory Note $7.5M Prismar de Costa Rica, S.A. dated August 28, 2015.
10.2(o)(23)	Loan between Grupo Financiero BAC Credomatic de Costa Rica and Prismar de Costa Rica, S.A. for US $7.5 million dated September 18, 2015.
10.2(p)*	Fourth Amendment to Amended and Restated Lease Agreement by and between CPT Flagler Station II, LLC and PriceSmart, Inc.
10.3(a)(23)**	Employment Agreement between the Company and Robert M. Gans, dated as of September 1, 2015.
10.3(b)(11)	Loan Facility Agreement between PriceSmart (Trinidad) Limited and First Caribbean International Bank (Trinidad & Tobago) Limited dated February 19, 2009.
10.4(23)**	Employment Agreement between the Company and John M. Heffner, dated September 1, 2015.
10.5(2)**	Form of Indemnity Agreement.
10.8(23)**	Employment Agreement between the Company and Thomas Martin dated September 1, 2015.
10.11(10)	Shareholders’ Agreement between Pricsmarlandco, S.A. and JB Enterprises Inc. dated September 29, 2008.
10.12(10)	Shareholders’ Agreement between Fundacion Tempus Fugit and PriceSmart Panama, S.A. dated September 24, 2008.
10.13(4)	Trademark Agreement between the Company and Associated Wholesale Grocers, Inc., dated August 1, 1999.

10.14(3)	Master Agreement between the Company and Payless ShoeSource Holdings, Ltd., dated November 27, 2000.
10.15(23)**	Employment Agreement between the Company and William Naylon, dated as of September 1, 2015.
10.16(23)**	Employment Agreement between the Company and John Hildebrandt, dated September 1, 2015.
10.17(5)**	2001 Equity Participation Plan of PriceSmart, Inc.
10.18(a)*	Twenty-Ninth Amendment to Employment Agreement between the Company and Brud Drachman, dated June 16, 2015.
10.18(b)(23)**	Employment Agreement between the Company and Brud Drachman, dated September 1, 2015.
10.19(6)**	2002 Equity Participation Plan of PriceSmart, Inc.
10.20(23)**	Employment Agreement between the Company and Jose Luis Laparte dated as of September 1, 2015.

Table of Contents

10.23(12)	Loan Agreement entered into between PriceSmart Honduras, S.A. de C.V. and ScotiaBank El Salvador S.A., dated January 12, 2010.
10.30(18)	Collective Agreement by and between Oilfields Workers' Trade Union and PriceSmart Clubs (TT) Ltd. entered into December 1, 2012.
10.32(15)**	2013 Equity Incentive Award Plan of PriceSmart, Inc. (incorporated by reference to Appendix A to the definitive Proxy Statement for the Company's 2013 Annual Meeting of Stockholders filed with the Commission on December 5, 2012)
10.33(15)**	Form of Restricted Stock Award Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc.
10.34(15)**	Form of Restricted Stock Unit Agreement under the 2013 Equity Incentive Award Plan of PriceSmart, Inc. for Employees of Foreign Subsidiaries.
10.35(15)**	Form of Restricted Stock Unit Agreement for Non-Employee Directors under the 2013 Equity Incentive Award Plan of PriceSmart, Inc.
10.36(23)**	Employment Agreement between the Company and Frank R. Diaz dated September 1, 2015.
10.37**	Employment Agreement between the Company and Rodrigo Calvo dated June 16, 2015.
10.37(a)(23)**	Employment Agreement between the Company and Rodrigo Calvo dated September 1, 2015.
10.38**	Employment Agreement between the Company and Jesus Von Chong dated November 1, 2015.
10.39**	Employment Agreement between the Company and Francisco Velasco dated July 14, 2016.
13.1*	Portions of the Company’s Annual Report to Stockholders for the year ended August 31, 2015.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*#	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*#	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

Table of Contents

\# These certifications are being furnished solely to accompany this Report pursuant to 18 U.S.C. 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of PriceSmart, Inc. whether made before or after the date hereof, regardless of any general incorporation language in such filing.

(1) Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended August 31, 1997 filed with the Commission on November 26, 1997.

(2) Incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company’s Registration Statement on Form 10 filed with the Commission on August 1, 1997.

(3) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2001 filed with the Commission on April 16, 2001.

(4) Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended August 31, 1999 filed with the Commission on November 29, 1999.

(5) Incorporated by reference to Exhibit A to the definitive Proxy Statement dated December 7, 2001 for the Company's 2002 Annual Meeting of Stockholders filed with the Commission on December 10, 2001.

(6) Incorporated by reference to Exhibit A to the definitive Proxy Statement dated December 11, 2002 for the Company's 2003 Annual Meeting of Stockholders filed with the Commission on December 11, 2002.

(7) Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended August 31, 2004 filed with the Commission on November 24, 2004.

(8) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 filed with the Commission on April 14, 2004.

(9) Incorporated by reference to the Company’s Registration Statement on Form S-3 filed with the Commission on December 2, 2004.

(10) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q/A for the quarter ended November 30, 2008 filed with the Commission on January 14, 2009.

(11) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2009 filed with the Commission on April 9, 2009.

(12) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 filed with the Commission on April 9, 2010.

(13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2012 filed with the Commission on July 9, 2012.

(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2012 filed with the Commission on January 9, 2013.

(15) Incorporated by reference to the Company's Registration Statement on Form S-8 filed April 4, 2013.

(16) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2013 filed with the Commission on October 30, 2013.

(17) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014 filed with the Commission on July 10, 2014.

(18) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2014 filed with the Commission on October 30, 2014.

(19) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2014 filed with the Commission on January 8, 2015.

(20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2015 filed with the Commission on April 9, 2015.

(21) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2015 filed with the Commission on July 9, 2015.

(22) Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended August 31, 2015 filed with the Commission on October 29, 2015.

(23) Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended November 30, 2015 filed with the Commission on January 7, 2016.

(24) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016 filed with the Commission on April 7, 2016.
(25) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2016 filed with the Commission on July 7, 2016.

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

(b) Financial Statement Schedules

1) Schedule II – Valuation and Qualifying Accounts for each of the three years in the period ended August 31, 2016.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PriceSmart, Inc.

We have audited the consolidated financial statements PriceSmart, Inc. as of August 31, 2016 and 2015, and for each of the three years in the period ended August 31, 2016, and have issued our report thereon dated October 27, 2016 (incorporated herein by reference). Our audits also included the financial statement schedule listed in Item 15(b)1. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Diego, California

October 27, 2016

Table of Contents

SCHEDULE II

PRICESMART, INC.

VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts:				
Year ended August 31, 2014	$ —	$ 22	$ (22)	$ —
Year ended August 31, 2015	$ —	$ 10	$ (10)	$ —
Year ended August 31, 2016	$ —	$ 25	$ (18)	$ 7

Table of Contents

SIGNATURES

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

	PRICESMART, INC.
Date: October 27, 2016	By: /s/ JOSE LUIS LAPARTE Jose Luis Laparte Director, Chief Executive Officer and President (Principal Executive Officer)
Date: October 27, 2016	By: /s/ JOHN M. HEFFNER John M. Heffner Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Table of Contents

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

Signature	Title	Date
/s/ JOSE LUIS LAPARTE Jose Luis Laparte	Director, Chief Executive Officer and President (Principal Executive Officer)	October 27, 2016
/s/ JOHN M. HEFFNER John M. Heffner	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	October 27, 2016
/s/ ROBERT E. PRICE Robert E. Price	Chairman of the Board	October 27, 2016
/s/ SHERRY S. BAHRAMBEYGUI Sherry S. Bahrambeygui	Vice Chair of the Board	October 27, 2016
/s/ MITCHELL G. LYNN Mitchell G. Lynn	Director	October 27, 2016
/s/ GONZALO BARRUTIETA Gonzalo Barrutieta	Director	October 27, 2016
/s/ KATHERINE L. HENSLEY Katherine L. Hensley	Director	October 27, 2016
/s/ LEON C. JANKS Leon C. Janks	Director	October 27, 2016
/s/ EDGAR ZURCHER Edgar Zurcher	Director	October 27, 2016
/s/ GORDON H. HANSON Gordon H. Hanson	Director	October 27, 2016
/s/ PIERRE MIGNAULT Pierre Mignault	Director	October 27, 2016
/s/ GARY M. MALINO Garry M. Malino	Director	October 27, 2016

Table of Contents

Exhibit 13.1

PRICESMART, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND

OTHER INFORMATION

August 31, 2016

i

Table of Contents

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,				
	2016	2015	2014	2013	2012
	(in thousands, except income per common share)				
OPERATING RESULTS DATA:					
Net warehouse club sales	$ 2,820,740	$ 2,721,132	$ 2,444,314	$ 2,239,266	$ 1,999,364
Export sales	33,813	33,279	31,279	23,059	15,320
Membership income	45,781	43,673	38,063	33,820	26,957
Other income	4,842	4,519	3,911	3,667	3,522
Total revenues	2,905,176	2,802,603	2,517,567	2,299,812	2,045,163
Total cost of goods sold	2,449,626	2,352,839	2,113,664	1,929,428	1,715,981
Total selling, general and administrative	316,474	297,656	262,420	240,924	220,639
Preopening expenses	1,191	3,737	3,331	1,525	617
Loss/(gain) on disposal of assets	1,162	2,005	1,445	889	312
Operating income	136,723	146,366	136,707	127,046	107,614
Total other income (expense)	(5,483)	(9,770)	(2,458)	(3,835)	(4,900)
Income from continuing operations before provision for income taxes, losses of unconsolidated affiliates and net income attributable to noncontrolling interests	131,240	136,596	134,249	123,211	102,714
Provision for income taxes	(42,849)	(47,566)	(41,372)	(38,942)	(35,053)
Income/(loss) of unconsolidated affiliates	332	94	9	(4)	(15)
Net income from continuing operations attributable to PriceSmart	88,723	89,124	92,886	84,265	67,646
Discontinued operations income (loss), net of tax	—	—	—	—	(25)
Net income attributable to PriceSmart	$ 88,723	$ 89,124	$ 92,886	$ 84,265	$ 67,621
INCOME PER COMMON SHARE -BASIC:					
Income from continuing operations attributable to PriceSmart	$ 2.92	$ 2.95	$ 3.07	$ 2.78	$ 2.24
	$ 2.92	$ 2.95	$ 3.07	$ 2.78	$ 2.24

Basic net income per common share attributable to PriceSmart					
INCOME PER COMMON SHARE -DILUTED:					
Income from continuing operations attributable to PriceSmart	$ 2.92	$ 2.95	$ 3.07	$ 2.78	$ 2.24
Diluted net income per common share attributable to PriceSmart	$ 2.92	$ 2.95	$ 3.07	$ 2.78	$ 2.24
Weighted average common shares - basic	29,928	29,848	29,747	29,647	29,554
Weighted average common shares - diluted	29,933	29,855	29,757	29,657	29,566

1

Table of Contents

PRICESMART, INC.

SELECTED FINANCIAL DATA- (Continued)

	As of August 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 199,522	$ 157,072	$ 137,098	$ 121,874	$ 91,248
Restricted cash	$ 3,194	$ 1,525	$ 29,366	$ 40,759	$ 37,746
Total assets	$ 1,096,735	$ 991,224	$ 937,338	$ 826,039	$ 735,712
Long-term debt	$ 88,107	$ 90,534	$ 91,439	$ 73,020	$ 78,659
Total PriceSmart stockholders' equity	$ 638,071	$ 566,584	$ 548,265	$ 481,049	$ 418,914
Dividends paid on common stock(1)	$ 21,274	$ 21,126	$ 21,144	$ 18,133	$ 18,120

(1) On February 3, 2016, February 4, 2015, January 23, 2014, November 27, 2012, and January 25, 2012, the Company declared cash dividends on its common stock.

Table of Contents

PRICESMART, INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This annual report on Form 10-K contains forward-looking statements concerning PriceSmart Inc.'s ("PriceSmart", the "Company" or "we") anticipated future revenues and earnings, adequacy of future cash flows, proposed warehouse club openings, the Company's performance relative to competitors and related matters. These forward-looking statements include, but are not limited to, statements containing the words “expect,” “believe,” “will,” “may,” “should,” “proje “estimate,” “anticipated,” “scheduled,” and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the following risks: our financial performance is dependent on international operations, which exposes us to various risks; any failure by us to manage our widely dispersed operations could adversely affect our business; we face significant competition; future sales growth depends, in part, on our ability to successfully open new warehouse clubs and grow sales in our existing locations; we might not identify in a timely manner or effectively respond to changes in consumer preferences for merchandise, which could adversely affect our relationship with members, demand for our products and market share; although we have begun to offer limited online shopping to our members, our sales could be adversely affected if one or more major international online retailers were to enter our markets or if other competitors were to offer a superior online experience; our profitability is vulnerable to cost increases; we face difficulties in the shipment of and risks inherent in the importation of, merchandise to our warehouse clubs; we are exposed to weather and other natural disaster risks that might not be adequately compensated by insurance; general economic conditions could adversely impact our business in various respects; our failure to maintain our brand and reputation could adversely affect our results of operations; we are subject to risks associated with possible changes in our relationships with third parties with which we do business, as well as the performance of such third parties; we rely extensively on computer systems to process transactions, summarize results and manage our business, and failure to adequately maintain our systems and disruptions in our systems could harm our business and adversely affect our results of operations; we could be subject to additional tax liabilities or subject to reserves on the recoverability of tax receivables; a few of our stockholders own approximately 25.3% of our voting stock as of August 31, 2016, which may make it difficult to complete some corporate transactions without their support and may impede a change in control; failure to attract and retain qualified employees, increases in wage and benefit costs, changes in laws and other labor issues could materially adversely affect our financial performance; we face the possibility of operational interruptions related to union work stoppages; we are subject to volatility in foreign currency exchange rates and limits on our ability to convert foreign currencies into U.S. dollars; we face the risk of exposure to product liability claims, a product recall and adverse publicity; any failure to maintain the security of the information relating to our company, members, employees and vendors that we hold, whether as a result of cybersecurity attacks on our information systems, failure of internal controls, employee negligence or malfeasance or otherwise, could damage our reputation with members, employees, vendors and others, could disrupt our operations, could cause us to incur substantial additional costs and to become subject to litigation and could materially adversely affect our operating results; we are subject to payment related risks; changes in accounting standards and assumptions, projections, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations; we face compliance risks related to our international operations; if remediation costs or hazardous substance contamination levels at certain properties for which we maintain financial responsibility exceed management's current expectations, our financial condition and results of operations could be adversely impacted. The risks described above as well as the other risks detailed in the Company's U.S. Securities and Exchange Commission (“SEC”) reports, including the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2016 filed on October 27, 2016 pursuant to the Securities Exchange Act of 1934, see “Part II - Item 1A - Risk Factors,” could materially and adversely affect our business, financial condition and results of operations. 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.

Table of Contents

Our business consists primarily of operating international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. We operate in 13 countries/territories that are located in Latin America and the Caribbean. Our ownership in all operating subsidiaries as of August 31, 2016 is 100%, and they are presented on a consolidated basis. The number of warehouse clubs in operation as of August 31, 2016 for each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2015	Number of Warehouse Clubs in Operation as of August 31, 2016	Actual and Anticipated warehouse club openings in fiscal year 2017
Colombia	6	6	1
Costa Rica	6	6	—
Panama	5	5	—
Trinidad	4	4	—
Dominican Republic	3	3	—
Guatemala	3	3	—
El Salvador	2	2	—
Honduras	3	3	—
Aruba	1	1	—
Barbados	1	1	—
U.S. Virgin Islands	1	1	—
Jamaica	1	1	—
Nicaragua	1	2	—
Totals	37	38	1

In fiscal year 2014, we purchased land in Pereira and Medellin, Colombia and leased land in the city of Bogota, Colombia. We built new warehouse clubs on these three sites. During fiscal year 2015 we opened the Bogota location in October 2014 and the Pereira and Medellin locations in November 2014. Together with the three warehouse clubs that were already operating in Colombia (one in Barranquilla and two in Cali), these three new clubs brought the number of operating PriceSmart warehouse clubs in Colombia to six at the end of fiscal year 2015. We constructed a new warehouse club on land acquired in May 2015 in Chia, Colombia that opened in September 2016, fiscal year 2017, bringing the total of warehouse clubs operating in Colombia to seven. In September 2014, we acquired land in La Chorrera ("Costa Verde"), west of Panama City, Panama, on which we opened our fifth PriceSmart warehouse club in Panama in June 2015. In April 2015, we acquired land in Managua, Nicaragua. We constructed and then opened a warehouse club on this site in November 2015. On December 4, 2015 we signed an option to acquire two properties and then swap them for 59,353 square feet of land adjacent to our San Pedro Sula warehouse club in Honduras. We exercised this option and completed the swap during May 2016. We will use the acquired land to expand the parking lot for the San Pedro Sula warehouse club.

Our warehouse clubs and local distribution centers are located in Latin America and the Caribbean, and our corporate headquarters, U.S. buying operations and regional distribution centers are located primarily in the United States. During the second quarter of fiscal year 2015, the Company created a new reportable segment comprised of its Colombia Operations and separated the Colombia Operations from the Latin America Operations, renaming that reportable segment Central America Operations. The Company has made this change as a result of the information that the Company's chief operating decision maker regularly reviews for purposes of allocating resources and assessing performance and the growing level of investment and sales activity in Colombia. Therefore, beginning in the second quarter of fiscal year 2015, the Company has reported its financial performance based on these new segments and retrospectively adopted this change for the disclosure of financial information presented by segment. The Company’s operating segments are the United States, Central America, the Caribbean and Colombia.

General Market Factors

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

Our consolidated results of operations during the past two fiscal years were adversely affected by events in Colombia, resulting largely from a major decline in the value of the Colombian peso (COP) relative to the U.S. dollar beginning in August 2014 which negatively impacted sales and margins in that market. Over the course of fiscal year 2016, the devaluation of the Colombian peso against the U.S. dollar resulted in decreased U.S. dollar reported warehouse clubs sales, after translation by approximately 26% when compared to fiscal year 2015. However, by the end of the fiscal year, the value of the Colombian peso was approximately 5.4% higher than at the end of fiscal year 2015, following the approximately 60% overall devaluation that

Table of Contents

occurred in fiscal year 2015. A devaluation of the COP not only reduces the value of sales and membership income that is generated in Colombia when translated to U.S. dollars for our consolidated results, but also increases the local currency price of imported merchandise, which impacts demand for a significant portion of the Company's merchandise offering. This, along with the fact that we are still relatively new in the Colombia market, and the sophisticated level of competition in that market, impacted overall business performance resulting in an operating loss in Colombia. Certain of our Central American and Caribbean markets have experienced some slowing of overall economic activity during the fiscal year which may continue to impact the level of consumer spending in the coming months. In particular, Trinidad's economy, with its dependence on oil and gas exports as a major source of income and resulting government policy to manage its foreign exchange reserves, has been experiencing overall difficult economic conditions with a corresponding impact on consumer spending.

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

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

Political and other factors in each of our markets may have significant effects on our business. For example, when national elections are being held, the political situation can introduce uncertainty about how the leadership change may impact the economy and affect near-term consumer spending. The need for increased tax revenue in certain countries can cause changes in tax policies affecting consumer's personal tax rates, and/or added consumption taxes, such as VAT (value-added taxes) effectively raising the prices of various products. In addition, if a major employer in a market reduces its work force, as has happened in the past in Aruba and Costa Rica, overall consumer spending can suffer.

Currency fluctuations can be the largest variable affecting our overall sales and profit performance, as we experienced in fiscal year 2015 and 2016, as many of our markets are susceptible to foreign currency exchange rate volatility. Currency exchange rate changes either increase or decrease the cost to our subsidiaries of imported products purchased in U.S. dollars and priced in local currency. In fiscal year 2016, approximately 77.3% of our net warehouse sales were in currencies other than the U.S. dollar. Meanwhile, approximately 52% of net warehouse sales were comprised of sales of products we purchased in U.S. dollars that were sold in countries whose currencies were other than the U.S. dollar.

Currency exchange rate fluctuations also affect our consolidated sales and membership income as local-currency-denominated sales are translated to U.S. dollars, which can impact year over year growth when measured in U.S. dollars compared to local currency growth rates. In addition, we revalue on a monthly basis all U.S. dollar-denominated monetary assets and liabilities within our markets that do not use the U.S. dollar as their functional currency. These monetary assets and liabilities include, but are not limited to, excess cash permanently reinvested offshore, U.S. dollar-denominated long-term debt used to finance land acquisitions and the construction of warehouse clubs, and U.S. dollar-denominated accounts payable related to the purchase of merchandise. 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."

Where possible, we seek to minimize the impact of negative foreign exchange fluctuations on our results by utilizing from time to time one or more of the following strategies: (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 and our competition; (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) entering into cross-currency interest rate swaps and non-deliverable forward contracts. We have local-currency-denominated long-term loans in Honduras and Guatemala and have employed cross-currency interest rate swaps in Colombia, Costa Rica and Honduras and non-deliverable forward contracts in Costa Rica and Colombia. Future volatility regarding currencies could have a material impact on our operations in future periods; however, there is no way to accurately forecast the impact of the change in rates on our future demand for imported products, reported sales or financial results.

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 warehouse sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. In the second half of fiscal year 2016 and continuing into fiscal year 2017, we are experiencing this situation in Trinidad ("TT"). We are limited in our ability to convert TT dollars that we generate through sales of merchandise into U.S. dollars to settle U.S. dollar liabilities, increasing our foreign exchange exposure to any devaluation

Table of Contents

of the TT dollar. The June 2016 International Monetary Fund Country Report for Trinidad and Tobago suggests that the TT dollar could be overvalued, in the range of 20%-50% per U.S. dollar. We are working with our banks to source other tradeable currencies (such as Euros and Canadian dollars), but until the central bank makes more U.S. dollars available, this condition will continue. As of August 31, 2016, we have net U.S. dollar denominated liabilities of approximately $18.9 million that would be exposed to a potential devaluation of Trinidad dollars. If for example, a hypothetical 20% devaluation of the TT currency occurred, the net effect on other expense would be approximately $3.8 million. To the extent we are unable to exchange TT dollars for U.S. dollars, this causes delays in payments owed to us by our Trinidad subsidiary. This, in turn, reduces our ability to deploy that cash for corporate purposes. The Trinidad government is aware that having limited tradable currency poses challenges to U.S. companies doing business in Trinidad, including PriceSmart. However, until such time that the uncertain state of tradable currency is resolved, we plan to take steps to limit our exposure. We plan to reduce new shipments of merchandise to Trinidad from our distribution center in Miami to levels that generally align with our Trinidad subsidiary's ability to pay for the merchandise in U.S. dollars. Although the situation is dynamic, based on recent levels of tradable currency available, we anticipate reducing U.S. shipments to Trinidad by approximately 20% over the next three months. This is likely to result in our Trinidad subsidiary running out of certain merchandise, which could negatively impact sales in Trinidad in the second fiscal quarter by an estimated $8-$10 million. These actions do not impact merchandise on hand or currently in route from our Miami distribution center to Trinidad, nor do they impact our plans to stock merchandise we obtain locally in Trinidad. We plan to increase or decrease shipments from the U.S. in line with our ability to exchange TT dollars for other hard currencies. We will continue to seek to maximize the level of tradable currency our Trinidad subsidiary can obtain.

Business Strategy

Our business strategy is to offer for sale to businesses and families a limited number of stock keeping units (SKU's) covering a wide range of products in high volumes and at the lowest possible prices. We charge an annual membership fee to our customers. These fees, combined with warehouse and distribution operating efficiencies and volume purchasing, enable us to operate our business on lower merchandise margins than conventional retail stores and wholesale suppliers. The combination of annual membership fees, operating efficiencies and low margins enable us to offer our members high quality merchandise at very competitive prices which, in turn, enhances the membership proposition.

Current and Future Management Actions

Generally, our operating efficiencies, earnings and cash flow improve as sales increase. Higher sales provide greater purchasing power which often translates into lower cost of merchandise from our suppliers and lower prices for our members. Higher sales, coupled with continuous efforts to improve efficiencies through our distribution network and within our warehouse clubs, also give us the opportunity to leverage our operating costs and reduce prices for our members.

We seek to grow sales by increasing transaction size and shopping frequency and by providing high quality, differentiated merchandise at a good value. We also grow sales by attracting new members to our existing warehouse clubs and improving the capability and capacity of our existing warehouse clubs to serve the growing membership base and level of sales in those locations. Finally, sales growth is also achieved when we add new warehouse clubs in those markets that can support that growth. Sales during fiscal year 2016 were positively impacted by the three new warehouse clubs that opened in Colombia in the fall of 2014, another new warehouse club in Panama that opened in June 2015 and a new warehouse club in Nicaragua that opened in November 2015. Although we recognize that opening new warehouse club locations in certain existing markets can have adverse short-term implications for comparable store growth, as the new warehouse club will often attract sales from existing locations, each decision to add a location in an existing market is based on a long-term outlook. Overall, for fiscal year 2016, net warehouse sales increased 3.7%.

One of the distinguishing features of the warehouse club format is the role membership plays both in terms of pricing and member loyalty. Membership fees are considered a component of overall gross margin and therefore allow us to reduce merchandise prices. In most of our markets, the annual membership fee is the equivalent of U.S. $35 for both business members and non-business “Diamond” members. In Colombia, the membership fee has been 65,000 (COP) (including VAT) since our initial entrance into the Colombian market. The Colombian peso (COP) was trading at approximately 2,000 COP to $1.00 US dollar at that time. More recently, the Colombian peso has been trading above 3,000 COP to $1.00 US dollar so that the converted membership price in U.S. dollars has gone from approximately U.S. $30 to approximately U.S. $20. We have not raised the Colombian peso price of membership in Colombia because our business is new and we want to avoid decisions that could negatively impact member satisfaction. In addition to the standard warehouse club membership, we offer in Costa Rica what we call Platinum membership for $75. A Platinum membership earns a 2% rebate on annual purchases up to a maximum of $500 rebate per year.

Logistics and distribution efficiencies are an important part of what allows us to deliver high quality merchandise at low prices to our members. We acquire a significant amount of merchandise internationally, which we receive primarily at our Miami distribution centers. We then ship the merchandise either directly to our warehouse clubs or to regional distribution centers located in some of our larger markets. Our ability to efficiently receive, handle and distribute merchandise to the point where our

Table of Contents

members put that merchandise into their shopping carts has a significant impact on our level of operating expenses and ultimately how low we can price our merchandise. We continue to explore ways to improve efficiency, reduce costs and ensure a good flow of merchandise to our warehouse clubs. We have added local and regional distribution centers in several of our markets to improve merchandise flow and in-stock conditions and reduce operating costs, the benefit of which can be passed on to our members in the form of lower merchandise prices. These locations are generally leased, and the addition of new locations or expansion of current capacity will not require significant investment. Additionally, we have announced that in March 2016, we entered into a contract, subject to customary contingencies, to acquire a distribution center in Medley, Miami-Dade County, Florida, into which we will transfer the majority of our current Miami distribution center activities once the construction of the building is complete and the building is ready for occupancy. We currently expect completion to be in first half of calendar year 2017. This new distribution facility will increase our ability to efficiently receive, handle and distribute merchandise.

We offer our members alternatives to in-club shopping through our e-commerce platform which enables on-line access to purchase merchandise in different ways. Members have the ability to purchase certain merchandise that is not stocked in their local warehouse clubs by placing an order that we fulfill by shipping the merchandise from our U.S. distribution warehouse for pick-up at the member's local warehouse club location. In Colombia, members also can purchase in-club merchandise on-line from warehouse clubs located within the market and have it delivered to their home or office via a third-party delivery service. We have been expanding our online offerings, and while the percentage of sales through these channels relative to our overall sales is small, we believe it is an important and growing way to serve our current members and attract new 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. While our preference is to own rather than lease real estate, we have entered into real estate leases in certain cases (most recently our Bogota, Colombia site) and will likely do so in the future. Real estate ownership provides a number of advantages as compared to leasing, including lower operating expenses, flexibility to expand or otherwise enhance our buildings, long-term control over the use of the property and the residual value that the real estate may have in future years. In order to secure warehouse club locations, we occasionally have purchased more land than is actually needed for the warehouse club facility. To the extent that we acquire property in excess of what is needed for a particular warehouse club, we generally have looked to either sell or develop the excess property. Excess land at Alajuela (Costa Rica) and Brisas (Panama) is being developed by joint ventures formed by us and the sellers of the property. We are employing a similar development strategy for the excess land at the San Fernando, Trinidad and Arroyo Hondo, Dominican Republic locations where the properties are fully owned by us. The profitable sale or development of real estate is highly dependent on real estate market conditions.

In response to the devaluation of the Colombia peso, we have been working to minimize the price increases and resulting impact on demand on imported items by (1) seeking ways to further reduce costs throughout the supply chain; (2) expanding our use of local suppliers, particularly with regard to private-label branded product; and (3) continuing to offer value and merchandise differentiation to our members. Ensuring long-term growth in the Colombia market is a key strategic priority. We are prepared to accept lower merchandise margins and profits in Colombia in order to solidify our market position for the future. We believe these actions are having a positive effect as evidenced by continued new member sign-ups, improving membership renewal rates, and growth in average transaction value when measured in local currency. We remain committed to growing our presence in Colombia, and we constructed a new warehouse club in Chia, Colombia that opened in September 2016, fiscal year 2017, bringing the total of warehouse clubs operating in Colombia to seven, the most of any of our countries.

The lack of availability of U.S. dollars in our Trinidad ("TT") market (U.S. dollar illiquidity) impedes our ability to convert local TT dollars obtained through warehouse sales into U.S. dollars to settle the U.S. dollar liabilities associated with our imported products. We will continue to seek to maximize the level of tradeable currency our Trinidad subsidiary can obtain from our relationship banks, but we will begin limiting our shipments of merchandise to Trinidad in line with what our Trinidad subsidiary can pay for in tradeable currency.

Financial highlights for the fourth quarter of fiscal year 2016 included:

- Net warehouse club sales increased 1.3% over the comparable prior year period. We ended the quarter with 38 warehouse clubs compared to 37 warehouse clubs at the end of the fourth quarter of fiscal year 2015.
- Comparable warehouse club sales (that is, sales in the warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 14 weeks ended September 4, 2016 decreased 1.2%.
- Membership income for the fourth quarter of fiscal year 2016 increased 0.7% to $11.6 million.
- Warehouse gross profits (net warehouse club sales less associated cost of goods sold) in the quarter increased 1.2% over the prior-year period, and warehouse gross profits as a percent of net warehouse club sales were 14.7%, a decrease of 2 basis points (0.02%) from the same period last year.
- Operating income for the fourth quarter of fiscal year 2016 was $32.8 million, a decrease of $2.1 million compared to the fourth quarter of fiscal year 2015.

Table of Contents

- Our effective tax rate decreased in the fourth quarter of fiscal year 2016 to 30.4% from 33.3% in the fourth quarter of fiscal year 2015. This reduction in. our effective tax rate contributed approximately $0.06 per diluted share for the three-month period.
- Net income for the fourth quarter of fiscal year 2016 was $22.3 million, or $0.74 per diluted share, compared to $22.4 million, or $0.75 per diluted share, in the fourth quarter of fiscal year 2015.

Financial highlights for fiscal year 2016 included:

- Net warehouse club sales increased 3.7% over the comparable prior year period. We ended the year with 38 warehouse clubs compared to 37 warehouse clubs at the end of the fiscal year 2015. Comparable warehouse club sales (that is, sales in the warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 53 weeks ended September 4, 2016 decreased 0.8%.
- Membership income for the fiscal year 2016 increased 4.8% to $45.8 million.
- Warehouse gross profits (net warehouse club sales less associated cost of goods sold) decreased 0.8% over the prior year period and warehouse gross profits as a percent of net warehouse club sales were 14.3%, a decrease of 40 basis points (0.40%) from the same period last year.
- Operating income for fiscal year 2016 was $136.7 million, a decrease of $(9.6) million compared to fiscal year 2015.
- We had a $(900,000) net loss from currency exchange transactions in the current year compared to a $(4.4) million net loss from currency exchange transactions last year.
- The effective tax rate for fiscal year 2016 is 32.6%, as compared to the effective tax rate for fiscal year 2015 of 34.8%. This reduction in the effective tax rate contributed approximately $0.06 per diluted share for the twelve-month period.
- Net income for fiscal year 2016 was $88.7 million, or $2.92 per diluted share, compared to $89.1 million, or $2.95 per diluted share, in the prior year.

Financial highlights for fiscal year 2015 included:

- Net warehouse club sales increased 11.3% to $2.7 billion for fiscal year 2015 compared to fiscal year 2014.
- Comparable warehouse sales (that is, sales in warehouse clubs that have been open for greater than 13 1/2 calendar months) for the 52 weeks ended August 30, 2015 grew 2.7%.
- Membership income for fiscal year 2015 was $43.7 million, an increase of 14.7% compared to fiscal year 2014. The number of membership accounts at year end was 1.5 million versus $1.2 million at the end of fiscal year 2014.
- Gross profits (net warehouse sales less associated cost of goods sold) increased 11.0%. Gross profits as a percent of net warehouse sales were 14.7% for the full year, a decrease of 4 basis points (0.04%) from fiscal year 2014.
- Selling, general and administrative expenses (not including pre-opening expenses and loss on the disposal of assets) as a percentage of net warehouse club sales was 10.9%, an increase of 20 basis points (0.20%) compared to fiscal year 2014.
- Operating income for fiscal year 2015 was $146.4 million, an increase of 7.1% from the prior year.

- Foreign exchange transactions resulted in a net loss of $(4.4) million for the fiscal year 2015 compared to a net gain in fiscal year 2014 of $984,000.
- Net income for fiscal year 2015 was $89.1 million, or $2.95 per diluted share, compared to $92.9 million, or $3.07 per diluted share, in the prior year.

Comparison of Fiscal Year 2016 to 2015 and Fiscal Year 2015 to 2014

The following discussion and analysis compares the results of operations for each of the three fiscal years ended August 31, 2016, 2015, and 2014 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.

Table of Contents

Net Warehouse Club Sales

The following tables indicate the net warehouse club sales in the reportable segments in which we operate, and the percentage growth in net warehouse club sales by segment during fiscal years 2016, 2015 and 2014.

	Years Ended August 31, 2016				August 31, 2015	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 1,726,762	61.2 %	$ 130,859	8.2 %	$ 1,595,903	58.6 %
Caribbean	828,106	29.4 %	18,826	2.3 %	809,280	29.7 %
Colombia	265,872	9.4 %	(50,077)	(15.8)%	315,949	11.6 %
Net warehouse club sales	$ 2,820,740	100.0 %	$ 99,608	3.7 %	$ 2,721,132	100.0 %

	Years Ended August 31, 2015				August 31, 2014	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 1,595,903	58.6 %	$ 118,902	8.1 %	$ 1,477,001	60.4 %
Caribbean	809,280	29.7 %	35,295	4.6 %	773,985	31.7 %
Colombia	315,949	11.6 %	122,621	63.4 %	193,328	7.9 %
Net warehouse club sales	$ 2,721,132	100.0 %	$ 276,818	11.3 %	$ 2,444,314	100.0 %

Comparison of 2016 and 2015

Net warehouse sales growth resulted from a 6.2% increase in transactions and a 2.4% decrease in the average sale.

Net warehouse sales growth in Central America was positively impacted by the openings of two new warehouse clubs, one in Panama (June 2015) and one in Nicaragua (November 2015). All other Central American countries without additional warehouse clubs also recorded positive sales growth in fiscal year 2016 compared to fiscal year 2015.

The Caribbean segment had no new warehouse clubs opened in the comparable periods and recorded a 2.3% increase in net warehouse sales. A significant increase in the number of products subject to Value Added Taxes starting in February in Trinidad and currency devaluations in both Trinidad and the Dominican Republic (the Company’s two largest markets in the Caribbean segment) resulted in a negative sales growth in the second half of the fiscal year compared to the same period last year.

Net warehouse sales in Colombia were significantly impacted during the fiscal year by the devaluation of the Colombian peso relative to the U.S. dollar. The strength of the U.S. dollar causes the price of imported merchandise to increase in Colombian pesos, which reduces sales volumes of those products. In addition, net warehouse sales made in Colombian pesos when translated yielded 26% fewer U.S. dollars in the fiscal year compared to the year ago period. Net warehouse sales in local currency (COP) for fiscal year 2016 grew 6.0%, reflecting the addition of three new warehouse clubs for the first quarter of fiscal year 2016 compared to the first quarter of fiscal year 2015, and a stabilizing currency exchange rate in the fourth fiscal quarter.

Comparison of 2015 to 2014

During the first quarter of fiscal year 2015, we opened three additional warehouse clubs in Colombia (Bogota, Pereira and Medellin) bringing the total warehouse clubs in Colombia to six, which increased sales in the Colombia segment. The effect of the devaluation of the Colombian peso on U.S. dollar warehouse sales in that segment was significant. For the fiscal year, net warehouse sales in local currency in Colombia grew 106% but net warehouse sales when converted to U.S. dollars increased only 63.4%. We opened an additional warehouse club within our Central America Segment in La Chorrera ("Costa Verde"), west of Panama City, Panama, which is our fifth PriceSmart warehouse club in Panama, and fiscal year 2015 saw the full year effect of the warehouse club we opened in Tegucigalpa, Honduras in May 2014. The Caribbean segment had no new warehouse clubs in

Table of Contents

the comparable periods. Currency devaluations in the Dominican Republic and Jamaica impacted U.S. dollar denominated sales growth. Trinidad and Aruba experienced the strongest sales growth in that segment.

Comparable Sales

We report comparable warehouse club sales on a “same week” basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month and quarter that is used for financial reporting purposes. This approach equalizes the number of weekend days and weekdays in each period for improved sales comparison, as we experience higher warehouse club sales on the weekends. Approximately every five years, the Company uses a 53-week year and a six-week “August” to account for the fact that 52 weeks is only 364 days. For fiscal year 2016, we used a 53-week year and a six-week “August”. Further, each of the warehouse clubs used in the calculations was open for at least 13 1/2 calendar months before its results for the current period were compared with its results for the prior period. For example, the sales related to the warehouse club opened in Bogota, Colombia on October 29, 2014 were not used in the calculation of comparable sales until January 2016. Sales related to the warehouse clubs opened in Pereira and Medellin, Colombia on November 13, 2014 and November 26, 2014, respectively, were not used in the calculation of comparable sales until January and February 2016, respectively. Sales related to the warehouse club opened in Panama (“Costa Verde”) in June 2015 and the warehouse club opened in Nicaragua opened in November 2015 will not be used in the calculation of comparable sales until September 2016 and January 2017, respectively. Sales related to the warehouse club opened in Colombia in September 2016 will not be used in the calculation of comparable sales until November 2017.

As part of the expansion of our e-commerce program, we began direct home delivery of products not carried in our warehouse clubs to members in Colombia in August 2015. For e-commerce sales, revenue is recognized upon pickup of the merchandise by the member or when the common carrier takes possession of the merchandise. Currently these e-commerce sales of products not carried in our warehouse clubs and shipped directly to our members are being excluded from our comparable sales. Sales related to these e-commerce sales in Colombia will not be used in the calculation of comparable sales until October 2016. E-commerce sales of products where the product is sourced from one of our warehouse clubs and delivered to the members home and sales of products that are not carried in our clubs, but are delivered to clubs and picked up by our members, are reflected in the comparable sales for the warehouse club from which the inventory was sourced or picked up.

Comparison of 2016 to 2015

Comparable warehouse club sales for those warehouse clubs that were open for at least 13 ½ months for some or all of the 53 week period ending September 4, 2016 decreased 0.8%, compared to the same 53-week period last year. Comparable warehouse sales were negatively impacted by the devaluation of the Colombian peso from the year ago period. Six warehouse clubs in Colombia are included in the calculation of comparable warehouse sales. Excluding those warehouse clubs, the 53-week comparable warehouse sales for the other 30 warehouse clubs open for at least 13 ½ months increased 1.7%. We opened a new warehouse club west of Panama City, Panama in June 2015 and one in Managua, Nicaragua in November 2015. These new warehouse clubs are not far from existing warehouse clubs which are included in the calculation for comparable warehouse club sales. In both cases they are attracting new members from areas not previously served by us. However, they are also creating the opportunity for some existing members, particularly those who now find the new clubs closer to their homes, to shop at the new locations. This transfer of sales from an existing warehouse clubs that are included in the calculation of comparable warehouse club sales to new warehouse clubs that are not included in the calculation has an adverse impact on comparable warehouse club sales.

Comparison of 2015 to 2014

Comparable warehouse club sales increased 2.7% for the 52-week period ended August 31, 2015, compared to the same 52-week period in the prior year. We opened a new warehouse club in Tegucigalpa, Honduras in May 2014 and another one in Panama in June 2015. These new warehouse clubs are attracting new members from areas not previously served by us. However, they are also creating the opportunity for some existing members, particularly those who shopped at our first Tegucigalpa, Honduras warehouse club and certain members who shopped in our Panama City locations, to shop at the new locations. These transfers of sales from existing warehouse clubs that are included in the calculation of comparable warehouse club sales, to new warehouse clubs that are not included in the calculation, have an adverse impact on comparable warehouse club sales. We have estimated the impact of this effect on reported comparable warehouse club sales in the past by excluding certain warehouse clubs from the calculation. However, as the number of clubs affected by these openings, particularly those in Panama City, has increased, we believe that calculation is becoming less meaningful. As a result, we have not made a specific determination of what the 52-week comparable warehouse club sales would have been had we not opened these new warehouse clubs. In addition, we believe that there has been some impact to our first three warehouse clubs in Colombia from the opening of the three new

Table of Contents

clubs in Colombia, particularly Bogota. However, given the far more significant impact of the currency devaluation on U.S. dollar reported sales in Colombia, it would be difficult to accurately determine the effect of the transfer of sales from the existing warehouse clubs to the new clubs.

Net Warehouse Club Sales by Category

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold us during the fiscal years ended August 31, 2016, 2015 and 2014.

	Years Ended August 31,		
	2016	2015	2014
Sundries (including health and beauty aids, tobacco, alcoholic beverages, soft drinks, cleaning and paper products and pet supplies)	27 %	26 %	26 %
Food (including candy, snack foods, dry and fresh foods)	53 %	54 %	53 %
Hardlines (including major appliances, small appliances, electronics, hardware, office supplies, garden and patio, sporting goods, business machines and automotive supplies)	11 %	12 %	12 %
Softlines (including apparel, domestics, cameras, jewelry, housewares, media, toys and home furnishings)	7 %	6 %	7 %
Other (including food court)	2 %	2 %	2 %
	100 %	100 %	100 %

Comparison of 2016 to 2015

There was a slight shift in the mix of major category sales between fiscal year 2016 and 2015, with a slight decrease in food and hardlines compared to the other categories. These categories were impacted more by price compression and the effect of devaluation in Colombia than the other merchandise categories.

Export Sales

	Years Ended August 31, 2016				August 31, 2015	
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales
Export sales	$ 33,813	1.2 %	$ 534	1.6 %	$ 33,279	1.2 %

	Years Ended August 31, 2015				August 31, 2014	
	Amount	% of net sales	Increase from prior year	Change	Amount	% of net sales
Export sales	$ 33,279	1.2 %	$ 2,000	6.4 %	$ 31,279	1.3 %

The increases in export sales in both years were due to increased direct sales to a single institutional customer (retailer) in the Philippines for which PriceSmart earns an approximately 5% margin.

Table of Contents

Membership Income

	Years Ended August 31, 2016			August 31, 2015
	Amount	Increase from prior year	% Change	Amount
Membership income	$ 45,781	$ 2,108	4.8 %	$ 43,673
Membership income % to net warehouse club sales	1.6 %			1.6 %
Number of total accounts	1,490,424	4,239	0.3 %	1,486,185

	Years Ended August 31, 2015			August 31, 2014
	Amount	Increase from prior year	% Change	Amount
Membership income	$ 43,673	$ 5,610	14.7 %	$ 38,063
Membership income % to net warehouse club sales	1.6 %			1.6 %
Number of total accounts	1,486,185	303,830	25.7 %	1,182,355

Comparison of 2016 to 2015

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 for which income is recognized during the last twelve months. The average number of member accounts during the fiscal year was 7.6% higher than the year before. The income recognized per average member account decreased 0.3%, which primarily reflects the effect of the impact of devaluation in Colombia on the translation of membership fees in local currency to U.S. dollars. In Colombia, the membership is priced in Colombian pesos (COP) and we have not raised the fee to offset the devaluation impact. At the August exchange rate, a membership in Colombia yielded approximately $19.00 compared to approximately

$35.00 in most other countries. We ended the fiscal year with a renewal rate of 80% for the twelve-month period ended August 31, 2016.

During fiscal year 2016, the Company experienced a net growth in membership accounts of 4,239 accounts, or 0.3%. Colombia's membership accounts during the fiscal year declined 57,522, while the other countries grew by 61,761 accounts. The decrease in overall accounts in Colombia was due to the first anniversary date for a large number of accounts associated with the three warehouse clubs in Colombia that opened in October and November of 2015 and the low renewal rate for those accounts. The opening of these three warehouse clubs in fiscal year 2015 resulted in approximately 124,000 expiring accounts in October, November and December from the record number of new member sign-ups experienced at the opening of these clubs. As expected, we experienced a low renewal rate for those expiring accounts due to a historically low renewal rate for first year members across our markets, the distance of our warehouse clubs in Bogota and Medellin to where certain members live, and the impact of price increases on imported products due to the Colombian peso devaluation. While we continue to see new member sign-ups in Colombia, and an improving renewal rate of current members in Colombia, the twelve-month renewal rate is impacted by those non-renewals earlier in the fiscal year. The Company's twelve-month renewal rate for the period ended August 31, 2016 declined to 80% from 86% for the twelve months ended August 31, 2015. Excluding Colombia, the twelve-month renewal rate was 87% as of August 31, 2016, consistent with 87% in August 2015, November 2015, and February 2016.

Comparison of 2015 to 2014

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 during the last twelve months. The average number of member accounts during the fiscal year increased 19.4% compared to last year. The opening of the new warehouse clubs in Colombia accounted for over 71% of the total increase in member accounts from a year ago. We continue to experience membership growth in the three new Colombia warehouse clubs since they opened in October and November 2014. Similarly, we have experienced membership growth in Panama as a result of the additional warehouse club opened in that country. The income recognized per average member account decreased 3.9%, which reflects the effect of the impact of devaluation in Colombia on the translation of membership fees in local currency to U.S. dollars. In Colombia, the membership is priced in Colombian pesos (COP) and we have not raised the fee to offset the devaluation impact. At the August exchange rate, a membership in Colombia yielded

Table of Contents

approximately $20.00 compared to approximately $35.00 in most other countries. We ended the fiscal year with a renewal rate of 86% for the twelve-month period ended August 31, 2015.

Other Income

	Years Ended August 31, 2016			August 31, 2015
	Amount	Increase from prior year	% Change	Amount
Other income	$ 4,842	$ 323	7.1 %	$ 4,519

	Years Ended August 31, 2015			August 31, 2014
	Amount	Increase from prior year	% Change	Amount
Other income	$ 4,519	$ 608	15.5 %	$ 3,911

Comparison of 2016 to 2015

For the twelve-month period, the period-over-period increase was attributable to $426,000 in insurance gains associated with insured business losses during fiscal year.

Comparison of 2015 to 2014

The increase in Other income for fiscal year 2015 compared to fiscal year 2014 resulted primarily from growth in rental income.

Gross Margin

Warehouse Gross Profit Margin

	Years Ended August 31, 2016				August 31, 2015		
	Amount	Increase/ (decrease) from prior year	% to sales		Amount	% to sales	
Warehouse club sales	$ 2,820,740	$ 99,608	100.0	%	$ 2,721,132	100.0	%
Less associated cost of goods	2,417,366	96,292	85.7	%	2,321,074	85.3	%
Warehouse gross profit margin	$ 403,374	$ 3,316	14.3	%	$ 400,058	14.7	%

	Years Ended August 31, 2015				August 31, 2014		
	Amount	Increase/ (decrease) from prior year	% to sales		Amount	% to sales	
Warehouse club sales	$ 2,721,132	$ 276,818	100.0	%	$ 2,444,314	100.0	%

Less associated cost of goods		2,321,074		237,141	85.3	%		2,083,933	85.3	%
Warehouse gross profit margin	$	400,058	$	39,677	14.7	%	$	360,381	14.7	%

13

Table of Contents

Comparison of 2016 to 2015

For the twelve months ended August 31, 2016, warehouse gross profit margin as a percent of sales was 40 basis points (0.40%) lower than the twelve months ended August 31, 2015. Warehouse gross profit margin as a percent of sales decreased 149 basis points (1.49%) in Colombia from the year ago period largely as a result of pricing actions we took during the year to provide value on imported goods to our members. Warehouse gross profit margins as a percent of sales in the non-Colombia markets were in aggregate 39 basis points (0.39%) lower resulting from a higher level of markdowns, reduced endcap activity and higher per unit distribution costs.

Comparison of 2015 to 2014

For the twelve months ended August 31, 2015, warehouse gross profit margin as a percent of sales was four basis points (0.04%) lower than the twelve months ended August 31, 2014. In the first fiscal quarter we benefited from lower costs as a percent of sales in a number of areas, including lower merchandise distribution costs and reduced shrink. Vendor rebates and a higher level of product demonstration activity also contributed to the higher gross margin in the current period compared to the year earlier period. This was partially offset in the second and third fiscal quarters with lower margins in Colombia. In the fourth quarter of fiscal year 2015, warehouse gross profit margins were 14.8% of net warehouse sales, a decrease of 46 basis points (0.46%) from the fourth quarter of fiscal year 2014. We continue to operate with lower merchandise margins in Colombia which impacts the consolidated results. In the fourth quarter of fiscal year 2015, merchandise margins in Colombia were 282 basis points (2.82%) lower, compared to the fourth quarter of fiscal year 2014. For the full fiscal year 2015, merchandise margins in Colombia decreased 211 basis points (2.11%) from fiscal year 2014. Fiscal year 2015 margins excluding Colombia increased 30 basis points (0.30%) from fiscal year 2014.

Export Sales Gross Profit Margin

	Years Ended August 31, 2016			August 31, 2015	
	Amount	Increase/ (decrease) from prior year	% to sales	Amount	% to sales
Export sales	$ 33,813	$ 534	100.0 %	$ 33,279	100.0 %

Less associated cost of goods sold	32,260	495	95.4	%	31,765	95.5	%
Export sales gross profit margin	$ 1,553	$ 39	4.6	%	$ 1,514	4.5	%

	Years Ended August 31, 2015				August 31, 2014		
	Amount	Increase/ (decrease) from prior year	% to sales		Amount	% to sales	
Export sales	$ 33,279	$ 2,000	100.0	%	$ 31,279	100.0	%
Less associated cost of goods sold	31,765	2,034	95.5	%	29,731	95.1	%
Export sales gross profit margin	$ 1,514	$ (34)	4.5	%	$ 1,548	4.9	%

Comparison of 2016 to 2015 and 2015 to 2014

The increase in fiscal year 2016 and fiscal year 2015 in export sales gross margin dollars compared to the prior year period(s) was in line with the growth in direct sales to an institutional customer (retailer) in the Philippines for which we generally earn lower margins than those obtained through our warehouse club sales.

Table of Contents

Selling, General and Administrative Expenses

Warehouse Club Operations

	Years Ended August 31, 2016				August 31, 2015	
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales
Warehouse club operations expense	$ 252,130	8.9 %	$ 10,845	4.5 %	$ 241,285	8.9 %

	Years Ended August 31, 2015				August 31, 2014	
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales
Warehouse club operations expense	$ 241,285	8.9 %	$ 28,809	13.6 %	$ 212,476	8.7 %

Comparison of 2016 to 2015

The Company incurred the expenses associated with five new warehouse clubs for all or a portion of fiscal year 2016 compared to fiscal year 2015. The combination of lower first year sales and resulting higher expense ratio for new warehouse clubs compared to more mature clubs, and the cannibalization of sales from an existing nearby club without the proportionate decrease in expenses, resulted in an overall 7 basis point (0.07%) increase in warehouse operations expense as a percent of net warehouse sales.

Table of Contents

Comparison of 2015 to 2014

Warehouse club operations expense as a percent of net warehouse sales for the twelve months of fiscal year 2015 increased 18 basis points (0.18%) compared to the same period in fiscal 2014. The opening of the three new clubs in Colombia during the year, combined with the higher operating costs in Colombia (including the "Equity Tax" of $850,000 recognized in the second fiscal quarter), was the primary contributor to the increase as a percent of net warehouse sales. Lower utility costs and other operating expense leverage resulted in a nine basis point (0.09%) reduction in warehouse club expense as a percent of net warehouse sales excluding Colombia.

General and Administrative Expenses

	Years Ended August 31, 2016				August 31, 2015	
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales
General and administrative expenses	$ 64,344	2.3 %	$ 7,973	14.1 %	$ 56,371	2.1 %

	Years Ended August 31, 2015				August 31, 2014	
	Amount	% to warehouse club sales	Increase from prior year	% Change	Amount	% to warehouse club sales
General and administrative expenses	$ 56,371	2.1 %	$ 6,427	12.9 %	$ 49,944	2.0 %

Comparison of 2016 to 2015

For the twelve-month period, general and administrative expenses grew 14.1%, resulting from additional staffing to support the Company's growth, most notably in the buying and information technology "IT" areas, and increased deferred compensation expense associated with stock awards granted in the first quarter, totaling approximately $3.0 million.

Comparison of 2015 to 2014

The expenses associated with our corporate and U.S. buying operations grew 12.9% during the fiscal year, compared to last year. Spending on IT initiatives and professional fees associated with increased compliance activities contributed to the increase during the year, as did additional staffing needs within our U.S. Buying Department (personnel involved in contracting and coordination of merchandise purchasing) and our IT departments, to support the growth of the Company.

Pre-Opening Expenses

Expenses incurred before a warehouse club is in operation are captured in pre-opening expenses.

	Years Ended August 31, 2016			August 31, 2015
	Amount	(Decrease) from prior year	% Change	Amount
Pre-opening expenses	$ 1,191	$ (2,546)	(68.1) %	$ 3,737

16

Table of Contents

	Years Ended August 31, 2015			August 31, 2014
	Amount	Increase from prior year	% Change	Amount
Pre-opening expenses	$ 3,737	$ 406	12.2 %	$ 3,331

Comparison of 2016 to 2015

During the first and second quarters of fiscal year 2016, pre-opening expenses were related to the warehouse club opened in Managua, Nicaragua during November 2015, and during the third and fourth quarters, pre-opening expenses incurred were related to the new warehouse club opened in Chia, Colombia on September 1, 2016.

Comparison of 2015 to 2014

The pre-opening expenses for fiscal year 2015 were for the three Colombia warehouse clubs (Bogota, Pereira and Medellin) and the Panama warehouse club. We opened the Bogota location in October 2014 and opened the other two Colombian sites in November 2014. Additionally, we opened the Panama, Costa Verde, warehouse club during the fourth quarter of the fiscal year.

Loss/(Gain) on Disposal of Assets

Asset disposal activity consisted mainly of normally scheduled asset replacement and upgrades.

Years Ended

	August 31, 2016			August 31, 2015
	Amount	(Decrease) from prior year	% Change	Amount
Loss/(gain) on disposal of assets	$ 1,162	$ (843)	(42.0) %	$ 2,005

	Years Ended August 31, 2016			August 31, 2015
	Amount	Increase from prior year	% Change	Amount
Loss/(gain) on disposal of assets	$ 2,005	$ 560	38.8 %	$ 1,445

Operating Income

	Years Ended August 31, 2016				August 31, 2015	
	Amount	% to warehouse club sales	(Decrease) from prior year	% Change	Amount	% to warehouse club sales
Operating income	$ 136,723	4.8 %	$ (9,643)	(6.6) %	$ 146,366	5.4 %

Table of Contents

	Years Ended					
	August 31, 2015		Increase		August 31, 2014	
	Amount	% to warehouse club sales	from prior year	% Change	Amount	% to warehouse club sales
Operating income	$ 146,366	5.4 %	$ 9,659	7.1 %	$ 136,707	5.6 %

Comparison of 2016 to 2015

For the twelve-months ended August 31, 2016, operating income decreased $9.6 million compared to the prior year period. A 15.9% decrease in net warehouse sales and lower merchandise margins increased the operating loss in Colombia by $3.5 million; and lower merchandise margins and higher operating expenses (including G&A) offset the increased sales in the non-Colombia countries and resulting in a reduced operating profit of $6.1 million compared to fiscal year 2015.

Comparison of 2015 to 2014

Operating income increased by $9.7 million compared to the prior year, resulting from higher sales and membership income. As a percentage of sales, operating income decreased 21 basis points (0.21%), primarily due to reduced merchandise margins and higher operating expenses in Colombia compared to the rest of the Company.

Interest Expense

	Years Ended	
	August 31, 2016	August 31, 2015

	Amount	Increase/ (decrease) from prior year	Amount
Interest expense on loans	$ 4,991	$ 187	$ 4,804
Interest expense related to hedging activity	1,982	(709)	2,691
Capitalized interest	(1,082)	(27)	(1,055)
Net interest expense	$ 5,891	$ (549)	$ 6,440

	Years Ended August 31, 2015		August 31, 2014
	Amount	Increase/ (decrease) from prior year	Amount
Interest expense on loans	$ 4,804	$ 659	$ 4,145
Interest expense related to hedging activity	2,691	1,059	1,632
Capitalized interest	(1,055)	427	