PRICESMART INC
Form 10-Q
April 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2017

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 0-22793

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

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

9740 Scranton Road, San Diego, CA 92121

(Address of principal executive offices)

(858) 404-8800

(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 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 registrant had 30,398,096 shares of its common stock, par value $0.0001 per share, outstanding at March 31, 2017.

PRICESMART, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.'s ("PriceSmart," "we" or the "Company") unaudited consolidated balance sheet as of February 28, 2017 and the consolidated balance sheet as of August 31, 2016, the unaudited consolidated statements of income for the three and six months ended February 28, 2017 and February 29, 2016, the unaudited consolidated statements of comprehensive income for the three and six months ended February 28, 2017 and February 29, 2016, the unaudited consolidated statements of equity for the six months ended February 28, 2017 and February 29, 2016, and the unaudited consolidated statements of cash flows for the six months ended February 28, 2017 and February 29, 2016, are included herein. Also included herein are the notes to the unaudited consolidated financial statements.

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PRICESMART, INC.

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	February 28, 2017 (Unaudited)	August 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 181,990	$ 199,522
Short-term restricted cash	816	518
Receivables, net of allowance for doubtful accounts of $7 as of February 28, 2017 and August 31, 2016, respectively	6,384	7,464
Merchandise inventories	296,984	282,907
Prepaid expenses and other current assets	20,922	22,143
Total current assets	507,096	512,554
Long-term restricted cash	2,709	2,676
Property and equipment, net	535,479	473,045
Goodwill	35,692	35,637
Deferred tax assets	12,251	12,258
Other non-current assets (includes $3,332 and $3,224 as of February 28, 2017 and August 31, 2016, respectively, for the fair value of derivative instruments)	52,966	49,798
Investment in unconsolidated affiliates	10,759	10,767
Total Assets	$ 1,156,952	$ 1,096,735
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term borrowings	$ 6,561	$ 16,534
Accounts payable	265,756	267,173
Accrued salaries and benefits	17,181	19,606
Deferred membership income	22,921	20,920
Income taxes payable	5,933	4,226
Other accrued expenses (includes $87 and $110 as of February 28, 2017 and August 31, 2016, respectively, for the fair value of foreign currency forward contracts)	22,620	24,880
Dividends payable	10,643	—
Long-term debt, current portion	14,623	14,565
Total current liabilities	366,238	367,904
Deferred tax liability	1,693	1,760
Long-term portion of deferred rent	8,961	8,961
Long-term income taxes payable, net of current portion	891	970
Long-term debt, net of current portion	101,942	73,542
	5,533	5,527

Other long-term liabilities (includes $665 and $1,514 for the fair value of derivative instruments and $4,868 and $4,013 for post employment plans as of February 28, 2017 and August 31, 2016, respectively)		
Total Liabilities	485,258	458,664

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Equity:		
Common stock $0.0001 par value, 45,000,000 shares authorized; 31,264,387 and 31,237,658 shares issued and 30,404,645 and 30,401,307 shares outstanding (net of treasury shares) as of February 28, 2017 and August 31, 2016, respectively	3	3
Additional paid-in capital	417,776	412,369
Tax benefit from stock-based compensation	11,534	11,321
Accumulated other comprehensive loss	(104,811)	(103,951)
Retained earnings	381,864	351,060
Less: treasury stock at cost, 859,742 shares and 836,351 shares as of February 28, 2017 and August 31, 2016, respectively	(34,672)	(32,731)
Total Equity	671,694	638,071
Total Liabilities and Equity	$ 1,156,952	$ 1,096,735

See accompanying notes.

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PRICESMART, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED—AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Revenues:				
Net warehouse club sales	$ 772,273	$ 758,987	$ 1,488,352	$ 1,449,818
Export sales	8,172	6,549	18,906	14,781
Membership income	11,833	11,285	23,543	22,751
Other income	1,018	1,110	2,067	2,512
Total revenues	793,296	777,931	1,532,868	1,489,862
Operating expenses:				
Cost of goods sold:				
Net warehouse club	659,802	651,500	1,268,292	1,241,683
Export	7,761	6,225	17,942	14,057
Selling, general and administrative:				
Warehouse club operations	67,784	64,763	133,210	125,603
General and administrative	18,212	16,184	35,014	31,647
Pre-opening expenses	—	71	(113)	376
Loss/(gain) on disposal of assets	335	52	742	65
Total operating expenses	753,894	738,795	1,455,087	1,413,431
Operating income	39,402	39,136	77,781	76,431
Other income (expense):				
Interest income	549	280	1,051	458
Interest expense	(1,644)	(1,536)	(3,298)	(2,909)
Other income (expense), net	915	(552)	(13)	(796)
Total other income (expense)	(180)	(1,808)	(2,260)	(3,247)
Income before provision for income taxes and income (loss) of unconsolidated affiliates	39,222	37,328	75,521	73,184
Provision for income taxes	(11,989)	(11,815)	(23,426)	(23,945)
Income (loss) of unconsolidated affiliates	(14)	429	(7)	375
Net income	27,219	$ 25,942	$ 52,088	49,614
Net income per share available for distribution:				
Basic net income per share	$ 0.90	$ 0.85	$ 1.72	$ 1.63
Diluted net income per share	$ 0.90	$ 0.85	$ 1.72	$ 1.63
Shares used in per share computations:				
Basic	30,004	29,914	29,993	29,902

Diluted	30,008	29,919	29,997	29,907
Dividends per share	$ 0.70	$ 0.70	$ 0.70	$ 0.70

See accompanying notes.

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PRICESMART, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED—AMOUNTS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net income	$ 27,219	$ 25,942	$ 52,088	$ 49,614
Other Comprehensive Income, net of tax:				
Foreign currency translation adjustments (1)	$ 9,237	$ (10,420)	$ (1,629)	$ (10,892)
Defined benefit pension plan:				
Amortization of prior service cost and actuarial gains included in net periodic pensions cost	(7)	(4)	(14)	(8)
Total defined benefit pension plan	(7)	(4)	(14)	(8)
Derivative instruments: (2)				
Unrealized gains/(losses) on change in fair value of interest rate swaps	291	(211)	783	(331)
Total derivative instruments	291	(211)	783	(331)
Other comprehensive income (loss)	9,521	(10,635)	(860)	(11,231)
Comprehensive income	$ 36,740	$ 15,307	$ 51,228	$ 38,383

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

(2) See Note 7 - Derivative Instruments and Hedging Activities.

See accompanying notes.

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PRICESMART, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(UNAUDITED—AMOUNTS IN THOUSANDS)

	Common Stock Shares	Amount	Additional Paid-in Capital	Tax Benefit From Stock Based Compensation	Accumulated Other Comprehensive Income(Loss)	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Equity
Balance at August 31, 2015	30,978	$ 3	$ 403,168	$ 10,711	$ (101,512)	$ 283,611	793	$ (29,397)	$ 566,584
Purchase of treasury stock	—	—	—	—	—	—	27	(1,956)	(1,956)
Issuance of restricted stock award	208	—	—	—	—	—	—	—	—
Exercise of stock options	4	—	80	—	—	—	—	—	80
Stock-based compensation	—	—	4,578	558	—	—	—	—	5,136
Dividend paid to stockholders	—		—	—	—	(10,629)	—	—	(10,629)
Dividend payable to stockholders	—	—	—	—	—	(10,629)	—	—	(10,629)
Net income	—	—	—	—	—	49,614	—	—	49,614
Other comprehensive income (loss)	—	—	—	—	(11,231)	—	—	—	(11,231)
Balance at February 29, 2016	31,190	$ 3	$ 407,826	$ 11,269	$ (112,743)	$ 311,967	820	$ (31,353)	$ 586,969
Balance at August 31, 2016	31,238	$ 3	$ 412,369	$ 11,321	$ (103,951)	$ 351,060	836	$ (32,731)	$ 638,071
Purchase of treasury stock	—	—	—	—	—	—	24	(1,941)	(1,941)
	23	—	—	—	—	—	—	—	—

Issuance of restricted stock award									
Forfeiture of restricted stock awards	(2)	—	—	—	—	—	—	—	—
Exercise of stock options	5	—	229	—	—	—	—	—	229
Stock-based compensation	—	—	5,178	213	—	—	—	—	5,391
Dividend paid to stockholders	—	—	—	—	—	(10,641)	—	—	(10,641)
Dividend payable to stockholders	—	—	—	—	—	(10,643)	—	—	(10,643)
Net income	—	—	—	—	—	52,088	—	—	52,088
Other comprehensive income (loss)	—	—	—	—	(860)	—	—	—	(860)
Balance at February 28, 2017	31,264	$ 3	$ 417,776	$ 11,534	$ (104,811)	$ 381,864	860	$ (34,672)	$ 671,694

See accompanying notes.

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PRICESMART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED—AMOUNTS IN THOUSANDS)

	Six Months Ended February 28, 2017	February 29, 2016
Operating Activities:		
Net income	$ 52,088	$ 49,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,562	18,732
(Gain)/loss on sale of property and equipment	742	65
Deferred income taxes	(1,412)	16
Excess tax benefit on stock-based compensation	(213)	(558)
Equity in (gains) losses of unconsolidated affiliates	7	(375)
Stock-based compensation	5,178	4,578
Change in operating assets and liabilities:		
Receivables, prepaid expenses and other current assets, non-current assets, accrued salaries and benefits, deferred membership income and other accruals	386	(3,824)
Merchandise inventories	(14,077)	7,074
Accounts payable	(817)	(5,742)
Net cash provided by (used in) operating activities	64,444	69,580
Investing Activities:		
Additions to property and equipment	(87,020)	(32,177)
Deposits for land purchase option agreements	(300)	(75)
Proceeds from disposal of property and equipment	181	129
Investment in joint ventures	—	(119)
Net cash provided by (used in) investing activities	(87,139)	(32,242)
Financing Activities:		
Proceeds from long-term bank borrowings	35,700	7,370
Repayment of long-term bank borrowings	(7,231)	(6,747)
Proceeds from short-term bank borrowings	—	5,650
Repayment of short-term bank borrowings	(10,011)	(12,204)
Cash dividend payments	(10,641)	(10,629)
Excess tax benefit on stock-based compensation	213	558
Purchase of treasury stock	(1,941)	(1,956)
Proceeds from exercise of stock options	229	80
Net cash provided by (used in) financing activities	6,318	(17,878)
Effect of exchange rate changes on cash and cash equivalents	(1,155)	(3,524)
Net increase (decrease) in cash and cash equivalents	(17,532)	15,936
Cash and cash equivalents at beginning of period	199,522	157,072

Cash and cash equivalents at end of period	$ 181,990	$ 173,008
Supplemental disclosure of cash flow information:		
Dividends declared but not paid	$ 10,643	$ 10,629

See accompanying notes.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

February 28, 2017

NOTE 1 – COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart" or the "Company") business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of February 28, 2017, the Company had 39 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (seven in Colombia; six in Costa Rica; five in Panama; four in Trinidad; three each in Guatemala, Honduras and the Dominican Republic; two each in El Salvador and Nicaragua; and one each in Aruba, Barbados, Jamaica, and the United States Virgin Islands), of which the Company owns 100% of the corresponding legal entities (see Note 2 - Summary of Significant Accounting Policies). The Company opened a new warehouse club in Chia, Colombia in September 2016, fiscal year 2017, which the Company constructed on land acquired in May 2015, bringing the total of warehouse clubs operating in Colombia to seven. In April 2015, the Company acquired land in Managua, Nicaragua. The Company constructed and then opened a warehouse club on this site in November 2015. On December 4, 2015 the Company 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. The Company exercised this option and completed the swap during May 2016. The Company used the acquired land to expand the parking lot for the San Pedro Sula warehouse club. The expansion was completed in December 2016. The Company, on February 1, 2017, acquired land in Santa Ana, Costa Rica upon which the Company plans to construct a new warehouse club. The Company currently plans to open this new warehouse club in the fall of 2017. With the six warehouse clubs currently operating in Costa Rica, this new warehouse club will bring the number of PriceSmart warehouse clubs operating in Costa Rica to seven. The Company continues to explore other potential sites for future warehouse clubs in Central America, the Caribbean and Colombia.

Basis of Presentation - The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016 (the "2016 Form 10-K"). The interim consolidated financial statements include the accounts of PriceSmart, Inc., a Delaware corporation, and its subsidiaries. Inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

The Company has evaluated subsequent events through the date and time these financial statements were issued.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The interim consolidated financial statements of the Company included herein include the assets, liabilities and results of operations of the Company’s wholly owned subsidiaries and the Company's investment in, and the Company's share of the income (loss) of, joint ventures recorded under the equity method. All significant inter-company accounts and transactions have been eliminated in consolidation. The interim consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC and reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the periods presented. The results for interim periods are not necessarily indicative of the results for the full year. As of February 28, 2017, all of the Company's subsidiaries were wholly owned. Additionally, the Company's ownership interest in real estate development joint ventures as of February 28, 2017 is listed below:

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

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

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

Due to the initial nature of the joint ventures and the continued commitments for additional financing, the Company determined these joint ventures are VIEs. Since all rights, obligations and the power to direct the activities of a VIE that most significantly impact the VIE's economic performance is shared equally by both parties within each joint venture, the Company has determined that it is not the primary beneficiary of the VIEs and, therefore, has accounted for these entities under the equity method. Under the equity method, the Company's investments in unconsolidated affiliates are initially recorded as an investment in the stock of an investee at cost and are adjusted for the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of the initial investment.

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

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

In most countries where the Company operates, the tax refund process is defined and structured with regular refunds or offsets. However, in three countries there is either not a clearly defined process or the government has alleged there is not a clearly defined process to allow the authorities to refund VAT receivables. The Company, together with its tax and legal advisers, is currently appealing these interpretations in court and expects to prevail. In one of these countries, where there is recent favorable jurisprudence, the government performed an audit to verify the amount of the VAT receivables as a required precursor to any refund. The balance of the VAT receivables in these countries was $8.7 million and $7.6 million as of February 28, 2017 and August 31, 2016, respectively. In another country in which the Company operates warehouse clubs, a new minimum income tax mechanism took effect in fiscal year 2015, which requires the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The current rules (which the Company has challenged in court) do not clearly allow the Company to obtain a refund or to offset this excess income tax against other taxes. As of February 28, 2017, the Company had deferred tax assets of approximately $2.0 million in this country. Also, the Company had an income tax receivable balance of $3.5 million as of February 28, 2017 related to excess payments from fiscal years 2015, 2016 and 2017. The Company has not placed any type of allowance on the recoverability of these tax receivables or deferred tax assets, because the Company believes that it is more likely than not that it will ultimately succeed in its refund requests, related appeals and/or court challenge on this matter.

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

- Short-term VAT and Income tax receivables, recorded as Other current assets: This classification is used for any countries where the Company's subsidiary has generally demonstrated the ability to recover the VAT or income tax receivable within one year. The Company also classifies as short-term any approved refunds or credit notes to the extent that the Company expects to receive the refund or use the credit notes within one year.

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

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

	February 28, 2017	August 31, 2016
Prepaid expenses and other current assets	$ 1,702	$ 1,635
Other non-current assets	34,060	32,502
Total amount of VAT receivable reported	$ 35,762	$ 34,137

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

	February 28, 2017	August 31, 2016
Prepaid expenses and other current assets	$ 4,756	$ 6,402
Other non-current assets	12,037	10,376
Total amount of income tax receivable reported	$ 16,793	$ 16,778

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

Stock Based Compensation – The Company offers three types of equity awards: stock options (“options”), restricted stock awards (“RSAs”) and restricted stock units (“RSUs”). Compensation related to options is accounted for by applying the valuation technique based on the Black-Scholes model. Compensation related to RSAs and RSUs is based on the fair market value at the time of grant with the application of an estimated forfeiture rate. The Company recognizes the compensation cost related to these awards over the requisite service period as determined by the grant, amortized ratably or on a straight line basis over the life of the grant. The Company utilizes “modified grant-date accounting” for true-ups due to actual forfeitures at the vesting dates. The Company records the tax savings resulting from tax deductions in excess of expense for stock-based compensation as additional paid-in capital and the tax deficiency resulting from stock-based compensation in excess of the related tax deduction as a reduction in paid-in capital, based on the Tax Law Ordering method. In addition, the Company reflects the tax savings (deficiency) resulting from the taxation of stock-based compensation as a financing cash flow in its consolidated statement of cash flows, rather than as an operating cash flow.

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

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

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

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

The Company’s current financial assets and liabilities have fair values that approximate their carrying values. The Company’s long-term financial assets have fair values that approximate their carrying values. The Company’s long-term financial liabilities consist of long-term debt, which is recorded on the balance sheet at issuance price and adjusted for any applicable unamortized discounts or premiums and debt issuance costs. There have been no significant changes in fair market value of the Company’s current and long-term financial assets, and there have been no material changes to the valuation techniques utilized in the fair value measurement of assets and liabilities as disclosed in the Company’s 2016 Form 10-K.

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

Cash Flow Instruments. The Company is a party to receive floating interest rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain U.S. dollar denominated debt within its international subsidiaries. The swaps are designated as cash flow hedges of interest expense risk. These instruments are considered effective hedges and are recorded using hedge accounting. The Company is also a party to receive variable interest rate, pay fixed interest rate cross-currency interest rate swaps to hedge the interest rate and currency exposure associated with the expected payments of principal and interest of U.S.

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denominated debt within its international subsidiaries whose functional currency is other than the U.S. dollar. The swaps are designated as cash flow hedges of the currency risk related to payments on the U.S. denominated debt. These instruments are also considered to be effective hedges and are recorded using hedge accounting. Under cash flow hedging, the effective portion of the fair value of the derivative, calculated as the net present value of the future cash flows, is deferred on the consolidated balance sheets in accumulated other comprehensive loss. If any portion of an interest rate swap is determined to be an ineffective hedge, the gains or losses from changes in fair value would be recorded directly in the consolidated statements of income. Amounts recorded in accumulated other comprehensive loss are released to earnings in the same period that the hedged transaction impacts consolidated earnings. See Note 7 - Derivative Instruments and Hedging Activities for information on the fair value of interest rate swaps and cross-currency interest rate swaps as of February 28, 2017 and August 31, 2016.

Fair Value Instruments. The Company is exposed to foreign-currency exchange rate fluctuations in the normal course of business. This includes exposure to foreign-currency exchange rate fluctuations on U.S. dollar denominated liabilities within the Company’s international subsidiaries whose functional currency is other than the U.S. dollar. The Company manages these fluctuations, in part, through the use of non-deliverable forward foreign-exchange contracts that are intended to offset changes in cash flows attributable to currency exchange movements. The contracts are intended primarily to economically address exposure to U.S. dollar merchandise inventory expenditures made by the Company’s international subsidiaries whose functional currency is other than the U.S. dollar. Currently, these contracts are treated for accounting purposes as fair value instruments and do not qualify for derivative hedge accounting, and as such the Company does not apply derivative hedge accounting to record these transactions. As a result, these contracts are valued at fair value with unrealized gains or losses reported in earnings during the period of the change. The Company seeks to mitigate foreign-currency exchange-rate risk with the use of these contracts and does not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features and are limited to less than one year in duration. See Note 7 - Derivative Instruments and Hedging Activities for information on the fair value of open, unsettled forward foreign-exchange contracts as of February 28, 2017 and August 31, 2016.

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

The Company’s Guatemala Pradera warehouse club experienced a fire in its merchandise receiving department during the early morning hours of June 4, 2015. No members or employees were in the warehouse club at the time. The fire was extinguished, but caused considerable smoke and some fire damage. The warehouse club was closed for nine days and reopened on June 13, 2015. The Company is insured for these costs and filed an insurance claim with its insurance provider. As of August 31, 2015, the Company's receivable related to this insurance claim was approximately $2.6 million. The Company’s insurance policy also addresses coverage for business interruption. During the fourth quarter of fiscal year 2015, the Company filed a claim with its insurance carrier for approximately $332,000 related to business interruption for which the Company did not record a receivable.

The Company received the final insurance settlement payments of approximately $3.1 million during the quarter ended November 30, 2015. As a result, the Company recorded a credit to cost of goods sold of approximately $165,000 during the period that reflects the reversal of the inventory written off previously and now covered under the claim and gain on the disposal of assets for $85,000 that included reimbursement from the insurance for assets disposed of in fiscal year 2015. Additionally, the Company recorded during the quarter ended November 30, 2015 other income from insurance proceeds of approximately $202,000 during the period that reflects the amount reimbursed to the Company for business interruption coverage, net of taxes and other miscellaneous amounts charged to the Company by the insurance company for storage of the damaged inventory.

Foreign Currency Translation – The assets and liabilities of the Company’s foreign operations are translated to U.S. dollars when the functional currency in the Company’s international subsidiaries is the local currency and not U.S. dollars. Assets and liabilities of these foreign subsidiaries are translated to U.S. dollars at the exchange rate on the balance sheet date, and revenue, costs and expenses are translated at average rates of exchange in effect during the period. The corresponding translation gains and losses are recorded as a component of accumulated other comprehensive income or loss. These adjustments will affect net income upon the sale or liquidation of the underlying investment. Monetary assets and liabilities denominated in currencies other than the functional currency of the respective entity (primarily U.S. dollars) are revalued to the functional currency using the exchange rate on the balance sheet date. These foreign exchange transaction gains (losses), including transactions recorded involving these monetary assets and liabilities, are recorded as Other income (expense) in the consolidated statements of income.

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The following table summarizes the amounts recorded for the three and six months ended February 28, 2017 and February 29, 2016 (in thousands):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Currency gain (loss)	$ 915	$ (552)	$ (13)	$ (796)

Recent Accounting Pronouncements – Not Yet Adopted

FASB ASC 230 ASU 2016-18- Statement of Cash Flows (Topic 230)—Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230)—Restricted Cash. This ASU addresses the diversity in practice that exists regarding the classification and the presentation of changes in restricted cash on the statement of cash flows.

The amendments in ASU No. 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Thus, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and the end-of-period total amounts set forth on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years and will be applied using a retrospective transition method to each period presented. The adoption of this ASU will impact the presentation of cash flows with inclusion of restricted cash flows for each of the presented periods.

FASB ASC 740 ASU 2016-16- Income Taxes (Topic 740)—Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740)—Intra-Entity Transfers of Assets Other Than Inventory. Currently, U.S. GAAP prohibits recognizing current and deferred income tax consequences for an intra-entity asset transfer until the asset has been sold to an outside party. ASU 2016-16 states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.

The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company will evaluate the impact adoption of this guidance may have on the Company’s consolidated financial statements.

FASB ASC 230 ASU 2016-15- Statement of Cash Flows (Topic 230)—Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force)

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses stakeholders’ concerns regarding diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. In particular, ASU No. 2016-15 addresses eight specific cash flow issues in an effort to reduce this diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle.

The amendments in this ASU are effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted. The amendments in this ASU should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company will evaluate the impact adoption of this guidance may have on the Company's consolidated financial statements.

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FASB ASC 718 ASU 2016-09 - Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued amendments to the guidance on employee share-based payment accounting intended to improve the accounting for employee share-based payments. This ASU simplifies several aspects of the accounting for share-based payment award transactions, including:

- The income tax consequences,
- Classification of awards as either equity or liabilities, and
- Classification on the statement of cash flows

The amendments in this ASU are effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted in any interim or annual period.

Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method.

The Company plans to adopt this guidance at the beginning of its first quarter of fiscal year 2018. Adoption of this guidance will likely be material to the provision for income taxes on the Company’s consolidated income statements and earnings per share amounts for the change in the recognition of excess tax benefits or deficiencies. This may create increased volatility in the provision for income tax amounts reported during the interim periods and fiscal year 2018. Previously these amounts were reflected in equity. Additionally, cash paid by the employer when directly withholding shares for tax-withholding purposes will be classified as a financing activity and any excess tax benefits will be classified along with other income tax cash flows as an operating activity. Adoption of this guidance is not expected to have a material effect on the consolidated balance sheets, statements of cash flows or related disclosures.

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

In February 2016, the FASB issued amendments to the guidance on lease accounting. Under the new guidance, for all leases longer than 12 months, a lessee will be required to record a lease liability for all payments arising from a lease and also record a right of use asset for the term of the lease. Under the new guidance lessor accounting is largely unchanged.

The amendment in this ASU is effective on a prospective or modified retrospective basis for public entities for fiscal years and interim periods within those annual periods beginning after December 15, 2018. Early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP.

The Company plans to adopt this guidance at the beginning of its first quarter of fiscal year 2020. While the Company continues to evaluate this standard and the effect on related disclosures, the primary effect of adoption will be to record right-of-use assets and corresponding lease obligations for current operating leases. The adoption is expected to have a material impact on the Company's consolidated balance sheets, but not on results of operations or cash flows.

FASB ASC 330 ASU 2015-11 -Inventory (Topic 330): Simplifying the Measurement of Inventory

In July 2015, the FASB issued guidance that will require an entity to measure in-scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This amendment applies to entities, like the Company, that measure inventory value using the average cost method. The amendments in this ASU more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards.

The amendment in this ASU is effective on a prospective basis for public entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted as of the beginning of an interim or annual reporting period. The Company will evaluate the impact adoption of this guidance may have on the Company's consolidated financial statements.

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

In May 2014, the FASB issued amended guidance on contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). The guidance requires an entity to recognize revenue on contracts with customers relating to the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires that an entity depict the consideration by applying the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this ASU were deferred by ASU 2015-14 for all entities by one year and is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. This amendment is to be either retrospectively adopted to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. The Company plans to adopt this guidance at the beginning of its first quarter of fiscal year 2019 and is in the process of evaluating the impact and method of adoption of the standard and its related amendments. The Company is reviewing current accounting policies, business processes, systems and controls to identify potential differences or changes that would result from applying the new standard. The Company is still evaluating whether or not there will be a material impact on the Company's consolidated financial statements and related disclosures as a result of adopting this standard.

Recent Accounting Pronouncements Adopted

FASB ASC 740 ASU 2015-17 -Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued amended guidance eliminating the requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent.

The amendment in this ASU is effective on a prospective or retrospective basis for public entities for fiscal years and interim periods within those annual periods beginning after December 15, 2016. Early adoption is allowed. The Company retrospectively adopted this amended guidance during the second quarter of fiscal year 2016 and now presents all deferred taxes as either long-term assets or long-term liabilities. The Company disclosed within its Annual Report on Form 10-K filed for fiscal year 2016 and within the Quarterly Reports on Form 10-Q for the quarterly periods for fiscal year 2016 the financial impact to the Consolidated Balance Sheet.

FASB ASC 350 ASU 2015-05 - Customers Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued amended guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does

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not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts.

The amendments in this ASU are effective for public entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption was permitted. An entity was able to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Company adopted this amended guidance as of September 1, 2016. Adoption of this guidance did not generate a change in accounting principle, changes in financial statement line items, or the requirement to prospectively or retrospectively adopt a method of transition.

NOTE 3 – EARNINGS PER SHARE

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

The following table sets forth the computation of net income per share for the three and six months ended February 28, 2017 and February 29, 2016 (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net income	$ 27,219	$ 25,942	$ 52,088	$ 49,614
Less: Allocation of income to unvested stockholders	(345)	(371)	(758)	(742)
Net earnings available to common stockholders	$ 26,874	$ 25,571	$ 51,330	$ 48,872
Basic weighted average shares outstanding	30,004	29,914	29,993	29,902
Add dilutive effect of stock options (two-class method)	4	5	4	5
Diluted average shares outstanding	30,008	29,919	29,997	29,907
Basic net income per share	$ 0.90	$ 0.85	$ 1.72	$ 1.63
Diluted net income per share	$ 0.90	$ 0.85	$ 1.72	$ 1.63

NOTE 4 – STOCKHOLDERS' EQUITY

Dividends

The following table summarizes the dividends declared and paid during fiscal years 2017 and 2016 (amounts are per share).

		First Payment				Second Payment			
Declared	Amount	Record Date	Date Paid	Date Payable	Amount	Record Date	Date Paid	Date Payable	Amount
2/1/2017	$ 0.70	2/15/2017	2/28/2017	N/A	$ 0.35	8/15/2017	N/A	8/31/2017	$ 0.35
2/3/2016	$ 0.70	2/15/2016	2/29/2016	N/A	$ 0.35	8/15/2016	8/31/2016	N/A	$ 0.35

The Company anticipates the ongoing payment of semi-annual dividends in subsequent periods, although the actual declaration of future dividends, the amount of such dividends, and the establishment of record and payment dates is subject to

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final determination by the Board of Directors at its discretion after its review of the Company's financial performance and anticipated capital requirements.

Comprehensive Income and Accumulated Other Comprehensive Loss

The following tables disclose the effects of each component of other comprehensive income (loss), net of tax (in thousands):

	Six Months Ended February 28, 2017					
	Foreign currency translation adjustments	Defined benefit pension plans		Derivative Instruments		Total
Beginning balance, September 1, 2016	$ (102,242)	$ (315)		$ (1,394)	(1)	$ (103,951)
Other comprehensive income (loss)	(1,629)	—		783		(846)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(14)	(2)	—		(14)
Ending balance, February 28, 2017	$ (103,871)	$ (329)		$ (611)		$ (104,811)

	Six Months Ended February 29, 2016					
	Foreign currency translation adjustments	Defined benefit pension plans		Derivative Instruments		Total
Beginning balance, September 1, 2015	$ (100,540)	$ (113)		$ (859)		$ (101,512)
Other comprehensive income (loss)	(10,892)	—		(331)	(1)	(11,223)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(8)	(2)	—		(8)
Ending balance, February 29, 2016	$ (111,432)	$ (121)		$ (1,190)		$ (112,743)

	Twelve Months Ended August 31, 2016					
	Foreign currency translation adjustments	Defined benefit pension plans		Derivative Instruments		Total
Beginning balance, September 1, 2015	$ (100,540)	$ (113)		$ (859)		$ (101,512)
Other comprehensive income (loss)	(1,702)	(182)		(535)	(1)	(2,419)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(20)	(2)	—		(20)
Ending balance, August 31, 2016	$ (102,242)	$ (315)		$ (1,394)		$ (103,951)

(1) See Note 7 - Derivative Instruments and Hedging Activities.

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

Retained Earnings Not Available for Distribution

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

	February 28, 2017	August 31, 2016
Retained earnings not available for distribution	$ 6,213	$ 5,926

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NOTE 5 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business related to the Company's operations and property ownership. The Company evaluates such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which the Company believes are without merit. The Company establishes an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. The Company monitors those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjusts the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, the Company does not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, the Company will provide disclosure regarding the contingency. The Company believes that the final disposition of the pending legal proceedings, claims and litigation will not have a material adverse effect on its financial position, results of operations or liquidity. It is possible, however, that the Company's future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to such matters.

Taxes

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

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

The Company accrues an amount for its estimate of probable additional income tax liability. In certain cases, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than 50% likelihood of being sustained. This requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the consolidated financial statements as appropriate. There were no material changes in the Company's uncertain income tax positions as of February 28, 2017 and August 31, 2016.

In evaluating the exposure associated with various non-income tax filing positions, the Company accrues for probable and estimable exposures for non-income tax related tax contingencies. As of February 28, 2017 and August 31, 2016, the Company has recorded within other accrued expenses a total of $3.9 million and $4.0 million, respectively, for various non-income tax related tax contingencies.

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

During the first quarter of fiscal year 2015, the Company received provisional tax assessments with respect to deductibility and withholdings. One of the Company’s subsidiaries received provisional assessments claiming $2.5 million of taxes, penalties and interest related to withholding taxes on certain charges for services rendered by the Company. In addition, this subsidiary received provisional assessments totaling $5.1 million for lack of deductibility of the underlying service charges due to the lack of withholding. Based on a review of the Company's tax advisers' interpretation of local law, rulings and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

jurisprudence (including Supreme Court precedents with respect to the deductibility assessment), the Company expects to prevail in both instances and has not recorded a provision for these assessments. Also, in another country where the Company operates, beginning in fiscal year 2015, a new minimum income tax mechanism took effect, which requires the Company to pay taxes based on a percentage of sales rather than income. As a result, the Company is making income tax payments substantially in excess of those it would expect to pay based on taxable income. The current rules (which the Company has appealed) do not clearly allow the Company to obtain a refund or offset this excess income tax against other taxes. As of February 28, 2017, the Company had deferred tax assets of approximately $2.0 million in this country. Also, the Company had an income tax receivable balance of $3.5 million as of February 28, 2017 related to excess payments from fiscal years 2015, 2016 and 2017. The Company has not placed any type of allowance on the recoverability of these tax receivables or deferred income taxes, because the Company believes that it is more likely than not that it will succeed in its appeal on this matter.

The Company has not provided for U.S. deferred taxes on cumulative non-U.S. undistributed earnings as such earnings are deemed by the Company to be indefinitely reinvested. It is not practicable to determine the U.S. federal income tax liability that would be associated with such earnings because of the complexity of the computation.

Other Commitments

The Company is committed under non-cancelable operating leases for the rental of facilities and land. Future minimum lease commitments for facilities under these leases with an initial term in excess of one year are as follows (in thousands):

Years ended February 28,	Open Locations(1)
2018	$ 11,570
2019	11,124
2020(3)	10,559
2021	9,481
2022	8,082

Thereafter		91,164	
Total	$	141,980	(2)

[1] Operating lease obligations have been reduced by approximately $316,678 to reflect sub-lease income. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

[2] As of August 31, 2016, total future minimum lease commitments were $120.9 million. The increase during the period ending February 28, 2017 is primarily related to the extension of an existing lease within the Company's Guatemala subsidiary for its Pradera location. The subsidiary signed an extension on November 25, 2016, extending the lease termination date from May 31, 2021 to November 30, 2043. The lease extension included the real property at this location currently used by the Company and added additional square footage in the same shopping center to the lease. This has effectively provided the Company with possession of substantially all of the real property available at that location. The Company plans to expand and upgrade the current warehouse club and parking areas and to improve access into and out from the location.

[3] The year 2020 is a leap year with the period ending February 29th.

The Company is also committed to non-cancelable construction service obligations for various warehouse club developments and expansions. As of February 28, 2017 and August 31, 2016, these commitments were approximately $8.2 million and $1.5 million, respectively, for construction services not yet rendered.

The Company has entered into land purchase option agreements that have not been recorded as commitments, for which the Company has recorded deposits of approximately $785,000. The land purchase option agreements can generally be canceled at the sole option of the Company, with the deposits being fully refundable up and until all permits are issued. However, the deposit on one piece of land totaling approximately $50,000 would be forfeited if pending permits are not received and the Company were to decide not to proceed with the acquisition. The Company does not have a timetable for when or if it will exercise these land purchase options, due to the uncertainty related to the completion of the Company's due diligence review. The Company's due diligence review includes evaluations of the legal status of the property, the zoning and permitting issues related to acquiring approval for the construction and operation of a warehouse club and any other issues related to the property itself that could render the property unsuitable or limit the property's economic viability as a warehouse club site. If the purchase option agreements are exercised, the cash use for purchase of land would be approximately $24.5 million. The Company may enter into additional land purchase option agreements in the future.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes the Company's interest in real estate joint ventures, commitments to additional future investments and the Company's maximum exposure to loss as a result of its involvement in these joint venture as of February 28, 2017 (in thousands):

Entity	% Ownership	Initial Investment	Additional Investments	Net (Loss)/Income Inception to Date	Company's Variable Interest in Entity	Commitment to Future Additional Investments(1)	Company's Maximum Exposure to Loss in Entity(2)
GolfPark Plaza, S.A.	50 %	$ 4,616	$ 2,402	$ 296	$ 7,314	$ 99	$ 7,413
Price Plaza Alajuela, S.A.	50 %	2,193	1,236	16	3,445	785	4,230
Total		$ 6,809	$ 3,638	$ 312	$ 10,759	$ 884	$ 11,643

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

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

The Company contracts for distribution center services in Mexico. The contract for this distribution center's services expires on August 31, 2017, with the applicable fees and rates to be reviewed at the beginning of each calendar year. Future minimum service commitments related to this contract through the end of the contract term are approximately $82,000.

The Company contracts for off-site data recovery services as part of its disaster recovery plan. The contract for these data recovery services expires on November 30, 2019. Future minimum service commitments related to this contract are approximately $372,000 for each of the 12-month periods ending February 28, 2018 and 2019 and approximately $279,000 for the 12-month period ending February 28, 2020.

NOTE 6 – DEBT

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

		Facilities Used			
	Total Amount of Facilities	Short-term Borrowings	Letters of Credit	Facilities Available	Weighted average interest rate
February 28, 2017	$ 69,000	$ 6,561	$ —	$ 62,439	10.1 %
August 31, 2016	$ 65,000	$ 16,534	$ 9,224	$ 39,242	10.1 %

As of February 28, 2017 and August 31, 2016, the Company had approximately $40.0 million of short-term facilities in the U.S. that require compliance with certain quarterly financial covenants. As of February 28, 2017 and August 31, 2016, the Company was in compliance with respect to these covenants. Each of the facilities expires annually and is normally renewed.

The following table provides the changes in long-term debt for the six months ended February 28, 2017:

(Amounts in thousands)	Current portion of long-term debt	Long-term debt (net of current portion)	Total	
Balances as of August 31, 2016	$ 14,565	$ 73,542	$ 88,107	(1)
Proceeds from long-term debt incurred during the period:				
MFUG Union Bank	—	35,700	35,700	
Repayments of long-term debt:				
Regularly scheduled loan payments	—	(7,231)	(7,231)	
Translation adjustments on foreign-currency debt of subsidiaries whose functional currency is not the U.S. dollar (2)	58	(69)	(11)	
Balances as of February 28, 2017	$ 14,623	$ 101,942	$ 116,565	(3)

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

(2) These foreign currency translation adjustments are recorded within Other comprehensive income.

(3) The carrying amount of non-cash assets assigned as collateral for these loans was $141.8 million. No cash assets were assigned as collateral for these loans.

In January 2017, the Company finalized its acquisition of a distribution center in Medley, Miami-Dade County, Florida, for a total purchase price of approximately $46.0 million. The Company will transfer the majority of its Miami distribution center activities located in the previously leased facilities. This should be completed by the end of the third quarter of fiscal year 2017. To finance the acquisition of this property, the Company entered into a 10-year real estate secured loan with MUFG Union Bank, N.A. ("Union Bank") of $35.7 million in January 2017. This loan has a variable interest rate of 30-day LIBOR plus 1.7%, with monthly principal and interest payments maturing in 2027. The Company also entered into an interest rate hedge with Union Bank for $35.7 million, the notional amount. Under the hedge, the Company will receive variable 30-day LIBOR plus 1.7% and pay fixed (3.65%), with an effective date of March 1, 2017 and maturity date of March 1, 2027. The Company intends to terminate portions of the existing leased Miami distribution facilities or enter into sublease agreements for portions of the leased facility. The Company will record costs related to the termination of the leased facility as liabilities, with the related expenses as warehouse expenses, once the leased facility is available for subleasing.

As of February 28, 2017, the Company had approximately $105.3 million of long-term loans in the U.S., Trinidad, Panama, El Salvador, Honduras, Costa Rica, Barbados and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of February 28, 2017, the Company was in compliance with all covenants or amended covenants.

As of August 31, 2016, the Company had approximately $76.0 million of long-term loans in Trinidad, Panama, El Salvador, Honduras, Costa Rica, Barbados, and Colombia that require these subsidiaries to comply with certain annual or quarterly financial covenants, which include debt service and leverage ratios. As of August 31, 2016, the Company was in compliance with all covenants or amended covenants.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Twelve Months Ended February 28,	Amount
2018	$ 14,165
2019	13,760
2020 (1)	29,364
2021	19,354
2022	3,405
Thereafter	33,322
Total (2)	$ 113,370

(1) The year 2020 is a leap year with the period ending February 29th.

(2) In the case of loans subject to cross-currency interest rate swaps, the Company has used the effective rate to the Company under the applicable derivative obligation as of February 28, 2017 to disclose the future commitments of the related long-term debt.

NOTE 7 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

These derivative instruments (cash flow hedging instruments) are designated and qualify as cash flow hedges, with the effective portion of the gain or loss on the derivative reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction is determined to be ineffective. There were no such amounts recorded for ineffectiveness for the periods reported herein related to the interest rate or cross-currency interest rate swaps of long-term debt.

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

Cash Flow Hedges

As of February 28, 2017, all of the Company’s interest rate swap and cross-currency interest rate swap derivative financial instruments are designated and qualify as cash flow hedges. The Company formally documents the hedging relationships for its derivative instruments that qualify for hedge accounting.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes agreements for which the Company has recorded cash flow hedge accounting for the six months ended February 28, 2017:

Subsidiary	Date Entered into	Derivative Financial Counter-party	Derivative Financial Instruments	Initial US$ Notional Amount	Bank US$ loan Held with	Floating Leg (swap counter-party)	Fixed Rate for PSMT Subsidiary		Settlement Dates
PriceSmart, Inc (1)	7-Nov-16	MUFG Union Bank, N.A. ("Union Bank")	Interest rate swap	$ 35,700,000	Union Bank	Variable rate 1-month Libor plus 1.7%	3.65	%	1st day of each month beginnin April 1, 2017
Costa Rica	28-Aug-15	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 7,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.50%	7.65	%	28th day of Aug November, Feb and May beginn on November 3 2015
Honduras	24-Mar-15	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 8,500,000	Citibank, N.A.	Variable rate 3-month Libor plus 3.25%	10.75	%	24th day of Mar June, Septembe December begi on June 24, 201
El Salvador	16-Dec-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 4,000,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	4.78	%	29th day of each month beginnin December 29, 2
Colombia	10-Dec-14	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 15,000,000	Citibank, N.A.	Variable rate 3-month Libor plus 2.8%	8.25	%	4th day of Marc June, Sept, Dec beginning on March 4, 2015
Panama	9-Dec-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 10,000,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	5.16	%	28th day of each month beginnin December 29, 2
Honduras	23-Oct-14	Citibank, N.A. ("Citi")	Cross currency interest rate swap	$ 5,000,000	Citibank, N.A.	Variable rate 3-month Libor plus 3.5%	11.6	%	22nd day of Jan April, July, and October beginn on January 22,

Panama	1-Aug-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 5,000,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	4.89	%	21st day of eacl month beginnin September 22, 2
Panama	22-May-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 19,800,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	4.98	%	4th day of each month beginnin June 4, 2014
Panama	22-May-14	Bank of Nova Scotia ("Scotiabank")	Interest rate swap	$ 3,970,000	Bank of Nova Scotia	Variable rate 30-day Libor plus 3.5%	4.98	%	4th day of each month beginnin June 4, 2014

(1) The initial notional amount and fixed rate were modified effective January 2017.

For the three and six months ended February 28, 2017 and February 29, 2016, the Company included the gain or loss on the hedged items (that is, variable-rate borrowings) in the same line item—interest expense—as the offsetting gain or loss on the related interest rate swaps as follows (in thousands):

Income Statement Classification	Interest expense on borrowings(1)	Cost of swaps (2)	Total
Interest expense for the three months ended February 28, 2017	$ 755	$ 358	$ 1,113
Interest expense for the three months ended February 29, 2016	$ 813	$ 471	$ 1,284
Interest expense for the six months ended February 28, 2017	$ 1,504	$ 782	$ 2,286
Interest expense for the six months ended February 29, 2016	$ 1,565	$ 1,018	$ 2,583

(1) This amount is representative of the interest expense recognized on the underlying hedged transactions.
(2) This amount is representative of the interest expense recognized on the cross-currency interest rate swaps designated as cash flow hedging instruments.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Notional Amount as of	
Floating Rate Payer (Swap Counterparty)	February 28, 2017	August 31, 2016
Scotiabank	$ 29,657	$ 30,188
Union Bank	35,700	—
Citibank N.A.	28,138	32,258
Total	$ 93,495	$ 62,446

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

		February 28, 2017			August 31, 2016		
Derivatives designated as cash flow hedging instruments	Balance Sheet Location	Fair Value	Net Tax Effect	Net OCI	Fair Value	Net Tax Effect	Net OCI
Cross-currency interest rate swaps	Other non-current assets	$ 2,719	(987)	1,732	$ 3,224	$ (1,248)	$ 1,976
Interest rate swaps	Other non-current assets	613	(220)	393	—	—	—
Interest rate swaps	Other long-term liabilities	(69)	19	(50)	(448)	115	(333)
Cross-currency interest rate swaps	Other long-term liabilities	(596)	179	(417)	(1,066)	320	(746)
Net fair value of derivatives designated as hedging instruments		$ 2,667	$ (1,009)	$ 1,658	$ 1,710	$ (813)	$ 897

Fair Value Instruments

The Company entered into non-deliverable forward foreign-exchange contracts during fiscal year 2016. These contracts are treated for accounting purposes as fair value contracts and do not qualify for derivative hedge accounting. The use of non-deliverable forward foreign-exchange contracts is intended to offset changes in cash flow attributable to currency exchange movements. These contracts are intended primarily to economically hedge exposure to U.S. dollar merchandise inventory expenditures made by the Company's international subsidiaries whose functional currency is other than the U.S. dollar. The Company did not enter into any additional non-deliverable forward foreign exchange contracts during the six months ended February 28, 2017. The following table summarizes the non-deliverable forward foreign exchange contracts that are open as of February 28, 2017:

Subsidiary	Dates entered into	Financial Derivative (Counterparty)	Derivative Financial Instrument	Notional Amount (in thousands)	Settlement Date	Effective Period of Forward
Costa Rica	31-Aug-16	Citibank, N.A.	Forward foreign exchange contracts	$ 3,750	August 30, 2017	August 31, 2016- August 30, 2017

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the three and six months ended February 28, 2017 and February 29, 2016, the Company included in its consolidated statements of income the forward derivative gain or (loss) on the non-deliverable forward foreign-exchange contracts as follows (in thousands):

Income Statement Classification	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Six Months Ended February 28, 2017	Six Months Ended February 29, 2016
Other income (expense), net	$ 64	$ (88)	$ 283	$ (151)

The following table summarizes the fair value of foreign currency forward contracts that do not qualify for derivative hedge accounting (in thousands):

Non-deliverable forward foreign exchange contracts	February 28, 2017 Balance Sheet Location	Fair Value	August 31, 2016 Balance Sheet Location	Fair Value
Foreign currency forward contracts	Other accrued expenses	$ (87)	Other accrued expenses	$ (110)
Net fair value of non-deliverable forward foreign exchange contracts designated as hedging instruments that do not qualify for hedge accounting		$ (87)		$ (110)

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 8 – SEGMENTS

The Company and its subsidiaries are principally engaged in the international operation of membership shopping in 39 warehouse clubs located in 13 countries/territories that are located in Central America, the Caribbean and Colombia. In addition, the Company operates distribution centers and corporate offices in the United States. The Company has aggregated its warehouse clubs, distribution centers and corporate offices into reportable segments. The Company's reportable segments are based on management's organization of these locations into operating segments by general geographic location, used by management and the Company's chief operating decision maker in setting up management lines of responsibility, providing support services, and making operational decisions and assessments of financial performance. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues, operating costs and inter-company charges included in the United States segment are not allocated to the segments within this presentation, as it is impractical to do so, and they appear as reconciling items to reflect the amount eliminated on consolidation of intersegment transactions.

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

	United States Operations	Central American Operations	Caribbean Operations	Colombia Operations	Reconciling Items(1)	Total
Three Months Ended February 28, 2017						
Revenue from external customers	$ 8,171	$ 473,994	$ 219,515	$ 91,616	$ —	$ 793,296
Intersegment revenues	270,369	—	1,175	12	(271,556)	—
Depreciation and amortization	1,475	5,140	2,531	2,299	—	11,445
Operating income	841	38,371	13,958	1,142	(14,910)	39,402
Net income	2,652	30,545	8,568	364	(14,910)	27,219
Capital expenditures, net	49,792	15,461	2,101	1,045	—	68,399

Six Months Ended February 28, 2017

Revenue from external customers	$ 18,926	$ 912,228	$ 426,537	$ 175,177	$ —	$ 1,532,868
Intersegment revenues	588,031	—	2,873	22	(590,926)	—
Depreciation and amortization	3,049	10,004	4,989	4,520	—	22,562
Operating income	7,088	72,708	26,484	2,260	(30,759)	77,781
Net income	4,960	57,605	19,741	541	(30,759)	52,088
Capital expenditures, net	52,129	26,217	6,539	1,518	—	86,403
Long-lived assets (other than deferred tax assets)	68,872	288,855	109,353	134,833	—	601,913
Goodwill	—	31,153	4,539	—	—	35,692
Total assets	126,494	538,628	300,983	190,847	—	1,156,952
Three Months Ended February 29, 2016						
Revenue from external customers	$ 6,567	$ 474,924	$ 230,035	$ 66,405	$ —	$ 777,931
Intersegment revenues	245,041	—	1,326	—	(246,367)	—
Depreciation and amortization	1,031	4,570	2,441	1,487	—	9,529
Operating income/(loss)	5,183	38,980	14,658	(1,698)	(17,987)	39,136
Net income/(loss)	1,591	31,433	13,100	(2,195)	(17,987)	25,942
Capital expenditures, net	2,418	4,497	1,768	5,721	—	14,404
Six Months Ended February 29, 2016						
Revenue from external customers	$ 14,816	$ 898,484	$ 441,698	$ 134,864	$ —	$ 1,489,862
Intersegment revenues	559,662	—	2,764	—	(562,426)	—
Depreciation and amortization	1,961	8,811	4,849	3,111	—	18,732
Operating income	10,662	72,689	28,248	(2,032)	(33,136)	76,431
Net income	3,318	57,635	24,903	(3,106)	(33,136)	49,614
Capital expenditures, net	3,327	15,678	5,750	8,996	—	33,751
Long-lived assets (other than deferred tax assets)	16,776	265,262	107,945	104,860	—	494,843
Goodwill	—	31,090	4,611	—	—	35,701
Total assets	72,661	505,567	280,293	150,322	—	1,008,843
As of August 31, 2016						
Long-lived assets (other than deferred tax assets)	$ 19,222	$ 271,039	$ 108,426	$ 137,599	$ —	$ 536,286
Goodwill	—	31,091	4,546	—	—	35,637
Total assets	100,744	515,478	287,088	193,425	—	1,096,735

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

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

NOTE 9 – SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the balance sheet date of February 28, 2017 through the date of issuance of these consolidated financial statements and has determined that, except as set forth below, there are no subsequent events that require disclosure.

Financing Transactions

On March 31, 2017, the Company's Trinidad subsidiary entered into a loan agreement with Citibank, N.A. The agreement provides for a US $12.0 million loan to be repaid in 8 quarterly principal payments plus interest. The interest rate is set at the 90 day LIBOR rate plus 3%. The loan was funded on March 31, 2017.

Non-deliverable forward foreign-exchange contracts

The Company's Colombia subsidiary has entered into forward exchange contracts for approximately $6.0 million with settlement dates of May and June 2017.

PRICESMART, INC.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q 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 February 28, 2017, 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 those set forth in Part II – Item 1A – "Risk Factors" in 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, as amended, 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. Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements, except as required by law.

The following discussion and analysis compares the results of operations for the three and six months ended February 28, 2017 and February 29, 2016 and should be read in conjunction with the consolidated financial statements and the accompanying notes included therein.

Our business consists primarily of operating international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. We operate in 13 countries/territories that are located in Latin America and the Caribbean. Our ownership in all operating subsidiaries as of February 28, 2017 is 100%, and they are presented on a consolidated basis. The number of warehouse clubs in operation as of February 28, 2017 for each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation as of August 31, 2016	Number of Warehouse Clubs in Operation as of February 28, 2017	Anticipated Additional Warehouse Club Openings In Fiscal Year 2017	Anticipated Warehouse Club Openings In Fiscal Year 2018
Colombia	6	7	—	—
Costa Rica	6	6	—	1
Panama	5	5	—	—
Trinidad	4	4	—	—
Dominican Republic	3	3	—	—
Guatemala	3	3	—	—
Honduras	3	3	—	—
El Salvador	2	2	—	—
Nicaragua	2	2	—	—
Aruba	1	1	—	—
Barbados	1	1	—	—
U.S. Virgin Islands	1	1	—	—
Jamaica	1	1	—	—
Totals	38	39	—	1

We opened a new warehouse club in Chia, Colombia, in September 2016, fiscal year 2017, that we constructed on land we acquired in May 2015, bringing the total of warehouse clubs operating in Colombia to seven. We are not planning any more warehouse club openings for fiscal year 2017.

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 swapped 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 used the acquired land to expand the parking lot for the San Pedro Sula warehouse club. We completed the expansion in December 2016. On February 1, 2017, the Company acquired land in Santa Ana, Costa Rica upon which the Company plans to construct a new warehouse club. We currently plan to open this new warehouse club in the fall of 2017, fiscal year 2018. With the six warehouse clubs currently operating in Cost Rica, this new warehouse club will bring the number of PriceSmart warehouse clubs operating in Costa Rica to seven. We continue to explore other potential sites for future warehouse clubs in Central America, the Caribbean and Colombia.

Our warehouse clubs and local distribution centers are located in Latin America and the Caribbean, and our corporate headquarters, U.S. buying operations and regional distribution centers are located primarily in the United States. 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 Gross Domestic Product ("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.

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. In the first six months of fiscal year 2017, approximately 77% of our net warehouse sales were in currencies other than the U.S. dollar. Meanwhile, approximately 51% 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

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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."

Our consolidated results of operations in fiscal years 2015 and 2016 were adversely affected by 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 and membership income, after translation, by approximately 26% when compared to fiscal year 2015. A significant devaluation of the local currency relative to the U.S. dollar in a country in which we do business not only reduces the value of sales and membership income that is generated in that country when translated to U.S. dollars for our consolidated results, but also increases the local currency price of imported merchandise and thus the prices we charge our members, which impacts demand for a significant portion of the Company's merchandise offering. In Colombia, the exchange rate between the Colombian peso and the U.S. dollar has stabilized over the past nine months, with average monthly rates between 2,900 and 3,100 pesos to the dollar from June 2016 to February 2017. As a result, our business performance in Colombia has seen steady improvement in the first two quarters of fiscal year 2017.

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.

In some of our Central American and Caribbean markets, overall economic activity during the first half of fiscal year 2017 has been sluggish, which has adversely affected the level of consumer spending during the period. For example, Trinidad's economy, which has been significantly harmed by declining oil and gas exports and which has been further slowed by government policies intended 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, which adversely affects near-term consumer spending. Similarly, the need for increased tax revenue in certain countries can cause changes in tax policies that affect consumers' personal tax rates and/or consumption taxes, such as VAT (value-added taxes), which effectively raise 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.

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 have been 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 the amounts owed to PriceSmart, Inc. from our Trinidad subsidiary. We are working with our banks to source other tradeable currencies (such as Euros and Canadian dollars), but until the central bank in Trinidad makes more U.S. dollars available, this condition will continue. As of February 28, 2017, the imbalance of shipments made to Trinidad compared to the availability of U.S. dollars that we could obtain in Trinidad to pay for those shipments resulted in U.S. dollar-denominated liabilities of approximately $16.0 million. These liabilities are exposed to a potential devaluation of the Trinidad dollar compared to the U.S. dollar which, according to a report issued by the International Monetary Fund in 2016, could be overvalued by 20% or more. If, for example, a hypothetical 20% devaluation of the TT currency occurred, the net effect on other expense would be approximately $3.2 million given that level of dollar-denominated liabilities. In addition, 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 which, in turn, reduces our ability to deploy that cash for other corporate purposes. In response to the uncertain state of tradable currency in Trinidad, we took steps to limit our exposure. Beginning in November we reduced new shipments of merchandise to Trinidad from our distribution center in Miami to levels that generally aligned with our Trinidad subsidiary's ability to pay for the merchandise in U.S. dollars. This reduced level of shipments adversely affected sales in the second quarter, particularly December, although less than our initial estimate of $8.0 million to $12.0 million. These actions did not impact the level of merchandise we obtain locally in Trinidad. Most recently, we have been able to improve our sourcing of tradeable currencies which has allowed for a more normalized flow of imported merchandise as we enter the third fiscal quarter. However, the illiquidity situation remains in that market, and we have not been able to fully address the level of dollar-denominated liabilities. Going forward, we could again find ourselves in a position that requires us to limit shipments from the U.S. to Trinidad in line with our ability to exchange TT dollars for tradeable currencies or to reduce our exposure to a potential devaluation. This may result in our Trinidad subsidiary running out of certain merchandise, from time to time during the remainder of the year, which could negatively impact sales in Trinidad.

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 of our members by providing high quality, differentiated merchandise at a good value. We also grow sales by attracting new members and improving the 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 with a corresponding increase in members 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. In the current fiscal year we opened a new warehouse club in Chia, Colombia in September. 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 the second quarter of fiscal year 2017, net warehouse sales increased 1.8% when compared to the same period a year ago.

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 at approximately 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. In February, we raised the membership fee in Colombia to 75,000 COP. 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. We expect to offer this type of membership in at least one other country later this 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 members put that merchandise into their shopping carts has a significant impact on our level of operating expenses and ultimately

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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, in January 2017 we purchased a distribution center in Medley, Miami-Dade County, Florida, into which we will transfer the majority of our current leased Miami distribution center activities during the third quarter of fiscal 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.

Financial highlights for the second quarter of fiscal year 2017 included:

· Net warehouse club sales increased 1.8% over the comparable prior year period. We ended the quarter with 39 warehouse clubs compared to 38 warehouse clubs at the end of the second quarter of fiscal year 2016. 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 13 weeks ended March 5, 2017 were 2.1% above the comparable 13-week period last year.

- Membership income for the second quarter of fiscal year 2017 increased 4.9% to $11.8 million.
- Warehouse gross profits (net warehouse club sales less associated cost of goods sold) as a percent of net warehouse club sales increased 4.6% over the prior year period and warehouse gross profits as a percent of net warehouse club sales were 14.6%, an increase of 40 basis points (0.40%) from the same period last year.
- Operating income for the second quarter of fiscal year 2017 was $39.4 million, an increase of $0.3 million over the second quarter of fiscal year 2016.
- We recorded a $915,000 net gain from currency gain or losses in the current quarter compared to a $(552,000) net loss from currency exchange transactions in the same period last year.
- The effective tax rate for second quarter of fiscal year 2017 is 30.6%, as compared to the effective tax rate for the second quarter of fiscal year 2016 of 31.7%.
- Net income for the second quarter of fiscal year 2017 was $27.2 million, or $0.90 per diluted share, compared to $25.9 million, or $0.85 per diluted share, in the comparable prior year period.

Financial highlights for the six months ending February 28, 2017 included:

- Net warehouse club sales increased 2.7% over the comparable prior year period. We ended the quarter with 39 warehouse clubs compared to 38 warehouse clubs at the end of the second quarter of fiscal year 2016. 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 26 weeks ended March 6, 2017 grew 1.1% from the comparable 13-week period a year ago.
- Membership income for the first six months of fiscal year 2017 increased 3.5% to $23.5 million.
- Warehouse gross profits (net warehouse club sales less associated cost of goods sold) as a percent of net warehouse club sales for the first six months of fiscal year 2017 were 14.8%, an increase of 43 basis points (0.43%) from the same period last year.
- Operating income for the first six months of fiscal year 2017 was $77.8 million, an increase of $1.4 million over the first six months of fiscal year 2016.

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· Net gains from currency exchange transactions in the second quarter of fiscal year 2017 offset the losses recorded in the first quarter of the year resulting in a minimal loss of $13,000 for the six month period ending February 28, 2017. Last year, currency exchange transactions for the six month period were a net loss of $796,000.
· The effective tax rate for the first six months of fiscal year 2017 is 31.0%, as compared to the effective tax rate for the first six months of fiscal year 2016 of 32.7%.
· Net income for the first six months of fiscal year 2017 was $52.1 million, or $1.72 per diluted share, compared to $49.6 million, or $1.63 per diluted share, in the comparable prior year period.

COMPARISON OF THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

The following discussion and analysis compares the results of operations for the three-month and six-month periods ended on February 28, 2017 with the three-month and six-month periods ended on February 29, 2016 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. Unless otherwise noted, all tables on the following pages present U.S. dollar amounts in thousands. Certain percentages presented are calculated using actual results prior to rounding.

Net Warehouse Club Sales

The following tables indicate the net warehouse club sales in the segments in which we operate, and the percentage growth in net warehouse club sales by segment during the three and six months ended February 28, 2017 and 2016.

	Three Months Ended					
	February 28, 2017				February 29, 2016	
	Amount	% of net sales	Increase/ (decrease) from prior year	Change	Amount	% of net sales
Central America	$ 465,808	60.3 %	$ (1,159)	(0.2) %	$ 466,967	61.5 %

Caribbean	216,403	28.0 %	(10,552)	(4.6) %	226,955	29.9 %
Colombia	90,062	11.6 %	24,997	38.4 %	65,065	8.6 %
Net warehouse club sales	$ 772,273	100.0 %	$ 13,286	1.8 %	$ 758,987	100.0 %