PRICESMART INC
Form 10-Q/A
December 16, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended November 30, 2002

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.)**

4649 Morena Boulevard

San Diego, California 92117

(Address of principal executive offices)

(858) 581-4530

(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 x No ¨

The registrant had 7,362,005 shares of its common stock, par value $.0001 per share, outstanding at December 5, 2003.

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PRICESMART, INC.

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Explanatory Note

This Amendment No. 1 to PriceSmart, Inc. s (PriceSmart or the Company) Quarterly Report on Form 10-Q/A for the quarterly period ended November 30, 2002 includes unaudited restated consolidated financial statements at November 30, 2002 and August 31, 2002 (audited) and for the three months ended November 30, 2002 and 2001.

This Form 10-Q/A amends and restates Items 1, 2, 3 and 4 of Part I and Items 5 and 6 of Part II of the original Form 10-Q, and no other information included in the original Form 10-Q is amended hereby. All amounts referenced within this Amendment No. 1 for current and prior periods and prior period comparisons reflect balances and amounts on a restated basis for all periods presented.

Based upon information obtained by the Company s internal audit and accounting departments and additional information gathered as part of an independent investigation conducted at the direction of the Audit Committee of the Company s Board of Directors, the Company has determined that certain transactions during the period from October 2001 through May 2003 did not satisfy revenue recognition criteria under U.S. generally accepted account principles and were improperly recorded as net warehouse sales on the Company s statements of operations. As a result, the Company s net warehouse sales were overstated during fiscal year 2002 by approximately $16.6 million (2.7% of previously reported net warehouse sales), and during the first nine months of fiscal year 2003 by approximately $12.7 million (2.5% of previously reported net warehouse sales). Reported comparable warehouse sales also were impacted by the reporting of these transactions. Restatement of these sales amounts does not affect the Company s previously reported net income or loss per share nor does it affect the Company s balance sheets.

Following its determination to restate its financial statements for the matters described above, the Company also determined that it would correct certain known errors. In each such case, the Company believed the amount of any such error was not material to the Company s consolidated 2002 financial statements. In addition, in the process of closing its financial statements for fiscal 2003, the Company identified accounting errors that occurred, primarily in the Company s Guam and Philippine operations from the failure of the principal accounting staff at the subsidiaries to reconcile properly their accounting records to supporting detail, which impacted prior period results.

The corrections described in the preceding paragraph reduced the Company s reported net income for the twelve months ended August 31, 2002 by approximately $344,000, from the previously stated $10.788 million of net income to $10.444 million, reducing the Company s diluted earnings per share by approximately $0.05, from $1.60 to $1.55 per diluted share. For the first nine months ended May 31, 2003, the restatement increased the Company s net loss by approximately $711,000, from the previously stated $5.402 million loss to a restated loss of $6.113 million, increasing the Company s diluted net loss per share by approximately $0.10, from a loss of $0.79 to a loss of $0.89 per diluted share.

As a result of the foregoing, the Company restated its financial statements and amended its Annual Report on Form 10-K for the year ended August 31, 2002, and amended its Quarterly Reports on Forms 10-Q for the quarterly periods ended November 30, 2002, February 28, 2003 and May 31, 2003, and the corresponding prior year periods included within the aforementioned amended Forms 10-Q. The Company did not amend its Quarterly Reports on Form 10-Q for the first three quarters of fiscal year ended August 31, 2002, and the financial statements and related financial information in such reports should no longer be relied upon and should be viewed in the context of this report. The restatement did not affect periods prior to November 30, 2001.

For a tabular presentation of the restatement adjustments on the Company s previously reported statement of operations and balance sheets, see Note 1 Company Overview and Restatement of Previously Issued Financial Statements to the accompanying financial statements in Item 1. Financial Statements, and each Form 10-Q/A and Form 10-K/A as referenced in the preceding paragraph, which were all concurrently filed with the Securities and Exchange Commission (SEC) on December 16, 2003.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Company s unaudited restated condensed consolidated balance sheet as of November 30, 2002, the restated condensed consolidated balance sheet as of August 31, 2002, the unaudited restated condensed consolidated statements of operations for the three months ended November 30, 2002 and 2001, the unaudited restated condensed consolidated statements of cash flows for the three months ended November 30, 2002 and 2001, and the unaudited restated condensed consolidated statements of stockholders equity for the three months ended November 30, 2002 are included elsewhere herein. Also included within are notes to the restated unaudited condensed consolidated financial statements.

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

This Form 10-Q contains forward-looking statements concerning PriceSmart s anticipated future revenues and earnings, adequacy of future cash flow and related matters. These forward-looking statements include, but are not limited to, statements or phrases such as believe, will, expect, anticipate, estimate, intend, plan, and would and like expressions, and the negative thereof. Forward-looking statements are not guarantees o performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements, including foreign exchange risks, political or economic instability of host countries, and competition as well as those risks described in the Company s SEC reports, including the risk factors referenced in this Form 10-Q. See Part II Item 5 Factors That May Affect Future Performance.

The following discussion and analysis compares the results of operations for the quarters ended November 30, 2002 (fiscal 2003) and November 30, 2001 (fiscal 2002), and should be read in conjunction with the restated condensed consolidated financial statements and the accompanying notes included within.

PriceSmart s business consists primarily of international membership shopping stores similar to, but smaller in size than, warehouse clubs in the United States. The number of warehouses in operation as of November 30, 2002 and 2001, the Company s ownership percentages and basis of presentation for financial reporting purposes by each country or territory are as follows:

Country/Territory	Number of Warehouses in Operation (as of November 30, 2001)	Number of Warehouses in Operation (as of November 30, 2002)	Ownership	Basis of Presentation
Panama	4	4	100%	Consolidated
Costa Rica	3	3	100%	Consolidated
Dominican Republic	3	3	100%	Consolidated
Guatemala	3	3	66%	Consolidated
Philippines	2	4	52%	Consolidated
El Salvador	2	2	100%	Consolidated
Honduras	2	2	100%	Consolidated
Trinidad	1	2	90%	Consolidated

Aruba	1	1	90%	Consolidated
Barbados	1	1	100%	Consolidated
Guam		1	100%	Consolidated
U.S. Virgin Islands	1	1	100%	Consolidated
Ecuador			60%	Consolidated
Jamaica			67.5%	Consolidated
Nicaragua			51%	Consolidated
Totals	23	27		
Mexico		2	50%	Equity

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The Company seeks to establish significant market share in metropolitan areas of emerging market countries by rapidly saturating these areas with second and third warehouse locations. Same-store sales, which are for stores open at least 12 full months, decreased 0.9% for the three months ended November 30, 2002 compared to the same period last year. The average life of the 27 and 23 warehouses in operation at the end of November 30, 2002 and 2001 was 28 and 20 months, respectively.

During the first quarter of fiscal 2003, the Company opened one new U.S.-style membership shopping warehouses in Alabang, Philippines. During the first quarter of fiscal 2002, the Company opened one new U.S.-style membership shopping warehouse in Pasig City, Philippines. As part of a 50/50 joint venture with Grupo Gigante, S.A. de C.V. (Gigante), the Company also opened two new U.S.-style membership shopping warehouses in Mexico during the first quarter of fiscal 2003. Additionally, there were eleven warehouse stores in operation (ten in China and one in Saipan, Micronesia) licensed to and operated by local business people at the end of the first quarter of fiscal 2003, versus ten licensed warehouse stores (nine in China and one in Saipan, Micronesia) at the end of the first quarter of fiscal 2002.

COMPARISON OF THE THREE MONTHS ENDED NOVEMBER 30, 2002 AND 2001

Net warehouse sales increased 12.7% to $158.0 million in the first quarter of fiscal 2003, from $140.2 million in the first quarter of fiscal 2002. The increase is primarily attributable to the opening of four new warehouses (three in Asia and one in the Caribbean) since the end of the first quarter of fiscal 2002.

The Company s warehouse gross profit margins (defined as net warehouse sales less associated cost of goods sold) in the first quarter of fiscal 2003 increased to 15.0% from 14.9% in the first quarter of fiscal 2002. The slight increase in gross profit margins of 0.1% resulted primarily from increased gross margins attained period over period both in Latin America and the Caribbean, offset by lower gross margins attained period over period in Asia as a result of the Company opening additional warehouses in the Asian market resulting in cannibalization of sales and lower margins attained in the current period over the prior year period.

Export sales represent U.S. merchandise exported to the Company s licensee warehouse operating in Saipan and direct sales to third parties through the Company s distribution centers, which includes sales to PriceSmart Mexico, an unconsolidated affiliate (see Note 12-Related Party Transactions in the Notes to Condensed Consolidated Financial Statements included within). Export sales in the first quarter of fiscal 2003 were $2.6 million compared to $429,000 in the first quarter of fiscal 2002. The change between periods is primarily due to increased direct sales to third parties from the Company s distribution centers, including sales of $970,000 to PriceSmart Mexico, which began operations during the first quarter of fiscal year 2003.

The Company s export sales gross margin for the first quarter of fiscal 2003 was 5.2% compared to 3.5% in the first quarter of fiscal 2002. The gross margin percentages on export sales can vary significantly based upon the Company s success in negotiating the purchase and sale of product through its distribution centers to third parties. The margins from sales to the Company s Saipan licensee and sales to PriceSmart Mexico are approximately 2.5% and 2.0%, respectively.

Membership fees, which are recognized into income ratably over the one-year life of the membership, increased 1.5% to $2.146 million, or 1.4% of net warehouse sales, in the first quarter of fiscal 2003 compared to $2.114 million, or 1.5% of net warehouse sales, in the first quarter of fiscal 2002. The increase in amounts was due to four additional stores and the 0.1% decrease is attributable primarily to the Caribbean and Asia region s lower average membership fees in both markets and a reduction in total active members in several Caribbean markets.

Other income consists of commission revenue, rental income, advertising revenues, construction revenue, vendor promotions and rebates, and fees earned from licensees. Other income, excluding licensee fees, increased to $2.4 million, or 1.5% of net warehouse sales, in the first quarter of fiscal 2003 from $2.0 million, or 1.4% of

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net warehouse sales, in the first quarter of fiscal 2002. The increase in amounts in the current year was primarily related to an increase in commission revenues, construction management revenues and vendor promotions, offset by a decrease in ad revenue in the current year. Licensee fees increased to $313,000 in the first quarter of fiscal 2003 from $262,000 in the first quarter of fiscal 2002, due to one additional licensee warehouses opened between the periods presented.

Warehouse operating expenses increased to $18.9 million, or 12.0% of net warehouse sales, in the first quarter of fiscal 2003 from $16.9 million, or 12.0% of net warehouse sales, in the first quarter of fiscal 2002. The increase in warehouse operating expenses is attributable to the four new warehouses opened since the first quarter of fiscal 2002 partially offset by a reduction in operating expenses, primarily through a reduction in average staffing per warehouse. The decrease in operating expenses as a percentage of net warehouse sales is primarily attributable to the aforementioned reduction in average staffing per warehouse, offset by higher operating costs from the Company s four warehouses opened within the last 12 months. As the Caribbean and Philippine markets continue to mature, the Company expects to realize further period-over-period efficiencies in these markets in fiscal 2003, similar to the year-over-year improvements realized in the Company s 17 Latin American warehouses from fiscal 2000 through 2002.

General and administrative expenses were $4.4 million, or 2.8% of net warehouse sales, in the first quarter of fiscal 2003 compared to $4.4 million, or 3.1% of net warehouse sales, in the first quarter of fiscal 2002. As a percentage of net warehouse sales, general and administrative expenses have declined due to the increase in net warehouse sales and increased operating efficiencies between the periods presented.

Pre-opening expenses, which represent expenses incurred before a warehouse store is in operation, decreased to $576,000 in the first quarter of fiscal 2003 from $848,000 in the first quarter of fiscal 2002. Although the Company had one warehouse opening in the Philippines for both fiscal quarters presented (not including the two stores opened in Mexico as part of a 50/50 joint venture during the first quarter of fiscal 2003), pre-opening expenses decreased primarily because one store opened in December 2001 (second quarter of fiscal 2002) while no new store openings were planned for the second quarter of fiscal 2003. The Company planned to open one store in Jamaica in the third quarter and up to two in the fourth quarter (Nicaragua and Philippines) of fiscal 2003. The Company also planned to open its third store through the Company s 50/50 joint venture in Mexico in the third quarter of fiscal 2003, and was evaluating the timing for a store likely to open in Ecuador in early fiscal 2004.

Interest income primarily reflects earnings on cash and cash equivalents, restricted cash deposits securing long term debt, marketable securities and certain secured notes receivable from buyers of formerly owned properties. Interest income was $705,000 in the first quarter of fiscal 2003 compared to $792,000 in the first quarter of fiscal 2002. The change in interest income is due to the amounts of interest-bearing instruments held by the Company throughout the periods presented and the interest rate earned on those instruments. The decrease in interest income primarily relates to lower daily cash balances and lower interest rates throughout the first quarter of fiscal 2003 in comparison to the prior year period.

Interest expense primarily reflects borrowings by the Company s majority or wholly owned foreign subsidiaries to finance the capital requirements of new warehouse store operations and for local currency loans secured by U.S. dollar deposits in the Philippines to lessen foreign exchange risks in that country. Interest expense increased to $2.5 million in the first quarter of fiscal 2003 from $2.3 million in the first quarter of fiscal 2002. The increase is attributable to an increase in the amount of debt held by the Company and its subsidiaries between the periods presented and associated interest expense incurred on the amounts borrowed within the periods presented. Interest expense has been slightly offset in the current period as a result of a reduction in lending rates between the periods.

Equity of unconsolidated affiliate represents the Company s 50% share of losses from its Mexico joint venture. The joint venture is accounted for under the equity method of accounting, in which the Company reflects its proportionate share of income or loss of the unconsolidated joint venture s results from operations.

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Minority interest relates to the allocation of the joint venture income or loss to the minority stockholders respective interests.

The Company recorded an income tax provision of $763,000 (35% effective rate) and $233,000 (17% effective rate) for the three months ended November 30, 2002 and 2001, respectively. The lower effective rate in the prior year first quarter was a result of a $208,000 tax benefit on U.S. profits from varying tax rates in foreign markets. Management expects the effective tax rate to continue to be higher than in prior periods until such time that existing deferred tax valuation allowances can be utilized through sufficient positive evidence.

Preferred dividends of $400,000 reflect the payment of dividends on 20,000 shares of Series A Preferred Stock issued on January 22, 2002, which accrue 8% annual dividends that are cumulative and paid quarterly in cash.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position and Cash Flow

The Company s primary capital requirements are the financing of land, construction, equipment costs, pre-opening expense and working capital requirements associated with new warehouse stores.

The Company had positive working capital (defined as current assets less current liabilities) as of November 30, 2002 of $15.6 million, compared to a positive position of $44,000 as of November 30, 2001. The net increase in working capital between periods was primarily due to an increase in cash flow from operations from the Company s 27 warehouses open as of November 30, 2002 offset by an increase in cash used by operating assets and liabilities (primarily inventories, accounts payable and accounts receivable) for new store openings.

Net cash flows provided by (used in) operating activities were $8.9 million and $(2.4) million in the first quarters of fiscal 2003 and 2002, respectively. The increase of $11.3 million resulted primarily from improvements in inventory, and accounts payable financing on inventory from vendors of $13.7 million (cash flows from merchandise inventory and accounts payable, net), an increase in net income of $334,000 and an increase in depreciation and amortization of $1.2 million.

Net cash used in investing activities was $13.2 million and $12.4 million in the first quarters of fiscal 2003 and 2002, respectively. The increase in the use of cash of approximately $800,000 resulted from a $4.5 million capital investment in the Mexico joint venture, offset by a decrease in additions to property and equipment for new warehouses constructed or under construction of $3.6 million.

Net cash provided by financing activities was $6.0 million and $8.2 million in the first quarters of fiscal 2003 and 2002, respectively. The decrease of approximately $2.2 million resulted from dividends paid on preferred stock of $400,000, an increase in net bank repayments of $3.7 million and a decrease in proceeds from stock options exercised of $900,000. This decrease was offset by an increase in contributions by minority shareholders of $150,000 and the sale of treasury stock related to the Nicaragua joint venture of $2.7 million less related costs.

The Company s 50% owned Mexico joint venture, accounted for under the equity method of accounting, incurred capital expenditures in the first quarter of fiscal 2003 totaling $1.7 million towards the construction of the third and fourth planned PriceSmart warehouses in Mexico. During the first quarter, the Company and Gigante each contributed $4.5 million for a total of $31 million of cumulative capital investment and, as of November 30, 2002, the joint venture had approximately $3.3 million of cash on hand.

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Financing Activities

On January 22, 2002, the Company issued 20,000 shares of Series A Preferred Stock (Preferred Stock) and warrants to purchase 200,000 shares of common stock for an aggregate of $20 million, with net proceeds of $19.9 million. The Preferred Stock is convertible, at the option of the holder at any time, or automatically on January 17, 2012, into shares of the Company s common stock at the conversion price of $37.50, subject to customary anti-dilution adjustments. The Preferred Stock accrues a cumulative preferred dividend at an annual rate of 8%, payable quarterly in cash. The shares are redeemable on or after January 17, 2007, in whole or in part, at the option of the Company, at a redemption price equal to the liquidation preference, or $1,000 per share plus accumulated and unpaid dividends to the redemption date. The warrants are exercisable at $37.50 per share of common stock through January 17, 2003. At November 30, 2002, none of the shares of Preferred Stock had been converted and none of the warrants had been exercised.

On September 26, 2002, in connection with the new joint venture in Nicaragua, the Company sold 79,313 shares of the Company s common stock to PSC, S.A. in a private placement for an aggregate purchase price and proceeds to the Company of approximately $2.7 million. Proceeds from the sale of the common stock will be used for capital expenditures and working capital requirements related to future warehouse expansion.

Short-Term Borrowings and Debt

As of November 30, 2002, the Company, through its majority or wholly owned subsidiaries, had $22.3 million outstanding in short-term borrowings through 12 separate facilities, which are secured by certain assets of its subsidiaries and are guaranteed by the Company up to its respective ownership percentage. Each of the facilities expires during the year and typically is renewed. As of November 30, 2002, the Company had approximately $10 million available on the facilities.

The Company s long term debt is collateralized by certain land, building, fixtures and equipment of each respective subsidiary and guaranteed by the Company up to its respective ownership percentages, except for approximately $27.3 million as of November 30, 2002, which is secured by collateral deposits for the same amount and which deposits are included in restricted cash on the balance sheet.

Under the terms of each of its debt agreements, the Company must comply with certain covenants which include, among others, current, debt service, interest coverage and leverage ratios. The Company is in compliance with all of these covenants, except for the current ratio for a $5.0 million note and the interest coverage ratio for a $6.0 million note. The Company obtained the necessary waivers for these notes through February 28, 2003 and August 31, 2003, respectively.

Pursuant to the terms of a bank credit agreement, the Company can issue up to $7.0 million of standby letters of credit. Fees are paid up front and charges are paid as incurred. As of November 30, 2002 there were outstanding letters of credit of approximately $4.0 million.

Contractual Obligations

As of November 30, 2002, the Company s commitments to make future payments under long-term contractual obligations were as follows (amounts in thousands):

	Payments Due by Period				
Contractual obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt	$ 108,925	$ 10,313	$ 46,348	$ 20,772	$ 31,492
Operating leases	139,087	8,970	16,722	16,657	96,738
Total	$ 248,012	$ 21,054	$ 61,299	$ 37,429	$ 128,230

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Subsequent Events

In fiscal 2003, the Company spent an aggregate of $22.2 million for land, building and equipment associated with the opening of three new warehouses (excluding Mexico). The Company invested an additional $9.0 million in capital and loaned $1.0 million to the Mexico joint venture, and received $3.0 million from maturing marketable securities.

In fiscal 2003, the Company received proceeds primarily from the sale of preferred stock and warrants for $22.0 million, an increase in net bank borrowings of $11.0 million, $2.4 million from the sale of treasury stock to PSC, S.A. in connection with the Nicaragua joint venture and $3.3 million in contributions by minority shareholders. Also in fiscal 2003, the Company used approximately $10.2 million of restricted cash as security for debt agreements and paid preferred stock dividends of $1.6 million.

During fiscal 2003, the Company and Gigante each contributed $9.0 million in capital for a total capital investment of $40 million in the 50/50 Mexico joint venture, which is accounted for under the equity method of accounting. Since inception, the joint venture has opened a total of three warehouses in Mexico (two in November 2002 and one in March 2003) and has spent approximately $27.4 million in capital expenditures through August 31, 2003. As of August 31, 2003, the Mexico joint venture had approximately $2.0 million of cash on hand and no debt financing.

The Company, primarily through its foreign subsidiaries (excluding Mexico), has increased long-term bank borrowings by approximately $14.4 million during fiscal 2003, which includes $10.0 million in loans secured by restricted cash deposits and has used these proceeds to finance its working capital and capital expenditure requirements.

As of August 31, 2003, the Company, through its majority or wholly owned subsidiaries, had $20.1 million outstanding in short-term borrowings through 16 separate facilities, which are secured by certain assets of its subsidiaries and are guaranteed by the Company up to its respective ownership percentage.

Under the terms of debt agreements to which the Company and/or one or more of its wholly owned or majority owned subsidiaries are parties, the Company must comply with specified financial maintenance covenants, which include among others, current, debt service, interest coverage and leverage ratios. As of August 31, 2003, the Company was in compliance with all of these covenants, except for the following: (i) current ratio and cash flow to debt service ratio for a $4.7 million note, for which the Company has received a waiver of its noncompliance; (ii) debt service ratio for a $4.9 million note, for which the Company has not yet received a written waiver of its noncompliance; (iii) current ratio and interest cost/EBIT (earnings before interest and taxes) ratio for a $4.7 million note, for which the Company has received a waiver of its noncompliance; (iv) interest coverage ratio and total debt/EBITDA (earnings before interest taxes, depreciation and amortization) ratio for a $2.8 million note, for which the Company has not yet received a written waiver; (v) debt service ratio, cash coverage ratio, and interest coverage ratio for a $1.7 million note, for which the Company has received a waiver of its noncompliance; and (vi) debt to equity ratio for a $4.5 million note, for which the Company has not yet received a written waiver. The waivers received as of August 31, 2003 are for a period of one quarter. For the waivers requested, but not yet received, the Company has received verbal confirmation that the waivers will be approved as of August 31, 2003 and will be waived for a period of one quarter. Additionally, the Company has debt agreements, with an aggregate principal amount outstanding as of August 31, 2003 of $30.6 million that, among other things, allow the lender to accelerate the indebtedness upon a default by the Company under other indebtedness and prohibit the Company from incurring additional indebtedness unless the Company is in compliance with specified financial ratios. As of August 31, 2003, the Company did not satisfy these ratios. As a result, the Company is prohibited from incurring additional indebtedness and would need to obtain a waiver from the lender as a condition to incurring additional indebtedness. If the Company is unsuccessful in obtaining the necessary waivers or fails to comply with these financial covenants in future periods, the lenders may elect to accelerate the indebtedness described above and foreclose on the collateral pledged to secure the indebtedness. In

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such a case, the Company would need additional financing in order to service or extinguish the indebtedness. Accordingly, to address these potential needs for additional capital, the Company has entered into an agreement with the Sol and Helen Price Trust, a trust affiliated with Sol Price, a significant stockholder of the Company, giving the Company the right to sell all or a portion of specified real property to the Trust at any time on or prior to August 31, 2004 at a price equal to the Company s net book value for the respective properties and other commercially reasonable terms. The specified real property covers both the land and building at nine warehouse club locations. As of August 31, 2003, the net book value of this real property is approximately $54.8 million with approximately $33.1 million of encumbrances. Under the terms of the agreement, the Company would have the option, but not the obligation, to lease back one or more warehouse club buildings at an annual lease rate equal to 9% of the selling price for the building and other commercially reasonable terms.

The consolidated financial statements have been prepared on a going concern basis. The Company has an accumulated deficit of $24.6 million and a working capital deficit of $12.0 million as of August 31, 2003. For the year ended August 31, 2003, the Company had a net loss available to common stockholders of $32.1 million and generated cash flow from operating activities of $2.5 million. The Company has generated cash flow from operations since fiscal 2001. The Company s ability to fund its operations and service debt during fiscal 2004 is dependent on its ability to generate cash flow from operations, extend or refinance short-term credit facilities, continue to be granted vendor credit and continue to receive waivers from those lenders where covenant violations exist. Subsequent to year-end, the Company has extended $12.3 million of the $20.1 million short-term borrowings outstanding at August 31, 2003 to maturities beyond fiscal 2004. As of August 31, 2003, the Company closed three unprofitable warehouses and announced plans to close an additional warehouse on December 31, 2003 to increase cash flows for fiscal 2004. The Company also intends to reduce certain controllable warehouse expenses. The Company believes it will be successful in funding its fiscal 2004 operations, obtaining any necessary covenant violation waivers and extending or refinancing their remaining short term credit maturities beyond fiscal 2004. Management believes that its existing working capital along with existing availability in credit facilities, are sufficient to fund its operations through at least August 31, 2004.

Significant Accounting Policies

The preparation of the Company s financial statements requires that management make estimates and judgments that affect the financial position and results of operations. Management continues to review its accounting policies and evaluate its estimates, including those related to merchandise inventory and impairment of long-lived assets. The Company bases its estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances.

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 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, which occur primarily in the second and fourth fiscal quarters.

Impairment of Long-lived Assets: The Company periodically evaluates its long-lived assets for indicators of impairment. Management s judgments are based on market and operational conditions at the time of the evaluation. Future events could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value.

Stock-Based Compensation: Beginning September 1, 2002, the Company adopted the fair value based method of recording stock options contained in Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, which is considered the preferable accounting method for stock-based employee compensation (see Note 5 Stock-Based Compensation in the Notes to Condensed Consolidated Financial Statements included within). Beginning September 1, 2002, all future employee stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted. In December 2002, the FASB issued SFAS No. 148 (SFAS 148), Accounting for Stock-Based

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Compensation Transition and Disclosure, which amends SFAS No. 123 to provide alternative methods of transition to SFAS 123 s fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The adoption of SFAS 148 did not have a material impact on the Company s consolidated financial statements. Compensation expense recognized for stock options for the first quarter of fiscal 2003 was $25,000.

Basis of Presentation: The consolidated financial statements include the assets, liabilities and results of operations of the Company s majority and wholly owned subsidiaries that are more than 50% owned and controlled. All significant intercompany balances and transactions have been eliminated in consolidation. The Company s 50% owned Mexico joint venture is accounted for under the equity method of accounting.

Accounting Pronouncements

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Accounting for Asset Retirement Obligations, which became effective for the Company beginning in fiscal 2003. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of SFAS 143 has not had a material impact on the Company s consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which became effective for the Company beginning in fiscal 2003. Prior period financial statements will not be restated as a result of the adoption of SFAS 144. SFAS 144 establishes a number of rules for the recognition, measurement and reporting of long-lived assets which are impaired and either held for sale or continuing use within the business. In addition, SFAS 144 broadly expands the definition of a discontinued operation to individual reporting units or asset groupings for which identifiable cash flows exist. The adoption of SFAS 144 has not had a material impact on the Company s consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 (SFAS 145), Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. In addition to rescinding three FASB statements, SFAS 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of SFAS 145 has not had a material impact on the Company s consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146 s requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recorded as a liability when incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity s commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. The Company does not expect SFAS 146 to have a material impact on the Company s consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, through its majority or wholly owned subsidiaries, conducts foreign operations primarily in Latin America, the Caribbean and Asia, and as such is subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of November 30, 2002, the Company had a total of 27 warehouses operating in ten foreign countries and two U.S. territories (excluding the two warehouses owned in Mexico through its 50/50 joint venture). Nineteen of the 27 warehouses operate under foreign currencies other than the U.S. dollar. For the quarters ended November 30, 2002 and 2001, approximately 74% of the Company s net warehouse sales were in foreign currencies. The Company expects to enter into additional foreign countries in the future, which will increase the percentage of net warehouse sales denominated in foreign currencies.

The Company plans to enter into additional foreign countries in the future, which may involve similar economic and political risks as well as challenges that are different from those currently encountered by the Company. The Company believes that because its present operations and expansion plans involve numerous countries and currencies, the effect from any one-currency devaluation may not significantly impact the overall financial or operating results of the Company. However, there can be no assurance that the Company will not experience a materially adverse effect on the Company s business, financial condition, operating results, cash flow or liquidity as a result of the economic and political risks of conducting an international merchandising business.

Translation adjustments from the Company s non-U.S. denominated majority or wholly owned subsidiaries were $7.6 million and $6.3 million as of November 30, 2002 and August 31, 2002, respectively.

Foreign currencies in most of the countries where the Company operates have historically devalued against the U.S. dollar and are expected to continue to devalue. The Company manages foreign currency risks at times by hedging currencies through non-deliverable forward exchange contracts, or NDFs, that are generally for durations of six months or less and that do not provide for physical exchange of currency at maturity (only the resulting gain or loss). The premium associated with each NDF is amortized on a straight-line basis over the term of the NDF, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of goods sold. The related receivables or liabilities with counterparties to the NDFs are recorded in the consolidated balance sheet. As of November 30, 2002, the Company had no outstanding NDFs and therefore no mark-to-market unrealized amounts as of November 30, 2002. Additionally, no realized losses were incurred for the three months ended November 30, 2002, as none were entered into during the period. Although the Company has not purchased any NDFs subsequent to November 30, 2002, it may purchase NDFs in the future to mitigate foreign exchange losses. However, due to the volatility and lack of derivative financial instruments in the countries in which the Company operates, significant risk from unexpected devaluation of local currencies exists. Foreign exchange transaction losses realized, which are included as a part of the costs of goods sold in the consolidated statement of operations, were $268,000 and $296,000 for the three months ended November 30, 2002 and 2001, respectively (including the cost of any NDFs entered into).

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The following is a listing of each country or territory where the Company currently operates or anticipates operating in and their respective currencies, as of November 30, 2002:

Country/Territory	Number of Warehouses in Operation	Anticipated Warehouse Openings in Fiscal 2003	Currency
Panama	4		U.S. Dollar
Costa Rica	3		Costa Rican Colon
Dominican Republic	3		Dominican Republic Peso
Guatemala	3		Guatemalan Quetzal
Philippines	4	1	Philippine Peso
El Salvador	2		U.S. Dollar
Honduras	2		Honduran Lempira
Trinidad	2		Trinidad Dollar
Aruba	1		Aruba Florin
Barbados	1		Barbados Dollar
Guam	1		U.S. Dollar
U.S. Virgin Islands	1		U.S. Dollar
Jamaica		1	Jamaican Dollar
Nicaragua		1	Nicaragua Cordoba Oro
Totals	27	3	
Mexico (50% Joint Venture)	2	1	Mexican Peso

The Company is exposed to changes in interest rates on various bank loan facilities. A hypothetical 100 basis point adverse change in interest rates along the entire interest rate yield curve could adversely affect the Company s pretax net income by approximately $797,000 on an annualized basis.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Interim Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the completion of its audit of, and the issuance of an unqualified report on, the Company s financial statements for the year ended August 31, 2003, Ernst & Young LLP advised the Company that it plans to deliver a management letter identifying deficiencies that existed in the design or operation of the Company s internal controls that it considers to be material weaknesses in the effectiveness of the Company s internal controls pursuant to standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Ernst & Young LLP advised the Audit Committee of the Company s Board of Directors that its management letter would address the following two material weaknesses:

1. The Company s internal controls relating to revenue recognition were not designed properly to prevent the recordation of net warehouse sales that failed to satisfy SAB 101 s requirements; and

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2. The Company s Philippines and Guam subsidiaries failed to perform internal control functions to reconcile their accounting records to supporting detail on a timely basis.

Ernst & Young LLP has discussed the areas of weakness described above with the Audit Committee. The Audit Committee is taking an active role in responding to the deficiencies identified by Ernst & Young LLP, including overseeing management s implementation of the remedial measures described below with the goal of identifying and rectifying past accounting errors and preventing the situations that resulted in the need to restate prior period financial statements from recurring. To this end, the Company has implemented or is implementing the following measures:

- where appropriate, the Company already has taken action and continues to take action to augment or replace management at those subsidiaries associated with the matters underlying the restatements, including the hiring of a new controller in the Philippines;
- the Company is hiring a new Chief Financial Officer and has hired two new controllers;
- the Company has formalized and distributed a code of conduct describing the legal and ethical standards it expects all Company employees to uphold;
- the Company has implemented procedures requiring regional, country and warehouse managers and controllers to provide periodic representation letters regarding operational matters and proper presentation of financial statements to ensure accurate and timely balance sheet reconciliations and to ensure the financial statements are fairly presented in all material respects;
- the Company has engaged external consultants to review the Company s operational and logistical function and to make recommendations for improvements;
- the Company has established a group of accounting personnel at the Company s San Diego, California headquarters who are assisting and continually monitoring the Philippines accounting staff;
- the Company has relocated the accounting for Guam to the Company s San Diego, California headquarters;
- the Company is in the process of updating and disseminating written policies and procedures company-wide to standardize and improve procedures, including procedures relating to revenue recognition;
- the Company is re-training employees and is in the process of developing an ongoing training program with particular focus on company policies and procedures, both from an operational and financial reporting perspective; and
- the Company is in the process of improving communication among operating, financial and management functions.

Management believes the new controls and procedures address the conditions identified by Ernst & Young LLP as material weaknesses. The Company plans to continue to monitor the effectiveness of its internal controls and procedures on an ongoing basis and will take further action, as appropriate.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of its management, including its Interim Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, its Interim Chief Executive Officer and Interim Chief Financial Officer determined that deficiencies identified by Ernst & Young LLP caused its disclosure controls and procedures not to be effective at a reasonable assurance level. However, the Interim Chief Executive Officer and Interim Chief Financial Officer noted that the Company is actively seeking to remedy the deficiencies identified herein and did not note any other material weaknesses or significant deficiencies in the Company s disclosure controls and procedures during their evaluation.

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Other than general improvement in the Company s performance of standardized controls and closing procedures, and the establishment of a group of accounting personnel in San Diego to assist and monitor Philippines accounting matters, there were no changes in the Company s internal controls over financial reporting during such fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting. However, the Company believes the measures it currently is implementing to improve its internal controls are reasonably likely to have a material impact on its internal controls over financial reporting in future periods.

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PART II OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Factors That May Affect Future Performance

The Company had a substantial net loss in fiscal 2003 and may continue to incur losses in future periods. The Company incurred a net loss available to common stockholders of approximately $32.1 million in fiscal 2003, including asset impairment and closing cost charges of approximately $11.7 million, and expects to incur net losses in fiscal 2004. The Company is seeking ways to improve sales, margins, expense controls and inventory management. The Company believes these efforts will return the Company to profitability. However, if these efforts fail to adequately reduce costs, or if the Company s sales are less than it projects, the Company may continue to incur losses in future periods.

The Company believes it will have adequate cash to meet its operating and capital needs for fiscal 2004. The Company has estimated the timing and amounts of cash receipts and disbursements during fiscal 2004, and it believes it will have adequate cash to meet its operating and capital needs for fiscal 2004. However, if its assumptions about cash generation and usage are incorrect, the Company may be forced to withhold payment to its lenders and others and to file for bankruptcy protection. If the Company is forced to seek bankruptcy protection because of its inability to make required payments, the Company s common stock may become worthless and an investment in the common stock would be lost.

At August 31, 2003, the Company had cash of $17.7 million, and its net working capital was in a deficit position of $12.0 million. The Company has developed plans to manage its cash resources that include controlling expenditures and timely and effective management of its inventory and other asset procurements. The Company also continues to pursue financing alternatives. However, the Company may not obtain additional financing on terms that are acceptable to the Company, or at all.

As of August 31, 2003 the Company was out of compliance with financial covenants, contained in debt agreements covering an aggregate of $23.3 million of indebtedness. The Company has obtained written waivers covering $11.1 million of this indebtedness and currently expects to receive written waivers of the balance. The Company also has $30.6 million of indebtedness outstanding that allows the lender to accelerate the indebtedness upon a default by the Company under other indebtedness. If the Company fails to obtain the outstanding waivers or to comply with the covenants governing its indebtedness in the future, the lenders may elect to accelerate the Company s indebtedness and foreclose on the collateral pledged to secure the indebtedness. In addition, if the Company fails to comply with the covenants governing its indebtedness, the Company may need additional financing in order to service or extinguish the indebtedness. The Company may not be able to obtain financing or refinancing on terms that are acceptable to the Company, or at all.

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

Any failure by the Company to manage its growth could adversely affect the Company s business. The Company began an aggressive growth strategy in April 1999, opening 20 new warehouses over a two and a half year period, resulting in a total of 22 warehouses operating in ten countries and one U.S. territory at the end of fiscal 2001 (12 months ended August 31, 2001). The Company also opened four additional new warehouses in

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fiscal 2002 and six additional new warehouses in fiscal 2003, three of which were opened through the Company s 50/50 joint venture, resulting in a total of 32 new warehouses (before the exclusion of recent closures) operating in 13 countries and two U.S. territories since 1999. The Company anticipates opening one new warehouse in the third quarter of fiscal 2004 in Aseana City, Metropolitan Manila, Philippines.

During fiscal 2003, the Company s warehouse on the east side of Santo Domingo, Dominican Republic was closed on June 15, 2003, and a search for a new location in Santo Domingo has commenced. Also, the Company closed a warehouse operating in the Philippines, in Pasig City, Metropolitan Manila, on August 3, 2003 and closed a warehouse operating in Guatemala City, Guatemala on August 15, 2003. As of August 31, 2003, the Company had in operation 29 warehouse clubs in 13 countries and two U.S. territories (four in Panama; three each in Costa Rica, Mexico and the Philippines; two each in Dominican Republic, Guatemala, El Salvador, Honduras and Trinidad; and one each in Aruba, Barbados, Guam, Jamaica, Nicaragua and the United States Virgin Islands). Subsequent to fiscal 2003, the Company announced that it would be closing its warehouse currently operating in Guam. The last day of operations is scheduled to be December 31, 2003. Management continually evaluates individual warehouse performance, and additional warehouse closures may occur.

The success of the Company s strategy will depend to a significant degree on the Company s ability to (i) efficiently operate warehouses on a profitable basis and (ii) obtain and maintain positive comparable warehouse sales growth in the applicable markets. Some markets may present operational, competitive, regulatory and merchandising challenges that are similar to, or different from, those previously encountered by the Company. Also, the Company might not be able to adapt the Company s operations to support expansion, and warehouses may not achieve the profitability necessary for the Company to receive an acceptable return on investment.

In addition, the Company will need to continually evaluate the adequacy of the Company s existing systems and procedures, including warehouse management, financial and inventory control and distribution channels and systems. Moreover, the Company will be required to continually analyze the sufficiency of the Company s inventory distribution methods and may require additional facilities in order to support the Company s operations. The Company may not adequately anticipate all the changing demands that will be imposed on these systems. The Company s failure to update the Company s internal systems or procedures as required could have a material adverse effect on the Company s business, financial condition and results of operations.

The Company s auditors have indicated to the Company that they believe there were material weaknesses in the Company s internal controls for the year ended August 31, 2003. In connection with the completion of its audit of, and the issuance of an unqualified report on the Company s financial statements for the year ended August 31, 2003, Ernst & Young LLP advised the Company that it plans to deliver a management letter identifying deficiencies that existed in the design or operation of the Company s internal controls that it considers to be material weaknesses in the effectiveness of the Company s internal controls pursuant to standards established by the American Institute of Certified Public Accountants. The deficiencies to be reported by Ernst & Young LLP are that the Company s internal controls relating to revenue recognition were not designed properly to prevent the recordation of net warehouse sales that failed to satisfy the requirements of SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, and the Company s Philippines and Guam subsidiaries failed to perform internal control functions to reconcile their accounting records to supporting detail on a timely basis. These internal control weaknesses were identified during fiscal 2003 by the Company and brought to the attention of Ernst & Young LLP and the Audit Committee of the Company s Board of Directors.

The Company has taken steps to strengthen control processes in order to identify and rectify past accounting errors and to prevent the situations that resulted in the need to restate prior period financial statements from recurring. See Item 4. Controls and Procedures for a discussion of these remedial measures. These measures may not completely eliminate the material weaknesses in the Company s internal controls identified to the Company by Ernst & Young LLP, and the Company may have additional material weaknesses or significant deficiencies in its internal controls that neither Ernst & Young LLP nor the Company s management has yet identified. The existence of one or more material weaknesses or significant deficiencies could result in errors in

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the Company s consolidated financial statements, and substantial costs and resources may be required to rectify any internal control deficiencies.

The Company is currently defending several stockholder lawsuits. Following the announcement of the restatement of its financial results, the Company has received notice of four class action lawsuits filed against it and certain of its former directors and officers purportedly brought on behalf of certain of its current and former stockholders. These suits generally allege that the Company issued false and misleading statements during fiscal years 2002 and 2003 in violation of federal securities laws. If the Company chooses to settle these suits without going to trial, it may be required to pay the plaintiffs a substantial sum in the form of damages. Alternatively, if these cases go to trial and the Company is ultimately adjudged to have violated federal securities laws, the Company may incur substantial losses as a result of an award of damages to the plaintiffs. In addition, the Company is party to a stockholder derivative suit purportedly brought on the Company s own behalf against its current and former directors and officers, alleging among other things, breaches of fiduciary duty. The same complaint also alleges that various officers and directors violated California insider trading laws when they sold shares of the Company s stock in 2002 because of their alleged knowledge of the accounting issues that caused the restatement. The indemnification provisions contained in the Company s Certificate of Incorporation and indemnification agreements between the Company and its current and former directors and officers require the Company to indemnify its current and former directors and officers who are named as defendants against the allegations contained in these suits unless the Company determines that indemnification is unavailable because the applicable current or former director or officer failed to meet the applicable standard of conduct set forth in those documents. Regardless of the ultimate outcome of these suits, however, litigation of this type is expensive and will require that the Company devote substantial resources and management attention to defend these proceedings. Moreover, the mere presence of these lawsuits may materially harm the Company s business and reputation.

The Company expects to incur substantial legal and other professional service costs. The Company has and will continue to incur substantial legal and other professional service costs in connection with the stockholder lawsuits and responding to the inquiries of the SEC. The amount of any future costs in this respect cannot be determined at this time.

The Company faces significant competition. The Company s international merchandising businesses compete with exporters, wholesalers, other membership merchandisers, local retailers and trading companies in various international markets. Some of the Company s competitors may have greater resources, buying power and name recognition. There can be no assurance that the Company s competitors will not decide to enter the markets in which the Company operates, or expects to enter, or that the Company s existing competitors will not compete more effectively against the Company. The Company may be required to implement price reductions in order to remain competitive should any of the Company s competitors reduce prices in any of the Company s markets. Moreover, the Company s ability to operate profitably in new markets, particularly small markets, may be adversely affected by the existence or entry of competing warehouse clubs or discount retailers.

The Company faces difficulties in the shipment of and inherent risks in the importation of merchandise to its warehouses. The Company s warehouse clubs import approximately 50% of the inventories that they sell, which originate from varying countries and are transported over great distances, typically over water, which results in: (i) substantial lead times needed between the procurement and delivery of product, thus complicating merchandising and inventory control methods, (ii) the possible loss of product due to theft or potential damage to, or destruction of, ships or containers delivering goods, (iii) product markdowns as a result of it being cost prohibitive to return merchandise upon importation, (iv) product registration, tariffs, customs and shipping regulation issues in the locations the Company ships to and from, and (v) substantial ocean freight and duty costs. Moreover, each country in which the Company operates has differing governmental rules and regulations regarding the importation of foreign products. Changes to the rules and regulations governing the importation of merchandise may result in additional delays or barriers in the Company s deliveries of products to its warehouses or product it selects to import. In addition, only a limited number of transportation companies service the Company s regions. The inability or failure of one or more key transportation companies to provide

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transportation services to the Company, any collusion among the transportation companies regarding shipping prices or terms, changes in the regulations that govern shipping tariffs or any other disruption in the Company s ability to transport the Company s merchandise could have a material adverse effect on the Company s business, financial condition and results of operations.

The success of the Company s business requires effective assistance from local business people with whom the Company has established strategic relationships. Several of the risks associated with the Company s international merchandising business may be within the control (in whole or in part) of local business people with whom it has established formal and informal strategic relationships or may be affected by the acts or omissions of these local business people. For example, the Company has a relationship with one of its minority interest shareholders in the Philippines, by which it utilizes the minority shareholder s importation and exportation businesses for the movement of merchandise inventories both to and from the Asian regions. In some cases, these local business people previously held minority interests in joint venture arrangements and now hold shares of the Company s common stock. No assurances can be provided that these local business people will effectively help the Company in their respective markets. The failure of these local business people to assist the Company in their local markets could harm the Company s business, financial condition and results of operations.

Also, the Company has an agreement with Banca Promerica and Banco Promerica (collectively Promerica) in which the Company and Promerica have issued co-branded credit cards, used primarily in its Latin American segment, that do not require the Company to pay credit card processing fees associated with the use of these cards in its warehouse clubs. Mr. Edgar Zurcher, who is a director of the Company, is also Chairman of the Board of Banca Promerica (Costa Rica) and is also a director of Banco Promerica (El Salvador) (collectively Promerica). If, for any reason, the Company were unable to continue to offer the co-branded credit card, the result would be an increase in the Company s costs and potentially a negative effect on sales.

The Company is exposed to weather and other risks associated with international operations. The Company s operations are subject to the volatile weather conditions and natural disasters such as earthquakes, typhoons and hurricanes, which are encountered in the regions in which the Company s warehouses are located or are planned to be located, and which could result in delays in construction or result in significant damage to, or destruction of, the Company s warehouses. For example, the Company s two warehouses in El Salvador have experienced minimal inventory loss and disruption of their businesses as a result of earthquakes that have occurred. Also, the Company s store in Guam has experienced typhoons that resulted in minimal business interruptions and property losses. Losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on the Company s business, financial condition and results of operations.

Further declines in the economies of the countries in which the Company operates its warehouses would harm its business. The success of the Company s operations depends to a significant extent on a number of factors that affect discretionary consumer spending, including employment rates, business conditions, consumer spending patterns and customer preferences and other economic factors in each of the Company s foreign markets. Adverse changes in these factors, and the resulting adverse impact on discretionary consumer spending, would affect the Company s growth, sales and profitability. In Latin America and Southeast Asia, in particular, several countries are suffering recessions and economic instability. As a result, sales, gross profit margins and membership renewals have been negatively impacted in the current year, and in the event these factors continue, sales, gross profit margins and membership renewals may continue to be adversely affected. In addition, a worsening of these economies may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States. Any further decline in the national or regional economies of the foreign countries in which the Company currently operates, or will operate in the future, could have a material adverse effect on the Company s business, financial condition and results of operations.

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A few of the Company s stockholders have substantial control over the Company s voting stock, which may make it difficult to complete some corporate transactions without their support and may prevent a change in control. As of August 31, 2003, Robert E. Price, who is the Company s Interim President and Chief Executive Officer and Chairman of the Board, and Sol Price, a significant stockholder of the Company and father of Robert E. Price, beneficially owned approximately 47.1% of the Company s outstanding common stock and approximately 8.3% of the Company s outstanding shares of Series A Preferred Stock, which is convertible, at the holder s option, into approximately 1% of the Company s outstanding common stock. In addition, on July 9, 2003, entities affiliated with Messrs. R. Price and S. Price purchased 22,000 shares of the Company s Series B Preferred Stock for an aggregate purchase price of $22 million. Messrs. R. Price and S. Price beneficially owned all of the outstanding Series B Preferred Stock, which is convertible, at the holder s option, into approximately 13.0% of the Company s outstanding common stock. Subsequent to the end of fiscal 2003, Messrs. R. Price and S. Price purchased an aggregate of 500,000 shares of the Company s common stock, for an aggregate purchase price of $5.0 million. As a result, these stockholders may effectively control the outcome of all matters submitted to the Company s stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of the Company s common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of the Company s common stock.

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

The Company is subject to volatility in foreign currency exchange. The Company, primarily through majority or wholly owned subsidiaries, conducts operations primarily in Latin America, the Caribbean and Asia, and as such is subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of August 31, 2003, the Company had a total of 26 consolidated warehouses operating in 12 foreign countries and two U.S. territories, 18 of which operate under currencies other than the U.S. dollar. For fiscal 2003, approximately 74% of the Company s net warehouse sales were in foreign currencies. Also, as of August 31, 2003, the Company had three warehouses in Mexico, through a 50/50 joint venture accounted for under the equity method of accounting, which operate under the Mexican Peso. The Company may enter into additional foreign countries in the future or open additional locations in existing countries, which will increase the percentage of net warehouse sales denominated in foreign currencies.

Foreign currencies in most of the countries where the Company operates have historically devalued against the U.S. dollar and are expected to continue to devalue. For example, the Dominican Republic experienced a currency devaluation of 81% between the end fiscal 2002 and the end of fiscal 2003. The Company manages foreign currency risks at times by hedging currencies through non-deliverable forward exchange contracts (NDFs) that are generally for durations of six months or less and that do not provide for physical exchange of currency at maturity (only the resulting gain or loss). The premium associated with each NDF is amortized on a straight-line basis over the term of the NDF, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of goods sold. The related receivables or liabilities with counterparties to the NDFs are recorded in the consolidated balance sheet. As of August 31, 2003, the Company had no outstanding NDFs and no unrelated mark-to-market unrealized amounts. Additionally, no realized losses were incurred for twelve months ending August 31, 2003, as no NDFs were entered into during the period. Although the Company has not purchased any NDFs subsequent to August 31, 2003, it may purchase NDFs in the future to mitigate foreign exchange losses. However, due to the volatility and lack of derivative financial instruments in the countries in which the Company operates, significant risk from unexpected devaluation of local currencies exists. Foreign exchange transaction losses realized, including repatriation of funds, which are included as a part of the costs of goods sold in the consolidated statement of operations, for fiscal 2003, 2002 and 2001 (including the cost of the NDFs) were approximately $605,000, $1.2 million and $718,000, respectively.

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

The adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets could adversely affect the Company s future results of operations and financial position. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company, effective September 1, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. As of August 31, 2002, the Company had goodwill of approximately $23.1 million. The Company performed its impairment test on goodwill as of August 31, 2003, and no impairment losses were recorded. In the future, the Company will test for impairment at least annually. Such tests may result in a determination that these assets have been impaired. If at any time the Company determines that an impairment has occurred, the Company will be required to reflect the impairment charge as a part of operating income, resulting in a reduction in earnings in the period such impairment is identified and a corresponding reduction in the Company s net asset value. A material reduction in earnings resulting from such a charge could cause the Company to fail to be profitable in the period in which the charge is taken or otherwise to fail to meet the expectations of investors and securities analysts, which could cause the price of the Company s stock to decline.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) *Exhibits:*

31.1	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

(b) *Reports on Form 8-K:*

None

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SIGNATURES

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

	PRICESMART, INC.	
Date: December 16, 2003	By:	/s/ ROBERT E. PRICE
		Robert E. Price
		Interim Chief Executive Officer
Date: December 16, 2003	By:	/s/ JAMES F. CAHILL
		James F. Cahill
		Interim Chief Financial Officer

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PRICESMART, INC.

RESTATED CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	November 30, 2002	August 31, 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,407	$ 25,097
Marketable securities	3,013	3,015
Receivables, net of allowance for doubtful accounts of $161 and $183, respectively	16,300	12,086
Merchandise inventories	103,973	79,297
Prepaid expenses and other current assets	10,766	8,304
Deferred tax asset, current portion	3,869	
Total current assets	163,328	127,799
Restricted cash	27,315	21,918
Property and equipment, net	190,149	185,107
Goodwill, net	23,071	23,071
Deferred tax asset, net of current portion	10,850	15,862
Other assets	4,050	4,018
Investment in unconsolidated affiliate	14,698	10,963
TOTAL ASSETS	$ 433,461	$ 388,738
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 22,253	$ 23,553
Accounts payable	101,735	66,725
Accrued salaries and benefits	3,887	3,210
Deferred membership income	4,004	3,993
Income taxes payable	864	1,425
Other accrued expenses	4,705	6,644
Long-term debt, current portion	10,313	9,059
Total current liabilities	147,761	114,609
Long-term debt, net of current portion	98,612	90,539
Total liabilities	246,373	205,148
Minority interest	11,212	10,179
STOCKHOLDERS EQUITY:		
Preferred stock, $.0001 par value (stated at cost), 2,000,000 shares authorized; Series A convertible preferred stock 20,000 shares designated, 20,000 and 20,000 shares issued and outstanding, respectively	19,914	19,914
Common stock, $.0001 par value, 15,000,000 shares authorized; 7,284,338 and 7,282,939 shares issued and outstanding, respectively	1	1

Additional paid-in capital	161,909	161,094
Tax benefit from exercise of stock options	3,360	3,360
Notes receivable from stockholders	(769)	(769)
Deferred compensation	(85)	(95)
Accumulated other comprehensive loss	(7,596)	(6,292)
Retained earnings	8,558	7,520
Less: treasury stock at cost; 414,500 and 498,422 shares outstanding, respectively	(9,416)	(11,322)
Total stockholders equity	175,876	173,411
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 433,461	$ 388,738

See accompanying notes.

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PRICESMART, INC.

RESTATED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended November 30,	
	2002	**2001**
Revenues:		
Sales:		
Net warehouse	$ 158,040	$ 140,183
Export	2,576	429
Membership income	2,146	2,114
Other income	2,696	2,254
Total revenues	165,458	144,980
Expenses:		
Cost of goods sold:		
Net warehouse	134,400	119,306
Export	2,443	414
Selling, general and administrative:		
Warehouse operations	18,896	16,867
General and administrative	4,388	4,381
Preopening expenses	576	848
Total expenses	160,703	141,816
Operating income	4,755	3,164
Other income (expense):		
Interest income	705	792
Interest expense	(2,500)	(2,341)
Other income (expense)	10	(20)
Equity of unconsolidated affiliate	(765)	
Minority interest	(4)	(258)
Total other expense	(2,554)	(1,827)
Income before provision for income taxes	2,201	1,337
Provision for income taxes	763	233
Net income	1,438	1,104
Preferred dividends	400	
Net income available to common stockholders	$ 1,038	$ 1,104

Earnings per share:		
Basic	$ 0.15	$ 0.18
Fully diluted	$ 0.15	$ 0.17
Shares used in per share computation:		
Basic	6,846	6,257
Fully diluted	6,970	6,577

See accompanying notes.

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PRICESMART, INC.

RESTATED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED AMOUNTS IN THOUSANDS)

	Three Months Ended November 30, 2002	Three Months Ended November 30, 2001
OPERATING ACTIVITIES:		
Net income	$ 1,438	$ 1,104
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,851	2,658
Allowance for doubtful accounts	(22)	96
Deferred income taxes	1,143	233
Minority interest	4	258
Equity in losses of non-consolidated affiliate	758	
Compensation expense recognized for stock options	25	53
Change in operating assets and liabilities:		
Change in accounts receivable, prepaids, other current assets, accrued salaries, deferred membership and other accruals	(8,643)	(3,363)
Merchandise inventory	(24,676)	(18,173)
Accounts payable	35,010	14,758
Net cash flows provided by (used in) operating activities	8,888	(2,376)
INVESTING ACTIVITIES:		
Additions to property and equipment	(8,739)	(12,293)
Disbursement of notes receivable		(83)
Investment in unconsolidated affiliate	(4,500)	
Net cash flows used in investing activities	(13,239)	(12,376)
FINANCING ACTIVITIES:		
Proceeds from bank borrowings	24,495	58,334
Repayment of bank borrowings	(16,469)	(51,926)
Restricted cash	(5,397)	(48)
Dividends on convertible preferred stock	(400)	
Contributions by minority interest shareholders	1,028	879
Sale of treasury stock Nicaragua joint venture	2,609	
Proceeds from exercise of stock options	97	997
Net cash flows provided by financing activities	5,963	8,236
Effect of exchange rate changes on cash and cash equivalents	(1,302)	(871)
Net increase (decrease) in cash and cash equivalents	310	(7,387)
Cash and cash equivalents at beginning of period	25,097	26,280

Cash and cash equivalents at end of period	$ 25,407	$ 18,893
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 2,787	$ 956
Income taxes	$ 275	$

See accompanying notes.

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PRICESMART, INC.

RESTATED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2002

(UNAUDITED AMOUNTS IN THOUSANDS)

	Preferred Stock		Common Stock			Tax Benefit					Less: Treasury Stock		
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	from Exercise of Stock Options	Notes Receivable from Stockholders	Deferred Compensation	Other Comprehensive Loss	Retained Earnings	Shares	Amount	Total Stockholders Equity
Balance at August 31, 2002	20	$ 19,914	7,283	$ 1	$ 161,094	$ 3,360	$ (769)	$ (95)	$ (6,292)	$ 7,520	498	$ (11,322)	$ 173,411
Dividends on preferred stock										(400)			(400)
Sale of treasury stock Nicaragua joint venture					808						(79)	1,801	2,609
Exercise of stock options			1		(8)						(4)	105	97
Common stock issued and stock compensation expense					15			(15)					
Amortization of deferred compensation								25					25
Net Income										1,438			1,438
Net unrealized loss on marketable securities									(2)				(2)
Translation adjustment									(1,302)				(1,302)
Comprehensive Income													134
Balance at November 30, 2002	20	$ 19,914	7,284	$ 1	$ 161,909	$ 3,360	$ (769)	$ (85)	$ (7,596)	$ 8,558	415	$ (9,416)	$ 175,876

See accompanying notes.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

November 30, 2002

NOTE 1 COMPANY OVERVIEW AND RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

PriceSmart, Inc. s (PriceSmart or the Company) business consists primarily of international membership shopping stores similar to, but smaller in size than, warehouse clubs in the United States. As of November 30, 2002, the Company had 27 warehouse stores in operation in ten countries and two U.S. territories (four in Panama and the Philippines, three each in Costa Rica, the Dominican Republic and Guatemala, two each in El Salvador, Honduras and Trinidad and one each in Aruba, Barbados, Guam and the U.S. Virgin Islands), of which the Company owns at least a majority interest. The Company also had two warehouse stores in operation in Mexico as part of a 50/50 joint venture with Grupo Gigante, S.A. de C.V. In fiscal 2002, the Company increased its ownership from 60% to 90% in the operations in Aruba and increased its ownership from 51% to 100% in the operations in Barbados. In fiscal 2001, the Company increased its ownership from 62.5% to 90% in the operations in Trinidad. In fiscal 2000, the Company increased its ownership from 51% to 100% in the operations in Panama and increased its ownership from 60% to 100% in the operations in Costa Rica, Dominican Republic, El Salvador and Honduras. There also were eleven warehouse stores in operation (ten in China and one in Saipan) licensed to and operated by local business people as of November 30, 2002. The Company principally operates under one segment in three geographic regions.

Based upon information obtained by the Company s internal audit and accounting departments and additional information gathered as part of an independent investigation conducted at the direction of the Audit Committee of the Company s Board of Directors, the Company has determined that certain transactions during the period from October 2001 through May 2003 did not satisfy revenue recognition criteria under U.S. generally accepted account principles and were improperly recorded as net warehouse sales on the Company s statements of operations. As a result, the Company s net warehouse sales were overstated during fiscal year 2002 by approximately $16.6 million (2.7% of previously reported net warehouse sales), and during the first nine months of fiscal year 2003 by approximately $12.7 million (2.5% of previously reported net warehouse sales). Reported comparable warehouse sales also were impacted by the reporting of these transactions. Restatement of these sales amounts does not affect the Company s previously reported net income or loss per share.

Following its determination to restate its financial statements for the matters described above, the Company also determined that it would correct certain known errors. In each such case, the Company believed the amount of any such error was not material to the Company s consolidated 2002 financial statements. In addition, in the process of closing its financial statements for fiscal 2003, the Company identified accounting errors that occurred, primarily in the Company s Guam and Philippine operations from the failure of the principal accounting staff at these subsidiaries to reconcile properly their accounting records to supporting detail, which impacted prior period results.

The corrections described in the preceding paragraph reduced the Company s reported net income for the twelve months ended August 31, 2002 by approximately $344,000, from the previously stated $10.788 million of net income to $10.444 million, reducing the Company s diluted earnings per share by approximately $0.05, from $1.60 to $1.55 per diluted share. For the first nine months ended May 31, 2003, the restatement increased the Company s net loss by approximately $711,000, from the previously stated $5.402 million loss to a restated loss of $6.113 million, increasing the Company s diluted net loss per share by approximately $0.10, from a loss of $0.79 to a loss of $0.89 per diluted share.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

The following tables present the impact of the restatement on the Company s previously reported results for the three months ended November 30, 2002 and 2001 and on the balance sheet as of November 30, 2002 on a condensed basis (amounts in thousands, except per share data):

	Three Months Ended November 30, 2002		Three Months Ended November 30, 2001	
	Previously Reported	Restated	Previously Reported	Restated
Revenues:				
Sales:				
Net warehouse	$ 162,018	$ 158,040	$ 142,751	$ 140,183
Export	2,576	2,576	429	429
Membership income	2,146	2,146	2,114	2,114
Other income	2,650	2,696	2,254	2,254
Total revenues	169,390	165,458	147,548	144,980
Expenses:				
Cost of goods sold:				
Net warehouse	138,233	134,400	121,874	119,306
Export	2,443	2,443	414	414
Selling, general and administrative:				
Warehouse operations	18,737	18,896	16,836	16,867
General and administrative	4,388	4,388	4,381	4,381
Preopening expenses	576	576	848	848
Total expenses	164,377	160,703	144,353	141,816
Operating income	5,013	4,755	3,195	3,164
Other income (expense):				
Interest income	705	705	792	792
Interest expense	(2,511)	(2,500)	(2,341)	(2,341)
Other income (expense)	10	10	(20)	(20)
Equity of unconsolidated affiliate	(765)	(765)		
Minority interest	(23)	(4)	(261)	(258)
Total other expense	(2,584)	(2,554)	(1,830)	(1,827)

Income before provision for income taxes	2,429	2,201	1,365	1,337
Provision for income taxes	836	763	242	233
Net income	1,593	1,438	1,123	1,104
Preferred dividends	400	400		
Net income available to common stockholders	$ 1,193	$ 1,038	$ 1,123	$ 1,104
Earnings per share:				
Basic	$ 0.17	$ 0.15	$ 0.18	$ 0.18
Fully diluted	$ 0.17	$ 0.15	$ 0.17	$ 0.17
Shares used in per share computation:				
Basic	6,846	6,846	6,257	6,257
Diluted:	6,970	6,970	6,577	6,577

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

	November 30, 2002	
	Previously Reported	Restated
	(amounts in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,755	$ 25,407
Marketable securities	3,013	3,013
Receivables, net	16,300	16,300
Merchandise inventories	104,260	103,973
Prepaid expenses and other current assets	10,766	10,766
Deferred tax asset, current portion	3,869	3,869
Total current assets	163,963	163,328
Restricted cash	27,315	27,315
Property and equipment, net	190,230	190,149
Goodwill, net	23,071	23,071
Deferred tax asset, net of current portion	10,618	10,850
Other assets	4,050	4,050
Investment in unconsolidated affiliate	14,698	14,698
TOTAL ASSETS	$ 433,945	$ 433,461
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 22,253	$ 22,253
Accounts payable	101,735	101,735
Accrued salaries and benefits	3,887	3,887
Deferred membership income	4,004	4,004
Income tax payable	864	864
Other accrued expenses	4,664	4,705
Long-term debt, current portion	10,313	10,313
Total current liabilities	147,720	147,761
Long-term debt, net of current portion	98,612	98,612
Total liabilities	246,332	246,373
Minority interest	11,238	11,212

Stockholders equity	176,375	175,876
TOTAL LIABILITIES AND EQUITY	$ 433,945	$ 433,461

Set forth below are the restatement adjustments included in the restatement of previously issued financial statements, each of which is deemed an error per Accounting Principles Board Opinion No. 20, Accounting Changes.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

Sales Restatement Adjustments

Based upon information obtained by the Company s internal audit and accounting departments and additional information gathered as part of an independent investigation conducted at the direction of the Audit Committee of the Company s Board of Directors, the Company identified certain transactions which occurred in its Latin American segment during the period from October 2001 through May 2003 that did not satisfy all the criteria as set forth in SEC Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statement, Topic 13-A: Revenue Recognition.

These transactions involved the sale of goods by the Company s Latin American subsidiaries to vendors that the subsidiaries later repurchased or purchases by the subsidiaries of goods from vendors followed by return sales of the same goods to the vendor or an affiliate of the vendor. In some cases, the goods either remained at the subsidiary s warehouses despite having been sold and repurchased by the subsidiary or the goods purchased remained in the vendor s possession despite having been purchased by the subsidiary and subsequently sold back to the original vendor or the vendor s affiliate. In some cases, the goods were sold at a loss and repurchased at cost, resulting in a negative margin on the sale. In other cases, the goods were sold at or above cost but repurchased at a higher price. As a result, in some cases the Company did not experience a negative margin on the particular sale, but the transaction increased the Company s cost of goods, thereby reducing margins on future transactions.

In addition, the Company s Dominican Republic subsidiary engaged in transactions where sugar was purchased from an Association of wholesale sugar purchasers and resold to the Association s members at a 1% discount to the price the Company s subsidiary paid the Association. PriceSmart did not take custody, possession or control of the sugar it purchased from the Association, nor did it obtain information confirming delivery or bear risk of loss.

Under SAB 101, revenue is realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller s price is fixed and determinable, and (iv) collectibility is reasonably assured. In the case of the transactions with vendors described above, the second criterion was not satisfied because delivery typically did not occur. In the case of the Dominican Republic sugar transactions, the transactions failed to satisfy the first and second criteria: First, no persuasive evidence of an arrangement between the Company s Dominican Republic subsidiary and the various members of the Association existed. Second, the Company s Dominican Republic subsidiary did not confirm delivery of the sugar. Perhaps more importantly, these transactions did not satisfy an overriding United States Generally Accepted Accounting Principles requirement under Financial Accounting Concepts No. 5, Recognition and Measurement in Financial Statements of Business Enterprises that a transaction have economic substance.

As a result of this restatement adjustment, net warehouse sales were reduced by $2.6 million and $2.6 million for the first three months of fiscal 2002 and fiscal 2003, respectively, with a corresponding adjustment to reduce cost of goods sold by the same amount. As such, the restatement of these sales adjustments did not affect the Company s reported net income or loss per share, nor did it affect the Company s balance sheet.

Commission Sales Adjustments

As part of certain warehouse locations, the Company offers certain products and services that are provided by third-party vendors. These operations are not distinguishable to the members as separate from the Company as they operate under the Company s name. While the Company has certain direction over prices and products offered by these operations, the centers are operated by third parties with the Company earning a commission on

PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

the transactions. Historically, the Company recorded the sales from these operations as part of net warehouse sales and the related cost of goods sold in the consolidated statement of operations. Based on Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principle versus Net as an Agent, the Company determined that it is more appropriate to present such amounts on a net basis versus a gross basis, given the terms of the arrangements with these third parties. As a result of this restatement adjustment for the first three months of fiscal 2003 net warehouse sales were reduced by $1.4 million and related cost of goods sold reduced by $1.3 million, with the net amount of $46,000 reflected in Sales: Other income within the restated condensed statements of operations. The first three months of fiscal 2002 were not impacted. As such, the restatement of these commission sales adjustments did not affect the Company s reported net income or loss per share, nor did it affect the Company s balance sheet.

Philippine and Guam Adjustments

In the later part of fiscal 2003, the Company identified errors that occurred in the Company s Guam and Philippine operations from the failure of the principal staff at these subsidiaries to properly reconcile their accounting records to supporting detail records. The Company allocated resources to properly reconcile the accounting records to underlying supporting records for the Philippine and Guam locations, retrained the principal accounting staff, hired a new controller to oversee the Philippine operations, and moved the accounting for Guam to the United States accounting center. As a result of these efforts, and based on available underlying transactions and supporting records, the Company was able to identify certain errors related to the quarterly periods in fiscal 2003 and the fourth quarter of fiscal 2002. These errors primarily impacted the net warehouse cost of goods sold, warehouse operating expenses, and interest expense for these entities and primarily impacted the cash, other accrued expenses and merchandise inventories balance sheet accounts. As a result of these restatement adjustments, net warehouse cost of goods sold increased by approximately $0 and $99,000 for the first three months of fiscal 2002 and fiscal 2003, respectively. Warehouse operating expenses were increased by approximately $0 and $183,000 for the first three months of fiscal 2002 and fiscal 2003, respectively. Interest expense was increased by approximately $0 and $36,000 for the first three months of fiscal 2002 and fiscal 2003, respectively.

As a result of this restatement adjustment, earnings before minority interest and income taxes was reduced by approximately $318,000 for the first three months of fiscal 2003. The first three months of fiscal 2002 were not impacted by this restatement adjustment.

Other Items

Following its determination to restate its financial statement for the matters described above, the Company determined it would correct certain known errors related to prior periods. In each such case, the Company believed the amount of any such error was not material to the Company s consolidated 2002 financial statements or for the periods impacted in the first nine months of fiscal 2003. The errors primarily impacted net cost of goods sold, warehouse operating expenses, and interest expense. As a result of these restatement adjustments warehouse operating expenses were increased by approximately $31,000 and were decreased by approximately $24,000 for the first three months of fiscal 2002 and fiscal 2003, respectively. Interest expense was decreased by approximately $0 and $47,000 for the first three months of fiscal 2002 and fiscal 2003, respectively. Net warehouse cost of goods sold was not impacted for the first three months of fiscal year 2002 or 2003.

As a result of this restatement adjustment, earnings before minority interest and income taxes was reduced by approximately $31,000 and was increased by approximately $71,000 for the first three months of fiscal 2002 and fiscal 2003, respectively.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The restated condensed consolidated interim financial statements of the Company included herein include the assets, liabilities and results of operations of the Company s majority and wholly owned subsidiaries as listed below. All significant intercompany accounts and transactions have been eliminated in consolidation. The restated condensed consolidated interim financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), and reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the interim period presented. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The results for interim periods are not necessarily indicative of the results for the full year. The interim financial statements should be read in conjunction with the restated consolidated financial statements and related notes included in Amendment No. 1 to the Company s Form 10-K/A for the year ended August 31, 2002 (2002 Form 10-K/A).

	Ownership	Basis of Presentation
Ventures Services, Inc.	100.0%	Consolidated
PriceSmart Panama	100.0%	Consolidated
PriceSmart U.S. Virgin Islands	100.0%	Consolidated
PriceSmart Guam	100.0%	Consolidated
PriceSmart Guatemala	66.0%	Consolidated
PriceSmart Trinidad	90.0%	Consolidated
PriceSmart Aruba	90.0%	Consolidated
PriceSmart Barbados	100.0%	Consolidated
PriceSmart Jamaica	67.5%	Consolidated
PriceSmart Philippines	52.0%	Consolidated
PriceSmart Ecuador	60.0%	Consolidated
PriceSmart Nicaragua	51.0%	Consolidated
PriceSmart Mexico	50.0%	Equity
PSMT Caribe, Inc:		
Costa Rica	100.0%	Consolidated
Dominican Republic	100.0%	Consolidated
El Salvador	100.0%	Consolidated
Honduras	100.0%	Consolidated

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents represent cash and short-term investments with maturities of three months or less when purchased.

Restricted Cash Restricted cash represents time deposits that are pledged as collateral for majority-owned subsidiary loans and amounts deposited in escrow for future asset acquisitions.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

Marketable Securities In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Debt and Equity Securities, marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported in a separate component of the stockholders equity. The amortized cost of securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income (expense). The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Merchandise Inventories Merchandise inventories, which is comprised of merchandise for resale, are valued at the lower of cost (average cost) or market.

Property and Equipment Property and equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Fixture and equipment lives range from 3 to 15 years and buildings from 10 to 25 years. Leasehold improvements are amortized over the shorter of the life of the improvement or the expected term of the lease. In some locations, leasehold improvements are amortized over a period longer than the initial lease term as management believes it is probable that the renewal option in the underlying lease will be exercised.

Revenue Recognition The Company recognizes sales revenue when title passes to the customer. Membership fee income represents annual membership fees paid by the Company s warehouse members, which are recognized over the 12-month term of the membership. The historical membership fee refunds have been minimal and, accordingly, no reserve has been established for membership refunds for the periods presented.

Pre-Opening Costs The Company expenses pre-opening costs (the costs of start-up activities, including organization costs) as incurred.

Foreign Currency Translation In accordance with Statement of Financial Accounting Standards No. 52 (SFAS 52) Foreign Currency Translation, the assets and liabilities of the Company s foreign operations are primarily translated to U.S. dollars using the exchange rates at the balance sheet date and revenues and expenses are translated at average rates prevailing during the period. Related translation adjustments are recorded as a component of accumulated comprehensive loss.

Stock-Based Compensation Beginning September 1, 2002, the Company adopted the fair value based method of recording stock options contained in SFAS 123, which is considered the preferable accounting method for stock-based employee compensation. Beginning September 1, 2002, all future employee stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted (See Note 5). Historically, and through August 31, 2002, the Company applied Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans.

Accounting Pronouncements In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Accounting for Asset Retirement Obligations, which became effective for the Company beginning in fiscal 2003. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of SFAS 143 has not had a material impact on the Company s consolidated financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which became effective for the Company

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

beginning in fiscal 2003. Prior period financial statements will not be restated as a result of the adoption of SFAS 144. SFAS 144 establishes a number of rules for the recognition, measurement and reporting of long-lived assets which are impaired and either held for sale or continuing use within the business. In addition, SFAS 144 broadly expands the definition of a discontinued operation to individual reporting units or asset groupings for which identifiable cash flows exist. The adoption of SFAS 144 has not had a material impact on the Company s consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 (SFAS 145), Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. In addition to rescinding three FASB statements, SFAS 145 amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of SFAS 145 has not had a material impact on the Company s consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146 s requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recorded as a liability when incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity s commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. The Company does not expect SFAS 146 to have a material impact on the Company s consolidated financial statements.

Reclassifications Certain amounts in the prior period consolidated financial statements have been reclassified to conform to current period presentation.

NOTE 3 PROPERTY AND EQUIPMENT

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

	November 30, 2002	August 31, 2002
Land	$ 33,005	$ 31,080
Building and improvements	113,791	109,936
Fixtures and equipment	71,899	67,848
Construction in progress	5,500	6,591
	224,195	215,455
Less: accumulated depreciation	(34,046)	(30,348)
Property and equipment, net	$ 190,149	$ 185,107

Building and improvements includes capitalized interest costs of $1.3 million and $1.2 million as of November 30, 2002 and August 31, 2002, respectively.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

NOTE 4 EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average common shares outstanding in the period. Diluted earnings per share is computed based on the weighted average common shares outstanding in the period and the effect of dilutive securities (options, preferred stock and warrants) except where the inclusion is antidilutive (in thousands, except per share data):

	Three Months Ended November 30,	
	2002	2001
Income available to common stockholders	$ 1,038	$ 1,104
Determination of shares:		
Common shares outstanding	6,846	6,257
Assumed conversion of:		
Stock options	124	320
Preferred stock		
Warrants		
Diluted average common shares outstanding	6,970	6,577
Net income available to common stockholders:		
Basic earnings per share	$ 0.15	$ 0.18
Diluted earnings per share	$ 0.15	$ 0.17

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

NOTE 5 STOCK-BASED COMPENSATION

As of November 30, 2002, the company has three stock-based employee compensation plans. Prior to September 1, 2002, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Effective September 1, 2002, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, prospectively to all employee awards granted, modified, or settled after September 1, 2002. Awards under the Company s plans vest over five years. The cost related to stock-based employee compensation included in the determination of net income for the three months ended November 30, 2002 and 2001 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards each period (in thousands, except per share data):

	Three Months Ended November 30,	
	2002	**2001**
Net income, as reported	$ 1,038	$ 1,104
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	25	53
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(723)	(956)
Pro forma net income	$ 340	$ 201
Earnings per share:		
Basic-as reported	$ 0.15	$ 0.18
Basic-pro forma	$ 0.05	$ 0.03
Diluted-as reported	$ 0.15	$ 0.17
Diluted-pro forma	$ 0.05	$ 0.03

NOTE 6 COMMITMENTS AND CONTINGENCIES

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, financial condition, operating results, cash flow or liquidity.

NOTE 7 SHORT-TERM BORROWINGS AND DEBT

As of November 30, 2002, the Company, through its majority or wholly owned subsidiaries, had $22.3 million outstanding in short-term borrowings through 12 separate facilities, which are secured by certain assets of its subsidiaries and are guaranteed by the Company up to its respective ownership percentage. Each of the facilities expires during the year and typically is renewed. As of November 30, 2002, the Company had approximately $10 million available on the facilities.

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PRICESMART, INC.

NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

November 30, 2002

The Company s long term debt is collateralized by certain land, building, fixtures and equipment of each respective subsidiary and guaranteed by the Company up to its respective ownership percentages, except for approximately $27.3 million as of November 30, 2002, which is secured by collateral deposits for the same amount and which deposits are included in restricted cash on the balance sheet.

Under the terms of each of its debt agreements, the Company must comply with certain covenants which include, among others, current, debt service, interest coverage and leverage ratios. The Company is in compliance with all of these covenants, except for the current ratio for a $5.0 million note and the interest coverage ratio for a $6.0 million note. The Company obtained the necessary waivers for these notes through February 28, 2003 and August 31, 2003, respectively.

Pursuant to the terms of a bank credit agreement, the Company can issue up to $7.0 million of standby letters of credit. Fees are paid up front and charges are paid as incurred. As of November 30, 2002 there were outstanding letters of credit in the amount of $4.0 million.

NOTE 8 COMPREHENSIVE LOSS

Comprehensive loss is net losses, plus certain other items that are recorded directly to shareholders equity. The only such items currently applicable to the Company are net unrealized gains or losses on marketable securities and translation adjustments. The Company s comprehensive loss was $7.6 million and $6.3 million as of November 30, 2002 and August 31, 2002, respectively.

NOTE 9 FOREIGN CURRENCY INSTRUMENTS

The Company transacts business primarily in various Latin American and Caribbean foreign currencies. The Company, at times, enters into non-deliverable forward currency exchange contracts (NDFs) that are generally for short durations of six months or less and that do not provide for physical exchange of currency at maturity (only the resulting gain or loss). The premium associated with each NDF is amortized on a straight-line basis over the term of the NDF, and mark-to-market amounts and realized gains or losses are recognized on the settlement date in cost of goods sold. The related receivables or liabilities with counterparties to the NDFs are recorded in the consolidated balance sheet. As of November 30, 2002, the Company had no outstanding NDFs and therefore no mark-to-market unrealized amounts as of November 30, 2002. Additionally, no realized losses were incurred for the three months ended November 30, 2002, as none were entered into during the period.

NOTE 10 GOODWILL

The Company s business combinations are accounted for under the purchase method of accounting and include the results of operations of the acquired business from the date of acquisition. Net assets of the acquired business are recorded at their fair value at the date of acquisition. The excess of the purchase price over the fair value of tangible net assets acquired is included in goodwill in the accompanying consolidated balance sheets.

In fiscal 2002, the Company increased its ownership from 60% to 90% in the operations in Aruba and increased its ownership from 51% to 100% in the operations in Barbados. In fiscal 2001, the Company increased its ownership from 62.5% to 90% in the operations in Trinidad. In fiscal 2000, the Company increased its ownership from 51% to 100% in the operations in Panama and increased its ownership from 60% to 100% in the operations in Costa Rica, Dominican Republic, El Salvador and Honduras (PSMT Caribe, Inc.).

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NOTES TO RESTATED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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November 30, 2002

The Company s goodwill as of November 30, 2002 and August 31, 2002 was $23 million and is allocated as follows (in thousands):

Panama	$ 7,370
PSMT Caribe, Inc.	13,678
Trinidad	712
Aruba	782
Barbados	1,750
	$ 24,292
Less: Accumulated amortization	(1,221)
Goodwill, net	$ 23,071

The Company adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets effective September 1, 2001 (Fiscal 2002). Under SFAS 142, goodwill is no longer amortized but reviewed for impairment annually, or more frequently if certain indicators arise. The Company has performed the required impairment tests of the Company s goodwill and as a result, no impairment losses have been recorded for the periods presented

NOTE 11 CONVERTIBLE PREFERRED STOCK AND WARRANTS

On January 22, 2002, the Company issued 20,000 shares of Series A Preferred Stock (Preferred Stock) and warrants to purchase 200,000 shares of common stock for an aggregate of $20 million, with net proceeds of $19.9 million. The Preferred Stock accrues an annual cumulative preferred dividend rate of 8.0%, payable quarterly in cash. The Preferred Stock is convertible, at the option of the holder, at the conversion price of $37.50, subject to customary anti-dilution adjustments. The Preferred Stock is redeemable in whole or in part, at the option of the Company, on or after January 17, 2007, at a redemption price equal to the liquidation preference, or $1,000 per share, plus any accumulated and unpaid dividends. On January 17, 2012, each share of Preferred Stock that has not been converted or redeemed will automatically be converted into one fully paid and nonassessable shares of common stock. The warrants are exercisable at $37.50 per share of common stock through January 17, 2003. At November 30, 2002, none of the shares of the Preferred Stock had been converted and none of the warrants had been exercised.

NOTE 12 RELATED PARTY TRANSACTIONS

In January 2002, the Company entered into a joint venture agreement with Grupo Gigante, S.A. de C.V. (Gigante) to initially open four PriceSmart warehouse stores in Mexico. In November 2002, two of the four planned warehouses in Mexico were opened, in Irapuato and Celaya. The joint venture is accounted for under the equity method of accounting, in which the Company reflects its proportionate share of income or loss of the unconsolidated joint venture s results from operations. The Company and Gigante have agreed to contribute $20 million each for a total of $40 million, and will each own 50% of the operations in Mexico. Gigante also purchased 15,000 of the 20,000 shares of Preferred Stock issued, and all of the warrants to purchase 200,000 shares of the Company s common stock, for a total of $15 million. During the third quarter of fiscal 2002, PriceSmart Mexico, the Company s Mexico joint venture, began negotiations to lease certain property from Gigante in Mexico City, upon which the joint venture plans to construct and operate a membership warehouse. In October 2002, the joint venture entered into a memorandum of intent for the allocation of construction expenses

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PRICESMART, INC.

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in connection with the proposed lease. The Company expects the term of the proposed lease will be 30 years with two five-year renewal options, and the lease will have a future minimum lease commitment of approximately $300,000 per year. However, the terms of the lease have not been finalized and are subject to approval by Gigante and the Board of Directors of the joint venture.

The Company sells inventory to PriceSmart Mexico and charges it for salaries and other administrative services. Such transactions are in the ordinary course of business at negotiated prices comparable to those of transactions with other customers. For the first quarter of fiscal 2003, export sales to PriceSmart Mexico were approximately $970,000, and are included in total export sales of $2.6 million on the Condensed Consolidated Statements of Operations. Salaries and other administrative services charged to PriceSmart Mexico in the same period were approximately $206,000.

On January 22, 2002, the Company sold an aggregate of 1,650 shares of the Preferred Stock (see Note 11), for $1.7 million, to entities affiliated with Mr. Sol Price, a significant stockholder of the Company. The entities affiliated with Mr. Sol Price also entered into an agreement granting Gigante a one-year right of first refusal to their shares of the Company s capital stock.

On September 26, 2002, in connection with the new joint venture in Nicaragua, the Company sold 79,313 shares of the Company s common stock to PSC, S.A. in a private placement for an aggregate purchase price and proceeds to the Company of approximately $2.7 million. Proceeds from the sale of the common stock will be used for capital expenditures and working capital requirements related to future warehouse expansion. PSC beneficially owns approximately 11.0% of the Company s common stock and Edgar Zurcher, a director of the Company, is a director and minority shareholder of PSC.