

PRICESMART INC
Form 10-Q/A
November 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended May 31, 2005

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.

Edgar Filing: PRICESMART INC - Form 10-Q/A

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0628530
(I.R.S. Employer
Identification No.)

9740 Scranton Road

San Diego, California 92121

(Address of principal executive offices)

(858) 404-8800

(Registrant's telephone number, including area code)

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

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

The registrant had 25,765,846 shares of its common stock, par value \$.0001 per share, outstanding at October 31, 2005.

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 May 31, 2005 includes unaudited restated consolidated financial statements at May 31, 2005 and August 31, 2004 (audited) and for the three months and nine months ended May 31, 2005 and 2004. The restatement affects the Company's consolidated balance sheet at May 31, 2005, and its consolidated statements of operations, statements of cash flows and statements of stockholders' equity for the nine months ended May 31, 2005. No other financial statement information contained herein is affected by this restatement.

This Form 10-Q/A amends and restates Item 1 of Part I and Item 6 of Part II of the original Form 10-Q, and no other information included in the original Form 10-Q is amended hereby.

In connection with a routine review by the Securities and Exchange Commission of a registration statement filed by the Company on Form S-1, the Company has decided to restate the financial statements referenced above to record a \$20.6 million deemed dividend in the Company's first fiscal quarter of 2005 with respect to the Company's exchange of shares of common stock for the then-outstanding shares of Series A and Series B Preferred Stock. The exchange of shares of common stock for shares of Series B Preferred Stock occurred on October 29, 2004, and the exchange of shares of common stock for shares of Series A Preferred Stock occurred on November 23, 2004.

The restatement does not change the Company's previously reported revenue, operating income, net loss, cash, assets, liabilities or stockholders' equity. However, the restatements do reflect a non-cash charge to deemed dividend on conversion of preferred stock on the Company's consolidated statement of operations of \$20.6 million, with a corresponding increase in the reported net loss attributable to common stockholders. The amount of the charge is equal to the difference of the value at the time of exchange of the shares of common stock exchanged for the preferred stock minus the value of the shares that the holders of the preferred stock otherwise would have had the right to receive upon conversion of the preferred stock. The Company's restated consolidated balance sheet records this charge as an increase in accumulated deficit with a corresponding increase in additional paid in capital, resulting in no change to the Company's total stockholders' equity.

The exchange of the shares of common stock for shares of Series A and Series B Preferred Stock referred to in the preceding paragraph was part of a broad financing plan announced by the Company on September 3, 2004. Prior to that announcement, a Special Committee of the Company's Board of Directors, comprised of directors who were not officers or employees of the Company and who were not affiliated with the holders of Series A or the Series B Preferred Stock, considered and approved the exchange and the other elements of the financing plan. The financing plan was described in detail in the Company's Current Report on Form 8-K filed September 3, 2004, the October 5, 2004 definitive proxy statement for the Company's October 29, 2004 special meeting of stockholders and the Company's Annual Report on Form 10-K for the year ended August 31, 2004. The financing plan was approved by the Company's stockholders on October 29, 2004.

In connection with its consideration of the financing plan, the Special Committee retained the services of a financial advisor, American Appraisal Associates, Inc. (American Appraisal). American Appraisal delivered a written opinion to the Special Committee as to the fairness, from a financial point of view, to the Company's unaffiliated holders of common stock of the proposed financing plan. As part of its analysis, American Appraisal established values for the outstanding shares of Series A and Series B Preferred Stock.

The Company did not record any charge to net loss attributable to common stockholders in connection with the exchange in the fiscal quarter ending November 30, 2004 because the aggregate value of the shares of common stock issued in the exchange were within the range of value attributed to the Series A and Series B Preferred Stock by American Appraisal. As a result of a further review of the accounting standard applicable to a transaction of this nature (Emerging Issues Task Force, Topic D-42), the Company has determined that it is necessary to report a deemed dividend with respect to these exchanges of common stock for preferred stock. The

Edgar Filing: PRICESMART INC - Form 10-Q/A

Audit Committee of the Company's Board of Directors has reviewed the matter with management and with the Company's independent registered public accounting firm. In addition, the Special Committee, having received a supplemental letter from American Appraisal confirming that the change in accounting treatment does not affect its original analysis and opinion, has reaffirmed its conclusion that the financing plan, including the exchanges of common stock for the preferred stock was advisable to the Company's common stockholders.

As a result of the foregoing, the Company restated its financial statements and amended its Quarterly Reports on Forms 10-Q for the quarterly periods ended November 30, 2004, February 28, 2005 and May 31, 2005.

PRICESMART, INC.

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	May 31, 2005	August 31, 2004
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 30,269	\$ 34,410
Short-term restricted cash	7,279	7,255
Receivables, net of allowance for doubtful accounts of \$2,825 and \$1,550, respectively	3,590	2,196
Merchandise inventories	65,460	62,820
Prepaid expenses and other current assets	10,740	10,185
Total current assets	117,338	116,866
Long-term restricted cash	10,798	28,422
Property and equipment, net	165,184	173,420
Goodwill	29,733	23,071
Deferred tax assets	14,475	16,009
Other assets	7,692	7,650
Long-term receivables from unconsolidated affiliate	1,586	1,316
Investment in unconsolidated affiliate	7,394	9,254
Total Assets	\$ 354,200	\$ 376,008
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings	\$ 1,932	\$ 13,412
Accounts payable	54,663	56,148
Accounts payable to and advances received from related party		20,273
Accrued salaries and benefits	4,724	4,496
Deferred membership income	4,894	4,173
Income taxes payable	1,396	747
Deferred tax liabilities	743	592
Other accrued expenses	13,963	15,972
Long-term debt, current portion	8,727	16,503
Total current liabilities	91,042	132,316
Deferred rent	1,593	1,260
Accrued closure costs, net of current portion	3,634	3,932
Long-term debt, related party		25,000
Long-term debt, net of current portion	37,856	82,138
Total liabilities	134,125	244,646
Minority interest	2,717	3,483
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, \$.0001 par value (stated at cost), 2,000,000 shares authorized;		
Series A convertible preferred stock 20,000 shares designated, 0 and 20,000 shares issued and outstanding, respectively (liquidation preference of \$0 and \$21,867, respectively)		19,914
		21,975

Edgar Filing: PRICESMART INC - Form 10-Q/A

Series B convertible preferred stock 30,000 shares designated, 0 and 22,000 shares issued and outstanding, respectively (liquidation preference of \$0 and \$24,014, respectively)		
Common stock, \$.0001 par value, 45,000,000 shares authorized; 25,814,689 and 7,775,655 shares issued, respectively; and 25,380,264 and 7,339,810 shares outstanding (net of treasury shares), respectively	3	1
Additional paid-in capital	338,882	170,255
Tax benefit from exercise of stock options	3,379	3,379
Notes receivable from stockholders	(29)	(33)
Deferred compensation	(1,247)	(1,932)
Accumulated other comprehensive loss	(16,790)	(18,314)
Accumulated deficit	(97,407)	(57,902)
Less: treasury stock at cost; 434,425 and 435,845 shares, respectively	(9,433)	(9,464)
	<u> </u>	<u> </u>
Total stockholders' equity	217,358	127,879
	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 354,200	\$ 376,008
	<u> </u>	<u> </u>

See accompanying notes.

PRICESMART, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2005	2004	2005	2004
Revenues:				
Sales:				
Net warehouse club	\$ 165,902	\$ 142,170	\$ 497,390	\$ 447,379
Export	23	169	394	978
Membership income	2,647	2,232	7,533	6,512
Other income	998	1,423	3,669	4,671
Total revenues	169,570	145,994	508,986	459,540
Operating expenses:				
Cost of goods sold:				
Net warehouse club	142,808	122,521	426,370	386,994
Export	35	167	396	998
Selling, general and administrative:				
Warehouse club operations	21,387	19,831	62,326	60,478
General and administrative	6,162	5,490	17,549	16,510
Preopening expenses	40	322	42	488
Asset impairment and closure costs	8,190	3,684	8,768	5,416
Total operating expenses	178,622	152,015	515,451	470,884
Operating loss	(9,052)	(6,021)	(6,465)	(11,344)
Other income (expense):				
Interest income	474	581	1,766	1,849
Interest expense	(1,313)	(2,702)	(6,411)	(8,398)
Other expense, net	(185)	(25)	(427)	(117)
Income from related party		500		500
Total other expense	(1,024)	(1,646)	(5,072)	(6,166)
Loss before provision for income taxes, losses of unconsolidated affiliate and minority interest	(10,076)	(7,667)	(11,537)	(17,510)
Provision for income taxes	(3,020)	(991)	(4,041)	(1,180)
Losses of unconsolidated affiliate	(617)	(565)	(3,034)	(1,346)
Minority interest	568	2,601	402	3,610
Net loss	(13,145)	(6,622)	(18,210)	(16,426)
Preferred dividends		(840)	(648)	(2,520)
Deemed dividend on conversion of preferred stock			(20,647)	
Net loss attributable to common stockholders	\$ (13,145)	\$ (7,462)	\$ (39,505)	\$ (18,946)

Edgar Filing: PRICESMART INC - Form 10-Q/A

Loss per share common stockholders:				
Basic	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)
Diluted	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)
Shares used in per share computation:				
Basic	24,850	7,362	18,409	7,268
Diluted	24,850	7,362	18,409	7,268

See accompanying notes.

PRICESMART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED AMOUNTS IN THOUSANDS)

	Nine Months Ended	
	May 31, 2005	May 31, 2004
OPERATING ACTIVITIES:		
Net loss	\$ (18,210)	\$ (16,426)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,011	10,860
Allowance for doubtful accounts	1,275	(61)
Asset impairment and closure costs	8,768	5,416
Mark to market of stockholder note receivable	4	
Deferred income taxes	1,685	175
Minority interest	(402)	(3,610)
Equity in losses of unconsolidated affiliate	3,034	1,346
Compensation expense recognized for stock options	698	479
Cancellation of note receivable from stockholder		114
Change in operating assets and liabilities:		
Change in accounts receivable, prepaids, other current assets, accrued salaries, deferred membership and other accruals	(498)	(93)
Merchandise inventory	(2,640)	14,611
Accounts payable and accounts payable to and advances from related party	(1,485)	(9,092)
Net cash flows provided by operating activities	1,240	3,719
INVESTING ACTIVITIES:		
Additions to property and equipment	(7,061)	(3,383)
Advance received for sale of property		5,000
Net cash flows (used in) provided by investing activities	(7,061)	1,617
FINANCING ACTIVITIES:		
Proceeds from bank borrowings	54,591	63,213
Repayment of bank borrowings, net of proceeds from warrant exercise	(117,216)	(78,509)
Issuance of common stock in connection with the rights offering	47,793	
Restricted cash	17,600	3,675
Issuance of common stock		5,000
Proceeds from exercise of stock options	16	
Issuance costs of common stock	(731)	
Issuance costs of Series B Preferred stock		(8)
Payment on note receivable from stockholder		10
Net cash flows provided by (used in) financing activities	2,053	(6,619)
Effect of exchange rate changes on cash and cash equivalents	(373)	(3,444)
Net decrease in cash and cash equivalents	(4,141)	(4,727)
Cash and cash equivalents at beginning of period	34,410	11,239
Cash and cash equivalents at end of period	\$ 30,269	\$ 6,512

Edgar Filing: PRICESMART INC - Form 10-Q/A

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 5,569	\$ 7,644
Income taxes	\$ 1,850	\$ 1,848
Supplemental disclosure of non-cash financing activities related to the Financial Program:		
Issuance of common stock for:		
Series A Preferred Stock and accrued dividend	\$ 22,231	\$
Series B Preferred Stock	\$ 22,000	\$
Bridge loan and accrued interest	\$ 25,318	\$
Advance payment on real estate and accrued interest	\$ 5,192	\$
Purchase order financing and accrued interest	\$ 15,586	\$
Warrant exercise	\$ 1,808	\$
Issuance costs on preferred stock converted to Additional Paid-in Capital	\$ (111)	\$
Accrued dividends on Series B Preferred Stock converted to Additional Paid-in Capital	\$ 2,298	\$
Issuance of common stock for purchase of Guatemala minority interest	\$ 5,495	\$
Contributed capital from significant stockholders for purchase of Guatemala minority interest	\$ 1,105	\$
Deemed dividend on conversion of preferred stock	\$ 20,647	\$

See accompanying notes.

PRICESMART, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED MAY 31, 2005

(UNAUDITED AMOUNTS IN THOUSANDS)

	Preferred Stock Series A & Series B		Common Stock		Additional Paid-in Capital	Tax Benefit from Exercise of Notes Receivable from Stockholders			Accumulated Other Comprehensive Income	Accumulated Deficit	Less: Treasury Stock		Total Stockholders Equity
	Shares	Amount	Shares	Amount		Options	Stockholders	Compensation			Shares	Amount	
Balance at August 31, 2004	42	\$ 41,889	7,776	\$ 1	\$ 170,255	\$ 3,379	\$ (33)	\$ (1,932)	\$ (18,314)	\$ (57,902)	436	\$ (9,464)	\$ 127,879
Dividends on preferred stock										(648)			(648)
Deemed dividend on conversion of preferred stock					20,647					(20,647)			
Financial Program, conversion to common stock	(42)	(41,889)	10,185	1	91,780								49,892
Common stock issued in connection with the rights offering			6,828	1	47,794								47,795
Exercise of warrants			200		1,808								1,808
Shares issued for Guatemala minority interest purchase			825		5,495								5,495
Contributed capital from significant stockholders for Guatemala minority interest purchase					1,105								1,105
Exercise of stock options			1		(15)						(2)	31	16
Mark to market of employee restricted stock							4						4
Common stock issued and stock compensation expense					13			(13)					
Amortization of deferred compensation								698					698
Net loss										(18,210)			(18,210)
Translation adjustment									1,524				1,524
Comprehensive Loss													(16,686)
Balance at May 31, 2005		\$	25,815	\$ 3	\$ 338,882	\$ 3,379	\$ (29)	\$ (1,247)	\$ (16,790)	\$ (97,407)	434	\$ (9,433)	\$ 217,358

See accompanying notes.

PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

May 31, 2005

NOTE 1 COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc. s (PriceSmart or the Company) business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. As of May 31, 2005, the Company had 26 consolidated warehouse clubs in operation in 12 countries and one U.S. territory (four each in Panama and the Philippines, three in Costa Rica, two each in Dominican Republic, El Salvador, Guatemala, Honduras and Trinidad and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which the Company owns at least a majority interest. The Company also closed three warehouse clubs in Mexico as part of a 50/50 joint venture with Grupo Gigante, S.A. de C.V. There was one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people as of May 31, 2005. The Company principally operates in four segments based on geographic area.

Basis of Presentation The consolidated financial statements have been prepared on a going concern basis. The Company has an accumulated deficit of \$97.4 million as of May 31, 2005. For the nine months ended May 31, 2005, the Company had a net loss attributable to common stockholders of \$39.5 million and generated cash in operating activities of only \$1.2 million. At May 31, 2005, the Company was not in compliance with a maintenance covenant related to one long-term debt arrangement. The Company has obtained all necessary waivers for covenant violations as of August 31, 2004, and the waiver as of May 31, 2005. The Company s ability to fund its operations and service debt during fiscal 2005 has been improved following the implementation of the Financial Program, as described in Note 6 Financial Program. Management believes that its existing working capital, together with the Financial Program, is sufficient to fund its operations through at least August 31, 2006.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The 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 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 (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the interim periods 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 consolidated financial statements and related notes included in the Company's Form 10-K for the year ended August 31, 2004. The table below shows the Company's percentage ownership of, and basis of, presentation for, each subsidiary as of May 31, 2005.

	<u>Ownership</u>	<u>Basis of Presentation</u>
PriceSmart Aruba	90.0%	Consolidated
PriceSmart Barbados	100.0%	Consolidated
PSMT Caribe, Inc.:		
Costa Rica	100.0%	Consolidated
Dominican Republic	100.0%	Consolidated
El Salvador	100.0%	Consolidated
Honduras	100.0%	Consolidated
PriceSmart Guam	100.0%	Consolidated
PriceSmart Guatemala	100.0%	Consolidated
PriceSmart Jamaica	67.5%	Consolidated
PriceSmart Mexico	50.0%	Equity
PriceSmart Nicaragua	51.0%	Consolidated
PriceSmart Panama	100.0%	Consolidated
PriceSmart Philippines	52.0%	Consolidated
PriceSmart Trinidad	90.0%	Consolidated
PriceSmart U.S. Virgin Islands	100.0%	Consolidated
Ventures Services, Inc.	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 Short-term restricted cash primarily represents time deposits that are pledged as collateral for the Company's revolving line of credit and long-term restricted cash represents time deposits that are pledged as collateral for the Company's long-term debt.

Merchandise Inventories Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or market. The Company provides for estimated inventory losses and obsolescence between physical inventory counts on the basis of a percentage of sales. The provision is adjusted

periodically to reflect the trend of actual physical inventory count results, which occur primarily in the second and fourth fiscal quarters. In addition, the Company may be required to take markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Allowance for Bad Debt Credit is extended to a portion of members as part of the Company's wholesale business and to third-party wholesalers for direct sales. The Company maintains an allowance for doubtful accounts based on assessments as to the collectibility of specific customer accounts, the aging of accounts receivable, and general economic conditions. As of May 31, 2005, the Company had a total of approximately \$645,000 in net receivables due from a minority interest shareholder's importation and exportation businesses, which is included in accounts receivable on the consolidated financial statements. The Company previously utilized the importation and exportation businesses of one of its minority shareholders in the Philippines for the movement of merchandise inventories both to and from the Asian regions to its warehouse clubs operating in Asia. If the credit worthiness of a specific customer or the minority interest shareholder deteriorates, the Company's estimates could change and it could have a material impact on the Company's reported results.

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. The useful life of fixtures and equipment ranges from 3 to 15 years and that of 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 reasonably assured that the renewal option in the underlying lease will be exercised.

Goodwill Goodwill, net of accumulated amortization, resulting from certain business combinations totaled \$29,733 at May 31, 2005 and \$23,071 at August 31, 2004. The increase in goodwill was due to the Company increasing its ownership in PriceSmart (Guatemala), S.A. from 66% to 100% in the third quarter of fiscal year 2005. The Company follows Statement of Financial Accounting Standards No. 142, Accounting for Goodwill and Other Intangibles, which specifies that goodwill and some intangible assets should no longer be amortized, but instead will be subject to periodic impairment testing. Accordingly, the Company reviews previously reported goodwill for impairment on an annual basis or more frequently if circumstances dictate. No impairment of goodwill has been incurred to date.

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 ratably 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.

Cost of Goods Sold The Company includes the cost of merchandise, food service and bakery raw materials, and one hour photo supplies in cost of goods sold. The Company also includes the external and internal distribution and handling costs for supplying such merchandise, raw materials and supplies to the warehouse clubs. External costs include inbound freight, duties, drayage, fees and insurance. Internal costs include payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, and building and equipment depreciation at our distribution facilities.

Vendor consideration consists primarily of volume rebates and prompt payment discounts. Volume rebates are generally linked to pre-established purchase levels and are recorded as a reduction of cost of goods sold when the achievement of these levels is confirmed by the vendor in writing or upon receipt of funds. On a quarterly basis, the Company calculates the amount of rebates recorded in cost of goods sold that relates to inventory on hand and this amount is recorded as a reduction to inventory, if significant. Prompt payment discounts are taken in substantially all cases and, therefore, are applied directly to reduce the acquisition cost of the related inventory, with the resulting impact to cost of goods sold when the inventory is sold.

Selling, General and Administrative Warehouse club operations include the operating costs of the Company's warehouse clubs, including all payroll and related costs, utilities, consumable supplies, repair and maintenance, rent expense, building and equipment depreciation, and bank and credit card processing fees. Also included are the payroll and related costs for the Company's regional purchasing and management centers.

General and Administrative costs include the payroll and related operating costs for the Company's corporate operations located in California and Florida, including the cost of U.S. merchandise purchasing.

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

Closure Costs The Company records the costs of closing warehouse clubs as follows: severance costs are accrued when a termination and benefit plan is communicated to the employees; lease obligations are accrued by calculating the net present value of the minimum lease payments net of the fair market value of rental income that could be received for these properties from third parties; and all other costs are expensed as incurred. During fiscal year 2004, the Company closed one warehouse club and three during fiscal year 2003.

Foreign Currency Translation In accordance with Statement of Financial Accounting Standards No. 52 Foreign Currency Translation, the assets and liabilities of the Company's foreign operations are 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 As of May 31, 2005, the Company had four stock-based employee compensation plans. Prior to September 1, 2002, the Company accounted for those plans under the recognition and measurement provisions of Accounting Principles Board 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 SFAS No. 123 (SFAS 123), Accounting for Stock-Based Compensation, using the prospective method with guidance from SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, to all employee awards granted, modified, or settled after September 1, 2002. Awards under the Company's plans typically vest over five years and expire in six years. The cost related to stock-based employee compensation included in the determination of net income for the nine months ended May 31, 2005 and May 31, 2004 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 loss and loss 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		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Net loss attributable to common stockholders, as reported	\$ (13,145)	\$ (7,462)	\$ (39,505)	\$ (18,946)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	153	180	698	479
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(531)	(683)	(1,832)	(1,988)
Pro forma net loss attributable to common stockholders	\$ (13,523)	\$ (7,965)	\$ (40,639)	\$ (20,455)

Edgar Filing: PRICESMART INC - Form 10-Q/A

	_____	_____	_____	_____
Loss per share:				
Basic as reported	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)
Basic pro forma	\$ (0.54)	\$ (1.08)	\$ (2.21)	\$ (2.81)
Diluted as reported	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)
Diluted pro forma	\$ (0.54)	\$ (1.08)	\$ (2.21)	\$ (2.81)

Accounting Pronouncements In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company is required to adopt the provisions of SFAS 154, as applicable, beginning in fiscal 2007.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the end of its fiscal 2006. The Company has not yet adopted this Interpretation and is currently evaluating the expected impact that the adoption of FIN 47 will have on its consolidated financial position, results of operations and cash flows.

During December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants. The Company grants options to purchase common stock to some of its employees and directors under various plans at prices equal to the market value of the stock on the dates the options were granted. SFAS 123R is effective for all interim or annual periods beginning after June 15, 2005. Early adoption is encouraged and retroactive application of the provisions of SFAS 123R to the beginning of the fiscal year that includes the effective date is permitted, but not required. The Company has not yet adopted this pronouncement and is currently evaluating the expected impact that the adoption of SFAS 123R will have on its consolidated financial position, results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs - An Amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred and not included in overhead. Further, SFAS 151 requires that allocation of fixed and production facilities overheads to conversion costs should be based on normal capacity of the production facilities. The provisions in this statement are effective for inventory costs incurred during fiscal periods beginning after June 15, 2005. The Company has not yet adopted this pronouncement and is currently evaluating the expected impact that the adoption of SFAS 151 will have on its consolidated financial position, results of operations and cash flows.

In November 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets - An Amendment of APB No. 29 (SFAS 153). The provisions of this statement are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. This statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance - that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The Company has not yet adopted this pronouncement and is currently evaluating the expected impact that the adoption of SFAS 153 will have on its consolidated financial position, results of operations and cash flows.

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):

	May 31,	August 31,
	2005	2004
	<u> </u>	<u> </u>
Land	\$ 37,205	\$ 34,068
Building and improvements	120,648	125,621
Fixtures and equipment	67,349	67,003
Construction in progress	848	241
	<u>226,050</u>	<u>226,933</u>
Less: accumulated depreciation	(60,866)	(53,513)
	<u> </u>	<u> </u>
Property and equipment, net	<u>\$ 165,184</u>	<u>\$ 173,420</u>

Building and improvements includes gross capitalized interest costs of \$1.3 million as of May 31, 2005 and August 31, 2004.

NOTE 4 LOSS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	May 31,	May 31,	May 31,	May 31,
	2005	2004	2005	2004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss attributable to common stockholders	\$ (13,145)	\$ (7,462)	\$ (39,505)	\$ (18,946)
Determination of shares:				
Average common shares outstanding	24,850	7,362	18,409	7,268
Assumed conversion of:				
Stock options (1)				
Preferred stock (2)				
Warrants (3)				
Rights (4)				
	<u>24,850</u>	<u>7,362</u>	<u>18,409</u>	<u>7,268</u>
Diluted average common shares outstanding	<u>24,850</u>	<u>7,362</u>	<u>18,409</u>	<u>7,268</u>
Net loss attributable to common stockholders:				
Basic loss per share	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)

Edgar Filing: PRICESMART INC - Form 10-Q/A

Diluted loss per share	\$ (0.53)	\$ (1.01)	\$ (2.15)	\$ (2.61)
------------------------	-----------	-----------	-----------	-----------

-
- (1) Stock options representing 58,042, 11,247, 79,482 and 14,893 shares were excluded, due to their anti-dilutive effects for the three months ended May 31, 2005 and 2004 and the nine months ended May 31, 2005 and 2004, respectively.
 - (2) The preferred stock was converted to common stock in the first quarter of fiscal year 2005, as part of the Financial Program. As of May 31, 2004, the preferred stock outstanding was convertible into 1,751,155 shares of common stock.
 - (3) A warrant for the issuance of 200,000 shares of common stock was outstanding as of May 31, 2005, at an exercise price of \$7 per share. These shares were excluded due to their anti-dilutive effects.
 - (4) As of May 31, 2005, there were 6,149,817 rights outstanding with an exercise price of \$8.00 per share for the potential issuance of 9,224,726 shares of common stock.

NOTE 5 ASSET IMPAIRMENT AND CLOSURE COSTS

During fiscal 2003 and 2004, the Company closed four warehouse clubs, one each in Dominican Republic, Philippines, Guatemala and Guam and its Commerce, California distribution center. The decision to close the warehouse clubs resulted from the determination that the locations were not conducive to the successful operation of a PriceSmart warehouse club.

A breakdown of the movements in the liabilities derived from the closed warehouse clubs as of May 31, 2005 is as follows (in thousands):

	<u>Liability as of</u> <u>August 31, 2004</u>	<u>Charged to</u> <u>Expense</u>	<u>Non-cash</u> <u>Amounts</u>	<u>Cash</u> <u>paid</u>	<u>Liability as of</u> <u>May 31,</u> <u>2005</u>
Lease obligations	\$ 5,226	(90)		(1,041)	\$ 4,095
Other associated costs	94	1,754	(969)	(591)	288
Total	\$ 5,320	1,664	(969)	(1,632)	\$ 4,383

Closure costs for the nine months ended May 31, 2005 were \$1.7 million. During the third quarter of fiscal year 2005, the Company executed sublease agreements for two of its four closed warehouse clubs: Ortigas, Philippines and Plaza, Guatemala. As a result, the Company recorded a net reversal of the previously recorded lease liabilities in the amount of \$245,000 based on the new sublease terms as compared to the original assumptions used to establish those liabilities. This reversal is comprised of a reversal of \$569,000 in Ortigas, Philippines and an additional charge of \$324,000 in Plaza, Guatemala. The Company also recorded a non-cash charge of \$878,000 for the write-off of fixed assets at the closed Plaza, Guatemala warehouse club related to the subleasing activity.

During the third quarter of fiscal 2005, the Company also recorded a non-cash asset impairment charge of \$7.1 million. This charge is associated with the write-down of long-lived assets (leasehold improvements, and furniture and equipment) at the Company's U.S. Virgin Islands warehouse club operation. This charge was taken because future undiscounted cash flows expected from that operation which, while positive over the expected life of the associated long-lived assets, are not sufficient to recover the carrying value of those assets as of May 31, 2005. Consequently, the carrying value of those assets was reduced to an estimated fair value as required under SFAS 144. Sales continue to increase at the U.S. Virgin Islands warehouse club, but the on-going cost structure (which is higher than the Company's other warehouse club locations) and management's inability to make substantial improvement in the margins necessary to generate sufficient cash flows relative to the carrying value of the underlying assets, have made it necessary to take this charge.

NOTE 6 FINANCIAL PROGRAM

On September 3, 2004, the Company announced a plan to implement a series of transactions (the Financial Program) that are intended to increase PriceSmart's earnings (or decrease its losses) available to common stockholders by substantially reducing the Company's interest expenses and preferred dividend obligations. Additionally, the capital that has been and is expected to be received through the Financial Program is expected to help improve the Company's liquidity, which is expected to result in more attractive terms from vendors. The Financial Program was approved by the Company's stockholders on October 29, 2004. The elements of the Financial Program and the status of each element are as follows:

Edgar Filing: PRICESMART INC - Form 10-Q/A

A private placement of an aggregate of 3,164,726 shares of the Company's common stock, at a price of \$8 per share, to The Price Group, LLC, a California limited liability company (the "Price Group"), to be funded through the conversion of a \$25.0 million bridge loan, together with accrued and unpaid interest, extended to the Company by the Price Group in August 2004. The private placement was completed on October 29, 2004, resulting in the issuance of 3,164,726 shares of the Company's common stock.

The issuance of an aggregate of 2,200,000 shares of Common Stock to the Sol and Helen Price Trust, the Price Family Charitable Fund, the Robert and Allison Price Charitable Remainder Trust, the Robert and

Edgar Filing: PRICESMART INC - Form 10-Q/A

Allison Price Trust 1/10/75 (collectively, the Price Trusts) and the Price Group (collectively, with the Price Trusts, the Series B Holders) in exchange for all of the outstanding shares of the Company s 8% Series B Cumulative Convertible Redeemable Preferred Stock. This exchange was completed on October 29, 2004, resulting in the issuance of 2,200,000 shares of the Company s common stock.

The issuance of an aggregate of 2,597,200 shares of Common Stock, valued for such purpose at a price of \$8 per share, to the Price Group in exchange for up to \$20.0 million of current obligations, plus accrued and unpaid interest, owed by the Company to the Price Group. This exchange was completed on October 29, 2004, resulting in the issuance of 2,597,200 shares of the Company s common stock.

The issuance of up to 16,052,668 shares of Common Stock in connection with a rights offering pursuant to rights distributed to the holders of outstanding shares of common stock, and the issuance of up to 3,125,000 shares of Common Stock, at a price of \$8 per share, to the Price Group to ensure that the above-mentioned rights offering generates at least \$25.0 million in proceeds. The \$7 rights offering subscription period began on December 21, 2004 and ended on January 24, 2005. A total of 6,827,542 shares of common stock were sold during this period. The total proceeds were \$47.8 million. The \$8 rights offering period began on January 25, 2005 and continues until December 21, 2005. A total of 390 shares of common stock have been sold thus far during the \$8 rights offering period.

The issuance of up to 2,223,104 shares of common stock, valued for such purpose at a price of \$10 per share, to the holders of all of the shares of the Company s 8% Series A Cumulative Convertible Redeemable Preferred Stock, in exchange for all of the outstanding shares of the Series A Preferred Stock at its initial stated value of \$20.0 million plus all accrued and unpaid dividends. This was completed on November 23, 2004, resulting in the issuance of 2,223,104 shares of common stock.

An amendment to the Amended and Restated Certificate of Incorporation of the Company to increase the number of authorized shares of Common Stock from 20,000,000 to 45,000,000 shares, which was approved by the Company s stockholders on October 29, 2004.

In connection with the Financial Program described above, the Company and certain of its subsidiaries entered into an agreement with the International Finance Corporation (the IFC) in the first fiscal quarter of 2005 providing for the following: (i) the Company granted the IFC a warrant to purchase 400,000 shares of the Company s common stock at a price of \$7 per share; (ii) the Company purchased a \$10.2 million loan extended by the IFC to PriceSmart Philippines, Inc.; (iii) the Company obtained a waiver of certain IFC loan covenants regarding incurring additional debt, in order to borrow the \$25.0 million in the bridge loan mentioned above; (iv) \$5.2 million of restricted cash pledged as collateral to certain loans was released; (v) all pre-payment penalties were waived for all outstanding loans from the IFC; (vi) the net carrying costs were reduced on one loan by eliminating the IFC s right to a percentage of the Company s earnings, before interest, taxes, depreciation and amortization. Additionally, in connection with the Company s transactions with the IFC, the Price Group (a related party to the Company) granted a put option giving the right to the IFC to sell 300,000 shares of Common Stock to the Price Group at a price of \$12 per share between November 30, 2005 and November 30, 2006. All of the above elements were completed during the Company s first quarter of fiscal 2005 with the exception of item (i), which was agreed to in principal although no warrants were issued pending a final written agreement related to the put option between the IFC and the Price Group. The agreements were finalized in the second quarter of fiscal 2005, and the warrant was exercised with respect to 200,000 shares of the Company s common stock on January 26, 2005. Pursuant to the terms of the warrant, the exercise price was paid by reducing the principal amount of two of the loans extended to the Company by the IFC. As a result, long-term debt was reduced by \$1.4 million.

Additionally, in connection with the Financial Program, the Company has recorded a non-cash charge to Deemed dividend on conversion of preferred stock on the Company s consolidated statement of operations of \$20.6 million, with a corresponding increase in the reported net loss attributable to common stockholders . The amount of the charge is equal to the difference of the value at the time of exchange of the shares of common

stock exchanged for the preferred stock minus the value of the shares that the holders of the preferred stock otherwise would have had the right to receive upon conversion of the preferred stock. The Company's consolidated balance sheet records this charge as an increase in accumulated deficit with a corresponding increase in additional paid in capital, resulting in no change to the Company's total stockholders' equity.

The exchange of the shares of common stock for shares of Series A and Series B Preferred Stock referred to in the preceding paragraph was part of a broad financing plan announced by the Company on September 3, 2004. Prior to the announcement of the Financial Program, a Special Committee of the Company's Board of Directors, comprised of directors who were not officers or employees of the Company and who were not affiliated with the holders of Series A or the Series B Preferred Stock, considered and approved the exchange and the other elements of the financing plan.

In connection with its consideration of the financing plan, the Special Committee retained the services of a financial advisor, American Appraisal Associates, Inc. (American Appraisal). American Appraisal delivered a written opinion to the Special Committee as to the fairness, from a financial point of view, to the Company's unaffiliated holders of common stock of the proposed financing plan. As part of its analysis, American Appraisal established values for the outstanding shares of Series A and Series B Preferred Stock.

The Company did not record any charge to net loss attributable to common stockholders in connection with the exchange in the fiscal quarter ending November 30, 2004 because the aggregate value of the shares of common stock issued in the exchange were within the range of value attributed to the Series A and Series B Preferred Stock by American Appraisal. As a result of a further review of the accounting standard applicable to a transaction of this nature (Emerging Issues Task Force, Topic D-42), the Company has determined that it is necessary to report a deemed dividend with respect to these exchanges of common stock for preferred stock. The Audit Committee of the Company's Board of Directors has reviewed the matter with management and with the Company's independent registered public accounting firm. In addition, the Special Committee, having received a supplemental letter from American Appraisal confirming that the change in accounting treatment does not affect its original analysis and opinion, has reaffirmed its conclusion that the financing plan, including the exchanges of common stock for the preferred stock was advisable to the Company's common stockholders.

NOTE 7 COMMITMENTS AND CONTINGENCIES

From time to time, the Company and its subsidiaries are subject to legal proceedings, claims and litigation arising in the ordinary course of business, including those identified below, the outcome of which, in the opinion of management, would not have a material adverse effect on the Company. The Company evaluates such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which the Company believes are without merit.

On November 17, 2003, the first in a series of seven federal securities fraud class action lawsuits were filed in the United States District Court for the Southern District of California against the Company and certain of its former and present officers and directors, now consolidated as *In re PriceSmart, Inc. Securities Litigation*, Lead Case No. 03cv02260L (LSP). Six of the complaints asserted claims against (1) the Company, (2) its former President and Chief Executive Officer Gilbert Partida, and (3) its former Chief Financial Officer Allan C. Youngberg. On behalf of a proposed class of persons who purchased the Company's common stock between December 20, 2001 and November 7, 2003, plaintiffs asserted claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 promulgated thereunder, based on the allegation that defendants made material misstatements and omissions in connection with the financial statements that were the subject of a financial restatement. Plaintiffs seek damages on behalf of the proposed class.

The seventh federal securities fraud complaint, *Performance Capital L.P. v. PriceSmart, Inc.*, Case No. 03cv02561 JAH (S.D. Cal), was filed by investors who purchased the Company's Series A Preferred Stock in January 2002, as well as on behalf of a class of common stock purchasers, and added a breach of fiduciary

duty claim against every then-current member of the Company's current Board of Directors, as well as a claims under Section 12(a)(2) and Section 15 of the Securities Act of 1933 relating to plaintiffs' purchase of Series A Preferred Stock. The Company refers to this litigation as the Performance Capital lawsuit. Plaintiffs sought damages on behalf of the proposed class as well as rescission of their contracts with the Company regarding the Series A Preferred Stock.

All of the federal securities actions were consolidated before The Honorable John Houston in an order dated September 9, 2004, which also appointed a lead plaintiff on behalf of the proposed class of common stock purchasers. The lead plaintiff filed a consolidated complaint on November 29, 2004, with an expanded proposed class period of November 1, 2001 to December 16, 2003.

Defendants and the plaintiffs who brought the Performance Capital lawsuit entered into a Stipulation of Settlement dated September 3, 2004, which was preliminarily approved by Judge Houston on September 30, 2004. On September 30, 2004, Judge Houston also approved a stipulation appointing the plaintiffs in the Performance Capital lawsuit as lead plaintiff for a proposed sub-class made up of certain purchasers and holders of the Company's Series A Preferred Stock, which the Company refers to as the Series A Preferred Sub-Class. On November 8, 2004, following notice to members of the Series A Preferred Sub-Class, a settlement with the Series A Preferred Sub-Class was approved and judgment was entered. Pursuant to the settlement, the Performance Capital lawsuit has been dismissed and the Court entered an order releasing claims that were or could have been brought by the Series A Preferred Sub-Class arising out of or relating to the purchase or ownership of the Company's Series A Preferred Stock. As a term of the settlement, members of the Series A Preferred Sub-Class were offered the opportunity to exchange their Series A Preferred Stock for shares of the Company's common stock at a conversion price of \$10.00 per share, and all members of the Series A Preferred Sub-Class accepted this offer. The Company paid attorney's fees and costs to counsel for the Performance Capital plaintiffs in the amount of \$325,000, which was covered by the Company's insurance carrier.

Defendants and the parties to the remaining class action lawsuits entered into a Stipulation of Settlement dated as of May 12, 2005, which sets forth the terms of a settlement of all claims and is subject to final court approval. On May 27, 2005 Judge Houston issued an Order preliminarily approving the settlement and setting August 18, 2005 as the date for a court hearing as to whether the settlement shall be approved. Under the proposed settlement, in exchange for a full release of all claims plaintiffs would receive \$2,350,000 (of which the Company's directors and officers insurance carrier would pay 80% and the Company would pay 20%, as the Company and the carrier have agreed that effective as of March 1, 2005 the Company satisfied the \$1,000,000 retention on its insurance policy).

The United States Securities and Exchange Commission (SEC) issued a formal order of private investigation on January 8, 2004 to investigate the circumstances surrounding the Company's restatement. The SEC has issued subpoenas to the Company for the production of documents and has taken testimony, pursuant to subpoena, from several of the Company's present and former employees.

The indemnification provisions contained in the Company's amended and restated 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. While the Company has directors and officers liability insurance (subject to a \$1.0 million retention and a 20% co-pay provision), the Company has been informed that the Company's insurance carriers are reserving all of their rights and defenses under the policy (including the right to deny coverage) and it is otherwise uncertain whether the insurance will be sufficient to cover all damages that it may be required to pay. Further, regardless of coverage and the ultimate outcome of these suits, litigation of this type is expensive and may 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 has and may 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.

In addition, the Company's two minority shareholders in the Philippines (which together comprise a 48% ownership interest in the Company's Philippine operations (PSMT Philippines, Inc.)) have taken the position that an impasse of the Board of Directors of PSMT Philippines, Inc. has been reached. These minority shareholders have therefore sought to invoke the buy-sell provisions of the parties' Shareholders' Agreement (pursuant to which one shareholder may offer to purchase the interest of the other shareholders (at an appraised value) at which point the offeree shareholder may make a counter offer and the process continues until an offer is accepted). The Company contends, among other things, that pursuant to the terms of the Shareholders' Agreement no impasse has been reached (and hence the buy-sell provisions do not become applicable). Further, on December 23, 2004, the Company filed in the San Diego Superior Court a complaint against William Go (a principal of one of the minority shareholders) and two companies affiliated with William Go (Go and the two companies, collectively, Defendants), seeking to recover principal and interest due and owing to the Company of at least \$781,000, as well as an accounting with regard to sums paid by the Company to Defendants, and related relief. Defendants filed a motion requesting the Superior Court to stay this litigation and compel binding arbitration, which was denied by the Superior Court on April 5, 2005. On April 15 Defendants appealed that decision. Additionally, on December 29, 2004, William Go and the E-Class Corporation (which owns 38% of PSMT Philippines, Inc.) filed with the trial court in Pasig City, Manila, a complaint against those directors of PSMT Philippines, Inc. who are appointees of the Company. The complaint filed by Go and E-Class contends that the Company inappropriately transferred funds of PSMT Philippines, Inc. to the Company or otherwise inappropriately charged expenses to PSMT Philippines, Inc. The Go/E-Class complaint seeks an accounting and damages, as well as a temporary restraining order and/or preliminary injunction, and the appointment of a receiver/management committee. On January 4, 2005 and on January 17, 2005, the court denied requests by Go and E-Class for a temporary restraining order. On June 14, 2005, the trial court likewise denied the Go/E-Class application for preliminary injunction. In addition, Go has filed a complaint/affidavit seeking the initiation of criminal proceedings against those directors of PSMT Philippines, Inc. who are appointees of the Company, and Go has filed an additional complaint/affidavit seeking the initiation of additional criminal proceedings against one such director who was also the senior manager of the warehouse clubs in Manila. The applicable prosecutor's offices have commenced investigatory proceedings to determine whether or not criminal charges should be pursued. The Company intends to vigorously defend these actions through defendants and believes that the claims are without merit.

As of May 31, 2005, the Company has an insurance receivable in the receivables caption of the balance sheet for \$1.9 million and a liability in the other accrued expenses caption of the balance sheet for \$2.4 million, relating to the pending settlement of the securities class action litigation and related expenses. The Company does not expect to incur losses in connection with this litigation in excess of recorded amounts.

In the case of the Philippines matter, the ultimate outcome is less certain. The Company has reviewed the relevant evidence and does not believe that an adverse result is likely. However, in light of the uncertainty inherent in litigation particularly in foreign jurisdictions it is possible that the outcome of these proceedings, or an inability to successfully resolve the disputes within the near future, could have a material adverse effect on the Company's business, financial condition, operating results, cash flow or liquidity. The Company is unable at this time to estimate possible loss or range of loss associated with the Philippines matters. Further, regardless of the ultimate outcome of these suits, litigation of this type is expensive and may require the Company to devote substantial resources and management attention to these proceedings.

NOTE 8 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

As of May 31, 2005 and August 31, 2004, the Company, together with its majority or wholly-owned subsidiaries, had \$1.9 million and \$13.4 million, respectively, outstanding in short-term borrowings, at weighted-average interest rates of 8.1% and 8.9%, respectively, which are secured by certain assets of the Company and its subsidiaries and are guaranteed by the Company up to its respective ownership percentage. Each of the facilities expires during the year and is typically renewed. As of May 31, 2005 and August 31, 2004, the Company had approximately \$11.8 million and \$6.3 million available on these facilities, respectively.

Additionally, the Company has a bank credit agreement for up to \$7.0 million, which can be used as a line of credit or to issue letters of credit. As of May 31, 2005, letters of credit and lines of credit totaling \$4.9 million were outstanding under this facility, leaving availability under this facility of \$2.1 million.

As of May 31, 2005 and August 31, 2004, the Company, together with its majority or wholly-owned subsidiaries, had \$46.6 million and \$123.6 million, respectively, outstanding in long-term borrowings. The Company's long-term debt is collateralized by certain land, building, fixtures, equipment and shares of each respective subsidiary and guaranteed by the Company up to its respective ownership percentage, except for approximately \$13.8 million and \$28.4 million, as of May 31, 2005 and August 31, 2004, respectively, which is secured by collateral deposits included in restricted cash on the balance sheet and letters of credit. The carrying amount of the assets collateralized was \$44.7 million and \$105.2 million as of May 31, 2005 and August 31, 2004, respectively. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

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 ratio, debt service, interest coverage and leverage ratios. As of May 31, 2005, the Company was in compliance with all of these covenants, except for the debt to equity ratio for a \$7.0 million note (with an outstanding balance of \$3.3 million at May 31, 2005), for which the Company has requested and received a written waiver of its noncompliance through the quarter ending August 31, 2005. Additionally, the Company has debt agreements, with an aggregate principal amount outstanding as of May 31, 2005 of \$22.9 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 May 31, 2005, the Company satisfied these ratios. If the Company fails to comply with applicable financial covenants or is unsuccessful in obtaining the necessary waivers in future periods the lenders may elect to accelerate the indebtedness described above and foreclose on the collateral pledged to secure the indebtedness. The Company believes that, primarily as a result of the Financial Program, it has sufficient financial resources to repay the outstanding balance on the debt on which the Company was out of covenant compliance as of May 31, 2005. Accordingly, the obligation for which the Company has received a waiver is reflected in the accompanying balance sheet under the original contractual maturity.

NOTE 9 ACQUISITION OF MINORITY INTEREST

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 the 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.

On April 19, 2005, the Company announced that it had entered into an agreement to settle the previously disclosed disputes pertaining to the Company's Guatemalan subsidiary. Specifically, the Company entered into an agreement with Grupo Solid (Guatemala), S.A. and Grupo Solid, S.A., the minority shareholders of the

Company's Guatemala subsidiary, whereby the parties mutually released all claims, the Company acquired the minority shareholders' shares in PriceSmart (Guatemala), S.A., all pending litigation and the pending arbitration (as previously announced by the Company) between the minority shareholders and the Company was dismissed, and Grupo Solid, S.A. was released from its joint and several guaranty (together with the Company) of a real estate lease to which PriceSmart (Guatemala), S.A. is a party. As a result of this agreement the Company increased its ownership in PriceSmart (Guatemala), S.A. from 66% to 100%.

The Company's acquisition of the minority shareholders' interests involved a two-step process. First, on April 19, 2005, the minority shareholder conveyed its 34% interest in PriceSmart (Guatemala), S.A. to The Price Group, LLC, (the "Price Group"), the Sol and Helen Price Trust and the Robert and Allison Price Trust (together with the Price Group and the Sol and Helen Price Trust, the "Price Entities"), in exchange for the payment by the Price Entities to the minority shareholders of a total of \$6,600,000 in cash. Second, as soon as reasonably practicable, the Price Entities transferred the 34% interest in PriceSmart (Guatemala), S.A. to the Company in exchange for a total of 825,000 shares of the Company's common stock, valued for such purpose at a price of \$8.00 per share and having a value at such valuation equal to the amount paid by the Price Entities to the minority shareholders. On April 19, 2005, the Company and the Price Entities entered into a Stock Purchase Agreement reflecting the parties' agreement to such exchange of shares. Robert E. Price, the Company's Chairman of the Board and Interim Chief Executive Officer, Sol Price, a significant stockholder of the Company and father of Robert E. Price, are members and managers of the Price Group, Robert E. Price is a trustee of both trusts and Sol Price is a trustee of the Sol and Helen Price Trust. Directors Murray L. Galinson and Jack McGrory are members and managers of the Price Group. The shares of common stock issued to the Price Entities were issued in a private placement pursuant to Rule 506 under the Securities Act of 1933, as amended. The Company will not pay any other amounts to the minority shareholders in connection with the settlement and release.

NOTE 10 RELATED-PARTY TRANSACTIONS

Relationships with the Price Family: As of May 31, 2005 Sol Price beneficially owns approximately 42.2% of the Company's outstanding common stock. Sol Price is the father of Robert E. Price, the Chairman of the Board and Interim Chief Executive Officer of the Company. Robert E. Price beneficially owns approximately 46.9% of the outstanding common stock, including shares that may be deemed to be beneficially owned by Sol Price. Sol Price and Robert E. Price, together with their affiliates, comprise a group that may be deemed to beneficially own approximately 54.8% of the Company's outstanding common stock.

Series A and Series B Preferred Stock. In January 2002, entities affiliated with Sol Price, Robert E. Price, James F. Cahill, Murray L. Galinson and Jack McGrory, purchased an aggregate of 1,650 shares of the Company's Series A Preferred Stock for an aggregate purchase price of \$1,650,000. In July 2003, entities affiliated with Sol Price, Robert E. Price, James F. Cahill, Murray L. Galinson and Jack McGrory, purchased an aggregate of 22,000 shares of the Company's Series B Preferred Stock for an aggregate purchase price of \$22,000,000. In connection with the Financial Program that was approved by the stockholders on October 29, 2004, the 1,650 shares of Series A Preferred Stock were exchanged for 183,405 shares of the Company's common stock, and 22,000 shares of the Series B Preferred Stock were exchanged for 2,200,000 shares of common stock.

Relationships with the Price Group: In February 2004, the Company entered into an agreement with the Price Group which provided the Company with up to \$10.0 million of purchase order financing. Directors Robert E. Price, Murray L. Galinson, Jack McGrory and former director James F. Cahill were at the time managers of the Price Group and collectively own more than 80% of that entity. The agreement allowed the Price Group to place a lien on merchandise inventories in the United States as security for such financing. Interest accrued at a rate of 1% per month. In July 2004, this agreement was amended to increase the funds available from the Price Group by \$5.0 million (to a total of \$15.0 million) for purchase order financing. This additional funding was secured by the Company's pledge of shares of its wholly-owned Panamanian subsidiary, PriceSmart Real Estate

Panama, S.A. On October 29, 2004 amounts owed under this agreement were converted into 1,948,227 shares of common stock as part of the Financial Program that was approved by the stockholders on October 29, 2004.

In May 2004, the Company entered into another agreement with the Price Group to sell the real estate and improvements owned by the Company in Santiago, Dominican Republic. The purchase price was to be the fair market value of the property and improvements as determined by an independent appraiser. Under the terms of the agreement the Price Group made an initial payment of \$5.0 million, with the balance to be paid upon closing, and if the closing did not occur for any reason, the initial payment was to be returned to the Price Group, plus accrued interest at the rate of 8% per annum. The agreement was subject to several contingencies, including the right of each party to terminate the agreement after receipt of the final appraisal report, and the approval by the Board of the final terms of the agreement. This agreement was to terminate on August 31, 2004; however, on August 30, 2004, this agreement was extended for an additional 90 days, until November 30, 2004. On October 29, 2004 amounts owed under this agreement were converted into 648,973 shares of Common Stock as part of the Financial Program that was approved by the stockholders on October 29, 2004 and the agreement was terminated.

In August 2004, the Company entered into a \$25.0 million bridge loan with The Price Group, LLC. This loan accrued interest at 8% per annum. On October 29, 2004 amounts owed under this agreement were converted into 3,164,726 shares of Common Stock as part of the Financial Program that was approved by the stockholders on October 29, 2004.

On November 5, 2004, the Company entered into a short-term loan agreement for \$3.0 million for a period of 90 days at a rate of 5% with The Price Group. This short-term loan was repaid in full on January 10, 2005.

On April 19, 2005, the Company entered into a Stock Purchase Agreement with The Price Group, LLC, the Sol and Helen Price Trust and the Robert and Allison Price Trust (the Price Entities). The agreement called for the Price Entities to transfer their 34% interest in PriceSmart (Guatemala), S.A. to the Company in exchange for a total of 825,000 shares of the Company's common stock, valued for such purpose at a price of \$8.00 per share and having a value at such valuation equal to the amount paid by the Price Entities to the minority shareholders. The Price Entities had previously acquired the 34% interest as a result of the settlement of disputes with the former minority interest shareholders.

Relationship with Price Legacy Corp: Sol Price had beneficial ownership through the Price Group and various family and charitable trusts of approximately 28.0% of the common stock (the Price Legacy Common Stock) of Price Legacy, formerly known as Price Enterprises, Inc. (PEI). Robert E. Price beneficially owned approximately 25.5% of the Price Legacy Common Stock, including shares that may have been deemed to be beneficially owned by Sol Price, and served as the Chairman of the Board of PEI until November 1999. Collectively, Sol Price, Robert E. Price and parties affiliated with them, including The Price Group, beneficially owned an aggregate of approximately 37.6% of the Price Legacy Common Stock. James F. Cahill, Murray L. Galinson and Jack McGrory, current and former directors of the Company, beneficially owned approximately 16.4%, 16.1% and 15.9%, respectively, of the Price Legacy Common Stock, including shares that may have been deemed to be beneficially owned by Sol Price and Robert E. Price. In addition, each was a director of Price Legacy, and Jack McGrory served as Chairman, President and Chief Executive Officer of Price Legacy. On December 21, 2004, Price Legacy was acquired by PL Realty, LLC and the above mentioned persons' ownership in Price Legacy or the surviving entity ceased.

On March 26, 2004, the Company moved into its new headquarters located in San Diego, CA. Prior to this move, the Company leased office space from Price Legacy to house its headquarters. In April 2004, the Company received \$500,000 from its then landlord, Price Legacy, as an incentive to terminate early the lease of its headquarters. For the nine months ended May 31, 2005 and May 31, 2004, the Company paid Price Legacy \$0 and \$178,000 in rent, respectively.

Use of Private Plane: From time to time members of the Company's management used a private plane owned in part by PFD Ivanhoe, Inc. (PFD Ivanhoe) to travel to business meetings in Central America and the Caribbean. The Price Group owns 100% of the stock of PFD Ivanhoe, and Sol Price is an officer of PFD Ivanhoe. The Price Group's members include Sol Price, Robert E. Price, Murray Galinson and Jack McGrory. Prior to March 2003, when the Company used the plane, it reimbursed PFD Ivanhoe for a portion of a fixed management fee and additional expenses PFD Ivanhoe incurred based on the number of hours flown, and also reimbursed PFD Ivanhoe for direct charges associated with use of the plane, including landing fees, international fees and catering. Since March 2003, the Company reimburses PFD Ivanhoe based on the amounts the passengers would have paid if they had flown a commercial airline if one or more of the passengers is a Director of the Price Group (including Robert E. Price). If the passengers are solely PriceSmart, Inc. personnel, then the Company reimburses PFD Ivanhoe for a portion of the fixed management fee and additional expenses PFD Ivanhoe incurred as a result of the hours flown including direct charges associated with the use of the plane, landing fees, catering, and international fees. The Company paid approximately \$135,000 and \$50,000 for the nine months ended May 31, 2005 and May 31, 2004, respectively, to cover these costs.

Put Option Agreement: On December 15, 2003, the Company entered into an agreement with the Sol and Helen Price Trust, a trust affiliated with Sol Price, 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 upon other commercially reasonable terms. The specified real property covered both the land and building at nine warehouse club locations. As of August 31, 2004, the net book value of this real property was approximately \$54.9 million with approximately \$29.9 million of encumbrances (including \$5.1 had million received as an advance payment for one of these properties). 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 upon other commercially reasonable terms. On August 30, 2004, this agreement was extended for an additional 90 days. As a result of the Financial Program, the Company did not exercise its rights under this agreement or extend it further.

Promissory Notes: In August 1998, Brud E. Drachman, Thomas D. Martin and Edward Oats purchased 1,894, 10,000 and 1,180 shares of common stock, respectively, pursuant to the stock purchase feature of the 1998 Equity Participation Plan. These officers delivered to the Company promissory notes in the amounts of \$19,357, \$108,500 and \$12,803, respectively. In August 1998, the Gans Blackmar Stevens Profit Sharing Plan FBO Robert M. Gans purchased 8,750 shares of common stock pursuant to the stock purchase feature of the 1998 Plan and delivered to the Company a promissory note in the amount of \$94,937.50. In August 1998, William J. Naylon purchased 7,500 shares of common stock pursuant to the stock purchase feature of the 1998 Equity Participation Plan and delivered to the Company a promissory note in the amount of \$81,375. In April 2000, John Hildebrandt purchased 3,738 shares of common stock pursuant to the stock purchase feature of the 1998 Equity Participation Plan and delivered to the Company a promissory note in the amount of \$149,987. The promissory notes delivered by Messrs. Drachman, Martin, Naylon and Oats, and the Gans Blackmar Stevens Profit Sharing Plan initially were non-recourse notes, bore interest at a rate of 6% per annum and had terms of six years. These notes were amended in June 1999 to become recourse notes, bearing interest at a rate of 5.85%. Mr. Hildebrandt's note is also a recourse note, bearing interest at a rate of 5.85%, with a term of six years. In August 2004, upon the expiration of term of their respective promissory notes, Messrs. Drachman, Martin, Naylon, Oats and the Gans Blackmar Stevens Profit Sharing Plan FBO Robert M. Gans paid all remaining principal and interest due under the notes by delivering an aggregate of 22,195 shares of common stock valued at \$7.56 per share (the closing price of the common stock on August 6, 2004) and paid an aggregate of \$149,177 in cash. Messrs. Drachman, Martin, Naylon, Oats and Gans received cash bonuses in August 2004, the after-tax proceeds of which were equivalent to the cash portion of the repayments described above. The initial principal amount on Mr. Hildebrandt's promissory note remains outstanding, and is immediately due and payable upon the termination of Mr. Hildebrandt's employment for any reason.

Relationships with Edgar Zurcher: Edgar Zurcher has been a director of the Company since November 2000. Mr. Zurcher is a partner in a law firm that the Company utilizes in legal matters and incurred legal

expenses of approximately \$287,000 during the first nine months of fiscal 2005. Mr. Zurcher is also a director of a company that owns 40% of Payless ShoeSource Holdings, Ltd., which rents retail space from the Company. The Company has recorded approximately \$505,000 in rental income for this space during the first nine months of fiscal 2005. Mr. Zurcher is also a director of Banco Promerica, from which the Company has recorded approximately \$194,000 of rental income for the first nine months of fiscal 2005 for space leased to it by the Company. The Company received approximately \$536,000 in incentive fees on a co-branded credit card the Company has with Banco Promerica in the first nine months of fiscal year 2005. In February 2005, the Company received a refund of approximately \$400,000 for an accumulated marketing fund related to the co-branded credit card with Banco Promerica. Mr. Zurcher is also Chairman of the Board of Banca Promerica (Costa Rica), which lent \$900,000 as part of a \$5.9 million syndicated loan to the Company in fiscal 2000, and repaid in October 2004. During fiscal 2001, the Company entered into a \$1.9 million short-term credit facility with Banco Promerica (El Salvador), of which none is outstanding as of May 31, 2005.

Relationships with Grupo Gigante, S.A. and Angel Losada M.: Gigante beneficially owns approximately 6.9% of the outstanding Common Stock. In January 2002, the Company entered into a 50/50 joint venture with Gigante to construct and operate warehouse clubs in Mexico. In addition, Angel Losada M., one of the directors of the Company, is currently Chairman of the Board of Directors and Executive President of Gigante. Mr. Losada also owns 13.5% of the common stock of Gigante, and together with members of his family, owns an aggregate of 69.4% of the common stock of Gigante. In fiscal 2004, Gigante purchased an aggregate of approximately \$123,000 of products from PriceSmart Mexico, the 50/50 joint venture subsidiary in Mexico. During the third quarter of fiscal 2002, the Company's Mexico joint venture began negotiations to lease certain property from Gigante in Mexico City, upon which the joint venture may construct and operate a membership warehouse club. In October 2002, the joint venture entered into a memorandum of intent for the allocation of construction expenses in connection with the proposed lease. In February 2005, the Company and Grupo Gigante S.A. announced the closure of the three warehouse clubs operated by PriceSmart Mexico effective February 28, 2005.

In January 2002, Gigante purchased 15,000 shares of the Company's Series A Preferred Stock for an aggregate purchase price of \$15,000,000 pursuant to a Series A Preferred Stock and Warrant Purchase Agreement entered into on January 15, 2002 between the Company and Gigante. Gigante also received a warrant to purchase 200,000 shares of the Company's common stock at an exercise price of \$37.50 per share, subject to customary anti-dilution adjustments. The warrant expired one year from the date of issuance. On November 23, 2004, the Company issued an aggregate of 1,667,333 shares of its common stock to Gigante in exchange for all of the outstanding shares of the Company's Series A Preferred Stock held by Gigante as part of the Financial Program.

Relationship with PriceSmart Mexico: The Company sold inventory to PriceSmart Mexico and charged it for salaries and other administrative services. Such transactions were in the ordinary course of business, at negotiated prices comparable to those of transactions with other customers. For the first nine months of fiscal year 2005, export sales to PriceSmart Mexico were approximately \$214,000 and are included in total export sales of \$394,000, on the consolidated statements of operations. Under equity accounting, for export sales to PriceSmart Mexico, the Company's investment in unconsolidated affiliate has been reduced by the Company's portion of the unrealized profit from these sales. Salaries and other administrative services charged to PriceSmart Mexico for the first nine months of the fiscal year 2005 were approximately \$31,000.

During the third quarter of fiscal 2005, the Company agreed to purchase furniture and fixtures from the closed Mexico warehouse club locations. To facilitate this purchase, the Company made an advance payment of \$750,000 to PriceSmart Mexico. This advance payment is included in prepaid expenses and other current assets on the Consolidated Balance Sheet as of May 31, 2005. The Company expects to fully utilize this advance payment during the fourth quarter of fiscal 2005.

Relationships with PSC, S.A.: PSC, S.A. beneficially owns approximately 3.1% of the Company's common stock. In addition, Mr. Zurcher is a director and 9.1% stockholder of PSC, S.A. In August 2002, the Company

entered into a joint venture agreement with PSC, S.A. to form a new subsidiary to construct and operate a warehouse club in Nicaragua. The Company owns a 51% interest and PSC, S.A. owns the outstanding 49% interest in the subsidiary. In connection with the joint venture, in September 2002, PSC, S.A. purchased 79,313 shares of Common Stock from the Company at a price of \$33.50 per share, which is equivalent to the Company's capital investment in the joint venture.

On June 3, 2000, PSMT Caribe, Inc., a British Virgin Islands corporation and wholly owned subsidiary of the Company (PSMT Caribe), and PSC, S.A. entered into an option agreement, as amended on August 28, 2002 (the Option), which gave PSC the option to purchase from PSMT Caribe excess real property located in San Pedro Sula, Honduras, Santa Elena, El Salvador, Heredia, Costa Rica, Santo Domingo, Dominican Republic and Zapote, Costa Rica (collectively, the Properties). On or about June 26, 2000, PSC exercised the Option and subsequently acquired all of the Properties with the exception of the properties located in Santa Elena and Heredia.

The Company believes that the development of the properties located in Santa Elena, Heredia and Santa Domingo, each of which are located adjacent to certain of the Company's warehouse clubs in these locations, may be detrimental to the operation of such warehouse clubs. Accordingly, the Company's Board of Directors has authorized a transaction whereby PSC would (i) convey the Santa Domingo property to the Company or a wholly owned subsidiary thereof and (ii) relinquish all of its rights to acquire the properties located in Santa Elena and Heredia that it obtained pursuant to its exercise of the Option as described above. In exchange, the Company would issue to PSC 150,000 shares of its common stock, valued for such purpose at an aggregate of \$1,202,591.

Relationship with Philippines minority interest shareholder: The Company formerly utilized the importation and exportation businesses of one of its minority shareholder in the Philippines for the movement of merchandise inventories both to and from the Asian regions to its warehouse clubs operating in Asia. As of May 31, 2005, the Company had a total of approximately \$645,000 in net receivables due from the minority interest shareholder's importation and exportation businesses, which is included in accounts receivable on the consolidated financial statements.

The Company believes that each of the related party transactions described above were on terms that the Company could have been obtained from unaffiliated third parties.

NOTE 11 SEGMENT REPORTING

The Company is principally engaged in international membership shopping warehouse clubs operating primarily in Central America, the Caribbean and Asia as of May 31, 2005 (see Note 1). The Company operates in four segments based on geographic area and measures performance based on operating income (loss). Segment amounts are presented after converting to U.S. dollars and consolidating eliminations. Certain revenues and operating costs included in the United States segment have not been allocated, as it is impractical to do so. The Mexico joint venture is not segmented for the periods presented and is included in the United States segment. The Company's reportable segments are based on management responsibility.

	<u>United States Operations</u>	<u>Central American Operations</u>	<u>Caribbean Operations</u>	<u>Asian Operations</u>	<u>Total</u>
Nine Months Ended May 31, 2005					
Total revenue	\$ 436	\$ 283,120	\$ 176,424	\$ 49,006	\$ 508,986
Operating income (loss)	(3,124)	4,860	(6,582)	(1,619)	(6,465)
Depreciation and amortization	446	4,191	2,686	1,688	9,011
Identifiable assets	56,099	161,248	88,616	48,237	354,200
Nine Months Ended May 31, 2004					
Total revenue	\$ 2,273	\$ 264,253	\$ 143,796	\$ 49,218	\$ 459,540
Operating income (loss)	(3,396)	4,537	(4,787)	(7,698)	(11,344)
Depreciation and amortization	632	4,940	3,644	1,644	10,860
Identifiable assets	65,597	146,936	91,840	50,840	355,213
Year Ended August 31, 2004					
Total revenue	\$ 2,391	\$ 348,917	\$ 192,883	\$ 65,509	\$ 609,700
Operating income (loss)	(4,020)	4,282	(6,967)	(9,524)	(16,229)
Depreciation and amortization	1,007	6,457	4,834	2,137	14,435
Identifiable assets	91,876	147,259	92,470	44,403	376,008

ITEM 6. EXHIBITS

(a) *Exhibits:*

- 3.1(1) Amended and Restated Certificate of Incorporation of the Company.
- 3.2(2) Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
- 3.3(3) Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company.
- 3.4(1) Amended and Restated Bylaws.
- 3.5(4) Amendment to Amended and Restated Bylaws.
- 10.1(5) Stock Purchase Agreement dated April 19, 2005 between the Company and The Price Group, LLC, the Sol and Helen Price Trust and the Robert and Allison Price Trust.
- 10.2(6) Eighth Amendment to Employment Agreement between the Company and Thomas Martin, dated March 3, 2005.
- 10.3(6) Fourth Amendment to Employment Agreement between the Company and John Hildebrandt, dated March 9, 2005.
- 10.4(6) Sixth Amendment to Employment Agreement between the Company and Edward Oats, dated March 9, 2005.
- 10.5(6) Seventh Amendment to Employment Agreement between the Company and Brud Drachman, dated March 9, 2005.
- 10.6(6) Stipulation of Settlement dated May 12, 2005.
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification 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.

- (1) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 1997 filed with the Commission on November 26, 1997.
- (2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 filed with the Commission on April 14, 2004.
- (3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended August 31, 2004 filed with the Commission on November 24, 2004.
- (4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2004 filed with the Commission on July 15, 2004.

Edgar Filing: PRICESMART INC - Form 10-Q/A

- (5) Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 22, 2005.

- (6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2005 filed with the Commission on July 15, 2005.

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: November 10, 2005

/s/ ROBERT E. PRICE

Robert E. Price
Interim Chief Executive Officer

Date: November 10, 2005

/s/ JOHN M. HEFFNER

John M. Heffner
Chief Financial Officer