PRICESMART INC
Form S-1/A
August 01, 2005
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As filed with the Securities and Exchange Commission on August 1, 2005

Registration No. 333-120953

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

To

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PriceSmart, Inc.

(Exact name of registrant as specified in its charter)

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

9740 Scranton Road

San Diego, California 92121-1745

(858) 404-8800

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Copies to:

Robert M. Gans, Esq.

Executive Vice President, General

Counsel and Secretary

PriceSmart, Inc.

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(Name, address, including zip code, and telephone number,

including area code, of agent for service)

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

PriceSmart hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until PriceSmart shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(3)

Registration No. 333-120953

PROSPECTUS (SUBJECT TO COMPLETION) DATED AUGUST 1, 2005

PRICESMART, INC.

1,158,813 Shares of Common Stock

This prospectus relates to up to 1,158,813 shares of our common stock, which may be offered for sale by the selling stockholders named in this prospectus. The shares of common stock being offered were previously issued to the selling stockholders or are issuable upon exercise of a warrant previously issued to one of the selling stockholders. The shares of common stock to which this prospectus relates may be sold from time to time by the selling stockholders directly or through one or more broker-dealers, in one or more transactions on the Nasdaq National Market, in the over-the-counter market, in negotiated transactions or otherwise, at prices related to the prevailing market prices or at negotiated prices. We will not receive any of the proceeds from the sale of the shares of common stock sold by the selling stockholders. We will bear all expenses of the offering of common stock, except that the selling stockholders will pay any applicable underwriting fees, discounts or commissions and transfer taxes, as well as all fees and disbursements of their counsel and experts.

Our common stock is listed under the symbol PSMT on the Nasdaq National Market. On July 28, 2005, the last sales price of our common stock was $8.10.

This investment involves risks. See Risk Factors beginning on page 2.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2005

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Whenever we refer to PriceSmart, we, our, or us in this prospectus, we mean PriceSmart, Inc. and its subsidiaries, unless the context suggests otherwise.

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SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that may be important to you. To fully understand our company and this offering, you should read carefully this entire document.

Our 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, we 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 the Dominican Republic, Guatemala, El Salvador, Honduras and Trinidad and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands), of which we own at least a majority interest.

Our headquarters are located at 9740 Scranton Road, San Diego, California 92121-1745. Our telephone number is (858) 404-8800. Our website address is *www.pricesmart.com*. Information contained on our website is not incorporated into, and does not constitute any part of, this prospectus.

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RISK FACTORS

Investment in our securities involves a high degree of risk, including the risks described below. You should carefully consider the following risks factors, together with all of the other information presented in this prospectus and the documents we have incorporated by reference in deciding whether to invest in our common stock. Each of the risks described in this prospectus and the documents we incorporate by reference could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.

Factors That May Affect Future Performance

We had a substantial net loss in fiscal 2004, a net loss in the first nine months of 2005, and may continue to incur losses in future periods.

We incurred net losses attributable to common stockholders of approximately $32.1 million in fiscal 2003, including asset impairment and closing cost charges, of approximately $11.7 million, approximately $33.3 million in fiscal 2004, including $9.8 million of asset impairment and closing charges and approximately $18.9 million in the first nine months of fiscal 2005, including asset impairment and closing charges of $8.8 million. We are seeking ways to improve sales, margins, expense controls and inventory management in an effort to return to profitability. We are also seeking to reduce our carrying costs by seeking alternative uses for, disposing of, or leasing buildings and fixtures from our closed warehouse clubs. However, if these efforts fail to adequately reduce costs, or if our sales are less than we project, we may continue to incur losses in future periods.

If we fail to comply with the covenants governing our indebtedness, the lenders may elect to accelerate our indebtedness and foreclose on the collateral pledged to secure the indebtedness.

Under the terms of debt agreements to which we and/or one or more of our wholly owned or majority owned subsidiaries are parties, we 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, we were 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 we have requested and received a written waiver of our noncompliance through the quarter ending August 31, 2005. We also have $22.9 million of indebtedness outstanding that, upon a default by us under other indebtedness, allows the lender to accelerate the indebtedness and prohibits us from incurring additional indebtedness.

If we fail to comply with the covenants governing our indebtedness, our lenders may elect to accelerate our indebtedness and foreclose on the collateral pledged to secure the indebtedness. In addition, if we fail to comply with the covenants governing our indebtedness, we may need additional financing in order to service or extinguish the indebtedness. Some of our vendors also extend trade credit to us and allow payment for products following delivery. If these vendors extend less credit to us or require pre-payment for products, our cash requirements and financing needs may increase further. We may not be able to obtain financing or refinancing on terms that are acceptable to us, or at all.

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

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

- changes in and interpretation of tariff and tax laws and regulations, as well as inconsistent enforcement of laws and regulations,
- the imposition of foreign and domestic governmental controls,
- trade restrictions,

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greater difficulty and costs associated with international sales and the administration of an international merchandising business,

thefts and other crimes,

limitations on U.S. company ownership in foreign countries,

product registration, permitting and regulatory compliance,

volatility in foreign currency exchange rates,

the financial and other capabilities of our joint venturers and licensees, and

general political as well as economic and business conditions.

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

We began an aggressive growth strategy in April 1999, opening 20 new warehouse clubs over a two and a half year period. As of May 31, 2005, we had in operation 26 consolidated warehouse clubs in 12 countries and one U.S. territory (four each in Panama and the Philippines; three in Costa Rica; two each in the Dominican Republic, Guatemala, El Salvador, Honduras and Trinidad; and one each in Aruba, Barbados, Jamaica, Nicaragua and the United States Virgin Islands). We opened one new warehouse club in Aseana City, Metropolitan Manila, Philippines in early June 2004.

The success of our business will depend to a significant degree on our ability to (i) efficiently operate warehouse clubs on a profitable basis and (ii) maintain positive comparable warehouse club sales growth in the applicable markets. In addition, we will need to continually evaluate the adequacy of our existing personnel, systems and procedures, including warehouse management and financial and inventory control. Moreover, we will be required to continually analyze the sufficiency of our inventory distribution channels and systems and may require additional facilities in order to support our operations. We may not adequately anticipate all the changing demands that will be imposed on these systems. An inability or failure to retain effective warehouse personnel or to update our internal systems or procedures as required could have a material adverse effect on our business, financial condition and results of operations.

Although we have taken and continue to take steps to improve significantly our internal controls, there may be material weaknesses or significant deficiencies that we have not yet identified.

Subsequent to the completion of our audit of, and the issuance of an unqualified report on our financial statements for the year ended August 31, 2003, Ernst & Young LLP issued us a management letter identifying deficiencies that existed in the design or operation of our internal controls that it considered to be material weaknesses in the effectiveness of our internal controls pursuant to standards established by the American Institute of Certified Public Accountants. The deficiencies reported by Ernst & Young LLP indicated that our internal controls relating to revenue recognition did not function properly to prevent the recordation of net warehouse sales that failed to satisfy the requirements of Securities and Exchange Commission, or SEC, Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, and our internal controls failed to identify that the Philippines and Guam subsidiaries failed to perform internal control functions to reconcile their accounting records to supporting detail on a timely basis. These material control weaknesses were identified during fiscal 2003 by us and brought to the attention of Ernst & Young LLP and the Audit Committee of our Board of Directors.

We have taken steps to strengthen control processes in order to identify and rectify past accounting errors and to prevent the situations that resulted in the need to restate prior period financial statements from recurring. These measures may not completely eliminate the material weaknesses in our internal controls identified by us and by Ernst & Young LLP, and we may have additional material weaknesses or significant deficiencies in our internal controls that neither Ernst & Young LLP nor our management has yet identified. We identified control

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weaknesses in the accounts payable account reconciliation process for our Philippines subsidiary in connection with an internal audit conducted as part of our ongoing project to achieve compliance with Section 404 of the Sarbanes-Oxley Act. Although management s initial assessment is that these control weaknesses do not rise to the level of a material weakness, these or other deficiencies in our internal controls could adversely affect our ability to prevent or detect a material misstatement of our annual or interim consolidated financial statements. Further, despite our efforts to improve our internal control structure, we may not be entirely successful in remedying internal control deficiencies that were previously identified. Any failure to timely remediate control gaps discovered in the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 or otherwise could harm our operating results and cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

We are currently defending litigation relating to our financial restatement.

Following the announcement of the restatement of our financial results for fiscal year 2002 and the first three quarters of fiscal 2003 in November 2003, we received notice of six class action lawsuits filed in the United States District Court, Southern District of California against us and certain of our former directors and officers purportedly brought on behalf of certain current and former holders of our common stock, and a seventh class action lawsuit filed against us and certain of our former directors and officers purportedly on behalf of certain holders of our Series A Preferred Stock and a class of common stock purchasers. These suits generally allege that we issued false and misleading statements during fiscal years 2002 and 2003 in violation of federal securities laws. All of the federal securities actions were consolidated by an order dated September 9, 2004, which also appointed a lead plaintiff on behalf of the proposed class of common stock purchasers.

On September 3, 2004, we entered into a Stipulation of Settlement with respect to the action brought on behalf of a proposed sub-class of plaintiffs comprised of unaffiliated purchasers of our Series A Preferred Stock. On November 8, 2004 the settlement was approved and judgment entered. Pursuant to the settlement, this action has been dismissed and the Court has entered an order releasing claims that were or could have been brought by the sub-class, arising out of or relating to the purchase or ownership of our Series A Preferred Stock. 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, 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 our directors and officers insurance carrier would pay 80% and we would pay 20%, as we and the carrier have agreed that effective as of March 1, 2005 we satisfied the $1,000,000 retention on our insurance policy). The settlement is subject to court approval and there can be no assurance that the settlement will receive such approval. If the settlement is not approved and we are ultimately adjudged to have violated federal securities laws, we may incur substantial losses as a result of an award of damages to plaintiffs, which could impair our liquidity and have a material adverse effect on our business, results of operations and financial condition.

The SEC issued a formal order of private investigation on January 8, 2004 to investigate the circumstances surrounding our restatement. The SEC has issued subpoenas to us for the production of documents and has taken testimony, pursuant to subpoena, from several of our present and former employees.

While we have directors and officers liability insurance (subject to a $1.0 million retention and a 20% co-pay provision), we have been informed that our 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 we may be required to pay. Moreover, the mere presence of these lawsuits may materially harm our business and reputation. We have 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.

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We face significant competition.

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

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

Our warehouse clubs import approximately 45% of the merchandise that they sell, which originate from varying countries and are transported over great distances, typically over water, which results in:

- substantial lead times needed between the procurement and delivery of product, thus complicating merchandising and inventory control methods, as well as expense controls,
- the possible loss of product due to theft or potential damage to, or destruction of, ships or containers delivering goods,
- product markdowns as a result of it being cost prohibitive to return merchandise upon importation,
- product registration, tariffs, customs and shipping regulation issues in the locations we ship to and from, and
- substantial ocean freight and duty costs.

Moreover, each country in which we operate have different governmental rules and regulations regarding the importation of foreign products. Changes to the rules and regulations governing the importation of merchandise may result in additional delays or barriers in our deliveries of products to our warehouse clubs or product we select to import. For example, several of the countries in which our warehouse clubs are located have imposed restrictions on the importation of some U.S. beef products because of concerns about Bovine Spongiform Encephalopathy (BSE), commonly referred to as mad cow disease. As a result of these restrictions, the sales of U.S. beef products may be impaired for the duration of these restrictions and may continue following the lifting of these restrictions because of perceptions about the safety of U.S. beef among people living in these countries. In addition, only a limited number of transportation companies service our regions. The inability or failure of one or more key transportation companies to provide transportation services to us, any collusion among the transportation companies regarding shipping prices or terms, changes in the regulations that govern shipping tariffs or the importation of products, or any other disruption in our ability to transport our merchandise could have a material adverse effect on our business, financial condition and results of operations.

The success of our business requires effective assistance from local business people. As a result, existing disputes with minority interest shareholders or other disputes with local business people upon whom we depend could adversely affect our business.

Several of the risks associated with our international merchandising business may be within the control (in whole or in part) of local business people with whom we have established formal and informal strategic relationships or may be affected by the acts or omissions of these local business people. In some cases, these local business people previously held minority interests in joint venture arrangements and now hold shares of our common stock. No assurances can be provided that these local business people will effectively help us in their respective markets. The failure of these local business people to assist us in their local markets could harm our business, financial condition and results of operations.

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Our two minority shareholders in the Philippines (which together comprise a 48% ownership interest in our 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). We contend, 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, we 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, who we collectively refer to as the Defendants, seeking to recover principal and interest due and owing to us of at least $781,000, as well as an accounting with regard to sums paid by us 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 our appointees. The complaint filed by Go and E-Class contends that we inappropriately transferred funds of PSMT Philippines, Inc. to us 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 our appointees, 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. We intend to vigorously defend these actions through defendants and believe that the claims are without merit.

Also, we have agreements with Banco Promerica and our affiliates, who we collectively refer to as Promerica, by which we and Promerica have issued co-branded credit cards, used primarily in our Latin American segment, that reduce the costs to us of credit card processing fees associated with the use of these cards in our warehouse clubs. Edgar Zurcher, who is one of our directors, is also Chairman of the Board of Banca Promerica (Costa Rica) and is also a director of Banco Promerica (El Salvador). If, for any reason, we were unable to continue to offer the co-branded credit card and if we were unable to promptly enter into a similar program with another credit card service provider, the result would be an increase in our costs and potentially a negative effect on sales.

We are exposed to weather and other risks associated with international operations.

Our operations are subject to the volatile weather conditions and natural disasters such as earthquakes, typhoons and hurricanes, which are encountered in the regions in which our warehouse clubs are located and which could result in significant damage to, or destruction of, or temporary closure of our warehouse clubs. For example, during September 2004, while no damage was sustained from the multiple hurricanes in the Caribbean, a total of eight days of sales were lost due to selected warehouse club closures resulting from heavy rains, local flooding and government advisories to stay off the roads. Losses from business interruption may not be adequately compensated by insurance and could have a material adverse effect on our business, financial condition and results of operations.

Declines in the economies of the countries in which we operate our warehouse clubs would harm our business.

The success of our operations depends to a significant extent on a number of factors that affect discretionary consumer spending, including employment rates, business conditions, consumer spending patterns and customer

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preferences and other economic factors in each of our foreign markets. Adverse changes in these factors, and the resulting adverse impact on discretionary consumer spending, would affect our growth, sales and profitability. In addition, a significant decline in these economies may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States. Any general instability in the national or regional economies of the foreign countries, in which we currently operate, could have a material adverse effect on our business, financial condition and results of operations.

A few of our stockholders have control over our voting stock, which will make it difficult to complete some corporate transactions without their support and may prevent a change in control.

As of June 30, 2005, Robert E. Price, who is our Chairman of the Board and Interim Chief Executive Officer, and Sol Price, one of our significant stockholders and father of Robert E. Price, together with their affiliates, comprise a group that may be deemed to beneficially own 54.8% of our common stock. Because the group may be deemed to beneficially own, in the aggregate, more than 50.0% of our common stock, we are a controlled company within the meaning of Nasdaq Marketplace Rule 4350(c)(5). As a result of their beneficial ownership, these stockholders have the ability to control the outcome of all matters submitted to our stockholders for approval, including the election of directors. In addition, this ownership could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

The loss of key personnel could harm our business.

We depend to a large extent on the performance of our senior management team and other key employees, such as U.S. ex-patriots in certain locations where we operate, for strategic business direction. The loss of the services of any members of our senior management or other key employees could have a material adverse effect on our business, financial condition and results of operations.

We are subject to volatility in foreign currency exchange.

We, primarily through majority or wholly owned subsidiaries, conduct operations primarily in Latin America, the Caribbean and Asia, and as such are subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of May 31, 2005, we had a total of 26 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory, 19 of which operate under currencies other than the U.S. dollar. For the third quarter of fiscal 2005, approximately 79% of our net warehouse sales were in foreign currencies. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may increase the percentage of net warehouse sales denominated in foreign currencies.

Foreign currencies in most of the countries where we operate have historically devalued against the U.S. dollar and are expected to continue to devalue. For example, the Dominican Republic experienced a net currency devaluation of 81% between the end of fiscal 2002 and the end of fiscal 2003 and 13% (significantly higher at certain points of the year) between the end of fiscal 2003 and the end of fiscal 2004. Foreign exchange transaction losses, including repatriation of funds, which are included as part of the costs of goods sold in the consolidated statement of operations, for fiscal 2004, 2003 and 2002 were approximately $579,000, $605,000 and $1.2 million, respectively.

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

We market and distribute products, including meat, dairy and other food products, from third-party suppliers, which exposes us to the risk of product liability claims, a product recall and adverse publicity. For

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example, we may inadvertently redistribute food products that are contaminated, which may result in illness, injury or death if the contaminants are not eliminated by processing at the foodservice or consumer level. Although we intend to seek contractual indemnification and insurance coverage from many of our suppliers, we currently do not have such arrangements with most of our suppliers. However, if we do not have adequate insurance or contractual indemnification available, product liability claims relating to products that are contaminated or otherwise harmful could have a material adverse effect on our ability to successfully market our products and on our business, financial condition and results of operations. In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding a product recall or any assertion that our products caused illness or injury could have a material adverse effect on our reputation with existing and potential customers and on our business, financial condition and results of operations.

Potential future impairments under SFAS 144 could adversely affect our future results of operations and financial position.

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we assesses our long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be measured and recognized if the sum of the expected future discounted cash flows is less than the carrying amount of the asset. If the carrying amount of the asset were determined to be impaired, an impairment loss to write-down the carrying value of the asset to fair value by using quoted market prices, when available, would be required. When a quoted market price is not available, an estimated fair value would be determined through other valuation techniques. We have used projected cash flows discounted to reflect the expected commercial, competitive and other factors related to our long-lived assets and comparisons to similar asset sales and valuations by others, to estimate the fair value of our intangible assets. These future tests may result in a determination that these assets have been impaired. If at any time we determine that an impairment has occurred, we will be required to reflect the impaired value as a charge, resulting in a reduction in earnings in the quarter such impairment is identified and a corresponding reduction in our net asset value. A material reduction in earnings resulting from such a charge could cause us to fail to be profitable in the period in which the charge is taken or otherwise to fail to meet the expectations of investors and securities analysts, which could cause the price of our stock to decline. For example, we were required to take an impairment charge pursuant to SFAS 144 of $7.1 million related to the write-down of our interest in our U.S. Virgin Islands subsidiary in the third quarter of fiscal 2005, $3.1 million related to the write down of our interest in our Mexico joint venture in the fourth quarter of fiscal 2004 and a charge of $4.5 million related to the write down of our interest in our Guam and U.S. Virgin Islands subsidiaries in the fourth quarter of fiscal 2003.

The adoption of the Financial Accounting Standards Board Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets could adversely affect our future results of operations and financial position.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets, which was adopted by us, effective September 1, 2001. Under the rules, goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the Statement. As of May 31, 2005, we had goodwill of approximately $29.7 million, net of accumulated amortization originating prior to the adoption of SFAS 142. We performed our impairment test on goodwill as of August 31, 2004 and August 31, 2003, and no impairment losses were recorded. In the future, we will test for impairment at least annually. Such tests may result in a determination that these assets have been impaired. If at any time we determine that an impairment has occurred, we will be required to reflect the impaired value as a part of operating income, resulting in a reduction in earnings in the period such impairment is identified and a corresponding reduction in our net asset value. A material reduction in earnings resulting from such a charge could cause us to fail to be profitable or increase the amount of our net loss in the period in which the charge is taken or otherwise to fail to meet the expectations of investors and securities analysts, which could cause the price of our stock to decline.

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We face increased costs and compliance risks associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Like many smaller public companies, we face a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management of public companies to evaluate, and the independent auditors to attest to the effectiveness of internal control over financial reporting and the evaluation performed by management. The SEC has adopted rules implementing Section 404 for public companies as well as disclosure requirements. The Public Company Accounting Oversight Board, or PCAOB, has adopted documentation and attestation standards that the independent auditors must follow in conducting our attestation under Section 404. We are currently preparing for, and incurring significant expenses related to compliance with Section 404. We incurred expenses of approximately $1.4 million for the first nine months of fiscal 2005 associated with such preparation. We have determined that, as a result of the announcement made by the SEC on March 2, 2005, we will have an additional year, until fiscal 2006, to comply with Section 404 of the Sarbanes-Oxley Act. However, we and our advisors may not have adequately projected the cost or duration of implementation or planned sufficient personnel for the project, and more costs and time could be incurred than currently anticipated. Moreover, there can be no assurance that we will be able to effectively meet all of the requirements of Section 404 as currently known to us in the currently mandated timeframe. Any failure to effectively implement new or improved internal controls, or to resolve difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet reporting obligations, result in management s being required to give a qualified assessment of our internal controls over financial reporting or our independent auditors providing an adverse opinion regarding management s assessment. Any such result could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

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FORWARD-LOOKING STATEMENTS

Any statements in this prospectus, including the documents that we incorporate by reference herein, about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by the use of words or phrases such as believe, will, expect, anticipate, estimate, intend, plan, and would. Forward-looking statements are not guarantees of performance. known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to differ materially from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statement. Some of the risks, uncertainties and assumptions that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include but are not limited to those set forth under the heading Risk Factors.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. Before deciding to purchase our common stock, you should carefully consider the information in this prospectus.

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USE OF PROCEEDS

We are registering the shares of our common stock offered by this prospectus for the account of the selling stockholders identified in the section of this prospectus entitled Principal and Selling Stockholders. All of the net proceeds from the sale of our common stock by this prospectus will go to the selling stockholders. We will not receive any part of the proceeds from the sale of these securities.

DIVIDEND POLICY

We have never paid a cash dividend on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Further, our senior indebtedness with the International Finance Corporation prohibits us from paying dividends except out of retained earnings and only then if we are otherwise in compliance with additional covenants. We do not currently have retained earnings.

MARKET PRICE OF COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted and traded on the Nasdaq National Market under the symbol PSMT since September 2, 1997. As of November 12, 2004, there were approximately 3,500 holders of the common stock.

	Dates		Stock Price	
	From	To	High	Low
2003 CALENDAR QUARTERS				
First Quarter	9/1/02	11/30/02	$ 27.649	$ 16.500
Second Quarter	12/1/02	2/28/03	25.190	15.170
Third Quarter	3/1/03	5/31/03	17.690	14.250
Fourth Quarter	6/1/03	8/31/03	15.500	8.990
2004 CALENDAR QUARTERS				
First Quarter	9/1/03	11/30/03	$ 10.920	$ 5.750
Second Quarter	12/1/03	2/29/04	7.270	5.300
Third Quarter	3/1/04	5/31/04	7.440	4.890
Fourth Quarter	6/1/04	8/31/04	8.950	5.170
2005 CALENDAR QUARTERS				
First Quarter	9/1/04	12/31/04	$ 9.650	$ 7.100
Second Quarter	12/1/04	2/28/05	8.680	7.150
Third Quarter	3/1/05	5/31/05	8.020	6.110
Fourth Quarter (through July 28, 2005)	6/1/05	7/28/05	8.650	6.520

The closing price of our common stock on July 28, 2005 was $8.10.

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SELECTED CONSOLIDATED FINANCIAL DATA

The operating results data for the three fiscal years in the period ended August 31, 2004 and the balance sheet data as of August 31, 2004 and 2003 have been derived from our audited financial statements included elsewhere in this prospectus. The operating results data for the two fiscal years in the period ended August 31, 2001 and the balance sheet data as of August 31, 2002, 2001 and 2000 have been derived from our audited financial statements not included in this prospectus. The operating results data for the nine months ended May 31, 2005 and 2004 and the balance sheet data as of May 31, 2005 are derived from unaudited financial statements included elsewhere in this prospectus. Such unaudited interim financial statements have been prepared on the same basis as the audited financial statements and reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial information for such periods. This selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus.

	Years Ended August 31,					Nine Months Ended May 31,	
	2004	**2003**	**2002**	**2001**	**2000**	**2005**	**2004**
	(in thousands, except earnings (loss) per share)						
OPERATING RESULTS DATA:							
Net warehouse sales	$ 594,225	$ 638,485	$ 609,034	$ 473,127	$ 292,013	$ 497,390	$ 447,379
Export sales	1,052	7,039	2,361	500	421	394	978
Membership fees	8,768	8,335	8,911	11,553	7,433	7,533	6,512
Other income	5,655	6,838	8,222	1,585	783	3,669	4,671
Travel and auto programs					3,965		
Total revenues	609,700	660,697	628,528	486,765	304,615	508,986	459,540
Cost of goods sold	513,781	565,731	517,464	403,536	256,652	426,766	387,992
Selling, general and administrative	104,850	104,419	93,138	70,613	53,439	79,875	76,988
Settlement and related expenses			1,720				
Goodwill amortization				998	223		
Preopening expenses	584	2,366	2,213	4,866	7,681	42	488
Asset impairment and closure costs	6,714	11,736				8,768	5,416
Operating income (loss)	(16,229)	(23,555)	13,993	6,752	(13,380)	(6,465)	(11,344)
Net interest and other income (expense)[1]	(8,259)	(8,797)	(7,016)	(3,114)	5,935	(5,072)	(6,166)
Income (loss) before (provision) benefit for income taxes, losses (including impairment charge in 2004) of unconsolidated affiliate and minority interest	(24,488)	(32,352)	6,977	3,638	(7,445)	(11,537)	(17,510)
(Provision) benefit for income taxes	(4,244)	(183)	4,647	586	119	(4,041)	(1,180)
Losses (including impairment charge in 2004) of unconsolidated affiliate	(4,828)[3]	(2,967)	(37)			(3,034)	(1,346)
Minority interest	3,578	5,276	(152)	(840)	1,882	402	3,610
Preferred dividends	(3,360)	(1,854)	(991)			648	2,520
Net income (loss) available (attributable) to common stockholders	$ (33,342)	$ (32,080)	$ 10,444	$ 3,384	$ (5,444)	$ (18,858)	$ (18,946)
EARNINGS (LOSS) PER SHARE COMMON STOCKHOLDERS							
Basic	$ (4.57)	$ (4.67)	$ 1.62	$ 0.54	$ (1.01)	$ (1.02)	$ (2.61)

Diluted	$	(4.57)	$	(4.67)	$	1.55	$	0.51	$	(1.01)	$	(1.02)	$	(2.61)

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	As of August 31,					As of May 31,
	2004	2003	2002	2001	2000	2005
			(in thousands)			
BALANCE SHEET DATA:						
Cash and cash equivalents	$ 34,410	$ 11,239	$ 22,057	$ 26,899	$ 24,503	$ 30,269
Short-term restricted cash	7,255	7,180	4,048			7,279
Marketable securities			3,015		5,482	
Total assets	376,008	391,958	389,746	324,699	261,400	354,200
Long-term debt (including related party)	107,138	99,616	90,539	79,303	50,532	37,856
Stockholders equity	127,879	159,419	173,411	130,110	131,683	217,358
Dividends paid on common stock(2)						

(1) Net interest and other income (expense) includes interest income, gains and losses on sale of assets and interest on bank borrowings.
(2) We have never declared a cash dividend on our common stock and do not anticipate doing so in the foreseeable future.
(3) Includes an impairment charge of $3.1 million.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis compares the results of operations for the nine months ended May 31, 2005 and May 31, 2004 and each of the three fiscal years ended August 31, 2004 and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this prospectus.

Our mission is to efficiently operate U.S.-style membership warehouse clubs in Latin America, the Caribbean, and the Philippines that sell high quality merchandise at low prices to our members and that provide fair wages and benefits to our employees as well as a fair return to our stockholders. We deliver quality imported U.S. brand-name and locally sourced products to our small business and consumer members in a warehouse club format that provides the highest possible value to our members. By focusing on providing exceptional value on quality merchandise in a low cost operating environment, we seek to grow sales volume and membership which in turn will allow for further efficiencies and price reductions and ultimately improved value to our members.

Our business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. The number of warehouse clubs in operation, as of May 31, 2005 and May 31, 2004, and our ownership percentages and basis of presentation for financial reporting purposes by each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation (as of May 31, 2005)	Number of Warehouse Clubs in Operation (as of May 31, 2004)	Ownership (as of May 31, 2005)	Basis of Presentation
Panama	4	4	100%	Consolidated
Costa Rica	3	3	100%	Consolidated
Dominican Republic	2	2	100%	Consolidated
Guatemala	2	2	100%	Consolidated
Philippines	4	3	52%	Consolidated
El Salvador	2	2	100%	Consolidated
Honduras	2	2	100%	Consolidated
Trinidad	2	2	90%	Consolidated
Aruba	1	1	90%	Consolidated
Barbados	1	1	100%	Consolidated
Guam			100%	Consolidated
U.S. Virgin Islands	1	1	100%	Consolidated
Jamaica	1	1	67.5%	Consolidated
Nicaragua	1	1	51%	Consolidated
Totals	26	25		
Mexico		3	50%	Equity
Grand Totals	26	28		

During fiscal 2004, we opened a new U.S.-style membership shopping warehouse club in the Philippines and closed our warehouse club in Guam. No consolidated warehouse clubs were opened or closed during the first nine months of fiscal 2005. As a result, there were 26 consolidated warehouse clubs in operation, operating in twelve countries and one U.S. territory as of May 31, 2005, compared to 25 consolidated warehouse clubs in operation, operating in twelve countries and one U.S. territory at the end of the third quarter of fiscal 2004. During the first quarter of fiscal 2005, we announced that we had entered into an agreement to acquire land in San Jose, Costa Rica for a planned fourth location in that market which we plan to open in fiscal year 2006. The average life of the 26 warehouse clubs in operation as of May 31, 2005 was 56 months. The average life of the 25 warehouse clubs in operation as of May 31, 2004 was 45 months.

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On February 11, 2005, it was announced that we and Grupo Gigante S.A. had decided to close the warehouse club operations of PSMT Mexico, S.A. de C.V. This closure was completed February 28, 2005. PSMT Mexico, S.A. de C.V. is a 50/50 joint venture of PriceSmart and Grupo Gigante S.A. de C.V. which operated three membership warehouse clubs in Mexico. The joint venture will continue to have real estate assets and is evaluating various business strategies associated with those assets, including leasing, selling or further commercial development of the sites.

During the third quarter of fiscal year 2005, we acquired the minority interest in our PriceSmart Guatemala subsidiary, which previously had been 66% owned by us.

In addition to the warehouse clubs operated directly by us or through joint ventures, there was one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people, through which we earned a licensee fee. During the second quarter of fiscal 2005, we terminated the license agreement with our China licensee, under which the China licensee previously operated 11 warehouse clubs. We have not recorded any licensing revenue under the China license agreement in fiscal 2005 (see International Licensee Business).

Comparison of the Nine Months Ended May 31, 2005 and May 31, 2004

Net warehouse sales grew 11.2% to $497.4 million in the first nine months of fiscal 2005 from $447.4 million in the first nine months of fiscal 2004. Of the $50.0 million increase, the addition of the Aseana, Philippines warehouse club which opened in June 2004 added $8.9 million in warehouse sales, offset by the Guam warehouse club, which closed in December 2003, which had contributed $5.1 million to the prior year s warehouse sales. Improvements in merchandising in our warehouse clubs, such as higher quality imported products, larger pack sizes and increases in inventory levels for key items to assure product availability, was the primary contributor to the growth in sales for those warehouse clubs that were open during both periods. In addition, sales were positively impacted by a strong general economic environment in our Central American and Caribbean markets, particularly in the Dominican Republic which is included in the Caribbean region. Sales growth by region is as follows:

	Nine Months Ended May 31, (Amounts in thousands)					
	2005		2004			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Increase (Decrease)	Change
Central America	$ 276,222	55.5%	$ 257,845	57.6%	$ 18,377	7.1%
Caribbean	173,383	34.9%	141,410	31.6%	31,973	22.6%
Philippines/Guam	47,785	9.6%	48,124	10.8%	(339)	(0.7)%
	$ 497,390	100.0%	$ 447,379	100.0%	$ 50,011	11.2%

Comparable warehouse sales for warehouse clubs that were open at least 12 full months grew 10.5% for the thirty-nine week period ending June 5, 2005, compared to the same period a year earlier. We report comparable warehouse sales on a same week basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month that is used for financial reporting purposes. This approach equalizes the number of weekend days and week days in each period for improved sales comparison, as we experience higher warehouse sales on the weekends. Further, each of the warehouse clubs used in the calculation was open for at least 13 1/2 calendar months before its results for the current period were compared with its results for the prior period. For example, if a warehouse club opened during the fourth fiscal quarter on June 14, 2004, it would not be included in the comparable warehouse club sales until the first comparison of July 2005 with July 2004. For purposes of quarterly comparisons of comparable warehouse club sales, July and August 2005 results for this hypothetical warehouse club would be compared to July and August 2004 for the fourth quarter comparable sales. June 2005

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results would not be taken into account in making the comparison. By contrast, a warehouse club opened June 16, 2004 would not be included in comparable warehouse club sales until the first comparison of August 2005 with August 2004.

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold by us during the nine months ended May 31, 2005 and 2004:

	Nine Months Ended May 31,	
	2005	**2004**
Sundries (including candy, snack foods, health and beauty aids, tobacco, alcoholic beverages, soft drinks, cleaning and paper products and pet supplies)	29%	29%
Food (including dry and fresh foods)	44%	43%
Hardlines (including major appliances, electronics, hardware, office supplies, garden and patio, sporting goods, business machines and automotive supplies)	16%	16%
Softlines (including apparel, domestics, cameras, jewelry, housewares, media, toys, home furnishings, and small appliances)	9%	10%
Other (including one-hour photo and food court)	2%	2%
	100%	100%

Our warehouse gross profit margins (defined as net warehouse sales less associated cost of goods sold divided by net warehouse sales) for the nine months ended May 31, 2005 increased to 14.3% from 13.5% in the first nine months of 2004. Beneficial currency movements in certain countries (particularly the Dominican Republic and the Philippines) contributed 28 basis points of the overall 80 basis point improvement. These factors were partially offset by a $1.1 million charge (23 basis points) to cost of goods sold related to additional import duties on merchandise for fiscal years 2002, 2003 and 2004. In the nine months ended May 31, 2004, foreign exchange movements contributed negatively to gross profit margins by 28 basis points. For a further definition of the expenses included in cost of goods sold, please refer to Note 2 Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements for the Nine Months Ended May 31, 2005.

Export sales were $394,000 for the nine months ended May 31, 2005, compared to $978,000 for the nine months ended May 31, 2004. The decrease reflects a reduction in the direct export sales business we do with non-affiliated third parties and our unconsolidated affiliate. Reduced export sales to Mexico, primarily as a result of closing the joint venture operation in February, resulted in a reduction of $307,000. The remaining difference reflects a continuing reduction in export sales made to entities other than our wholly owned or majority owned entities.

Membership fees, which are recognized into income ratably over the one-year life of the membership and reported as membership income, were $7.5 million for the nine months ended May 31, 2005, compared to $6.5 million during the same period of fiscal 2004, primarily reflecting higher average membership fees that are now being recognized ratably into revenue. We have increased our emphasis on memberships. Membership renewal rates average approximately 82% for our warehouse clubs year-to-date.

Other income consists of commission revenue, rental income, advertising revenue, construction revenue, fees for in-store product demonstrations, and fees earned from licensees. Other income in the first nine months of fiscal 2005 was $3.7 million, a reduction of $1.0 million from the prior year. This reduction primarily results from a decrease of $1.0 million in license fees in the first nine months of fiscal 2005, as a result of the previously announced termination of the technology and trademark licensing agreements with our China licensee. No further revenue for the China licensee has been recorded after May 31, 2004.

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Warehouse operating expenses increased to $62.3 million in the first nine months of fiscal 2005 from $60.5 million in the same period in fiscal 2004. As a percent of net warehouse sales, however, warehouse operating expenses decreased to 12.5% of net warehouse sales in fiscal 2005 from 13.5% of net warehouse sales in fiscal 2004. Improvements as a percent of net warehouse sales were attributable to a growth in warehouse sales (11%) in excess of the growth in operating expenses (3%).

General and administrative expenses were $17.5 million, or 3.5% of net warehouse sales, for the nine months ended May 31, 2005, compared to $16.5 million, or 3.7% of net warehouse sales, for the same period of fiscal 2004. In the first nine months of fiscal 2005, we have incurred approximately $1.4 million for outside consultants in the analysis and documentation of processes related to compliance with the Sarbanes-Oxley Act and $700,000 in settlement costs related to securities litigation. We also recorded $500,000 in litigation costs related to the Guatemala and Philippines disputes in the first nine months of fiscal 2005 and $603,000 related to the planned termination of an option to sell certain parcels of land that was initially granted in 2001 in exchange for 75,212 shares of our common stock. By comparison, the first nine months of fiscal year 2004 included severance costs of approximately $760,000 relating to the departure of certain members of senior management and the closure of substantially all of our Miami-based buying operations and the consolidation of those activities with the buying team in San Diego, and approximately $815,000 of expense was incurred for outside professional services attributable to legal proceedings arising from our restatement of financial results for fiscal year 2002 and the first three quarters of fiscal year 2003.

Pre-opening expenses, which represent expenses incurred before a warehouse club is in operation, were $42,000 in the first nine months of fiscal 2005. We expect to incur more pre-opening costs associated with the planned fourth location in San Jose, Costa Rica. In the first nine months of fiscal 2004, we incurred $488,000 of pre-opening expenses related to the Aseana site in the Philippines, which subsequently opened in June 2004.

Asset impairment and closure costs for the first nine months of fiscal 2005 were $8.8 million. Of that amount, $7.1 million relates to a non-cash asset impairment charge associated with the write-down of long-lived assets (leasehold improvements, and furniture and equipment) at our 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 in the U.S. Virgin Islands but the on-going cost structure (which is higher than our other 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. We incurred a net non-cash charge of $633,000 in the third quarter related to the sub-leasing of two of our four previously closed warehouse club locations, including the write-off of assets at the Plaza, Guatemala location. In the first nine months of fiscal year 2004, closure costs were $5.4 million. Included in this amount was a non-cash asset impairment charge of $3.3 million to write-down the carrying value of the building related to the closed warehouse club in the Philippines. We also recorded costs of $1.4 million, during that nine month period, related to the closure of the Guam warehouse club in December 2003.

Operating loss for the first nine months of fiscal year 2005 was $6.5 million compared to an operating loss of $11.3 million in the same period last year.

Interest income reflects earnings on cash and cash equivalents and restricted cash deposits securing long term debt. Interest income was $1.8 million for both the first nine months of fiscal 2005 and the first nine months of fiscal 2004.

Interest expense reflects the borrowings of our majority and wholly-owned subsidiaries used to finance the capital requirements of the initial construction of the warehouse clubs, local currency loans secured by U.S. deposits and on-going working capital requirements. Interest expense in the first nine months of fiscal 2005 was

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$6.4 million, compared to $8.4 million in the first nine months of fiscal 2004. The decrease is a result of a reduced level of average debt held by us, partially offset by higher interest rates.

We recorded income tax provisions of $4.0 million and $1.2 million for the nine-month periods ended May 31, 2005 and May 31, 2004, respectively. The increase in tax expense during the period is largely due to increased profitability in the U.S., following the implementation of the Financial Program (as described in Note 6 to the Consolidated Financial Statements for the Nine Months Ended May 31, 2005), and provisions for probable income tax contingencies in foreign locations of $0.9 million. The current period provision represents the net effect of income tax expense in certain subsidiaries that are generating taxable income and income tax credits for those subsidiaries generating losses. Income tax credits are recognized only when the recoverability of those credits are deemed to be more likely than not. Due to the current interplay of income and losses within the different group companies, we do not believe that the resulting effective tax rate is an adequate measurement tool at this time.

Losses of unconsolidated affiliate represent our 50% share of losses from our Mexico joint venture. On February 11, 2005, we, along with our joint venture shareholder, Grupo Gigante S.A. de C.V., announced that we were closing the warehouse operations of PSMT Mexico, S.A. de C.V. effective February 28, 2005. At that time we indicated that we believed that the closure would not result in a significant loss for PriceSmart, Inc. While this is still our view with respect to the total carrying value of that investment, PSMT Mexico continues to incur operating losses during this period of merchandise and asset liquidation and the settlement of contractual obligations. Under the equity method of accounting, through which we reflect our proportionate share of income or loss of the unconsolidated joint venture s results from operations, our proportionate share of the loss in PriceSmart Mexico for the first nine months of fiscal year 2005 was $3.0 million, as compared to $1.3 million in the prior year period. Since the announcement of the closure of the business, PriceSmart, Inc. s 50% share of the losses of PSMT Mexico has been approximately $1.9 million.

Minority interest relates to the allocation of the joint venture income or loss to the minority stockholders. In the first nine months of fiscal 2005, our joint ventures collectively recorded net losses, resulting in an allocation of $402,000 to the minority stockholders interests in those joint ventures. It should be noted that in fiscal 2005 the Philippines and Aruba joint ventures are no longer included in the minority interest allocation as the minority stockholders interests in those joint ventures have been reduced to zero as a result of the prior accumulated losses. During the third quarter of fiscal year 2005, we acquired the remaining 34% minority interest in our Guatemalan subsidiary. In the first nine months of fiscal 2004, those joint ventures collectively recorded an operating loss resulting in a $3.6 million allocation of that loss to the minority shareholders interests.

Preferred dividends decreased to $648,000 in the first nine months of fiscal 2005, compared to $2.5 million the same period in the prior year, due to the conversion of all classes of preferred stock to common stock in the first quarter of fiscal 2005.

Comparison of Fiscal Years Ended 2004, 2003 and 2002

Net warehouse club sales decreased 6.9% to $594.2 million in fiscal 2004 from $638.5 million in fiscal 2003. Excluding $23.9 million in wholesale telephone card sales in the Philippines (which began in September of 2002 and were discontinued in May 2003) net warehouse club sales in fiscal 2004 decreased $20.4 million (3.3%) from adjusted fiscal 2003 sales of $614.6 million. Management believes net warehouse club sales excluding wholesale telephone card sales provides a better measure of ongoing operations and a more meaningful comparison of past and present operating results than total net warehouse sales because wholesale phone card sales were made only for a limited time, were discontinued in May 2003 and fell outside of our core business of operating international membership warehouse clubs. This reduction in net warehouse club sales was largely attributable to a reduction in wholesale business activity across our company of approximately $5.9 million, lower than anticipated holiday sales of approximately $6.8 million due to inadequate merchandise levels of approximately $20.0 million, and fewer warehouse clubs in operation for the full year. During the whole of fiscal 2004, we operated with an average of 1.5 fewer warehouse clubs as compared to the whole of fiscal 2003.

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The four warehouse clubs that were closed prior to the beginning of fiscal 2004 accounted for $62.4 million in net warehouse sales in fiscal 2003. The new warehouse clubs (three of which were opened during fiscal 2003 and only had a partial year s worth of sales in fiscal 2003, and one which was opened in the fourth quarter of fiscal 2004) accounted for an incremental $41.6 million in net warehouse sales in fiscal 2004 as compared to fiscal 2003. Net warehouse sales increased 4.8% in fiscal 2003 over fiscal 2002, or 0.9% excluding the telephone card sales. The increase of $5.6 million in net warehouse sales, excluding telephone card sales, resulted primarily from $23.9 million in sales from three new warehouse clubs opened in fiscal 2003 and from a full 12 months of sales from four warehouse clubs that began operation in fiscal 2002. Our four warehouse clubs that began operations in fiscal 2002 were open for an average of 7 months in fiscal 2002 and accounted for $48.4 million in net warehouse club sales. In fiscal 2003, these four warehouse clubs accounted for $80.2 million in net warehouse club sales.

Comparable warehouse club sales, which are for warehouse clubs open at least 13 $^{1}/2$ months, decreased 4.3% for the 53-week period ended September 5, 2004, compared to the same period last year. Excluding the wholesale telephone card sales, comparable warehouse club sales decreased 2.3%. Comparable warehouse club sales for the 52-week period ended August 31, 2003 decreased 2.9% compared to the same period in 2002. We have experienced improving comparable warehouse club sales during much of the second half of fiscal 2004 with the sales in warehouse clubs open at least 12 full months registering positive growth of 2.2% in June, 5.3% in July and 6.7% in August as compared to same month in the prior year. We report comparable warehouse sales on a same week basis with 13 weeks in each quarter beginning on a Monday and ending on a Sunday. The periods are established at the beginning of the fiscal year to provide as close a match as possible to the calendar month that is used for financial reporting purposes. This approach equalizes the number of weekend days and week days in each period for improved sales comparison, as we experience higher warehouse sales on the weekends. Further, each of the warehouse clubs used in the calculation was open for at least 13 $^{1}/2$ calendar months before its results for the current period were compared with its results for the prior period. For example, if a warehouse club opened during the fourth fiscal quarter on June 14, 2004, it would not be included in the comparable warehouse club sales until the first comparison of July 2005 with July 2004. For purposes of quarterly comparisons of comparable warehouse club sales, July and August 2005 results for this hypothetical warehouse club would be compared to July and August 2004 for the fourth quarter comparable sales. June 2005 results would not be taken into account in making the comparison. By contrast, a warehouse club opened June 16, 2004 would not be included in comparable warehouse club sales until the first comparison of August 2005 with August 2004.

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold by us during the fiscal years ended August 31, 2004, 2003 and 2002:

	Fiscal Year Ended August 31,		
	2004	**2003**	**2002**
Sundries (including candy, snack foods, health and beauty aids, tobacco, alcoholic beverages, soft drinks, cleaning and paper products and pet supplies)	29%	28%	30%
Food (including dry and fresh foods)	43%	47%	44%
Hardlines (including major appliances, electronics, hardware, office supplies, garden and patio, sporting goods, business machines and automotive supplies)	16%	13%	14%
Softlines (including apparel, domestics, cameras, jewelry, housewares, media, toys, home furnishings, and small appliances)	10%	10%	10%
Other (including one-hour photo and food court)	2%	2%	2%
	100%	100%	100%

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Our warehouse club gross profit margins (defined as net warehouse club sales less associated cost of goods sold) for fiscal 2004 increased $2.0 million to $81.5 million, or 13.7% of net warehouse sales, from $79.5 million, or 12.5% of net warehouse sales, for fiscal 2003. The improvement in margin percent generally reflects improvements in the merchandise and operating efforts of our company during the year. Improvements in merchandising in our warehouse clubs, such as higher quality imported products, larger pack sizes and increases in inventory levels for key items to assure product availability, were the primary contributor to the growth in sales for those warehouse clubs that were open during both periods. Margins for the full year were positively impacted by $2.1 million due to reduced inventory shrink and approximately $2.0 million due to lower markdowns as compared to the prior year, partially offset by $1.4 million of costs incurred related to currency devaluations in certain markets during the year, most notably the Philippines and Nicaragua. Currency in the Dominican Republic has appreciated in the most recent quarter, which largely offset the losses incurred in prior quarters and contributed to a fourth quarter margin of 14.4% of net warehouse sales. Fourth quarter margins in fiscal 2003 were 8.6% of net warehouse sales and were negatively impacted by approximately $108,000 in markdowns associated with warehouse club closings during the period and write-downs associated with slow moving inventory of approximately $2.0 million. Our warehouse club gross profit margins for the full year of fiscal 2003 decreased as compared to fiscal 2002 by $14.3 million, resulting primarily from the previously noted charge of approximately $2.0 million related to slow-moving inventory, an 81% currency devaluation in the Dominican Republic which had a negative impact of $471,000, decrease of vendor rebates of $2.4 million over the prior fiscal year, approximately $5.3 million due to lower merchandise selling prices, approximately $108,000 million in markdowns related to warehouse club closings in the fourth quarter of fiscal 2003 and overall lower sales compared to the same period of the prior year.

Export sales represent U.S. merchandise exported to our licensee warehouse clubs operating in Saipan, direct sales to third parties from our distribution centers and sales to PriceSmart Mexico, an unconsolidated affiliate (see Note 13-Related Party Transactions in the Notes to Consolidated Annual Financial Statements included herein), which began in fiscal 2003. Export sales were $1.1 million in fiscal 2004 compared to $7.0 million in fiscal 2003. The decrease of $5.9 million was primarily due to decreased direct sales to third parties through our distribution centers which include sales to PriceSmart Mexico, an unconsolidated affiliate. Export sales were $7.0 million in fiscal 2003 compared to $2.4 million in fiscal 2002. The increase was primarily due to increased sales to PriceSmart Mexico during the period when its warehouse clubs were initially opened.

Membership income, which is recognized into income ratably over the one-year life of the membership, increased 5.2% to $8.8 million, or 1.5% of net warehouse sales, in fiscal 2004 compared to $8.3 million, or 1.3% of net warehouse sales, in fiscal 2003. The increase in membership income reflects an increase in the average membership fee that we are charging in most locations. Total membership accounts as of the end of fiscal 2004 were approximately 436,000 compared to approximately 495,000 at the end of fiscal 2003. The 12% reduction in membership accounts in the past year is primarily due to the closure of two warehouse clubs (Guam and Eastside, Santo Domingo), the discontinuation of heavily discounted and complimentary memberships in Panama and the Philippines, respectively, and the non-renewal, as of the end of August 2004, of a number of members who joined at the initial opening of the Nicaragua warehouse club in July 2003. In fiscal 2003, membership income decreased by 6.5% from fiscal 2002. The decrease is attributable to an overall lower membership fee structure in certain markets and reduced membership renewals. This decrease was partially offset by the three additional warehouse club openings in fiscal 2003, which increased the overall membership base from the end of fiscal 2002 to the end of fiscal 2003 by approximately 40,000 membership accounts.

Other income consists of commission revenue, rental income, advertising revenue, construction revenue, fees for in-store product demonstrations and fees earned from licensees. Other income for fiscal 2004 was $4.6 million, a reduction of $1.0 million from fiscal 2003. The decrease is attributable to the discontinuation of certain promotional programs and a reduction in in-store product demonstration activity in fiscal 2004 as compared to fiscal 2003. License fees for fiscal 2004 were $1.1 million compared to $1.2 million in the prior year resulting primarily from our decision to not record income associated with our China licensee in the fourth quarter pending resolution of certain matters, including the payment of past due amounts. In October 2004, we concluded that, in view of the lack of substantive progress arising from the parties discussions regarding past-due payments to be made by the licensee to us under the PRC Technology License Agreement (Amended) entered into in February 2001, we should proceed with sending a notice of default relating to the licensee s non-payment. Accordingly, on October 7, 2004, we issued a notice of default to the licensee, demanding the payment of all due amounts within 30 days. The notice further advised that in the event payment is not timely made, we planned to terminate the PRC Technology License Agreement (Amended), as well as the PRC Trademark License Agreement which also has been entered into by us and the licensee. We did not receive timely payment, and as a result we terminated the PRC Technology License Agreement (Amended) and the PRC Trademark License by letter dated December 10, 2004. As a result of the above, we do not expect to receive royalties from our China licensee in future periods. Other income decreased to $5.6 million, in fiscal 2003 from $7.0 million in fiscal 2002. The decrease relates to less income earned primarily from in-store product demonstration income of $0.5 million (in-store product demonstration was substantially discontinued in May 2003), rentals, advertising of $166,000 (certain advertising revenues related to in-warehouse club advertising space were discontinued in the latter half of fiscal 2003) and construction revenues of $331,000 million.

Warehouse operating expenses decreased to $81.8 million, or 13.8% of warehouse sales, for fiscal 2004 from $82.1 million, or 12.9% of warehouse sales, in fiscal 2003. The increase in operating expense as a percentage of net warehouse sales is attributable to a $44.3 million decrease in net warehouse sales and a $550,000 increase in utilities, repairs and maintenance, increased wage rates in certain warehouse club locations and increased costs with respect to credit card usage and fees of $528,000. On average, the number of warehouse clubs in operation during fiscal 2004 was approximately 1.5 fewer than during fiscal 2003 which served to reduce overall spending, partially offsetting the specific increases noted above. We also recorded a $1.3 million charge related to the uncertainty concerning the ultimate recoverability of a prepaid asset in the Philippines in the fourth quarter of fiscal 2004. Warehouse club operating expenses increased to $82.1 million, or 12.9% of net warehouse sales, for fiscal 2003 from $74.3 million, or 12.2% of net warehouse sales, for fiscal 2002. The increase in warehouse club operating expenses is attributable to the three additional warehouse clubs opened in fiscal 2003 and a full year of operations from the four warehouse clubs opened throughout fiscal 2002.

General and administrative expenses increased to $23.1 million, or 3.9% of net warehouse sales, for fiscal 2004 from $22.3 million, or 3.5% of net warehouse sales, in fiscal 2003. We incurred $1.0 million in costs during the year for outside professional services attributable to legal proceedings arising from our restatement of financial results for fiscal year 2002 and the first three quarters of fiscal 2003. General and administrative expenses in fiscal 2004 also include a $0.6 million bad debt expense attributable to the outstanding receivable due from our China licensee for license fees billed in the second and third quarter of fiscal 2004. We incurred severance costs of $0.9 million during fiscal year 2004 (compared to $1.1 million in severance costs in fiscal 2003) and experienced increased insurance costs associated with workers compensation and director and officer liability of $30,000 and $729,000, respectively, as compared to fiscal 2003. Comparing fiscal year 2003 with fiscal year 2002, general and administrative expenses increased to $22.3 million, or 3.5% of net warehouse sales, from $18.9 million, or 3.1% of net warehouse sales. General and administrative expenses increased by approximately $3.4 million primarily as a result of increases in salaries of $477,000, professional fees of $333,000, severance of $785,000, stock compensation expense related to option repricing of approximately $1.0 million and a $350,000 charge related to the early termination of our foreign property insurance program.

Settlement and related expenses of $1.7 million in fiscal 2002 reflect a settlement agreement entered into with a former licensee on February 15, 2002 (see Note 10-Legal Settlement in the Notes to Consolidated Annual Financial Statements included herein).

During fiscal 2004, we opened one warehouse club in Aseana City, Metro Manila, Philippines. We ended the fiscal year with four warehouse clubs operating in the Philippines. Expenses incurred before a warehouse club is in operation are captured in pre-opening expenses. In fiscal 2004 the pre-opening expenses associated with the one warehouse club opening were $584,000. In fiscal 2003, three new warehouse clubs were opened for a total cost of $2.4 million. Similarly, in fiscal 2002, we incurred $2.2 million in pre-opening expenses while opening four warehouse clubs.

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Asset impairment and closure costs reflect the costs associated with the closure of warehouse clubs (including related severance payments), carrying costs of long-lived assets at previously closed warehouse club locations, and non-cash charges to properly reflect the book value of certain long lived assets or lease obligations based upon management s assessment of fair market value for those assets or liabilities. In fiscal 2004, we incurred $8.0 million in costs and non-cash charges, primarily related to either the cost of closing a warehouse club, an updated assessment as to the fair market value and future cash flows of previously closed warehouse locations, or the ongoing carrying costs of assets at those locations. The closing of our Guam location in the second fiscal quarter resulted in costs of $1.5 million, a reassessment of the estimated cash flows based upon market conditions for the previously closed Ortigas, Philippines location in the third fiscal quarter resulted in an additional non-cash charge of $3.8 million, and a similar review of the previously closed Guatemala location resulted in a non-cash charge in the fourth fiscal quarter of $0.5 million. We had previously recorded a $3.8 million charge in fiscal 2003 relating to closure of the Guatemala warehouse club at the time of the club s closing. Carrying costs for closed locations were $0.7 million for the fiscal year. We also recognized $166,000 in costs in connection with the closure of a west coast U.S. distribution center in the fourth quarter.

During fiscal 2003, we closed three warehouse clubs, one each in Dominican Republic, Philippines and Guatemala. The warehouse clubs were closed June 15, 2003, August 3, 2003 and August 15, 2003, respectively. The decision to close these warehouse clubs resulted from the determination that the locations were not conducive to the successful operation of our warehouse clubs. We recorded closure costs and asset impairment charges of $7.2 million related to those warehouse clubs closed as of August 31, 2003. The impairment charges of $1.9 million, included in the $7.2 million, reflected the difference between the carrying value and fair value of those long-lived assets that are not expected to be utilized at future warehouse club locations. During fiscal 2003, we also recorded non-cash asset impairment charges of $4.5 million to write down long-lived assets related to underperforming warehouse clubs in Guam and the United States Virgin Islands. The charges reflect the difference between the carrying value and fair value of those long-lived assets that are not expected to be utilized at future warehouse club locations.

Interest income primarily reflects earnings on cash, cash equivalent balances and restricted cash. Interest income was $2.4 million in fiscal 2004 and $2.9 million in fiscal 2003 and fiscal 2002.

Interest expense primarily reflects borrowings by our majority or wholly owned foreign subsidiaries to finance the capital requirements of new and existing warehouse clubs, and was $11.1 million for fiscal 2004 compared with $11.4 million and $10.0 million in fiscal 2003 and 2002, respectively. The changes in interest expense are a result of varied borrowings by us to finance the additional warehouse clubs opened during the periods.

Income from related party of $500,000 in fiscal 2004 relates to an incentive we received from our then landlord, Price Legacy Corporation, to terminate early the lease of our corporate headquarters. We moved to our new corporate headquarters in San Diego on March 26, 2004. Sol Price, a significant stockholder of our company, was also a principal stockholder of Price Legacy Corporation, and current and former directors James F. Cahill, Murray L. Galinson and Jack McGrory served on both companies boards of directors. On December 24, 2004 Price Legacy Corporation was acquired by PL Retail, LLC and the above mentioned persons ownership and directorships in Price Legacy Corporation or the succeeding entity ceased.

During fiscal 2004, we recognized a net deferred tax expense of $1.1 million, primarily related to the increase of valuation allowances for foreign deferred tax assets. We also incurred current income tax expense of $3.1 million (primarily related to our foreign operations, including provisions for probable income tax contingencies) for a net tax expense of $4.2 million. During fiscal 2003, we recognized a net deferred tax benefit of $640,000, primarily related to the reversal of a valuation allowance previously established against U.S. net deferred tax assets offset by increases in the valuation allowances for foreign deferred tax assets. We also incurred current income tax expense of $823,000 primarily related to our foreign operations for a net tax expense of $183,000 in fiscal 2003. During fiscal 2002, we recognized a net deferred tax benefit of $9.0 million, primarily

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related to the reversal of a partial release of the valuation allowance previously established against U.S. net deferred tax assets. We also incurred current income tax expense related to our foreign operations of $4.3 million, for a net tax benefit of $4.6 million in fiscal 2002.

Equity of unconsolidated affiliate represents our 50% share of losses from our Mexico joint venture. The joint venture is accounted for under the equity method of accounting, in which we reflect our proportionate share of income or loss. Losses from the Mexico joint venture in fiscal 2004 were $3.4 million of which our share was $1.7 million. During the fourth quarter of fiscal 2004, due to the historical operating losses and management s assessment as to the inability to recover the full carrying amount of its investment in PSMT Mexico, S.A. de C.V., we recorded a charge of $3.1 million to reduce our investment in unconsolidated affiliate. In fiscal 2003, the first year of operation, the Mexico joint venture had net losses of $5.9 million, of which our share was $3.0 million. Losses from the Mexico joint venture in fiscal 2002 were $74,000, of which our share was $37,000. Based on current financial projections, we believe that the closing of the Mexico operations will not result in any significant additional impairment charges and that the elimination of recurring losses associated with our investment in the Mexico joint venture will have a positive impact on our future operating results.

Minority interest relates to the allocation of the joint venture income or (loss) to the minority interest stockholders respective interests. Minority interest stockholders respective share of net losses was $3.6 million in fiscal 2004 compared to $5.3 million in fiscal 2003, and compared to income of $152,000 in fiscal 2002. In the fourth fiscal quarter of 2004, we began recording 100% of the loss of our Philippine subsidiary resulting from that subsidiary having offset the minority interest stockholders equity through accumulated losses. If the minority interest stockholders equity had been sufficient to continue offsetting accumulated losses in the Philippines, our fiscal year 2004 net loss would have been reduced by an additional $1.9 million in minority interest losses.

Preferred dividends of $3.4 million and $1.9 million reflect dividends paid or accrued on our preferred stock for fiscal years 2004 and 2003, respectively. In fiscal 2002, we issued 20,000 shares of Series A Preferred Stock on January 22, 2002, which accrued 8% annual dividends that were cumulative and payable in cash. In fiscal 2003, we issued 22,000 shares of Series B Preferred Stock on July 9, 2003, which accrued 8% annual dividends that were cumulative and payable in cash, and are subordinate to the Series A Preferred Stock. On September 5, 2003, we determined that we would not declare a dividend on the preferred stock. At end of fiscal 2004, we had approximately $3.9 million in accrued preferred dividends in other current liabilities. As part of our Financial Program, on October 29, 2004 and November 23, 2004, we issued shares of our common stock in exchange for all of our outstanding shares of Series B Preferred Stock and Series A Preferred Stock, respectively.

Liquidity and Capital Resources

Financial Position and Cash Flow

We had a negative working capital position as of August 31, 2004 of $15.5 million, compared to a negative working capital position of $13.3 million as of August 31, 2003. Cash and cash equivalents increased $23.2 million, compared to the balance at August 31, 2003, largely as a result of a $25.0 million loan extended by The Price Group LLC, a California limited liability company, or The Price Group, in conjunction with the private placement of shares as part of the Financial Program described in Note 17-Subsequent Events in the Notes to Consolidated Annual Financial Statements included herein. We improved our working capital position as of May 31, 2005 compared to both August 31, 2004 and May 31, 2004. As of May 31, 2005, we had a working capital surplus of $26.3 million compared to negative working capital of 30.4 million at the end of May 2004. The improvement in the first nine months of this fiscal year is attributable to $47.8 million of common stock sales pursuant to the exercise of subscription rights during the $7 rights period and the conversion of approximately $20 million in short-term related party borrowings to common stock both of which were part of the Financial Program. In addition, as a result of the additional cash raised in the rights offering, we reduced short-term borrowings by $11.5 million.

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Inventory levels at August 31, 2004 decreased $10.8 million from the prior year end. Accounts payable of $56.1 million as of the end of fiscal 2004 is $12.4 million below the prior year end. The reduction is due to lower inventory levels as well as reduced supplier credit terms from certain U.S. vendors. Many of these vendors are providing merchandise under pre-payment agreements whereby additional merchandise discounts are provided in exchange for pre-payment. The funding for this vendor arrangement is from a purchase order financing facility established in February 2004 and later amended in July 2004 with The Price Group for $15.0 million. This facility is included in accounts payable to and advances received from related party and had a balance (including accrued interest) of $15.2 million as of August 31, 2004. Also included in that account are the $5.1 million proceeds and accrued interest from an agreement entered into between us and The Price Group for the sale of the real estate and related leasehold improvements owned by our company in Santiago, Dominican Republic. The agreement was subject to several contingencies prior to completing the sale. As part of the Financial Program, on October 29, 2004 we issued The Price Group shares of common stock, valued for such purpose at $8 per share, in exchange for the repayment in full of all unpaid principal and interest associated with the purchase order financing agreement as well as the advance and accrued interest with respect to the intended (but subsequently cancelled) purchase of the parcel of real property in Santiago, Dominican Republic.

Our fiscal year 2004 net loss of $30.0 million included $24.0 million of non-cash charges such as depreciation, amortization, allowance for doubtful accounts, minority interest, losses in unconsolidated affiliate, compensation expense associated with stock options, and non-cash warehouse club closing and impairment charges. Inventories decreased by $10.8 million and accounts payable, including accounts payable to related parties, increased by $2.9 million, resulting in a net cash increase from these items of $13.8 million. The related party portion of that net cash increase was $15.3 million due to the purchase order financing fund established during the year. Without that facility, the change in working capital resulting from the net change in inventories and accounts payable would have been a negative $1.5 million. The resulting net cash flows provided by operating activities in fiscal 2004 was $14.0 million. For the year ended August 31, 2003, we had a net loss of $30.2 million which consisted of $23.9 million in non-cash charges such as depreciation, amortization, minority interest, losses in unconsolidated affiliate and non-cash warehouse club closing and impairment charges. Excluding non-cash charges, net cash provided by operating activities for the year ended August 31, 2003 primarily reflected decreases in accounts receivable of $5.6 million and inventories of $5.4 million resulting from the reduction in wholesale business sold on credit and warehouse club closings, respectively, and increases in accounts payable of $1.7 million. Net cash provided by operating activities for the year ended August 31, 2002 consisted of operating results before non-cash charges due to depreciation and amortization and reflect increases in inventory of $8.0 million offset partially by increases in accounts payable of $5.9 million due to new warehouse club openings, increase in accounts receivable of $5.9 million due to increased wholesale business, increases in prepaid assets of $3.3 million and deferred income taxes of $13.5 million resulting primarily from the reversal of a deferred tax asset valuation allowance.

Net cash flows provided by operating activities were $1.2 million and $3.7 million in the first nine months of fiscal 2005 and 2004, respectively. During the first nine months of fiscal 2005, we increased merchandise inventories by $2.6 million. During the same period in fiscal 2004, the merchandise inventories decreased $14.6 million.

In fiscal 2004, we received $5.0 million as an advance payment on the intended (but subsequently cancelled) sale of our property in Santiago, Dominican Republic. This cash inflow offset the outflows of $4.1 million during the year related to additions to property and equipment, including the opening of one warehouse club during the year in the Philippines, resulting in net cash provided by investing activities of $0.9 million. Net cash used in investing activities was $(29.2) million and $(49.2) million in fiscal 2003 and 2002, respectively. In those years, the investing activities related primarily to additions to property and equipment for new and existing warehouse clubs of $22.2 million and $34.4 million for fiscal 2003 and 2002, respectively. We (excluding the Mexico joint venture) opened three and four warehouse clubs during fiscal 2003 and 2002, respectively. In fiscal 2003, we invested an additional $9.0 million in capital and loaned $1.0 million to the Mexico joint venture, and received $3.0 million from maturing marketable securities. In fiscal 2002, we invested $11.0 million in capital

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related to the Mexico joint venture, purchased marketable securities of $3.0 million, used $1.0 million for cash payments to holders of our common stock as make-whole payments in lieu of our obligation to redeem their shares upon request and used $500,000 to acquire the minority interest in Barbados.

Net cash (used in) provided by investing activities was $(7.1) million and $1.6 million in the first nine months of fiscal 2005 and 2004, respectively. The increase in the use of cash resulted primarily from the acquisition of land and the initial building costs associated with the planned new warehouse club location in San Jose, Costa Rica. Through May 31, 2005, approximately $4.2 million has been invested in the new location, which is expected to cost approximately $10.2 million.

With regard to financing activities, we received $30.0 million from related parties affiliated with Robert E. Price, who is our Chairman of the Board and Interim Chief Executive Officer, Sol Price, one of our significant stockholders and father of Robert E. Price, and their affiliates, who we refer to as the Prices. Of that amount, $25.0 million was received from the bridge loan that was converted to common stock, subsequent to August 31, 2004, as part of the Financial Program, and an additional $5.0 million was received from the proceeds of the sale of 500,000 shares of common stock. During fiscal year 2004, we used cash to reduce short-term borrowings by $7.4 million and made principal repayments on our various debt facilities of $15.4 million. For fiscal year 2004, net cash provided by financing activities was $11.0 million. In fiscal 2003, we received proceeds primarily from the sale of preferred stock for $22.0 million, an increase in net bank borrowings of $11.0 million, $2.4 million from the sale of treasury stock to PSC, S.A. in connection with the Nicaragua joint venture and $3.3 million in contributions by minority shareholders. Also, in fiscal 2003, we used approximately $10.2 million of restricted cash as security for debt agreements and paid preferred stock dividends of $1.6 million. In fiscal 2002, we received proceeds primarily from the sale of preferred stock and warrants for $19.9 million, $10.0 million from the sale of common stock, an increase in net bank borrowings of $14.8 million, contributions from minority interest shareholders and proceeds from stock options.

Financing activities provided $2.1 million in the first nine months of fiscal 2005 compared to a cash use of $6.6 million in the first nine months of fiscal 2004. A number of transactions related to the previously announced Financial Program occurred during the first nine months of fiscal year 2005. We received $47.8 million from the sale of 6,827,542 shares of our common stock pursuant to the exercise of subscription rights during the $7 exercise period of our previously announced rights offering. The $7 subscription period ended on January 24, 2005. The $8 subscription period extends until December 21, 2005. In the first nine months of fiscal 2005, we reduced long-term debt by $77.1 million; $26.4 million was through conversion to common stock and $50.7 million was through net principal repayments and the complete retirement of the debt. In addition, short-term debt was reduced by $11.5 million during the period.

The net effect of exchange rate changes resulting from the translation of foreign subsidiary balance sheets on cash and cash equivalents was approximately $1.5 million and $(3.8) million for the nine months ended May 31, 2005 and 2004, respectively, and was approximately $(4.3) million, $(7.7) million and $(5.3) million in fiscal 2004, 2003 and 2002, respectively. The negative foreign exchange impact has resulted primarily from a significant devaluation of the Dominican Republic Peso and by continued devaluations of the foreign currencies in most of the countries where we operate, which have all historically devalued against the U.S. dollar. As a result of the instability in the Dominican Republic, there continues to be a risk of further devaluation and availability of U.S. dollars to settle intercompany transactions.

Financing Activities

On January 22, 2002, we issued 20,000 shares of Series A Preferred Stock and warrants to purchase 200,000 shares of common stock (that expired unexercised on January 17, 2003) for an aggregate of $20.0 million, with net proceeds of $19.9 million (See Note 13 Related Party Transactions and Note 14 Convertible Preferred Stock and Warrants in the Notes to Consolidated Annual Financial Statements included herein). The Series A Preferred Stock was convertible, at the option of the holder at any time, or automatically on January 17, 2012, into shares of our common stock at the conversion price of $37.50, subject to customary anti-dilution

adjustments. The Series A Preferred Stock accrued a cumulative preferred dividend at an annual rate of 8%, payable quarterly in cash. The shares were redeemable on or after January 17, 2007, in whole or in part, at our option, at a redemption price equal to the liquidation preference or $1,000 per share plus accumulated and unpaid dividends to the redemption date. As of August 31, 2004, none of the shares of the Series A Preferred Stock had been converted. However, as announced on September 3, 2004 and subsequently approved by our stockholders at a special meeting of stockholders held on October 29, 2004, we offered to exchange shares of common stock, valued for such purpose at $10 per share, in exchange for all of the outstanding shares of our Series A Preferred Stock, together with accrued and unpaid dividends thereon. The exchange period ended on November 23, 2004, and all holders of Series A Preferred Stock tendered their shares for exchange. As a result, no shares of Series A Preferred Stock are outstanding.

On July 9, 2003, the Prices purchased an aggregate of 22,000 shares of Series B Preferred Stock, a new series of preferred stock, for an aggregate purchase price of $22.0 million. The Series B Preferred Stock was convertible at the option of the holder at any time, or automatically on July 9, 2013, into shares of our common stock at a conversion price of $20.00 per share, subject to customary anti-dilution adjustments; accrued a cumulative preferential dividend at an annual rate of 8%, payable quarterly in cash; and was redeemable by us at any time on or after July 9, 2008. As of August 31, 2004, none of the shares of the Series B Preferred Stock had been converted. However, as announced on September 3, 2004 and subsequently approved by our stockholders at a special meeting of stockholders held on October 29, 2004, we issued on that same date common stock, valued for such purpose at $10 per share in exchange for all of the outstanding shares of our Series B Preferred Stock. We agreed to register with the SEC the shares of common stock issuable upon exchange of the Series B Preferred Stock.

On September 5, 2003, we determined we would not declare a dividend on the Series A Preferred Stock for the fourth quarter of 2003. Also, no dividends were to be declared or paid on the Series B Preferred Stock until full cumulative dividends have been declared and paid on the Series A Preferred Stock. Instead, dividends on the Series A Preferred Stock and the Series B Preferred Stock accrued in accordance with the terms of the Certificates of Designations for the Series A Preferred Stock and the Series B Preferred Stock.

On October 22, 2003, The Price Group purchased an aggregate of 500,000 shares of our common stock, for an aggregate purchase price of $5.0 million. At the time, current and former directors Robert E. Price, James F. Cahill, Murray L. Galinson and Jack McGrory were co-managers of The Price Group and collectively owned a significant interest in that entity.

In February 2004, we entered into an agreement with The Price Group to provide up to $10.0 million of purchase order financing. The agreement was amended in July 2004 to provide an additional $5.0 million of purchase order financing. This agreement allowed The Price Group to place a lien on merchandise inventories in the United States. The amended agreement also placed a lien on our shares in our wholly owned Panamanian subsidiary, PriceSmart Real Estate Panama, S.A. In May 2004, we entered into an agreement with The Price Group to sell the real estate and improvements owned by our 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 terms of the agreement, The Price Group made an initial payment of $5.0 million. As part of the Financial Program, on October 29, 2004, we issued The Price Group 2,597,200 shares of common stock, valued for such purpose at $8 per share, in exchange for the repayment in full of all unpaid principal and interest associated with the purchase order financing agreement as well as the advance and accrued interest with respect to the intended (but subsequently cancelled) purchase of the parcel of real property in Santiago, Dominican Republic.

In August 2004, we entered into a $25.0 million bridge loan with The Price Group. This loan accrued interest at 8% per annum and was due in two years. As part of the Financial Program, on October 29, 2004, we issued The Price Group 3,164,726 shares of common stock, valued for such purpose at $8 per share, in a private placement funded through the conversion of the bridge loan, together with accrued and unpaid interest thereon.

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During the quarter ended November 30, 2004, as part of the Financial Program, we purchased a $10.2 million long-term note of our Philippine subsidiary from the International Finance Corporation and paid off the outstanding balance of $3.75 million on a long-term note to the Overseas Private Investment Corporation. We simultaneously obtained the release of $6.8 million in restricted cash being held as partial collateral for those loans.

On November 5, 2004, we 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 on January 10, 2005.

On December 20, 2004, we distributed one transferable subscription right to purchase 1.5 shares of our common stock for each share held by stockholders of record as of November 24, 2004. Each right entitled the holder thereof to purchase 1.5 shares of our common stock at a price of $7 per share until 5:00 p.m. New York City time on January 24, 2005, and at a price of $8 per share from such date and time until 5:00 p.m. New York City time, on December 21, 2005. As of the end of the $7 subscription period, we had sold approximately 6,827,542 shares of our common stock for aggregate proceeds of $47.8 million pursuant to the exercise of subscription rights. As of May 31, 2005, 390 shares of common stock had been sold during the $8 subscription period. All rights that we distributed pursuant to the rights offering that have not yet been exercised may be exercised at an exercise price of $8 per share at any time prior to 5:00 p.m. New York City time on December 21, 2005.

During the third quarter of fiscal 2005, as part of the Financial Program, we repaid approximately $29.3 million in long-term debt with proceeds from the $7 subscription rights.

Short-Term Borrowings and Long-Term Debt

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

Additionally, we have 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, we, together with our majority or wholly owned subsidiaries, had $46.6 million outstanding in long-term borrowings. Our long-term debt is collateralized by certain land, building, fixtures, equipment and shares of each respective subsidiary and guaranteed by us up to our respective ownership percentage, except for approximately $13.8 million as of May 31, 2005, which is secured by collateral deposits included in restricted cash on the balance sheet and letters of credit. Certain obligations under leasing arrangements are collateralized by the underlying asset being leased.

Under the terms of debt agreements to which we and/or one or more of our wholly owned or majority owned subsidiaries are parties, we 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, we were 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 we have requested and received a written waiver of our noncompliance through the quarter ending August 31, 2005. Additionally, we have 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 us under other indebtedness and prohibit us from incurring additional indebtedness unless we are in compliance with specified financial ratios. As of May 31, 2005, we satisfied these ratios. If we fail to comply with applicable financial covenants or are unsuccessful in obtaining the necessary waivers in future periods, the lenders may elect to accelerate the indebtedness described

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above and foreclose on the collateral pledged to secure the indebtedness. We believe that, primarily as a result of the Financial Program, we have sufficient financial resources to repay the outstanding balance on the debt on which we were out of covenant compliance as of May 31, 2005. Accordingly, the obligation for which we have received a waiver is reflected in the accompanying balance sheet under the original contractual maturity.

Contractual Obligations

As of August 31, 2004, our commitments to make future payments under long-term contractual obligations were as follows (amounts in thousands):

	Payment Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**4 to 5 Years**	**After 5 Years**
Long-term debt(1)	$ 123,641	$ 16,503	$ 53,129	$ 22,793	$ 31,216
Operating Leases	131,958	9,480	18,052	17,131	87,295
Total	$ 255,559	$ 25,983	$ 71,181	$ 39,924	$ 118,511

(1) Amounts shown are for the principal portion of the long-term debt payment only. Future interest obligations will vary with changes in future LIBOR rates, making an accurate projection of future interest payment difficult.

Critical Accounting Estimates

The preparation of our financial statements requires that management make estimates and judgments that affect the financial position and results of operations. Management continues to review its accounting policies and evaluate its estimates, including those related to contingencies and litigation, deferred taxes, merchandise inventories, goodwill, long-lived assets and warehouse closure costs. We base our estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances. These accounting policies, under different conditions or using different estimates, could show materially different results on our financial condition and results of operations.

Contingencies and Litigation: In the ordinary course of our business, we are periodically named as defendants in various lawsuits, claims and pending actions. The principal risks that we insure against are workers compensation, general liability, vehicle liability, property damage, employment practices, errors and omissions, fiduciary liability and fidelity losses. If a potential loss arising from these lawsuits, claims and actions is probable and reasonably estimable, we record the estimated liability based on circumstances and assumptions existing at the time. While we believe the recorded liabilities are adequate, there are inherent limitations in the estimation process whereby future actual losses may exceed projected losses, which could materially adversely affect our results of operations or financial condition.

Deferred Taxes: A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. As of May 31, 2005, we evaluated our deferred tax assets and liabilities and determined that, in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, a valuation allowance is necessary for certain foreign deferred tax asset balances, primarily because of the existence of significant negative objective evidence, such as the fact that certain countries are in a cumulative loss position for the past three years.

We have federal and state tax net operating loss carry-forwards, or NOLs, at August 31, 2004 of approximately $41.1 million and $7.1 million, respectively. In calculating the tax provision, and assessing the likelihood that we will be able to utilize the deferred tax assets, we considered and weighed all of the evidence, both positive and negative, and both objective and subjective. We factored in the inherent risk of forecasting revenue and expenses over an extended period of time and considered the potential risks associated with our business. Because of our history of U.S. income and based on projections of future taxable income in the U.S., which have increased due to the implementation of the Financial Program (as described in Note 6 to the Consolidated Financial Statements for the Nine Months Ended May 31, 2005 included herein), we were able to determine that there was sufficient positive evidence to support the conclusion that it was more likely than not that we would be able to realize the U.S. deferred tax assets by generating taxable income during the carry-forward period. However, if we do not achieve our projections of future taxable income in the U.S., we could be required to take a charge to earnings related to the recoverability of these deferred tax assets. Also, as a result of the Financial Program, we believe that due to the deemed change of ownership (as defined in section 382 of the Internal Revenue Code), there will be annual limitations in the amount of U.S. profits that may be offset by NOLs. While the exact amount of this limitation has not yet been determined, based on preliminary calculations, we do not believe this will impact the recoverability of these NOLs. Due to their shorter recovery period and limitations applicable under section 383 of the Internal Revenue code regarding changes of ownership, we have maintained valuation allowances on U.S. foreign tax credits and capital loss carryforwards.

As a result of significant losses in many of our foreign subsidiaries at May 31, 2005, we have concluded that full valuation allowances are necessary in all but two of our subsidiaries. We have factored in the inherent risk of forecasting revenue and expenses over an extended period of time and also considered the potential risks associated with our business. There was insufficient positive evidence to overcome the existence of the negative objective evidence of cumulative losses. As a result, management concluded that it was more likely than not that the deferred tax assets would not be realized in these subsidiaries.

Merchandise Inventory: We record our inventory at the lower of cost (average cost) or market. We provide for estimated inventory losses between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically (monthly) to reflect the trend of actual physical inventory count results, with physical inventories occurring primarily in the second and fourth fiscal quarters. In addition, we monitor slow-moving inventory to determine if provisions should be taken for expected markdowns below the carrying cost of certain inventory to expedite the sale of such merchandise.

Goodwill: Statement of Financial Accounting Standards No. 142, Accounting for Goodwill and Other Intangibles, requires that we test goodwill for impairment based on a comparison of fair values to the carrying values of our reporting units (subsidiaries). The determination of fair value for a reporting unit involves the use of assumptions and estimates such as the future performance of the operations of the reporting unit and discount rates used to determine the current value of expected future cash flows of the reporting unit. Any change in these assumptions and estimates, and other factors such as inflation rates, competition and general economic conditions, could cause the calculated fair value of the operating unit to decrease significantly.

Long-lived Assets: We periodically evaluate our long-lived assets for indicators of impairment. Management s judgments are based on market and operational conditions at the time of the evaluation and can include management s best estimate of future business activity. These periodic evaluations could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value consistent with SFAS 144. Future business conditions and/or activity could differ materially from the projections made by management causing the need for additional impairment charges. We recorded a $7.1 million impairment charge in the third quarter of fiscal 2005 to write-down the long-lived assets of our U.S. Virgin Islands warehouse club. 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.

Warehouse Closure Costs: We provide estimates for warehouse club closing costs when it is appropriate to do so, based on the applicable accounting principles. We have established lease obligation liabilities for our closed leased warehouse clubs. The lease obligations are based on the present value of the rent liabilities reduced by the estimated income from the subleasing of these properties. We are continually evaluating the adequacy of our closed warehouse club lease obligations based upon the status of existing or potential subleasing activity and make appropriate adjustments to the lease obligations as a result of these evaluations. Future circumstances may result in our actual future closing costs or the amount recognized upon sale or sublease of the property to differ materially from the original estimates.

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

Accounting Pronouncements

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The principal difference between SFAS 146 and Issue 94-3 relates to SFAS 146 s requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recorded as a liability when incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity s commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. We recorded closure costs of $3.5 million and $5.3 million in fiscal years 2004 and 2003, respectively (See Note 8 Asset Impairment Charges and Closure Costs in the Notes to Consolidated Annual Financial Statements included herein).

In January, 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, or ARB 51. FASB Interpretation No. 46 was revised in December 2003 and clarifies the application of ARB 51 to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The application of FASB Interpretation No. 46 may require that an entity be subject to consolidation even though the investor does not have a controlling financial interest that, under ARB 51, was usually deemed to exist through ownership of a majority voting interest. FASB Interpretation No. 46, as revised, is generally effective for all entities subject to the interpretation no later than the end of the first reporting period that ends after March 15, 2004. The adoption of this interpretation did not have an impact on our consolidated results of operations, financial position or cash flows.

Emerging Issues Task Force Issue No. 02-16, which we refer to as EITF 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received by a Vendor, addresses how a reseller should account for cash consideration received from a vendor. Under this provision, effective for arrangements entered into or modified after December 31, 2002, cash consideration received from a vendor is generally presumed to be a reduction of the prices of the vendor s products and, therefore, should be characterized as a reduction of these costs. The adoption of the provisions of EITF 02-16 did not result in any changes in our reported net income, but certain consideration which had been classified as other income in prior years is now reflected as a reduction of cost of sales. As permitted by the transition provisions of EITF 02-16, other income and cost of sales in prior periods have been reclassified to conform to the current period presentation. This resulted in a decrease in other income and an offsetting decrease in net warehouse cost of goods sold of $688,000, $1.1 million and $3.5 million in fiscal 2004, 2003 and 2002, respectively.

Emerging Issues Task Force Issue No. 03-10, which we refer to as EITF 03-10, Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers, provides guidance for the reporting of vendor consideration received by a reseller as it relates to manufacturers incentives (such as rebates or coupons) tendered by consumers. Vendor consideration may be included in revenues only if defined criteria are met; otherwise, such consideration would be recorded as a decrease in cost of goods sold. The provisions of EITF 03-10 became effective for transactions entered into by consumers in fiscal periods beginning after November 25, 2003 and, therefore apply to transactions starting with our second fiscal quarter of 2004. The adoption of EITF 03-10 did not affect our consolidated gross profit or net loss, as there was not a material impact on the consolidated financial statements.

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In November 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets- An Amendment of APB No. 29, or 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. We have not yet adopted this pronouncement and are currently evaluating the expected impact that the adoption of SFAS 153 will have on our 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, or 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. We have not yet adopted this pronouncement and are currently evaluating the expected impact that the adoption of SFAS 151 will have on our consolidated financial position, results of operations and cash flows.

During December 2004, the FASB issued Statement No. 123R, Share-Based Payment, or 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. We grant options to purchase common stock to some of our 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. We have not yet adopted this pronouncement and are currently evaluating the expected impact that the adoption of SFAS 123R will have on our consolidated financial position, results of operations and cash flows.

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. We are required to adopt the provisions of FIN 47 no later than the end of our fiscal 2006. We have not yet adopted this Interpretation and are currently evaluating the expected impact that the adoption of FIN 47 will have on our consolidated financial position, results of operations and cash flows.

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, or 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. We are required to adopt the provisions of SFAS 154, as applicable, beginning in fiscal 2007.

Quantitative and Qualitative Disclosures about Market Risk

We, through majority or wholly owned subsidiaries, conduct operations primarily in Latin America, the Caribbean and Asia, and as such are subject to both economic and political instabilities that cause volatility in

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foreign currency exchange rates or weak economic conditions. As of May 31, 2005 and August 31, 2004, we had a total of 26 consolidated warehouse clubs operating in 12 foreign countries and one U.S. territory (excluding the three warehouse clubs owned in Mexico through our 50/50 joint venture). Nineteen of the 26 warehouse clubs operate under currencies other than the U.S. dollar. For the nine months ended May 31, 2005 and May 31, 2004, approximately 79% of our net warehouse sales were in foreign currencies and for fiscal 2004, approximately 78% of our net warehouse sales were in foreign currencies. We may enter into additional foreign countries in the future or open additional locations in existing countries, which may involve similar economic and political risks as well as challenges that are different from those currently encountered. Foreign currencies in most of the countries where we operate have historically devalued against the U.S. dollar and are expected to continue to devalue. For example, the Dominican Republic experienced a currency devaluation of approximately 81% during fiscal 2003 and approximately 13% during fiscal 2004. There can be no assurance that we will not experience any other materially adverse effects on our business, financial condition, operating results, cash flow or liquidity, from currency devaluations in other countries, as a result of the economic and political risks of conducting an international merchandising business.

Foreign exchange transaction gains/(losses), which are included as a part of the costs of goods sold in the consolidated statement of operations, were approximately $1.4 million and $(550,000) for the nine months ended May 31, 2005 and 2004, respectively, and were approximately $579,000, $605,000 and $1.2 million for fiscal years 2004, 2003 and 2002, respectively. Translation adjustment gains/(losses) from our share of non- U.S. denominated majority or wholly owned subsidiaries and investment in affiliate, resulting from the translation of the assets and liabilities of the subsidiaries into U.S. dollars were $1.5 million for the nine months ended May 31, 2005 and $(4.3) million and $(7.7) million for fiscal 2004 and 2003 respectively. Foreign exchange gains/(losses) were positively impacted by $919,000 relating to the Dominican Republic during the first nine months of fiscal 2005. The Dominican Republic experienced a favorable currency revaluation of approximately 41% between the quarter ended May 31, 2004 and the quarter ended May 31, 2005.

The following is a listing of each country or territory where we currently operate or anticipate operating in and their respective currencies, as of May 31, 2005:

Country/Territory	Number of Warehouse Clubs in Operation	Anticipated Warehouse Club Openings in FY 2006	Currency
Panama	4		U.S. Dollar
Costa Rica	3	1	Costa Rican Colon
Philippines	4		Philippine Peso
Mexico*			Mexican Peso
Dominican Republic	2		Dominican Republic Peso
Guatemala	2		Guatemalan Quetzal
El Salvador	2		U.S. Dollar
Honduras	2		Honduran Lempira
Trinidad	2		Trinidad Dollar
Aruba	1		Aruba Florin
Barbados	1		Barbados Dollar
Guam			U.S. Dollar
U.S. Virgin Islands	1		U.S. Dollar
Jamaica	1		Jamaican Dollar
Nicaragua	1		Nicaragua Cordoba Oro
Totals	26	1	

* Warehouse clubs are operated through a 50/50 joint venture, which is accounted for under the equity method. During the second quarter of fiscal 2005, we announced that we and Grupo Gigante S.A. had decided to close the warehouse club operations in Mexico.

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We are exposed to changes in interest rates on various debt facilities. A hypothetical 100 basis point adverse change in interest rates along the entire interest rate yield curve could adversely affect our pre-tax net loss (excluding any minority interest impact) by approximately $396,000 on an annualized basis.

Philippines Sales Trends and Projected Losses

Our Philippines operations, consisting of four warehouse clubs in Metro Manila (along with one former and currently unoccupied warehouse club), are performing well below management s expectation, with sales growth below plan, resulting in operating losses and negative cash flow over the past year (including the most recent fiscal quarter). We believe that two primary reasons for these results are: (i) the business has not been adequately capitalized; and (ii) the distribution of U.S. merchandise to the Philippines has not been maintained at a sufficiently consistent level. An additional negative factor is the current series of disputes between us and E Class Corporation (which owns 38% of the Philippines business). Operating losses and negative cash flow may continue for the foreseeable future, and therefore we are considering alternatives which may be available with respect to this business.

Public Company Compliance Costs and Considerations

We incur certain costs associated with being a publicly traded company. We have determined that, as a result of the announcement made by the SEC on March 2, 2005, we will have an additional year, until fiscal 2006, to comply with Section 404 of the Sarbanes-Oxley Act. As a result of such determination, beginning with fiscal year 2006, the direct and indirect costs associated with Sarbanes-Oxley Section 404 compliance will add significantly to our costs associated with being a publicly traded company. The expenses associated with implementing the additional processes and procedures necessary for Section 404 compliance have cost approximately $1.4 million, on a fiscal year-to-date basis. As of May 31, 2005, the cost of initial implementation and on-going compliance is particularly high for us due to the multiple geographic areas in which we operate (12 countries and one U.S. territory). Moreover, Section 404 compliance will inevitably result in a diversion of management time and attention from other duties.

Over the past several months, we have been monitoring the cost of operating as a public company to determine whether in our judgment the direct and indirect costs outweigh the benefits to us and our stockholders. We understand that several other companies are evaluating similar questions. As a result, on February 25, 2005, we announced that our management, board of directors and significant stockholders are beginning to explore possible transactions that would result in our ceasing to be subject to SEC reporting requirements. These possible transactions include, among others, a reverse stock split in which stockholders who do not hold a minimum number of shares of our common stock would have their shares converted into cash or a tender offer by us or significant stockholders for shares of our common stock. Other alternatives that we could consider and evaluate would include a sale or merger of the business; or selling significant parts of the business and taking the remainder private.

Although we have not reached any conclusions about whether the costs of being a publicly traded SEC reporting company outweigh the benefits, we are evaluating alternatives to remaining an SEC reporting company. Any such transaction would be designed to result in our having less than 300 stockholders of record as of the end of a fiscal year or otherwise making us eligible to cease making SEC filings, such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Depending on the form of transaction selected, if any, we or any entity formed by significant stockholders might not seek to acquire or otherwise cash out all existing shares held by unaffiliated stockholders but rather just that portion that would be necessary for us to terminate our SEC reporting requirements. In analyzing transaction alternatives, our management, board of directors and significant stockholders will take into account our ongoing rights offering and its impact on such alternatives. The implementation of any such transaction also would result in the delisting of our common stock from the Nasdaq National Market.

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While we have engaged in discussions with minority partners in some locations as to sales of those locations, we have not engaged in any substantive discussions regarding these alternatives with any affiliated or unaffiliated third parties nor have we retained investment bankers, appraisers or other advisors. We do not know whether if we were to engage in any exploration of alternatives that we would be able to find any potential acquirer that would be willing to buy us at a price that our board of directors and stockholders would find acceptable. Consequently, while we believe it may become appropriate to consider the possibility of such a transaction, we are not in a position to evaluate the likelihood that any such proposal will be made or, even if a proposal were to be made, whether a transaction would be consummated. Any such proposal would depend on a number of factors at a future time, including our business and prospects, our operating and financial performance in the interim and the market price for our securities.

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BUSINESS

Our business consists primarily of international membership shopping warehouse clubs similar to, but smaller in size than, warehouse clubs in the United States. The number of warehouse clubs in operation, as of May 31, 2005 and May 31, 2004, our ownership percentages and basis of presentation for financial reporting purposes by each country or territory are as follows:

Country/Territory	Number of Warehouse Clubs in Operation (as of May 31, 2005)	Number of Warehouse Clubs in Operation (as of May 31, 2004)	Ownership (as of May 31, 2005)	Basis of Presentation
Panama	4	4	100%	Consolidated
Costa Rica	3	3	100%	Consolidated
Dominican Republic	2	2	100%	Consolidated
Guatemala	2	2	100%	Consolidated
Philippines	4	3	52%	Consolidated
El Salvador	2	2	100%	Consolidated
Honduras	2	2	100%	Consolidated
Trinidad	2	2	90%	Consolidated
Aruba	1	1	90%	Consolidated
Barbados	1	1	100%	Consolidated
Guam			100%	Consolidated
U.S. Virgin Islands	1	1	100%	Consolidated
Jamaica	1	1	67.5%	Consolidated
Nicaragua	1	1	51%	Consolidated
Totals	26	25		
Mexico		3	50%	Equity
Grand Totals	26	28		

During fiscal 2004, we opened a new U.S.-style membership shopping warehouse club in the Philippines and closed our warehouse club in Guam. At the end of fiscal 2004, the total number of consolidated warehouse clubs in operation was 26, operating in 12 countries and one U.S. territory in comparison to 26 warehouse clubs operating in 12 countries and two U.S. territories at the end of fiscal 2003, and 26 consolidated warehouse clubs operating in ten countries and two U.S. territories at the end of fiscal 2002. The average life of the 26 warehouse clubs in operation as of August 31, 2004 was 47 months. The average life of the 26 warehouse clubs in operation as of August 31, 2003 was 36 months. We had three additional warehouse clubs in Mexico as part of a 50/50 joint venture with Grupo Gigante, S.A. de C.V. as of the end of fiscal years 2004 and 2003.

During the first quarter of fiscal 2005, we announced that we had entered into an agreement to acquire land in San Jose, Costa Rica for a planned fourth location in that market which we plan to open in fiscal year 2006. On February 11, 2005, it was announced that we and Grupo Gigante S.A. had decided to close the warehouse club operations of PSMT Mexico, S.A. de C.V. This closure was completed February 28, 2005. PSMT Mexico, S.A. de C.V. is a 50/50 joint venture of PriceSmart and Grupo Gigante S.A. de C.V. which operated three membership warehouse clubs in Mexico. The joint venture will continue to have real estate assets and is evaluating various business strategies associated with those assets, including leasing, selling or further commercial development of the sites.

During the third quarter of fiscal year 2005, we acquired the minority interest in our PriceSmart Guatemala subsidiary, which previously had been 66% owned by us.

In addition to the warehouse clubs operated directly by us or through joint ventures, there was one warehouse club in operation in Saipan, Micronesia licensed to and operated by local business people, through which we earned a licensee fee. During the second quarter of fiscal 2005, we terminated the license agreement with our China licensee, under which the China licensee previously operated 11 warehouse clubs. We have not recorded any licensing revenue under the China license agreement in fiscal 2005 (see International Licensee Business).

Between our spin-off from Price Enterprises, Inc. in 1997 and 2001, we also operated a travel program that offered discounted prices on airline tickets, cruises, travel packages, car rentals and hotels, primarily to Costco, Inc. members; operated an auto referral business; held certain city notes receivable; and held real property that was available for sale.

International Warehouse Club Business

We own and operate U.S.-style membership shopping warehouse clubs through majority or wholly owned ventures operating in Latin America, the Caribbean and Asia using the trade name PriceSmart. The warehouse clubs sell basic consumer goods, to individuals and businesses, typically comprised of approximately 45% U.S.-sourced merchandise and approximately 55% locally sourced merchandise, with an emphasis on quality and low prices. By offering low prices on brand name and private label merchandise, the warehouse clubs seek to generate sufficient sales volumes to operate profitably at relatively low gross profit margins. The typical no-frills warehouse club-type buildings range in size from 40,000 to 50,000 square feet of selling space and are located primarily in urban areas to take advantage of dense populations and relatively higher levels of disposable income. Product selection includes perishable foods and basic consumer products. Ancillary services include food services, bakery, tire centers, photo centers, pharmacy and optical departments. The shopping format generally includes an annual membership fee of approximately $25.

Typically, when entering a new market we enter into licensing and technology transfer agreements with a newly created joint venture company (in which we are the majority stockholder and whose minority stockholders are local business people) pursuant to which we provide our know-how package, which includes training and management support, as well as access to our computer software systems and distribution channels. The license also includes the right to use the PriceSmart mark and certain other trademarks. We believe that the local business people have been interested in entering into such joint ventures and obtaining such licenses for a variety of reasons, including the successful track record of our management team and our smaller format membership clubs, the opportunity to purchase U.S.-sourced products, the benefits of our modern distribution techniques and the opportunity to obtain exclusive rights to use our trademarks in the region.

Business Strategy

Our mission is to efficiently operate U.S.-style membership warehouse clubs in Latin America, the Caribbean, and the Philippines that sell high quality merchandise at low prices to our members and that provide fair wages and benefits to our employees as well as a fair return to our stockholders. We deliver quality imported U.S. brand-name and locally sourced products to our small business and consumer members in a warehouse club format that provides the highest possible value to our members. By focusing on providing exceptional value on quality merchandise in a low cost operating environment, we seek to grow sales volume and membership which in turn will allow for further efficiencies and price reductions and ultimately improved value to our members.

Membership Policy

Our membership fee structure was specifically designed to allow pricing flexibility from country to country. We believe that membership reinforces customer loyalty. In addition, membership fees provide a continuing source of revenue. We have two primary types of members:

Business and Diamond (individual).

Business owners and managers qualify for Business membership. We promote Business membership through our merchandise selection and our marketing programs primarily targeting wholesalers, institutional buyers and retailers. Business members pay an annual membership fee which approximates $25 for a primary

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and spouse membership card and approximately $12 for additional add-on membership cards. Individual members pay an annual membership fee which approximates $25 and an approximate fee of $12 for an add-on membership card.

We recognize membership fee revenues over the term of the membership, which is 12 months. Deferred revenue is presented separately on the face of the balance sheet and totaled $4.2 million and $4.1 million as of August 31, 2004 and 2003, respectively. Our membership agreements contain an explicit right to refund if our customers are dissatisfied with their membership. Our historical rate of membership fee refunds has been approximately 0.5% of membership income, or approximately $45,000, $42,000 and $45,000 for each of the years ended August 31, 2004, 2003 and 2002, respectively.

Expansion Plans

In the past, we have rapidly expanded into new countries and markets as part of our strategy to gain volume buying benefits and to move quickly into underserved areas. We are currently focusing our management attention on improving the operations of our current locations and believe that our existing portfolio provides the opportunity for improved sales and profitability. However, we continue to identify and evaluate various options for expansion, particularly in the countries in which we have already established a strong market presence. In that regard, during the first quarter of fiscal 2005, we announced that we have acquired land in San Jose, Costa Rica for the construction of a fourth warehouse club in that country.

Warehouse Club Closings and Asset Impairment

During fiscal 2003, we closed three warehouse clubs, one each in Dominican Republic, Ortigas, Metro Manila, Philippines and Guatemala. We also closed our warehouse club in Guam on December 24, 2003 and our Commerce, California distribution center on August 31, 2004. The decision to close the warehouse clubs resulted from the determination that the locations were not conducive to the successful operation of one of our warehouse clubs.

As a result of the closures mentioned above, during fiscal 2003, we recorded closure costs and impairment charges of $7.2 million related to those warehouse clubs closed as of August 31, 2003. Impairment charges of $1.9 million were included in the $7.2 million, reflecting the difference between the carrying value and the fair value of those long-lived assets (building improvements and fixtures and equipment) that were not expected to be utilized at future warehouse club locations. Also during fiscal 2003, we recorded non-cash asset impairment charges of $4.5 million to write-down long-lived assets related to underperforming warehouse clubs in Guam (subsequently closed in fiscal 2004) and the United States Virgin Islands. These charges also reflected the difference between the carrying value and fair value of those long-lived assets that were not expected to be utilized at future warehouse club locations. The fair value of long-lived assets was based on estimated selling prices for similar assets.

During fiscal 2004, we recorded approximately $3.5 million of additional closure costs related to the four closed warehouse clubs and one closed distribution center. We also recorded approximately $3.2 million in non-cash impairment charges related to the write-down of the carrying value of the building at the closed warehouse club in the Philippines. This charge results from revised cash flow estimates regarding the marketability of the land and building for this location. The original estimate regarding the market price of leasing these assets was derived from negotiations that discontinued during the second quarter of fiscal 2004. At that time, we believed the price being offered was a reasonable estimate of market value. However, during the third quarter an offer was received at a significantly lower price; therefore, we revised our estimates downward.

During the fourth quarter of fiscal 2004, due to the historical operating losses and management s assessment as to the inability to recover the full carrying amount of our investment in PSMT Mexico, S.A. de C.V., we recorded charge of $3.1 million to reduce our investment in unconsolidated affiliate. On February 11, 2005, we, along with our joint venture shareholder, Grupo Gigante S.A. de C.V., announced that we were closing the warehouse operations of PSMT Mexico, S.A. de C.V. effective February 28, 2005. At that time we indicated that we believed that the closure would not result in a significant loss for PriceSmart, Inc. While this is still our view with respect to the total carrying value of that investment, PSMT Mexico continues to incur operating losses during this period of merchandise and asset liquidation and the settlement of contractual obligations. We are a 50% shareholder in PSMT Mexico, S.A. de C.V. and account for our investment under the equity accounting method.

During the third quarter of 2005 we recorded a $7.1 million non-cash asset impairment charge associated with the write-down of long-lived assets (leasehold improvements, and furniture and equipment) at our 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 in the U.S. Virgin Islands but the on-going cost structure (which is higher than our other 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. We also recorded a net non-cash charge of $633,000 in the third quarter of 2005 related to the sub-leasing of two of our four previously closed warehouse club locations, including the write-off of assets at the Plaza, Guatemala location.

International Licensee Business

We had 12 warehouse clubs in operation (11 in China and one in Saipan, Micronesia) licensed to and operated by local business people at the end of fiscal 2004, through which we had been primarily earning license fees on a per warehouse club basis, and also earned other fees in connection with certain licensing and technology transfer agreements and sales of products purchased from us.

During the second fiscal quarter of 2004, representatives of our company and our China licensee held discussions with regards to payments to be made by the licensee to us under the PRC Technology License Agreement (Amended) entered into in February 2001. In this regard, the licensee failed to satisfy certain of these payment obligations, asked us to relieve it from some of the payment obligations and sought related modifications to the parties relationship. During the pendency of the parties discussions, we agreed to a temporary moratorium on certain payment obligations. In October 2004, we concluded that, in view of the lack of substantive progress arising from the parties discussions, we should proceed with sending a notice of default relating to the licensee s non-payment. Accordingly, on October 7, 2004, we issued a notice of default to the licensee, demanding the payment of $1,403,845 within 30 days for previously unbilled license fees and interest. We did not receive timely payment. Accordingly, we terminated the PRC Technology License Agreement (Amended), as well as the PRC Trademark License Agreement which we have also entered into with the licensee, by letter dated December 10, 2004. As a result of the above, we have fully reserved the outstanding receivable by recording a bad debt expense of $0.6 million and have not recorded revenue from this license relationship since the third quarter of fiscal 2004.

Intellectual Property Rights

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

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There can be no assurance that third parties will not assert claims against us with respect to existing and future trademarks, trade names, sales techniques or other intellectual property matters. In the event of litigation to determine the validity of any third-party s claims, such litigation could result in significant expense to us and divert the efforts of our management, whether or not such litigation is determined in our favor.

While we have registered under various classifications the mark PriceSmart in several countries, certain registration applications remain pending; because of objections by one or more parties, there can be no assurance that we will obtain all such registrations or that we have proprietary rights to the marks.

In August 1999, our company and Associated Wholesale Grocers, Inc. entered into an agreement regarding the trademark PriceSmart and related marks containing the name PriceSmart. We have agreed not to use the PriceSmart mark or any related marks containing the name PriceSmart in connection with the sale or offer for sale of any goods or services within Associated Wholesale Grocers territory of operations, including the following ten states: Kansas, Missouri, Arkansas, Oklahoma, Nebraska, Iowa, Texas, Illinois, Tennessee and Kentucky. We however, may use the mark PriceSmart or any mark containing the name PriceSmart on the internet or any other global computer network whether within or outside such territory, and in any national advertising campaign that cannot reasonably exclude the territory, and we may use the mark in connection with various travel services. Associated Wholesale Grocers has agreed not to oppose any trademark applications filed by us for registration of the mark PriceSmart or related marks containing the name PriceSmart, and Associated Wholesale Grocers has further agreed not to bring any action for trademark infringement against us based upon our use outside the territory (or with respect to the permitted uses inside the territory) of the mark PriceSmart or related marks containing the name PriceSmart.

Employees

As of August 31, 2004, we and our consolidated subsidiaries had a total of 3,314 employees. Approximately 94% of our employees were employed outside of the United States.

Seasonality

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

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Properties

Warehouse Club Properties. We, through our majority or wholly owned ventures or equity joint venture, own and/or lease properties in each country or territory in which we operate warehouse clubs. All buildings, both owned and leased, are constructed by independent contractors. The following is a summary of warehouse club locations currently owned and/or leased by country or territory:

Country / Territory	Date Opened or Anticipated	Date Closed	Ownership / Lease
Panama:			
Los Pueblos	October 25, 1996		Own land and building
Via Brazil	December 4, 1997		Lease land and building
El Dorado	November 11, 1999		Lease land and building
David	June 15, 2000		Own land and building
Guatemala:			
Mira Flores	April 8, 1999		Lease land and building
Guatemala City	August 24, 2000	August 15, 2003	Lease land and building(3)
Pradera	May 29, 2001		Lease land and building
Costa Rica:			
Zapote	June 25, 1999		Own land and building
Escazu	May 12, 2000		Own land and building
Heredia	June 30, 2000		Own land and building
Llorente	Fiscal 2006		Own land and will own building
Dominican Republic:			
Santo Domingo	December 10, 1999		Own land and building
Santiago	December 14, 1999		Own land and building
East Santo Domingo	October 12, 2000	June 15, 2003	Own land and building
El Salvador:			
Santa Elena	August 26, 1999		Own land and building
San Salvador	April 13, 2000		Own land and building
Honduras:			
San Pedro Sula	September 29, 1999		Own land and building
Tegucigalpa	May 31, 2000		Lease land and building
Aruba:			
Oranjestad	March 23, 2001		Lease land and building
Barbados:			
Bridgetown	August 31, 2001		Lease land and building
Philippines:			
Fort Bonifacio	May 18, 2001		Lease land(1)
Ortigas	November 8, 2001	August 3, 2003	Lease land(1)(3)
Congressional	March 15, 2002		Lease land(1)
Alabang	November 16, 2002		Lease land(1)
Aseana	June 9, 2004		Lease land(1)
Trinidad:			
Chaguanas	August 4, 2000		Own land and building
Port of Spain	December 5, 2001		Lease land(1)
U.S. Virgin Islands:			
St. Thomas	May 4, 2001		Lease land(1)
Guam:			
Barrigada	March 8, 2002	December 24, 2003	Lease land and building
Jamaica:			
Kingston	March 28, 2003		Own land and building
Nicaragua:			
Managua	July 25, 2003		Own land and building

Mexico:			
Irapuato	November 14, 2002	February 28, 2005	Own land and building(2)
Celaya	November 16, 2002	February 28, 2005	Own land and building(2)
Queretaro	March 1, 2003	February 28, 2005	Own land and building(2)

(1) We constructed, at our expense, the building on land that we lease.
(2) Land and building are owned through a 50/50 joint venture which is accounted for under the equity method.
(3) The land and buildings for these closed locations have been subleased to third-parties.

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Corporate Headquarters. We maintain our headquarters at 9740 Scranton Road, San Diego, California 92121-1745. We lease approximately 35,000 square feet of office space at a rate $47,115 per month, with a 2% annual increase. The current term expires on March 31, 2011. We leased a 32,387 square foot facility in Commerce, California at a rate of $16,546 per month that expired on May 31, 2005. The use of the Commerce, California facility was discontinued on August 31, 2004, resulting in a charge of $149,000 to the financial statements ended as of the same date. Additionally, we lease two facilities in Miami, Florida. The first is an 85,300 square foot facility leased at a rate of $39,238 per month that expires on December 31, 2006. The second is a 24,700 square foot facility leased at a rate of $29,601 per month that expires on February 28, 2006. We believe that our existing facilities are adequate to meet our current needs and that suitable additional or alternative space will be available on commercially reasonable terms as needed.

Environmental Matters. We agreed to indemnify Price Enterprises, Inc. for all of Price Enterprises liabilities (including obligations to indemnify Costco with respect to environmental liabilities) arising out of Price Enterprises prior ownership of properties we previously held for sale and the real properties transferred by Costco to Price Enterprises that Price Enterprises sold prior to the special dividend of our common stock by Price Enterprises on August 29, 1997. Our ownership of real properties and our agreement to indemnify Price Enterprises could subject us to certain environmental liabilities. As discussed below, certain properties are located in areas of current or former industrial activity, where environmental contamination may have occurred.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and remediate releases or threatened releases of hazardous or toxic substances or petroleum products located at such property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and remediation costs incurred by such parties in connection with the contamination. Under certain of these laws, liability may be imposed without regard to whether the owner knew of or caused the presence of the contaminants. These costs may be substantial, and the presence of such substances, or the failure to remediate properly the contamination on such property, may adversely affect the owner s ability to sell or lease such property or to borrow money using such property as collateral. Certain federal and state laws require the removal or encapsulation of asbestos-containing material in poor condition in the event of remodeling or renovation. Other federal, state and local laws have been enacted to protect sensitive environmental resources, including threatened and endangered species and wetlands. Such laws may restrict the development and diminish the value of property that is inhabited by an endangered or threatened species, is designated as critical habitat for an endangered or threatened species or is characterized as wetlands.

In 1994, Costco engaged environmental consultants to conduct Phase I assessments (involving investigation without soil sampling or groundwater analysis) at each of the properties that Costco transferred to Price Enterprises in 1994, including the properties we previously held for sale. We are unaware of any environmental liability or noncompliance with applicable environmental laws or regulations arising out of the properties we previously held for sale or the real properties transferred by Costco to Price Enterprises and sold prior to the distribution that we believe would have a material adverse effect on our business, assets or results of operations. Nevertheless, there can be no assurance that our knowledge is complete with regard to, or that the Phase I assessments have identified, all material environmental liabilities.

We are aware of certain environmental issues, which we do not expect to have a material adverse effect on our business, financial condition, operating results, cash flow or liquidity, relating to three properties transferred from Costco to Price Enterprises that were sold prior to the distribution. We agreed to indemnify Price Enterprises for environmental liabilities arising out of such properties. Set forth below are summaries of certain environmental matters relating to these properties:

Meadowlands: The Meadowlands site is an unimproved, 12.9-acre site located in Meadowlands, New Jersey. A prior owner used this site as a debris disposal area. Elevated levels of heavy metals (including a small area contaminated with polychlorinated biphenyl) and petroleum hydrocarbons are present in soil at the Meadowlands site. To date, we have not been advised that Price Enterprises has been notified by any

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governmental authority, and is not otherwise aware, of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with the Meadowlands site. Price Enterprises sold the Meadowlands site on August 11, 1995. Nevertheless, Price Enterprises previous ownership of the Meadowlands site creates the potential of liability for remediation costs associated with groundwater beneath the site.

Silver City: The Silver City, New Mexico site contains petroleum hydrocarbons in the soil and groundwater. There are no known receptors (groundwater users) down gradient of the Silver City site and the extent of soil and groundwater contamination is limited. On March 20, 1996, Price Enterprises sold the Silver City site and retained responsibility for certain environmental matters. We are continuing to remediate the soil and groundwater at this property under supervision of local authorities.

Legal Proceedings

From time to time, we and our 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 us. We evaluate such matters on a case by case basis, and vigorously contests any such legal proceedings or claims which we believe 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 us and certain of our 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) us, (2) our former President and Chief Executive Officer Gilbert Partida, and (3) our former Chief Financial Officer Allan C. Youngberg. On behalf of a proposed class of persons who purchased our 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, as amended, 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 our 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 our current Board of Directors, as well as claims under Section 12(a)(2) and Section 15 of the Securities Act of 1933, as amended, or the Securities Act, relating to plaintiffs purchase of Series A Preferred Stock. We refer 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 us 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 our Series A Preferred Stock, which we refer 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 our 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 our common stock at a conversion price of $10.00 per share, and all members of the Series A Preferred Sub-Class accepted this offer. We paid attorney s fees and costs to counsel for the Performance Capital plaintiffs in the amount of $325,000, which was covered by our 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 our directors and officers insurance carrier would pay 80% and we would pay 20%, as we and the carrier have agreed that effective as of March 1, 2005 we satisfied the $1,000,000 retention on our insurance policy).

The SEC issued a formal order of private investigation on January 8, 2004 to investigate the circumstances surrounding our restatement. The SEC has issued subpoenas to us for the production of documents and has taken testimony, pursuant to subpoena, from several of our present and former employees.

The indemnification provisions contained in our amended and restated certificate of incorporation and indemnification agreements between us and our current and former directors and officers require us to indemnify our current and former directors and officers who are named as defendants against the allegations contained in these suits unless we determine 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 we have directors and officers liability insurance (subject to a $1.0 million retention and a 20% co-pay provision), we have been informed that our 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 we devote substantial resources and management attention to defend these proceedings. Moreover, the mere presence of these lawsuits may materially harm our business and reputation. We have 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, our two minority shareholders in the Philippines (which together comprise a 48% ownership interest in our 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). We contend, 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, we 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, which we collectively refer to as the Defendants, seeking to recover principal and interest due and owing to us of at least $781,000, as well as an accounting with regard to sums paid by us 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 our appointees. The complaint filed by Go and E-Class contends that we inappropriately transferred funds of PSMT Philippines, Inc. to us 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 our appointees, 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. We intend to vigorously defend these actions through defendants and believe that the claims are without merit.

As of May 31, 2005, we have 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. We do 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. We have reviewed the relevant evidence and do 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 our business, financial condition, operating results, cash flow or liquidity. We are 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 us to devote substantial resources and management attention to these proceedings.

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MANAGEMENT

Executive Officers and Directors

The table below indicates the name, position with our company and age of each director and executive officer of our company as of November 30, 2004:

Name	Position	Age
Robert E. Price	Chairman of the Board; Interim Chief Executive Officer	62
James F. Cahill	Vice Chairman of the Board	49
Murray L. Galinson	Director	67
Katherine L. Hensley	Director	67
Leon C. Janks	Director	55
Lawrence B. Krause	Director	74
Angel Losada M.	Director	49
Jack McGrory	Director	55
Edgar A. Zurcher	Director	54
Jose Luis Laparte	President	38
William J. Naylon	Executive Vice President and Chief Operating Officer	42
John M. Heffner	Executive Vice President and Chief Financial Officer	50
Brud E. Drachman	Executive Vice President Real Estate and Construction	50
Robert M. Gans	Executive Vice President, Secretary and General Counsel	55
John D. Hildebrandt	Executive Vice President Central America Operations	46
Thomas D. Martin	Executive Vice President Merchandising	48
Edward Oats	Executive Vice President Information Technology and Logistics	44

Robert E. Price has been Chairman of the Board of our company since July 1994, Interim Chief Executive Officer of our company since April 2003 and also served as Interim President of our company from April 2003 until October 2004. Mr. Price also served as President and Chief Executive Officer of our company from July 1994 until January 1998. Additionally, Mr. Price served as Chairman of the Board of Price Enterprises from July 1994 until November 1999 and was President and Chief Executive Officer of Price Enterprises from July 1994 until September 1997. Mr. Price was Chairman of the Board of Price/Costco, Inc., which we refer to as Costco, from October 1993 to December 1994. From 1976 to October 1993, he was Chief Executive Officer and a director of The Price Company. Mr. Price served as Chairman of the Board of The Price Company from January 1989 to October 1993, and as its President from 1976 until December 1990. Mr. Price has also been a Manager of The Price Group since August 2000.

James F. Cahill was Vice Chairman of the Board of Directors of our company from April 2003 to March 2005, served as our Interim Chief Financial Officer from September 2003 to December 2003 and was a director of our company from November 1999 to March 2005. Mr. Cahill also served as a director of Price Enterprises from August 1997 to September 2001. In September 2001, Price Enterprises completed a merger transaction with its former parent, Excel Legacy Corporation, a Delaware corporation, pursuant to which a subsidiary of Price Enterprises was merged with and into Excel Legacy. Upon completion of the merger, Excel Legacy became a wholly owned subsidiary of Price Enterprises, which changed its name to Price Legacy Corporation, and Mr. Cahill continued to serve as a director until June 2004. Additionally, Mr. Cahill was Executive Vice President of Price Entities from January 1987 until March 2005. In this position he was responsible for the oversight and investment activities of the financial portfolio of Sol Price, founder of The Price Company and related entities. Prior to 1987, Mr. Cahill was employed by The Price Company for ten years, with his last position being Vice President of Operations. Mr. Cahill was a Manager of The Price Group from August 2000 to March 2005. On March 28, 2005, Mr. Cahill resigned as a director of our company.

Murray L. Galinson has been a director of our company since November 2000. Mr. Galinson served as a director of Price Enterprises from August 1994 until November 1999 and from January 2001 until September 2001, and he served as a director of Price Legacy from September 2001 to December 2004. Additionally, Mr. Galinson has been Chairman of the Board of San Diego National Bank since May 1996 and has served as a

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director of San Diego National Bank since its inception in 1981. Mr. Galinson also served as President and Chief Executive Officer of San Diego National Bank from September 1984 to September 1997 and was Chairman of the Board and Chief Executive Officer of SDNB Financial Corporation from 1985 to 1997. Mr. Galinson has also been a Manager of The Price Group since August 2000.

Katherine L. Hensley has been a director of our company since July 1997 and served as a director of Price Enterprises from December 1994 until July 1997. She is a retired partner of the law firm of O Melveny & Myers in Los Angeles, California. Ms. Hensley joined O Melveny & Myers in 1978 and was a partner from 1986 to February 1992. From 1994 to 2000, Ms. Hensley served as a trustee of Security First Trust, an open-end investment management company registered under the Investment Company Act of 1940.

Leon C. Janks has been a director of our company since July 1997 and served as a director of Price Enterprises from March 1995 until July 1997. He has been a partner in the accounting firm of Green, Hasson & Janks LLP in Los Angeles, California since 1980 and serves as its Managing Director. Mr. Janks has extensive experience in domestic and international business, serving a wide variety of clients in diverse businesses, and is a certified public accountant.

Lawrence B. Krause has been a director of our company since July 1997. Mr. Krause has been a Professor and the Director of the Korea-Pacific Program at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego since 1986. He became a Professor Emeritus in 1997. Mr. Krause also serves on advisory boards for a number of institutions including the Institute for International Economics, the Korea Economic Institute, the Committee on Asian Economic Studies and the U.S. National Committee for Pacific Economic Cooperation.

Angel Losada M. has been a director of our company since January 2002. Since May 2003, Mr. Losada has been Chairman of the Board of Directors of Gigante, one of Mexico s largest grocery and retail store chains, after having served as Vice-Chairman of Gigante since 1973. Mr. Losada has also served as Executive President of Gigante since 2000. In addition, Mr. Losada 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. Gigante beneficially owns approximately 9.5% of the outstanding common stock. Mr. Losada also serves as Chairman of the Board of Directors of Office Depot de México, S.A. de C.V.; Chairman of the Board of Directors of Radio Shack de México, S.A. de C.V.; Chairman of the Board of Directors of Cafeterías Tok s de México, S.A. de C.V.; a director of the Food Marketing Institute; a director of Teléfonos de México, S.A. de C.V.; and a director of Grupo Financiero Banamex-Citigroup, S.A. Mr. Losada has served as Chairman of the Mexican National Association of Retailers; and as a director of Mexico City s National Chamber of Commerce, Casa de Bolsa Inverlat, S.A., and Seguros América, S.A.

Jack McGrory has been a director of our company since November 2000. Mr. McGrory served as Chairman of the Board of Price Legacy from September 2001 to December 2004, served as President and Chief Executive Officer of Price Legacy from October 2003 to December 2004, and was President and Chief Executive Officer of Price Enterprises from September 1997 until November 1999. Mr. McGrory also serves as a director of the San Diego Padres, L.P. and was its Executive Vice President and Chief Operating Officer from September 1999 until August 2000. From March 1991 through August 1997, Mr. McGrory served as City Manager of San Diego. Mr. McGrory has also been a Manager of The Price Group since August 2000.

Edgar A. Zurcher has been a director of our company since November 2000. Mr. Zurcher has been a partner in the law firm Zurcher, Montoya & Zurcher in Costa Rica since 1980. Additionally, Mr. Zurcher has been a director and 9.1% shareholder of PSC, S.A. (which previously owned 49% of PSMT Caribe, Inc.) since its inception in September 1998. PSC, S.A. beneficially owns approximately 49% of PriceSmart Nicaragua, 7.5% of PriceSmart Jamaica and 4.3% of the outstanding common stock of our company.

Jose Luis Laparte has been President of our company since October 2004 and served as a consultant for our company from December 2003 to October 2004. Prior to joining our company as a consultant, Mr. Laparte worked more than 14 years for Wal-Mart Stores, Inc. in Mexico and the United States in progressively

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responsible positions. From October 2002 through September 2003, he served as Vice President of Sam s International, where he directed and managed the company s operations, finance, sales, marketing, product development and merchandising. From May 2000 to October 2002, he served as Vice President, Wal-Mart de Mexico, responsible for sales and the expansion of the Sam s Club format in Mexico.

William J. Naylon has been Executive Vice President and Chief Operating Officer of our company since January 2002. Mr. Naylon served as Executive Vice President Merchandising of our company from July 2001 until January 2002 and as Senior Vice President of our company from March 1998 until July 2001. From September 1995 through February 1998, Mr. Naylon was Managing Director for our licensee warehouse club operation in Indonesia. Prior to joining our company, Mr. Naylon was a General Manager for Costco and had served in various management roles for The Price Company.

John M. Heffner has been Executive Vice President and Chief Financial Officer of our company since January 2004 after having served as a consultant to our company on financial matters from September 2003 through December 2003. From February 2000 until August 2003, Mr. Heffner was Vice President of Finance and CFO of Kyocera Wireless Corp. Mr. Heffner s previous professional experience was with Digital Equipment Corporation where he held a variety of financial management roles over a 20 year period from 1978 to 1998, and more recently with QUALCOMM Incorporated, where he was a Vice President of Finance from July 1998 until February 2000. Mr. Heffner is a graduate of St. Lawrence University and received an MBA from Syracuse University.

Brud E. Drachman has been Executive Vice President Real Estate and Construction of our company since November 2002 and served as Senior Vice President Real Estate and Construction of our company from August 1998 to October 2002. Mr. Drachman previously served as Vice President Real Estate and Construction at Price Enterprises from August 1994 to August 1997. Prior to joining Price Enterprises in 1994, Mr. Drachman served as Project Manager at The Price Company since 1987.

Robert M. Gans has been Executive Vice President, General Counsel and Secretary of our company since August 1997 and was Executive Vice President and General Counsel of Price Enterprises from October 1994 until July 1997. Mr. Gans graduated from the UCLA School of Law in 1975 and actively practiced law in private practice from 1975 until 1994. From 1988 until October 1994, Mr. Gans was the senior member of the law firm of Gans, Blackmar & Stevens, A.P.C., of San Diego, California.

John D. Hildebrandt has been Executive Vice President Central America Operations since February 2004. Mr. Hildebrandt served as Executive Vice President Caribbean and Central America Operations from August 2003 to January 2004, served as Executive Vice President Caribbean and Asia Operations from July 2001 until July 2003 and served as Senior Vice President of our company from September 2000 until July 2001. Mr. Hildebrandt previously served as Vice President of our company from September 1998 until August 2000, overseeing operations in Central America. Mr. Hildebrandt served as our Country Manager in the Philippines and Panama from August 1997 until August 1998, and as Price Enterprises Country Manager in the Philippines and Panama from 1996 until our company was spun off from Price Enterprises in August 1997. Prior to joining Price Enterprises as Country Manager in 1996, Mr. Hildebrandt was a Senior Operations Manager of Costco from 1994 through 1996, and had served in various management roles for The Price Company since 1979.

Thomas D. Martin has been Executive Vice President Merchandising of our company since October 1998 and served as Senior Vice President of our company from August 1997 to September 1998. Mr. Martin previously served as Vice President of Price Enterprises from August 1994 until July 1997, directing merchandising strategies and product sourcing for its international merchandising business, in addition to managing its trading company activities. Prior to joining Price Enterprises as Vice President in August 1994, Mr. Martin served as Vice President of Costco from October 1993 to December 1994 and had served in various management roles for The Price Company.

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Edward Oats has been Executive Vice President Information Technology and Logistics of our company since November 2002 and served as Senior Vice President Logistics/Information Technology of our company from May 2000 to October 2002. Mr. Oats previously served as Vice President of Information Technology of our company from August 1997 to April 2000, and as International IT Manager of Price Enterprises from 1993 to 1997. From 1981 to 1993, Mr. Oats served as Operations Manager at The Price Company.

Information Regarding the Board

Committees of the Board

Audit Committee. The Audit Committee, which consists of Messrs. Janks and Krause and Ms. Hensley, oversees our accounting and financial reporting processes and the audits of our financial statements. The Committee reviews the annual audits conducted by our independent public accountants, reviews and evaluates internal accounting controls, is responsible for the selection of our independent public accountants, and conducts such reviews and examinations as it deems necessary with respect to the practices and policies of, and the relationship between us and our independent public accountants.

Compensation Committee. The Compensation Committee, which consists of Messrs. Janks and Krause and Ms. Hensley, reviews and approves the compensation program for our executive officers. The Committee is authorized to evaluate and determine the compensation of the Corporation s Chief Executive Officer, and reviews and approves all such compensation for all other executive officers. The Committee also administers, interprets and makes grants under our stock option plans.

Nominating Committee. The Nominating Committee, which consists of Ms. Hensley and Mr. Price, may evaluate and recommend candidates to fill vacancies on the Board of Directors or any committee thereof, which vacancies may be created by the departure of any directors, or the expansion of the number of members of the Board. The Nominating Committee may also consider the slate of nominees to be presented for reelection at the Annual Meeting. The Nominating Committee gives appropriate consideration to qualified persons recommended by stockholders for nomination as directors provided that such recommendations are made in accordance with our bylaws and are accompanied by information sufficient to enable the Nominating Committee to evaluate the qualifications of the nominee.

Executive Committee. The Executive Committee, which consists of Messrs. Price and Janks, has all powers and rights necessary to exercise the full authority of the board of directors in the management of the business and affairs of our company, except as provided in the Delaware General Corporation Law or our bylaws.

Finance Committee. The Finance Committee, which consists of Messrs. Janks, Krause and Price and Ms. Hensley, reviews and makes recommendations with respect to (1) annual budgets, (2) investments, (3) financing arrangements and (4) the creation, incurrence, assumption or guaranty by us of any indebtedness, obligation or liability, except, in each case, for any such transactions entered into in the ordinary course of business of our company.

Real Estate Committee. The Real Estate Committee, which consists of Messrs. McGrory and Price, reviews and approves the material terms (including the proposed site plan) upon which we lease, purchase, sell or develop real estate.

Governance Committee. The Governance Committee, which consists of Mr. Krause and Ms. Hensley, assists the board of directors in establishing corporate governance guidelines and other policies and procedures pertaining to corporate governance matters, and assists the Nominating Committee in evaluating potential nominees for directors of our company.

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Compensation of the Directors

Each non-employee director of our company receives $20,000 per year for serving on the board of directors. In addition, non-employee directors who serve on committees of the board of directors (in a capacity other than chairman of a committee) receive $500 for each meeting attended. The chairman of the Audit Committee receives $35,000 per year and the chairmen of the other committees of the board of directors receive $5,000 per year in addition to their other compensation as directors. Each director is eligible to receive stock grants and stock options pursuant to our 1997 Stock Option Plan, 1998 Equity Participation Plan, 2001 Equity Participation Plan and 2002 Equity Participation Plan. Under the 1997 Stock Option Plan, the 2001 Equity Participation Plan or the 2002 Equity Participation Plan, as then in effect, non-employee directors are entitled to receive initial grants of non-qualified stock options to purchase 3,000 shares of common stock upon becoming directors of our company and additional grants of options to purchase 1,000 shares of common stock on the date of each annual meeting of stockholders at which the director is re-elected to the board. Non-employee directors joining the board after July 1998 also are eligible to receive grants of non-qualified options under the 1998 Equity Participation Plan upon purchases of shares of common stock. For each such director who has purchased at least an aggregate of 500 shares of common stock on or after September 1, 1997, on the date such person purchases additional shares of common stock (other than upon the exercise of stock options), such person automatically will be granted a non-qualified stock option to purchase a number of shares of common stock equal to the difference between (1) three times the number of such shares of common stock actually purchased and (2) the number of shares of common stock subject to options previously granted to such director under the 1998 Equity Participation Plan. No director, however, may receive options under the 1998 Equity Participation Plan that are exercisable for more than 8,146 shares of common stock. The 1998 Equity Participation Plan further provides that each person who is initially elected to the board after the adoption by the board of the plan and who is an independent director at the time of such initial election automatically shall be granted on the date of such initial election the right to purchase 2,716 shares of common stock at a purchase price equal to the fair market value on the date of purchase.

Directors also receive reimbursement for travel expenses incurred in connection with their duties as directors.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table sets forth certain information concerning compensation for the fiscal years ended August 31, 2004, August 31, 2003 and August 31, 2002 received by our Interim Chief Executive Officer and four most highly compensated executive officers (other than the Interim Chief Executive Officer) who were serving as executive officers at the end of the last completed fiscal year. We refer to these individuals as the named executive officers.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Other Annual Compen-sation**	**Number of Securities Underlying Options(#)**	**All Other Compensation[1]**
Robert E. Price[2] Interim Chief Executive Officer	2004 2003 2002	$	$	$		$