PRICESMART INC
Form 10-Q/A
February 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended February 28, 2001

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ____________to ___________

COMMISSION FILE NUMBER 0-22793

PRICESMART, INC.
(Exact name of registrant as specified in its charter)

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

4649 Morena Boulevard
San Diego, California 92117
(Address of principal executive offices)

(858) 581-4530
(Registrant's telephone number, including area code)

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

The registrant had 6,108,085 shares of its common stock, par value $.0001 per share, outstanding at April 12, 2001.

PRICESMART, INC.

INDEX TO FORM 10-Q

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ITEM 1. FINANCIAL STATEMENTS

PriceSmart, Inc.'s ("PriceSmart" or the "Company") unaudited condensed consolidated balance sheet as of February 28, 2001, the condensed consolidated balance sheet as of August 31, 2000, and the unaudited condensed consolidated statements of operations, cash flows and stockholders' equity for the three months ended February 28, 2001 and February 29, 2000 are included elsewhere herein. Also included within are notes to the unaudited condensed consolidated financial statements.

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

This Quarterly Report contains forward-looking statements concerning the Company's anticipated future revenues and earnings, adequacy of future cash flow and related matters. These forward-looking statements include, but are not limited to, statements containing the words "expect", "believe", "will", "may", "should", "project", "estimate", "scheduled", and like expressions, and the negative thereof. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including the following risks: the Company's financial performance is dependent on international operations; the success of the Company's business requires effective assistance from local business people with whom the Company has established strategic relationships; any failure by the Company to manage its growth could adversely affect its business; the Company faces significant competition; the Company may encounter difficulties in the shipment of goods to its warehouses; the Company is exposed to weather and other risks associated with Central American, Caribbean and Asian operations; declines in the economies of the countries in which the Company operates its warehouse stores would harm its business; the loss of key personnel could harm the Company's business; and the Company is subject to volatility in foreign currency exchange; as well as the other risks described in the Company's SEC reports, including the Company's Form 10-K filed pursuant to the Securities Exchange Act on November 29, 2000.

The following discussion and analysis compares the results of operations for the three and six months ended February 28, 2001 (fiscal 2001) and February 29, 2000 (fiscal 2000), and should be read in conjunction with the condensed consolidated financial statements and the accompanying notes included within.

As of February 28, 2001, the Company had seventeen warehouse stores in operation in seven countries (four in Panama, three each in Costa Rica and the Dominican Republic, two each in El Salvador, Honduras, and Guatemala and one in Trinidad) of which the Company owns at least a majority interest. Subsequent to the end of the quarter, the Company opened an eighteenth warehouse on the island of Aruba. The Company currently anticipates opening a total of four additional warehouse stores (one each in the U.S. Virgin Islands, the Philippines, Guatemala and Barbados) bringing the total number of warehouses in operation to 22 by the end of fiscal 2001.

In fiscal 2000, the Company increased its ownership from 51% to 100% in the operations in Panama on March 27, 2000 and increased its ownership from 60% to 100% in the operations in Costa Rica, Dominican Republic, El Salvador and Honduras on July 7, 2000.

During the first six months of fiscal 2001, the Company opened one new US-style membership shopping warehouse in East Santo Domingo, Dominican Republic on October 12, 2000, bringing the total number of warehouse stores in operation to seventeen as of February 28, 2001. During the first six months of fiscal 2000, the Company opened four US-style membership shopping warehouses, bringing the total number of warehouses in operation to nine as of February 29, 2000. Also, there were six warehouse stores in operation (five in China and one in Saipan, Micronesia) licensed to and operated by local business people at the end of the second quarter of fiscal 2001, versus five licensed warehouse stores (four in China and one in Saipan, Micronesia) at the end of the second quarter of fiscal 2000.

The Company's strategy is to dominate metropolitan areas in emerging market countries by rapidly saturating these areas with second and third stores. Same-store-sales (where at least one-third of its stores have comparative prior period sales in metropolitan markets that have not had additional store openings), representing six of the seventeen warehouse stores in operation, increased 3.4% in the second quarter of fiscal 2001. As of February 28, 2001, the average life of the seventeen warehouses in operation was fourteen months.

COMPARISON OF THE THREE MONTHS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

Net warehouse sales increased 61% to $121.3 million in the second quarter of fiscal 2001, from $75.5 million in the second quarter of fiscal 2000. The increase is primarily attributable to the opening of eight new warehouses since the end of the second quarter of fiscal 2000. The Company benefits from seasonal holiday sales in the second quarter of each fiscal year, primarily in the month of December.

The Company's warehouse gross profit margins (defined as net warehouse sales less associated cost of goods sold) in the second quarter of fiscal 2001 increased to 14.6% from 12.4% in the second quarter of fiscal 2000. The increase in gross profit margins is a result of the Company's increased purchasing power and an increase in sales penetration of higher margin holiday U.S. products, non-food items and anticipated lower margins in the prior year quarter as the Company entered new markets. Warehouse gross profit margins are expected to exceed prior fiscal year margins during the remainder of fiscal 2001.

There were no export sales to the Company's licensee warehouses in Asia in the second quarter of fiscal 2001 compared to $146,000 in the second quarter of fiscal 2000. The Company does not anticipate significant export sales to its licensees in future periods.

Membership fees and other revenue, including royalties earned from licensees, increased 70% to $3.4 million in the second quarter of fiscal 2001 from $2.0 million in the second quarter of fiscal 2000. Membership fees and other income (which includes rental income, advertising revenues and vendor promotions) increased to $3.0 million, or 2.5% of net warehouse sales, in the second quarter of fiscal 2001 from $1.7 million, or 2.3% of net warehouse sales, in the second quarter of fiscal 2000. The increase between quarters was primarily a result of the eight new warehouse openings between the periods presented, which resulted in an increase in the total memberships to 448,000 from 264,000, or an increase of 70%, and increases in rental income and advertising revenues.

The Company sold its travel program in March 2000 (fiscal 2000), accounting for the decrease in travel program revenues over the prior period from $2.4 million in the second quarter of fiscal 2000 to none in the second quarter of fiscal 2001.

Warehouse operating expenses increased to $12.1 million, or 10.0% of net warehouse sales, in the second quarter of fiscal 2001 from $7.8 million, or 10.3% of net warehouse sales, in the second quarter of fiscal 2000. The increase in warehouse operating expenses is attributable to the eight additional warehouses opened since the second quarter of fiscal 2000. Also, on January 13, 2001 an earthquake, and subsequent aftershocks, occurred in Central America that impacted most particularly El Salvador. The Company has two warehouses operating in El Salvador, in the cities of San Salvador and Santa Elena. These two facilities had no structural damage and each was reopened shortly after the initial earthquake. The total losses sustained, net of reimbursable insurance amounts totaled approximately $120,000, which have been reflected as a part of warehouse operating expenses. Net warehouse sales for the operations in El Salvador were not impacted and did not have a materially adverse impact on the overall financial operating results of the Company. The decrease in operating expenses as a percentage of net warehouse sales is attributable to the leveraging of centralized warehouse costs over additional warehouses, general payroll savings and general operating cost reduction initiatives, offset by the earthquake expenses incurred.

General and administrative expenses were $4.4 million, or 3.6% of net warehouse sales, in the second quarter of fiscal 2001 compared with $4.4 million, or 5.8% of net warehouse sales, in the second quarter of fiscal 2000. As a percentage of net warehouse sales, general and administrative expenses have declined due to higher sales from the eight additional warehouse store openings between the periods presented. General and administrative expenses are anticipated to decrease on a quarter over quarter comparative basis for the remainder of fiscal 2001 as a result of certain one-time costs incurred in the prior fiscal year related to the Company's planned growth, offset slightly by anticipated expenses in connection with the Company's sales growth.

Preopening expenses, which represent expenses incurred before a warehouse store is in operation, decreased to $704,000 in the second quarter of fiscal 2001 from $905,000 in the second quarter of fiscal 2000. Preopening expenses have decreased as the Company anticipates opening a total of six warehouses in fiscal 2001 (one of

which opened in the first quarter) compared to eleven new warehouses that were opened in fiscal 2000 (two of which opened in the second quarter).

Interest income reflects earnings primarily on cash and cash equivalents, marketable securities and certain secured notes receivables from buyers of formerly owned properties. Interest income increased to $910,000 in the second quarter of fiscal 2001 from $839,000 in the second quarter of fiscal 2000. The change in interest income is due to the change in amounts between interest-bearing instruments held by the Company between the periods presented and the interest rate earned on those instruments.

Interest expense primarily reflects borrowings by the Company's majority or wholly owned foreign subsidiaries to finance the capital requirements of new warehouse store operations. Interest expense increased to $1.9 million in the second quarter of fiscal 2001 compared with $506,000 in the second quarter of fiscal 2000. The increase is directly attributable to an increase in the amount of debt and interest expense incurred on amounts borrowed between the periods presented.

Minority interest relates to an allocation of the joint venture income (losses) to the minority interest shareholders' respective interests.

During the second quarter of fiscal 2001, the Company sold excess real estate properties primarily owned by its majority owned foreign subsidiary in Trinidad. The sale of the excess land resulted in a gain of $648,000, of which the Company's share was $505,000.

COMPARISON OF THE SIX MONTHS ENDED FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

Net warehouse sales increased 80% to $226.6 million in the first half of fiscal 2001, from $125.9 million in the first half of fiscal 2000. The increase is primarily attributable to the opening of eight new warehouses since the end of the second quarter of fiscal 2000.

The Company's warehouse gross profit margins (defined as net warehouse sales less associated cost of goods sold) in the first half of fiscal 2001 increased to 14.2% from 12.5% in the first half of fiscal 2000. The increase in gross profit margins is a result of the Company's increased purchasing power and an increase in sales penetration of higher margin holiday U.S. products, non-food items and anticipated lower margins in the same prior year period as the Company entered new markets. Warehouse gross profit margins are expected to exceed prior fiscal year margins during the remainder of fiscal 2001.

There were no export sales to the Company's licensee warehouses in Asia in the first half of fiscal 2001 compared to $421,000 in the first half of fiscal 2000. The Company does not anticipate significant export sales to its licensees in future periods.

Membership fees and other revenue, including royalties earned from licensees, increased 100% to $6.6 million in the first half of fiscal 2001 from $3.3 million in the first half of fiscal 2000. Membership fees and other income (which includes rental income, advertising revenues and vendor promotions) increased to $5.9 million, or 2.6% of net warehouse sales, in the first half of fiscal 2001 from $2.9 million, or 2.3% of net warehouse sales, in the first half of fiscal 2000. The increase between quarters was primarily a result of the eight new warehouse openings between the periods presented, which resulted in an increase in the total memberships to 448,000 from 264,000, or an increase of 70%, and increases in rental income and advertising revenues.

The Company sold its travel program in March 2000 (fiscal 2000), accounting for the decrease in travel program revenues over the prior period from $4.0 million in the first half of fiscal 2000 to none in the first half of fiscal 2001.

Warehouse operating expenses increased to $23.4 million, or 10.3% of net warehouse sales, in the first half of fiscal 2001 from $13.7 million, or 10.9% of net warehouse sales, in the first half of fiscal 2000. The increase in warehouse operating expenses is attributable to the eight additional warehouses opened since the second quarter of fiscal 2000. Also, on January 13, 2001 an earthquake, and subsequent aftershocks, occurred in Central America that impacted most particularly El Salvador. The Company has two warehouses operating in El Salvador, in the cities of San Salvador and Santa Elena. These two facilities had no structural damage and each was reopened shortly after the initial earthquake. The total losses sustained, net of reimbursable insurance amounts totaled approximately $120,000, which have been reflected as a part of warehouse operating expenses. Net warehouse sales for the operations in El Salvador were not impacted and did not have a materially adverse impact on the overall financial operating results of the Company. The decrease in operating expenses as a percentage of net warehouse sales is attributable to the

leveraging of centralized warehouse costs over additional warehouses, general payroll savings and general operating cost reduction initiatives, offset by the earthquake expenses incurred.

General and administrative expenses were $8.7 million, or 3.8% of net warehouse sales, in the second quarter of fiscal 2001 compared with $8.5 million, or 6.7% of net warehouse sales, in the second quarter of fiscal 2000. As a percentage of net warehouse sales, general and administrative expenses have declined due to higher sales from the eight additional warehouse store openings between the periods presented. General and administrative expenses are anticipated to decrease on a quarter over quarter comparative basis for the remainder of fiscal 2001 as a result of certain one-time costs incurred in the prior fiscal year related to the Company's planned growth, offset slightly by anticipated expenses in connection with the Company's sales growth.

Preopening expenses, which represent expenses incurred before a warehouse store is in operation, decreased to $1.2 million in the first half of fiscal 2001 from $3.3 million in the first half of fiscal 2000. Preopening expenses have decreased as the Company anticipates opening a total of six warehouses in fiscal 2001 (one of which opened in the first quarter) compared to eleven new warehouses that were opened in fiscal 2000, (four of which opened in the first and second quarters).

Interest income reflects earnings primarily on cash and cash equivalents, marketable securities and certain secured notes receivables from buyers of formerly owned properties. Interest income decreased to $1.7 million in the first half of fiscal 2001 from $1.9 million in the first half of fiscal 2000. The change in interest income is due to the change in amounts between interest-bearing instruments held by the Company between the periods presented and the interest rate earned on those instruments.

Interest expense primarily reflects borrowings by the Company's majority or wholly owned foreign subsidiaries to finance capital requirements of new warehouse store operations. Interest expense increased to $3.9 million in the first half of fiscal 2001 compared with $817,000 in the first half of fiscal 2000. The increase is directly attributable to an increase in the amount of debt and interest expense incurred on amounts borrowed between the periods presented.

Minority interest relates to an allocation of the joint venture income (losses) to the minority interest shareholders' respective interests.

During the first half of fiscal 2001, the Company sold excess real estate properties owned by its wholly owned foreign subsidiaries in the Dominican Republic, Costa Rica and its majority owned foreign subsidiary in Trinidad. The sale of the excess land resulted in a gain of $1.8 million, of which the Company's share was $1.3 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital requirements are the financing of land, construction and equipment costs associated with new warehouse stores, plus the cost of preopening and working capital requirements.

For fiscal 2001, the Company's current intention is to spend an aggregate of approximately $50.4 million, which includes $39.0 million for construction, equipment and working capital for six new warehouses and approximately $11.4 million for the redemption of common stock of the Company. Actual capital expenditures for new warehouse locations and operations may vary from estimated amounts depending on the number of new warehouses actually opened, business conditions and other risks and uncertainties to which the Company and its businesses are subject. The Company, primarily through its foreign subsidiaries, intends to borrow approximately $26 million during fiscal 2001, and to use these proceeds, as well as excess cash and cash equivalents and cash generated from existing operations, to finance these expenditures.

In March 2000, the Company entered into a Stock Purchase Agreement to acquire the remaining interest in the PriceSmart Panama majority owned subsidiary ("Panama Acquisition"), which previously had been 51% owned by the Company and 49% owned by BB&M International Trading Group ("BB&M"), whose principals are several Panamanian businessmen, including Rafael Barcenas, a director of PriceSmart. In exchange for BB&M's

49% interest, PriceSmart issued to BB&M's principals 306,748 shares of PriceSmart common stock. As a result of this acquisition, PriceSmart, Inc. increased its guarantee for the outstanding loans related to the Panama operations to 100%. Under the Stock Purchase Agreement, as amended, related to the Panama Acquisition, the Company agreed to redeem the shares of the Company's common stock issued to BB&M at a price of $46.86 per share following the one-year anniversary of the completion of the acquisition upon the request of BB&M's principals. On April 5, 2001, the Company repurchased 242,144 shares of its common stock, par value $.0001 par value per share, for an aggregate of approximately $11.4 million in cash. The Company has agreed to redeem, at its option for cash or additional stock, the remaining 64,604 shares following the second anniversary of the completion of the acquisition at the price of $46.86 per share upon the holders' request.

On January 25, 2001, the Company entered into two loan agreements with the International Finance Committee ("IFC") for a total of $32.0 million and has received commitments from the Overseas Private Investment Corporation ("OPIC") to loan to the Company $10.0 million for a total of $42.0 million. Approximately $28.0 million will be used to repay certain existing loans outstanding with the remainder to be used to finance new warehouse expenditures as described above. The funding of the IFC and OPIC loans is subject to the execution of loan agreements (in the case of OPIC) and the fulfillment of all approved conditions, which include the perfection of the underlying security for these loans. The Company expects initial funding of the IFC loan to occur shortly, with the funding of the balance of the IFC loan and the OPIC loan to follow shortly thereafter.

Subsequent to the end of the quarter, the Company entered into a loan agreement for $6.0 million to finance the construction of a new warehouse located in St. Thomas, U.S. Virgin Islands.

The Company believes that borrowings under its current and future credit facilities, together with its other sources of liquidity (including the IFC and OPIC loans), will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future. However, if such sources of liquidity are insufficient to satisfy the Company's liquidity requirements, the Company may need to sell equity or debt securities, obtain additional credit facilities or reduce the number of anticipated warehouse openings. Furthermore, the Company has and will continue to consider sources of capital, including the sale of equity or debt securities to strengthen its financial position and liquidity. There can be no assurance that such financing alternatives will be available under favorable terms, if at all.

SEASONALITY

Historically, the Company's merchandising businesses have experienced moderate holiday retail seasonality in their markets. In addition to seasonal fluctuations, the Company's operating results fluctuate quarter-to-quarter as a result of economic and political events in markets served by the Company, the timing of holidays, weather, 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 the Company's future results will be consistent with past results or the projections of securities analysts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company, through its majority or wholly owned subsidiaries, conducts foreign operations primarily in Central America and the Caribbean, and as such is subject to both economic and political instabilities that cause volatility in foreign currency exchange rates or weak economic conditions. As of February 28, 2001, the Company had a total of seventeen warehouses operating in seven foreign countries. For the first half of fiscal 2001, approximately 70% of the Company's net warehouse sales were in foreign currencies. The Company currently has operations in Panama and will have operations in the U.S. Virgin Islands, both of which are U.S. dollar denominated currencies. In addition, effective January 1, 2001, the government of El Salvador changed its currency to the U.S. dollar.

The Company plans to enter into additional foreign countries in the future, which may involve similar economic and political risks as well as challenges that are different from those currently encountered by the Company. The

Company believes that because its present operations and expansion plans involve numerous countries and currencies, the effect from any one-currency devaluation may not significantly impact the overall financial or operating results of the Company. However, there can be no assurance that the Company will not experience a materially adverse effect on the Company's financial condition as a result of the economic and political risks of conducting an international merchandising business.

Translation adjustments from the Company's non-U.S. denominated majority or wholly owned subsidiaries were $794,000 and $388,000 as of February 28, 2001 and August 31, 2000, respectively.

Foreign currencies in most of the countries where the Company operates have historically devalued against the U.S. dollar and are expected to continue to devalue. Managing foreign exchange is critical for operating successfully in these markets and the Company at times manages its risks through a combination of hedging currencies through Non Deliverable Forward Exchange Contracts (NDFs) and internal hedging procedures. For the three months ended February 28, 2001, the Company had not entered into any NDFs. However, the Company may purchase NDFs in the future to mitigate foreign exchange losses, but due to the volatility and lack of derivative financial instruments in the countries the Company operates, significant risk from unexpected devaluation of local currencies exists. Foreign exchange transaction losses realized, which are included as a part of the costs of goods sold in the condensed consolidated statements of operations, for the six months ended February 28, 2001were not material as foreign currency rates have been relatively stable and any devaluation has been mitigated through internal hedging procedures.

The Company is also exposed to changes in interest rates on various bank loan facilities. A hypothetical 100 basis point adverse change in interest rates along the entire interest rate yield curve would adversely affect the Company's pretax net income (loss) by approximately $575,000.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on January 24, 2001 at the Hilton San Diego Mission Valley in San Diego, California. Stockholders of record at the close of business on November 28, 2000 were entitled to notice of and to vote in person or by proxy at the Annual Meeting. As of the record date there were 6,296,182 shares outstanding and entitled to vote. The matter presented for vote received the required votes for approval and had the following total votes for and withheld, as noted below.

1. To elect directors for the ensuing year, to serve until the next Annual Meeting of Stockholders and until their successors are elected and have qualified:

	Votes For	Votes Withheld
Rafael E. Barcenas	5,328,317	19,258
James F. Cahill	5,338,895	8,680
Murray L. Galinson	5,338,868	8,707
Katherine L. Hensley	5,338,820	8,755
Leon C. Janks	5,338,878	8,697
Lawrence B. Krause	5,338,645	8,930
Jack McGrory	5,337,946	9,629
Gilbert A. Partida	5,338,842	8,733
Robert E. Price	5,338,795	8,780
Edgar A. Zurcher	5,338,543	9,032

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.1 Fourth Amendment of Employment Agreement between the Company and K.C. Breen, dated January 24, 2001.

10.2 Fourth Amendment of Employment Agreement between the Company and Thomas Martin, dated January 24, 2001.

10.3 Master Agreement between PriceSmart, Inc. and Payless ShoeSource Holdings, Ltd., dated November 27, 2000.

10.4 Licensee Agreement - PRC Technology License Agreement, as amended, between PriceSmart, Inc. and Novont Holdings Co., LTD. and Novont Inc., dba Timetone International Group and Cheng Cheng Import Export Co., Ltd., dated February 28, 2001.

10.5 (a) Loan Agreement by and between CitiBank, N.A. and PriceSmart (Guatemala), S.A., dated December 19, 2000 for $1.5 million (in Spanish).

10.5 (b) Loan Agreement by and between CitiBank, N.A. and PriceSmart (Guatemala), S.A., dated December 19, 2000 for $1.5 million (in English).

10.6 Loan Agreement among PriceSmart, Inc., PSMT Caribe, Inc., PSMT Trinidad / Tobago Limited, and International Finance Corporation, dated January 26, 2001 for $22 million.

10.7 Loan Agreement among PriceSmart, Inc., PSMT Caribe, Inc., PSMT Trinidad / Tobago Limited, and International Finance Corporation, dated January 26, 2001 for $10 million.

10.8 Escrow Account Agreement among PriceSmart, Inc., International Finance Corporation and The Bank of New York, dated January 26, 2001 for $7.5 million.

(b) No reports on Form 8-K were filed for the three months ended February 28, 2001

SIGNATURES

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

PriceSmart, Inc.

Date: February 14, 2002 /s/ Gilbert A. Partida

Gilbert A. Partida
President and Chief Executive Officer

Date: February 14, 2002 /s/ Allan C. Youngberg

Allan C. Youngberg
Executive Vice President,
Chief Financial Officer

PRICESMART, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

	February 28, 2001 (Unaudited)	Augus 20
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,967	$ 2
Marketable securities	5,514	
Receivables, net of allowance for doubtful accounts	1,855	
Other receivables	5,455	
Merchandise inventories	53,726	5
Prepaid expenses and other current assets	5,937	
Property held for sale	726	
Total current assets	95,180	9
Restricted cash	12,485	1
Property and equipment, net	140,561	12
Goodwill, net	18,693	1
Notes receivable and other	2,824	
TOTAL ASSETS	$ 269,743	$ 26
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 10,000	$
Accounts payable	45,339	4
Accrued salaries and benefits	3,130	
Deferred membership income	3,479	
Other accrued expenses	5,714	
Long-term debt, current portion	7,964	
Total current liabilities	75,626	7
Long-term debt	50,345	5
Total liabilities	125,971	12
Minority interest	7,943	
Commitments and contingencies	--	
STOCKHOLDERS' EQUITY:		
Preferred stock, $.0001 par value, 2,000,000 shares authorized, none issued	--	
Common stock, $.0001 par value, 15,000,000 shares authorized, 6,884,438 and 6,812,485 shares issued and outstanding at February 28, 2001 and August 31, 2000, respectively	1	
Additional paid-in capital	149,562	14
Notes receivable from stockholders	(1,000)	(
Deferred compensation	(493)	
Accumulated other comprehensive loss	(794)	
Accumulated deficit	(2,948)	(
Less: Treasury stock at cost, 548,231 and 555,093 shares at February 28, 2001 and August 31, 2000, respectively	(8,499)	(
Total stockholders' equity	135,829	13
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 269,743	$ 26

See accompanying notes.

PRICESMART, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED - DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)

	Three Months Ended		Six Months
	February 28, 2001	February 29, 2000	February 28, 2001
Revenues:			
Sales:			
Net warehouse	$ 121,305	$ 75,458	$ 226,558
Export	--	146	--
Membership fees and other	3,405	1,963	6,558
Travel program	--	2,384	--
Total revenues	124,710	79,951	233,116
Expenses:			
Cost of goods sold:			
Net warehouse	103,592	66,131	194,307
Export	--	139	--
Selling, general and administrative:			
Warehouse operations	12,072	7,842	23,350
General and administrative	4,388	4,384	8,711
Travel program expenses	--	394	--
Goodwill amortization	243	--	485
Preopening expenses	704	905	1,181
Total expenses	120,999	79,795	228,034
Operating income (loss)	3,711	156	5,082
Other income (expense):			
Interest income	910	839	1,741
Interest expense	(1,906)	(506)	(3,884)
Other income (expense)	(9)	32	(9)
Gain on sale of real estate	648	--	1,776
Minority interest	(249)	(227)	(869)
Total other income (expense)	(606)	138	(1,245)
Income (loss) before provision for income taxes	3,105	294	3,837
Provision for income taxes	591	87	477

Net income (loss)	$ 2,514	$ 207	$ 3,360	$
Basic earnings (loss) per share	$ 0.40	$ 0.04	$ 0.53	$
Diluted earnings (loss) per share	$ 0.38	$ 0.04	$ 0.50	$
Shares used in computation (000's):				
Basic	6,323	5,114	6,293	
Diluted	6,696	5,734	6,716	

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PRICESMART, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED - DOLLARS IN THOUSANDS)

	Six Months Ended	
	February 28, 2001	February 2000
OPERATING ACTIVITIES		
Net income (loss)	$ 3,360	$ (2
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,063	1
Goodwill amortization	485	
Gain on sale of real estate	(1,776)	
Allowance for doubtful accounts	20	
Income tax charge	477	
Minority interest	869	
Compensation expense recognized for stock options	186	
Change in operating assets and liabilities:		
Restricted cash	213	6
Receivables and other assets	(4,939)	(6
Accounts payable and other liabilities	784	1
Net cash flows provided by operating activities	3,742	
INVESTING ACTIVITIES		
Sale of marketable securities	--	12
Additions to property and equipment	(17,037)	(39
Payments of notes receivable	3,992	
Proceeds from sale of real estate	3,339	
Proceeds from property held for sale	926	
Other	62	
Net cash flows used in investing activities	(8,718)	(26
FINANCING ACTIVITIES		
Net proceeds from issuance of debt	6,089	23
Repayments of debt	(6,578)	

Contributions by minority interest shareholders	2,391	4
Proceeds from exercise of stock options	699	1
Payment on notes receivable from stockholders	--	
Net cash flows provided by financing activities	2,601	28
Effect of exchange rate changes on cash and cash equivalents	(161)	
Net increase (decrease) in cash and cash equivalents	(2,536)	2
Cash and equivalents beginning of period	24,503	14
Cash and equivalents end of period	$ 21,967	$ 17
Supplemental disclosure of cash flow information Cash paid during the period for:		
Interest (excludes amounts capitalized)	$ 3,543	$
Income taxes	$ 729	$

See accompanying notes.

PRICESMART, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED FEBRUARY 28, 2001
(UNAUDITED - DOLLARS IN THOUSANDS EXCEPT SHARE DATA)

	Common Shares	stock Amount	Additional Paid-in Capital	Notes Receivable from Stockholders	C
Balance at August 31, 2000	6,813	$1	$148,970	$(1,000)	
Exercise of stock options	71	--	592	--	
Amortization of deferred compensation	--	--	--	--	
Net income	--	--	--	--	
Net unrealized gain on marketable securities	--	--	--	--	
Translation adjustment	--	--	--	--	
Comprehensive income	--	--	--	--	

Balance at February 28, 2001	6,884	$1	$149,562	$(1,000)

	Accumulated Deficit	Less: Treasury stock at Cost Shares	Less: Treasury stock at Cost Amount	Total Stockholders' Equity
Balance at August 31, 2000	$(6,308)	555	$(8,606)	$131,683
Exercise of stock options	--	(7)	107	699
Amortization of deferred compensation	--	--	--	186
Net income	3,360	--	--	3,360
Net unrealized gain on marketable securities	--	--	--	62
Translation adjustment	--	--	--	(161)
Comprehensive income	--	--	--	3,261
Balance at February 28, 2001	$(2,948)	548	$(8,499)	$135,829

See accompanying notes.

PRICESMART, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
February 28, 2001

NOTE 1 - COMPANY OVERVIEW AND BASIS OF PRESENTATION

PriceSmart, Inc.'s ("PriceSmart" or the "Company") business consists of international membership shopping stores similar to, but smaller in size than, warehouse clubs in the United States. As of February 28, 2001, the Company had seventeen warehouse stores in operation in seven countries (four in Panama, three each in Costa Rica and the Dominican Republic, two each in El Salvador, Honduras, and Guatemala and one in Trinidad) of which the Company owns at least a majority interest. Subsequent to the end of the quarter, the Company opened an eighteenth warehouse on the island of Aruba. During fiscal year 2000, the Company increased its ownership from 51% to 100% in the operations in Panama on March 27, 2000 and increased its ownership from 60% to 100% in the operations in Costa Rica, Dominican Republic, El Salvador and Honduras on July 7, 2000 (see Note 8). In addition, there were six warehouse stores in operation (five in China and one in Saipan) licensed to and operated by local business people as of February 28, 2001.

Additionally, until March 1, 2000 of fiscal 2000, the Company operated a domestic travel program (see Note 7).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The condensed consolidated interim financial statements of the Company included herein include the assets, liabilities and results of operations of the Company's majority and wholly owned subsidiaries as listed below. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated interim financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), and reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations, and cash flows for the interim period presented. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. The results for interim periods are not necessarily indicative of the results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's audited consolidated financial statements for the year ended August 31, 2000 filed on Form 10-K.

	Ownership	Basis of Presentation
Ventures Services, Inc.	100.0%	Consolidated
PriceSmart Panama	100.0%	Consolidated
PriceSmart US Virgin Islands	100.0%	Consolidated
PriceSmart Guatemala	66.0%	Consolidated
PriceSmart Trinidad	62.5%	Consolidated
PriceSmart Aruba	60.0%	Consolidated
PriceSmart Barbados	60.0%	Consolidated
PriceSmart Philippines	60.0%	Consolidated
PSMT Caribe, Inc.:		
Costa Rica	100.0%	Consolidated
Dominican Republic	100.0%	Consolidated
El Salvador	100.0%	Consolidated
Honduras	100.0%	Consolidated

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

CASH AND CASH EQUIVALENTS: Cash and cash equivalents represent cash and short-term investments with maturities of three months or less when purchased.

PriceSmart, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

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

MERCHANDISE INVENTORIES: Merchandise inventories, which include merchandise for resale, are valued at the lower of cost (average cost) or market.

PROPERTY AND EQUIPMENT: Property and equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, as follows:

Building and improvements	10-25 years
Fixtures and equipment	3-15 years

FOREIGN CURRENCY TRANSLATION: In accordance with SFAS No. 52 "Foreign Currency Translation", the assets and liabilities of the Company's foreign operations are translated to U.S. dollars using the exchange rates at the balance sheet date, and revenues and expenses are translated at average rates prevailing during the period. Related translation adjustments are recorded as a component of accumulated comprehensive income.

BUSINESS COMBINATIONS: For business combinations accounted for under the purchase method of accounting, the Company includes the results of operations of the acquired business from the date of acquisition. Net assets of the acquired business are recorded at their fair value at the date of acquisition. The excess of the purchase price over the fair value of tangible net assets acquired is included in goodwill in the accompanying consolidated balance sheets, and is being amortized over a 20 year period.

RECLASSIFICATIONS: Certain prior period interim condensed consolidated financial statement amounts have been reclassified to conform to current period presentation.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	February 28, 2001	August 31, 2000
Land	$ 28,272	$ 29,779
Building and improvements	68,010	61,649
Fixtures and equipment	46,189	40,299
Construction in progress	10,607	5,712
	153,078	137,439
Less: accumulated depreciation	(12,517)	(8,454)
Property and equipment, net	$ 140,561	$ 128,985

Building and improvements includes capitalized interest of $1.0 million and $891,000 as of February 28, 2001 and August 31, 2000, respectively.

PriceSmart, Inc.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 4 - EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		Six Months E
	February 28, 2001	February 29, 2000	February 28, 2001
Net income (loss)	$ 2,514	$ 207	$ 3,360
Determination of shares (000's):			
Average common shares outstanding	6,323	5,114	6,293
Assumed conversion of stock options	373	620	423
Dilutive average common shares outstanding	6,696	5,734	6,716
Basic earnings (loss) per share	$ 0.40	$ 0.04	$ 0.53
Dilutive earnings (loss) per share	$ 0.38	$ 0.04	$ 0.50

NOTE 5 - COMMITMENTS AND CONTINGENCIES

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

NOTE 6 - SHORT-TERM BORROWINGS AND DEBT

As of February 28, 2001, the Company, through its majority or wholly owned subsidiaries, had $11 million outstanding in short-term bank borrowings through six separate facilities, which are secured by certain assets of its subsidiaries and are guaranteed by the Company up to its respective ownership percentage. Each of the facilities expires during the year and typically are renewed. As of February 28, 2001, the Company had drawn down the full amounts for five of the facilities and had availability of approximately $10 million under the sixth.

All debt is collateralized by certain land, building, fixtures and equipment of each respective subsidiary and guaranteed by the Company up to its respective ownership percentage, except for approximately $11.3 million as of February 28, 2001, which are secured by collateral deposits for the same amount and are included in restricted cash on the balance sheet (see Note 10).

On January 25, 2001, the Company entered into two loan agreements with the International Finance Committee ("IFC") for a total of $32.0 million. Under the $22.0 million facility, the term of the loan is for a period of ten years and interest is calculated on the basis of LIBOR plus 4.0% and due semi-annually. Beginning in March

2003, minimum principal payments of $1.4 million are due semi-annually. Under the $10 million facility, the term of the loan is for a period of ten years and interest is calculated on the basis of LIBOR plus 2.0% and due semi-annually. The full principal amount of the loan is due at the end of the term. The loan agreements are to be secured by certain land, building, fixtures and equipment, a pledge of the Company's equity interests underlying the loans as well as $7.5 million to be held in escrow. The loans are also subject to certain financial and operating covenants. The funding of the IFC loans is subject to fulfillment of all approved conditions, which include the perfection of the underlying security of these loans. The Company anticipates the funding of these loans to occur shortly, of which approximately $28 million will be utilized to extinguish certain existing debt with the remainder to be used to finance new warehouse expenditures.

NOTE 7 - SALE OF ASSETS

On March 1, 2000, the Company sold its travel program for $1.5 million to Club-4U, Inc. under an asset purchase agreement ("purchase agreement"). Under the purchase agreement, Club-4U, Inc. acquired the assets primarily used in connection with the travel program, subject to liabilities under the travel program's existing contracts, resulting in a gain of approximately $1.1 million.

NOTE 8 - ACQUISITION OF MINORITY INTERESTS

In March 2000, the Company entered into a Stock Purchase Agreement to acquire the remaining interest in the PriceSmart Panama majority owned subsidiary ("Panama Acquisition"), which previously had been 51% owned by the Company and 49% owned by BB&M International Trading Group ("BB&M"), whose principals are several Panamanian businessmen, including Rafael Barcenas, a director of PriceSmart. In exchange for BB&M's 49% interest, PriceSmart issued to BB&M's principals 306,748 shares of PriceSmart common stock. As a result of this acquisition, PriceSmart, Inc. increased its guarantee for the outstanding loans related to the Panama operations to 100% (see Note 10).

In July 2000, the Company acquired the 40% interest in PSMT Caribe, Inc. not held by the Company. PSMT Caribe is the holding company formed by PriceSmart and PSC, S.A. (a Panamanian company with shareholders representing five Central American and Caribbean countries, including Edgar Zurcher, a director of PriceSmart as of November 2000), to hold their respective interests in the PriceSmart membership warehouse clubs operating in Costa Rica, El Salvador, Honduras and the Dominican Republic. As consideration for the acquisition of the 40% interest, PriceSmart issued to PSC, S.A. 679,500 shares of PriceSmart common stock, half of which are restricted from sale for one year. As a result of this acquisition, the Company has increased its guarantee for the outstanding loans related to the warehouses operating in Costa Rica, El Salvador, Honduras and the Dominican Republic to 100%.

The acquisitions were accounted for as purchases under Accounting Principles

Board Opinion No. 16 (APB No. 16). In accordance with APB No. 16, the Company allocated the purchase prices of the acquisitions based on the fair value of the assets acquired. The excess of the purchase price over the fair value of assets acquired was $19.4 million and is reflected in goodwill, net of accumulated amortization of $708,000 and $223,000, as of February 28, 2001 and August 31, 2000, respectively, in the accompanying condensed consolidated balance sheets and is being amortized on a straight-line basis over a period of 20 years. As disclosed in Note 10, the subsequent transaction related to the Panama Acquisition results in an incremental goodwill adjustment of approximately $1.0 million, which will occur in the third quarter.

NOTE 9 - OTHER

On January 13, 2001 an earthquake, and subsequent aftershocks, occurred in Central America that impacted most particularly El Salvador. The Company has two warehouses operating in El Salvador, in the cities of San Salvador and Santa Elena. These two facilities had no structural damage and each was reopened shortly after the initial earthquake. The total losses sustained, net of reimbursable insurance amounts totaled approximately $120,000, which have been reflected as a part of warehouse operating expenses. Net warehouse sales for the operations in El Salvador were not impacted and did not have a materially adverse impact on the overall financial operating results of the Company.

NOTE 10 - SUBSEQUENT EVENTS

REDEMPTION OF COMMON STOCK: Under the Stock Purchase Agreement, as amended, related to the Panama Acquisition, the Company agreed to redeem the shares of the Company's common stock issued to BB&M at a price of $46.86 per share following the one-year anniversary of the completion of the acquisition upon the request of BB&M's principals. On April 5, 2001, the Company repurchased 242,144 shares of its common stock, par value $.0001 par value per share, for an aggregate of approximately $11.4 million in cash. The Company has agreed to redeem, at its option for cash or additional stock, the remaining 64,604 shares following the second anniversary of the completion of the acquisition at the price of $46.86 per share upon the holders' request.

ADDITIONAL DEBT: In early April 2001, the Company, entered into a loan agreement with Royal Merchant Bank and Finance Company Limited for $6.0 million to finance the construction of a warehouse located in St. Thomas, U.S. Virgin Islands. The term of the loan is for 10 years and interest is calculated on the basis of three month LIBOR plus 4.0%. Minimum principal payments of $150,000 and interest payments are due quarterly. The loan is collateralized by the building, fixtures and equipment of the warehouse and guaranteed by the Company. The loan is also subject to certain financial and operating covenants.