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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934. (Mark One)

/X/ Annual report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 [NO FEE REQUIRED] for the fiscal year ended
August 31, 1997.

/ / Transitional report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 [NO FEE REQUIRED] for the transition period from
_____ to _____.

COMMISSION FILE NUMBER: _____

PRICESMART, INC.
(Exact name of small business issuer in its charter)

DELAWARE

33-0628530

(State of other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

4649 Morena Blvd., San Diego, CA 92117
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: (619) 581-4530
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.0001 PAR VALUE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of November 14, 1997 was approximately \$41,783,088.

As of November 14, 1997, 5,908,235 shares of Common Stock were outstanding.

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PART I

ITEM 1. BUSINESS

PriceSmart, Inc. ("PriceSmart" or the "Company") was formed in August 1994 as a subsidiary of Price Enterprises, Inc. ("Price Enterprises" or "PEI") in connection with the spin off of PEI from Costco Companies, Inc. ("Costco"), formerly Price/Costco, Inc. PEI began to operate as a separate company from Costco effective August 29, 1994 and became a separate publicly-traded company on December 21, 1994. PriceSmart initially operated under the name Price Quest, Inc. and until recently was operating under the name PQI, Inc.; however, the Company changed its name to PriceSmart, Inc. effective June 30, 1997 in anticipation of the spin-off of the Company from PEI.

In June 1997, the PEI Board of Directors approved, in principle, a plan to separate PEI's core real estate business from the merchandising businesses it operated through a number of subsidiaries. These merchandising businesses included international merchandising businesses and domestic merchandising businesses consisting of an auto referral program (the "Auto Referral Program") and a travel program (the "Travel Program"). To effect such separation, PEI first transferred to the Company, through a series of preliminary transactions, the merchandising businesses, certain properties formerly held for sale by PEI, all but \$40 million of PEI's cash, and certain notes receivable. PEI then distributed on August 29, 1997 to PEI's existing stockholders all of the Company's outstanding Common Stock through a special dividend (the "Distribution").

The Company's international merchandising businesses focus on emerging consumer markets in Latin America and Asia. The Company licenses, and in Panama owns through a joint venture, membership stores using the trade name "PriceSmart" in most markets and "PriceCostco" in Panama, the Northern Mariana Islands and Guam. The Company's Auto Referral Program and Travel Program offer discounts on new cars and on travel services to Costco members pursuant to an agreement with Costco under which the Company is the exclusive provider of such programs to Costco's members. The Company also operates, on a test basis, a goods and services business ("Services Program"), located within several Ralphs Grocery Company ("Ralphs") stores in San Diego, California.

BUSINESS STRATEGY

The Company's strategy is to develop its existing merchandising businesses and to invest in, acquire or create new merchandising businesses consistent with the experience and talents of its management. Specifically, key elements of the Company's business strategy include:

PROVIDE LOWER PRICES IN THE MARKETPLACE. Overriding all of the Company's businesses is a philosophy of bringing lower prices to the consumer. Future development of the Company's business will be directed to market opportunities for lowering the costs of goods and services to consumers.

INCREASE MARKET SHARE IN DEVELOPING MARKETS. The Company believes that it is well positioned to take advantage of growth in developing markets due to its capital resources and experience with membership stores in Latin America and Asia. The Company intends to take advantage of the growing demand for consumer goods in such markets by entering into additional joint venture relationships with local business people and opening additional membership stores through joint ventures, principally in Latin America. The Company intends to continue to expand its business in Asia with additional outlets in existing licensee markets. The Company may also enter into additional license arrangements in other Asia markets.

DEVELOP AFFINITY MARKETING PROGRAMS. The Company's strategy for its domestic merchandising businesses is to establish and operate businesses that offer preferred pricing on products or services to customers of another company. The Company has established such an affinity relationship with Costco, pursuant to which the Company offers its Auto Referral and Travel Programs to Costco members. The Company has also established, on a test basis, such an affinity relationship with Ralphs. The Company may also explore similar strategic relationships with other companies.

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AUTO REFERRAL PROGRAM STRATEGY. The Company's strategy for its Auto Referral Program is to provide an efficient marketing system for participating auto dealers to sell cars, thereby enabling those auto dealers to offer preferred prices to consumers belonging to affinity groups.

TRAVEL PROGRAM STRATEGY. The Company's strategy for its Travel Program is to provide low prices on travel services for consumers who are customers of other companies with which the Company has established affinity relationships. The Company plans to maintain and enhance its relationships with travel service providers in order to offer the best possible prices on travel services to its customers. The Company will continue to operate as efficiently as possible by referring its customers directly to travel service providers whenever possible. The Company currently provides direct customer service for its cruise program because the Company has concluded that such an approach offers its cruise customers the best combination of service and value.

SERVICES PROGRAM STRATEGY. The Company's strategy for its Services Program is to make available to the consumer certain services and related products, at low prices. If successful, the Services Program, which is currently in a testing period, would be operated through PriceSmart Service Centers located within Ralphs supermarkets and potentially other retail outlets.

INTERNATIONAL MERCHANDISING BUSINESSES

The Company owns and manages international merchandising businesses which license and, in some cases, own membership stores using the trade name "PriceSmart" in most markets and "Price Costco" in a limited number of other markets. The Company has entered into a license agreement for the operation of one store in the Northern Mariana Islands and another store in Guam, and the Company owns a 51% interest in a Panama joint venture that has opened one store in Panama and plans to open an additional store in Panama in early December 1997. The Company has also entered into licensing arrangements with entrepreneurs in the Peoples Republic of China, Indonesia and the Philippines. The Company's licensees in Asia currently operate a total of three stores (two in Indonesia and one in the Peoples Republic of China) and a store in the Philippines is scheduled to open in December 1997.

The international stores sell basic consumer goods with an emphasis on quality, low prices and efficient operations. By offering low prices on brand name and private label merchandise, such stores seek to generate sales volumes high enough to enable the stores to operate profitably at relatively low gross margins. The typical stores are no-frills warehouse-type buildings which range in size from 40,000 to 65,000 square feet. Stores are generally located 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. The target customers are consumers and small businesses. The shopping format includes an annual membership fee which varies by market from \$25 to \$35.

Typically, the Company enters into licensing and technology transfer agreements with local business people and provides licensees with the Company's know-how package, which includes training and management support, as well as access to the Company's computer software systems. The license also includes the right to use the "PriceSmart" mark and certain other trademarks. The Company and its licensees also enter into product sourcing agreements. The Company believes that its licensees have been interested in obtaining such licenses for a variety of reasons, including the track record of the Company's management team, the opportunity to purchase U.S.-sourced products, the benefits of the Company's modern distribution techniques and the opportunity to obtain exclusive rights to use the Company's trademarks in the region.

AUTO REFERRAL PROGRAM

The Company's Auto Referral Program offers its approximately 1600 participating dealers an efficient method for marketing their cars. In return, these car dealers agree to sell cars to qualifying consumers at preferred prices. The Company generates revenues from its Auto Referral Program primarily from advertising fees charged to participating dealers. The Company generated revenues of \$7.1 million from operations of the Auto Referral Program during fiscal year 1997.

Pursuant to an agreement with Costco, the Company has the exclusive right to provide auto referral program services to Costco members. This agreement expires October 31, 1999. As a result of the expected termination of the Costco agreement, the Company is making efforts to market its auto program to other affinity groups. The Company has made some preliminary efforts to market the

Auto Referral Program to Ralphs' customers. It is too early to determine if the Ralphs efforts or the Company's other marketing efforts will be successful.

Major changes are taking place in the way car dealers market and sell cars. The most significant changes relate to a consolidation of car dealerships resulting in a more efficient marketplace. In addition, cars are being marketed for sale via the Internet. As cars become more expensive, more consumers are leasing cars. Finally, the introduction of "mega lots" for marketing used cars has significantly altered the way used cars are sold. It remains to be seen how, and if, the Company will be able to position itself in this changing marketplace. During this fiscal year, the Company will continue to investigate ways to transition from the Costco relationship and to adapt to the changing auto sales and marketing environment.

TRAVEL PROGRAM

The Company's Travel Program offers discounted prices on airline tickets, cruises, travel packages, car rentals and hotels to Costco members. The Company's operating strategy is based on generating large sales volume rather than high margins on individual sales. The Company has been successful in obtaining discounts not available to most travel agencies because of the large volume of reservations made through the Company's Travel Program. The Company's strategy allows it to satisfy its customers' demands for low-price travel products, while the Company benefits from the higher commissions and additional incentives available to high-volume travel agencies. The Company has limited the scope of its Travel Program to products on which it can offer discounts to its customers.

The Company's Travel Program generates revenues from commissions as a function of sales and co-op promotions from certain suppliers, including car rental companies and hotels. In addition, the Company has entered into agreements with certain travel service providers for the payment of override commissions above the standard commissions the Company receives. Under such agreements, additional commissions are generally awarded if the volume of sales exceeds certain agreed upon thresholds. The Company generated commission revenues of \$4.5 million from the Travel Program during fiscal 1997.

Pursuant to an agreement with Costco, the Company has the exclusive right to provide car rental, cruise, hotel room discount programs and prepackaged travel arrangements to Costco members. This agreement expires October 31, 1999. As a result of the expected termination of the Costco agreement, the Company is making efforts to market its Travel Program to other affinity groups. The Company has made some preliminary efforts to market the Travel Program to Ralphs' customers. It is too early to determine if the Ralphs efforts or the Company's other marketing efforts will be successful.

The U.S. travel industry is a highly fragmented industry comprised of numerous small agencies, but trending towards large volume agencies, according to a 1996 Travel Weekly U.S. travel agency survey. In contrast to 1985, when smaller agencies were responsible for 62% of all U.S. travel agency revenues, in 1995 such agencies were responsible for only 41% of all U.S. travel agency revenues.

The Company believes that its Travel Program is well positioned to take advantage of anticipated future growth in the travel industry. The Company has established relationships with travel providers, wholesalers and travel agencies. As in the case of the Auto Referral Program, the major challenge for the Travel Program will be to find new sales opportunities to replace the Costco business when the Costco agreement expires in October 1999.

RELATIONSHIP WITH COSTCO

PEI, Costco and certain of their respective subsidiaries, including the Company, entered into an Agreement Concerning Transfer of Certain Assets (the "Asset Transfer Agreement") in connection with the settlement of litigation arising from the spin-off of PEI from Costco and the prior merger between The Price Company and

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Costco Wholesale Corporation. A final settlement of IN RE PRICE/COSTCO SHAREHOLDER LITIGATION, Case No. C-94-1874C, was reached in November 1996 and approved by the United States District Court for the Western District of Washington in April 1997, as a result of which the Asset Transfer Agreement became effective. Pursuant to the Asset Transfer Agreement, Costco assigned its 49% interests in PEI's Price Global Trading, L.L.C. ("Price Global") and Price Quest, L.L.C. ("Price Quest") subsidiaries to other subsidiaries of PEI, making such entities wholly owned indirect subsidiaries of PEI. PEI and Costco also agreed in the Asset Transfer Agreement to eliminate all

noncompete and operating agreements and to terminate all trademark and license agreements between the parties, subject to certain exceptions.

Under the Asset Transfer Agreement, Costco has agreed to refrain from conducting membership store businesses in the Northern Mariana Islands and Guam through the earlier of October 31, 1999 or termination of the Company's license with Joeten Enterprises, Inc. and has agreed to refrain from conducting membership store businesses in Panama through the earlier of October 31, 1999 or termination of the Company's license with PriceCostco Panama, S.A. Pursuant to a License Agreement with Costco, which was modified by the Asset Transfer Agreement, the Company has an exclusive (including against Costco), royalty-free license in the Northern Mariana Islands and Guam to use "Price Club" and "PriceCostco" marks in connection with the development, operation, advertising and promotion of the Company's business activities in such areas, subject to certain restrictions on the use of the marks and quality control and confidentiality provisions. The Company currently owns rights to the name "PriceCostco" in Panama, and the Company has agreed, subject to the outcome of trademark applications in Panama, to transfer to Costco its rights to the name "PriceCostco." If the Company transfers such rights to Costco, Costco will license back to the Company the right to use the name "PriceCostco" in Panama upon the same terms as the Northern Mariana Islands and Guam licenses. The Asset Transfer Agreement, however, requires the Company to use diligent and reasonable efforts to negotiate with its licensee in the Northern Mariana Islands and Guam and Price Global's joint venture partner in Panama to terminate such licensees' rights to use the "Price Club" and "PriceCostco" names and marks by October 3, 1998, or, if that does not occur, at the earliest possible date before December 12, 2009 for the Northern Mariana Islands and Guam and December 21, 2015 for Panama. The Company's rights to use such names and marks in Panama are further subject to the outcome of trademark application proceedings in Panama, which could result in earlier termination of the Company's rights.

The Asset Transfer Agreement also gives the Company the exclusive right to operate its Auto Referral Program and Travel Program in certain Costco warehouses, through advertisements published in "The Costco Connection" and through promotional materials linked to and from Costco's Internet home page. The Company currently operates its Auto Referral and Travel Programs in approximately 200 Costco warehouses. The Asset Transfer Agreement provides for the expansion of the Auto Referral Program and the Travel Program into as many as ten additional Costco warehouses (to the extent they exist) in each of the fiscal years ended August 1997, 1998 and 1999. Costco has the right to select the warehouses for expansion, subject to the Company's reasonable consent. The agreement requires Costco to provide sufficient space to display a brochure rack and to use its best efforts to provide sufficient space to display an automobile. Costco also is required to maintain and stock the brochure rack and to provide security for the rack and for any displayed automobiles. The Company's rights under the Asset Transfer Agreement to conduct the Auto Referral and Travel Programs in Costco warehouses, through "The Costco Connection" and through Costco's Internet home page will extend until October 31, 1999 unless earlier terminated by the Company upon 60 days prior written notice to Costco.

The Asset Transfer Agreement requires the Company to pay Costco, for the Auto Referral Program, 20% of the gross revenues derived from the Costco Auto Program Internet site linked to and from Costco's Internet home page and 55% of the gross revenues derived from all other advertising or promotion via Costco warehouses, "The Costco Connection" or other media which utilize the "Costco" name or mark. Likewise, the Asset Transfer Agreement requires the Company to pay Costco, for car rentals, hotel bookings and other travel services other than vacation packages and cruises, 15% of the received commissions derived from any advertising or promotion via Costco warehouses, "The Costco Connection," the Costco Travel Program Internet site linked to and from Costco's Internet home page or other media which use the "Costco" name or mark. For vacation packages and cruises, the Company is required to pay Costco 1% of the net sales derived from any such advertising or promotion. The Company is required to use "Costco Auto Program" and "Costco Travel Program" marks in connection with the sales and promotional activities described above.

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The Asset Transfer Agreement does not limit the Company's ability to own or operate any automobile related or travel service related businesses as long as such businesses do not use the names or marks "PriceCostco," "PriceClub" or "Costco" and do not operate, through October 31, 1999, from locations owned or operated by Sam's Warehouse Club, BJ's Wholesale Club or Wal-Mart or any of their affiliates. Costco has the right under the Asset Transfer Agreement to sell automobiles (but not by referral to a third party) and vacation packages (but not cruises) and airline tickets directly to its members. Costco also may investigate and experiment with other concepts in auto and travel businesses.

Costco has agreed in the Asset Transfer Agreement that PEI and its

downstream affiliates may use the name "Price" in a "PriceSmart" mark, but PEI and its downstream affiliates may not use a "PriceSmart" mark in connection with a club business or other membership activity named "PriceSmart" in the United States, Canada or Mexico; provided that the limitations on the Company's rights to use the "PriceSmart" name in the United States, Canada and Mexico terminate 24 months after Costco and its downstream affiliates discontinue their use of the names "PriceCostco" and "Price Club."

SERVICES PROGRAM-RELATIONSHIP WITH RALPHS

In August 1997, PEI and Ralphs entered into a Memorandum of Agreement ("Memorandum"), which PEI has assigned to the Company. Pursuant to the Memorandum, the Company and Ralphs have developed, and the Company now operates on a test basis, three PriceSmart Service Centers in Ralphs stores located in San Diego, California. The Company intends to continue to operate these Service Centers throughout the test period, which expires on March 31, 1998. The Service Centers offer Ralphs customers the following services: same-day and next day photo processing, copying, faxing, key making, binding, Federal Express shipping, TicketMaster, Western Union money orders and money transfers, and internet access to the Company's Travel Program and Auto Referral Program. Pursuant to the Memorandum, the Company is responsible for the supervision of the business, advancement of funds, acquisition of goods and services to be sold, employment of personnel and certain related tasks, as well as primary responsibility for the development of the business. Ralphs' responsibilities include providing a minimum of 208 square feet in certain stores, facility maintenance and services, promotional assistance and certain operational assistance. All profits earned or losses incurred by the business during the test period are allocated 51% to the Company and 49% to Ralphs; provided, however, that in no event will Ralphs bear more than \$150,000 of losses. The Company and Ralphs have also agreed to certain non-competition restrictions, applicable during the test period.

The Company and Ralphs intend to expand the business if it is successful during the test period, and if the Company and Ralphs so agree, to other Ralphs stores and to transfer the business to a new joint venture. The joint venture would be owned 51% by the Company and 49% by Ralphs; however, no joint venture agreement has been fully negotiated or executed.

CITY NOTES AND OTHER NOTES RECEIVABLE.

The Company owns certain notes receivable from various municipalities and agencies (the "City Notes") and certain other notes receivable. As of August 31, 1997, the carrying value of the City Notes was approximately \$23.1 million. The City Notes carry interest rates which range from 7% to 10%. Repayment of each City Note is generally based on the relevant municipality's allocation of sales tax revenues generated by retail businesses located on a particular property associated with such City Note. For accounting purposes, the carrying value of \$23.1 million of such notes represents management's estimate of discounted cash flow from the City Notes. Management's analysis of the discounted cash flow from the City Notes assumes no payment at maturity, because, under the terms of the City Notes, the unpaid balance of the note is forgiven at its maturity date. If actions taken by Costco, such as closure or relocation of a particular Costco warehouse, would entitle the governmental agency to withhold payment, the Company would be entitled to cause Costco to purchase such City Note at an amount equal to 72% of the June 5, 1994 book balance, less any subsequent principal repayments, plus all accrued and unpaid interest from June 5, 1994. The Company holds certain other notes receivable with a carrying value of approximately \$4.0 million as of August 31, 1997.

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COMPETITION

Each of the Company's businesses faces competition unique to its line of business. The Company's international merchandising businesses compete with exporters, wholesalers and trading companies in various international markets. Specifically, the Company's international merchandising businesses compete with Makro, Carrefour, Wal-Mart, Costco and local chain store operations. The Company's Auto Referral Program competes with affinity programs offered by several companies such as Wal-Mart; Internet vehicle buying services such as Auto By Tel; and automobile brokerage firms. The Company's Travel Program competes with a variety of other providers of travel and travel-related products and services, including telemarketing travel companies, traditional travel agencies and various on-line services available on the Internet. The Company's Services Program competes with various providers of services offered by the Services Program, including supermarkets, drugstores, mass retailers and speciality stores.

Many of the Company's current and potential competitors have longer

operating histories, greater name recognition and significantly greater financial and marketing resources than the Company. Such competitors could undertake more aggressive and costly marketing campaigns than the Company, which may adversely affect the Company's marketing strategies, which, in turn, could have a material adverse effect on the Company's business, results of operations or financial condition. There can be no assurance that the Company can compete successfully against current or future competitors nor can there be any assurance that competitive pressures faced by the Company will not result in loss of market share or otherwise will not materially adversely affect its business, results of operations and financial condition.

INTELLECTUAL PROPERTY RIGHTS

It is the Company's policy to obtain appropriate proprietary rights protection for trademarks and significant new technologies acquired or developed by the Company. In addition, the Company relies on copyright and trade secret laws to protect its proprietary rights. The Company attempts to protect its trade secrets and other proprietary information through agreements with employees, consultants and suppliers, and other similar measures. There can be no assurance, however, that the Company will be successful in protecting its proprietary rights. While management believes that the Company's trademarks, copyrights and other proprietary know-how have significant value, changing technology and the competitive marketplace make the Company's future success dependent principally upon its employees' technical competence and creative skills for continuing innovation.

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

The Company has filed applications to register the mark "PriceSmart" in the U.S. Patent and Trademark Office, and in certain foreign countries; however, because of objections by one or more parties, there can be no assurance that the Company will obtain such registrations or that the Company has proprietary rights to the mark. In addition, as noted above, the Company has limited rights to use the "PriceCostco" name in connection with its international merchandising businesses and certain Costco marks with its Auto Referral and Travel Programs. The Asset Transfer Agreement requires the Company to attempt to phase out the use of the "PriceCostco" name and related marks in the Northern Mariana Islands, Guam and Panama. See "--International Merchandising Businesses."

EMPLOYEES

The Company employs approximately 173 employees, 81 of which are assigned to the Company's international merchandising businesses, 52 to the Auto Referral and Travel Programs, 27 to the Services Program and 13 in corporate administrative activities. The Company believes that its future prospects will depend, in part, on its ability to continue to attract and retain skilled management personnel.

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The individuals employed in the cruise division of the Company's Travel Program are members of a union. The Company currently is negotiating a collective bargaining agreement with such union. The Company has never experienced any business interruption as a result of labor disputes. The Company believes that its relations with its employees are good.

SEASONALITY

The Company's businesses are subject to traditional retail sales trends associated with the calendar year-end holiday season.

ITEM 2. PROPERTIES

PROPERTIES HELD FOR SALE. In connection with the Distribution, PEI transferred to the Company certain properties historically held for sale by PEI (the "Properties"). The Company anticipates selling such properties within the next twelve months. Proceeds from sales of such properties will be used to fund the Company's businesses and the Company's general working capital requirements.

The table set forth below describes the portfolio of Properties held by the Company immediately following the Distribution. Amounts shown for annual minimum rents are based on executed leases as of August 31, 1997. Due to the nature of real estate investments, actual rental income may differ from amounts shown in this table.

<TABLE>
<CAPTION>

31, 1997

Leases in Effect as of August

Net Book Value	Annual Minimum Rent	Land Acreage	Gross Leasable Area (sq.ft) (In 000's)	Percent Leased
<hr/>				
<S> <C>	<C>	<C>	<C>	<C>
PROPERTIES WITH BUILDINGS				
\$6,470	\$ 809	15.7	143.5	74%
5,784	690	11.4	115.0	100%
1,236	201	2.7	24.2	100%
388	--	4.9	17.9	100%
--	--	8.8	115.0	100%
<hr/>				
13,878	1,700	43.5	415.6	91%
UNIMPROVED LAND				
3,680	--	15.0	--	--
1,457	--	11.7	--	--
1,057	--	2.5	--	--
926	--	1.8	--	--
981	--	18.7	--	--
475	--	2.5	--	--
405	--	.9	--	--
400	--	6.6	--	--
310	--	2.8	--	--
115	--	1.0	--	--
<hr/>				
9,806	--	63.5		
1,024	--	--	--	--
(4,795)	--	--	--	--
<hr/>				
\$ 19,913	\$1,700	107.0	415.6	91%
<hr/>				

</TABLE>

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SUBSEQUENT AND PENDING REAL ESTATE TRANSACTIONS. Subsequent to year end, the Company sold the Bakersfield property for \$5.2 million net sales proceeds. The Company is currently under contract to sell five (5) properties, which sales are expected to generate \$2.65 million of net proceeds. The Company anticipates no significant gains or losses from these sales. The Company expects such transactions to be completed within the next six (6) months; however, given the nature of such sales activities, there can be no assurance that these potential sales will be completed by their expected dates or that such proceeds will be fully realized.

ENVIRONMENTAL MATTERS. The Company has agreed to indemnify PEI for all of PEI's liabilities (including obligations to indemnify Costco with respect to environmental liabilities) arising out of PEI's prior ownership of the Properties and the real properties transferred by Costco to PEI that have been sold prior to the Distribution. The Company's ownership of real properties and its agreement to indemnify PEI could subject it 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 which 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 PEI in 1994, including the Properties. The Company is unaware of any environmental liability or noncompliance with applicable environmental laws or regulations arising out of the Properties or the real properties transferred by Costco to PEI and sold prior to the Distribution that the Company believes would have a material adverse effect on its business, assets or results of operations. Nevertheless, there can be no assurance that the Company's knowledge is complete with regard to, or that the Phase I assessments have identified, all material environmental liabilities.

The Company is aware of certain environmental issues, which the Company does not expect to have a material adverse effect on the Company's business assets or results of operation, relating to three properties transferred from Costco to PEI that were sold prior to the Distribution. The Company has agreed to indemnify PEI for environmental liabilities arising out of such properties. The Company has reserved approximately \$85,000 and \$90,000 with respect to potential environmental liabilities arising from PEI's prior ownership of the Phoenix (Fry's) property and Silver City property, respectively, discussed below. The Company has not taken a reserve with respect to the Meadowlands property. Set forth below are summaries of certain environmental matters relating to the properties already sold.

Phoenix (Fry's). The Phoenix (Fry's) site is a 37.1 acre site located in Phoenix, Arizona. The Phoenix (Fry's) site is located within the West Van Buren Study Area (the "WVBSA"). Volatile organic compounds ("VOCs") and petroleum hydrocarbons are present in groundwater in the WVBSA. To date, PEI (as successor to Costco) has not been identified as a potentially responsible party ("PRP") for the WVBSA. On March 8, 1995, PEI sold the Phoenix (Fry's) site, and retained responsibility for certain environmental matters. Investigations conducted in connection with the sale of the property revealed some hydrocarbon contamination in an area previously occupied by a fuel pump island. Seven underground fuel storage tanks were removed in 1989. The Arizona Department of Environmental Quality is requiring some additional testing prior to granting closure of the site. PEI's prior ownership of the Phoenix (Fry's) site creates the potential of liability for remediation costs associated with groundwater beneath the site.

Costco previously agreed to indemnify and hold PEI harmless in respect of one-half

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of all environmental liabilities relating to the Phoenix (Fry's) site. Costco has continued to pay its share of the ongoing investigation costs associated with this site. PEI and the Company lack sufficient information about the activity of WVBSA PRPs to form an estimate of the equitable share of total liability, if any, that could be allocated to PEI for its previous ownership of this site.

Although designated by Arizona law as a "study area," the WVBSA is not a federal CERCLA site and is not listed on the National Properties List ("NPL"). Immediately to the east of the WVBSA, however, is the East Washington Study Area (the "EWSA"), which is listed on the NPL. VOCs are also present in groundwater in the EWSA. If the contamination plumes from the WVBSA and the EWSA merge, the possibility exists that the two study areas will be merged into one Federal CERCLA site.

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 byphenyls) and petroleum hydrocarbons are present in soil at the Meadowlands site. PEI, however, has not been notified by any 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. PEI sold the Meadowlands site on August 11, 1995. Nevertheless, PEI's 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 site contains or has contained petroleum hydrocarbons in the soil and groundwater. On March 20, 1996, PEI sold the Silver City site and retained responsibility for certain environmental matters. PEI is continuing to remediate the soil and groundwater at this property under supervision of local authorities.

CORPORATE HEADQUARTERS. The Company maintains its headquarters at 4649 Morena Blvd., San Diego, California 92117. The Company leases 42,000 square feet of office space from PEI at a rate of \$.60 per month per square foot pursuant to a triple net lease. The initial term of the lease is two years, commencing September 1, 1997, with five renewal options of two years each. During the first year, PEI will not charge rent to the Company on 6,000 square feet of space. The Company believes that its existing facilities are adequate to meet its current needs and that suitable additional or alternative space will be available on commercially reasonable terms as needed.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings other than various claims and lawsuits arising in the ordinary course of its business which, in the opinion of the Company's management, are not individually or in the aggregate material to its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters to a vote of security holders during the fourth quarter of fiscal 1997.

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PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted and traded on the Nasdaq National Market the symbol "PSMT." The Common Stock began trading on the Nasdaq National Market on September 2, 1997 and has been traded on the Nasdaq National Market since such date. As of November 18, 1997, there were approximately 631 holders of record of the Common Stock.

The Company has never declared a cash dividend on its Common Stock and does not anticipate doing so in the foreseeable future.

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ITEM 6. SELECTED FINANCIAL DATA (IN THOUSANDS)

The Company historically operated as certain subsidiaries of PEI. As a result of the Distribution, the Company now independently owns and operates its businesses. Accordingly, the financial data of the Company included herein has been prepared on an historical basis as though the Company has been a stand-alone business operating, during all periods presented, the businesses and the assets acquired as a result of the Distribution. See Footnote 1 of "PriceSmart, Inc., Notes to Consolidated Financial Statements" included in this report for a description of the businesses and the assets included in PriceSmart's historical financial statements.

The following table sets forth selected historical financial data of the Company for the five fiscal years ended August 31, 1997. The selected historical financial data as of August 31, 1997, 1996 and 1995 and for each of the three years ended August 31, 1997 have been derived from the audited financial statements of the Company. The selected historical financial data as of August 31, 1994 and 1993 and for each of the two years ended August 31, 1994 have been derived from the unaudited books and records of the Company, and in the opinion of management, include all adjusting entries (consisting of only normal and recurring adjustments) necessary to present fairly the information set forth therein.

<TABLE>
<CAPTION>

	FISCAL YEARS (1)				
	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data					
Merchandise sales (2)	\$59,042	\$36,211	\$66,573	\$53,015	
\$28,671					
International royalties and fees	3,139	2,164	553	-	
-					
Auto, travel and other program revenues	12,194	9,875	8,769	5,846	
3,713					
Cost of goods sold (2)	55,947	34,644	62,756	49,449	
27,233					
Selling, general and administrative (3)	26,607	31,069	33,337	15,095	
7,745					
Operating loss	(8,179)	(17,463)	(20,198)	(5,683)	
(2,594)					
Real estate operations, net income (loss) (4)	(1,480)	(8,359)	(2,238)	(16,354)	
684					
Interest and other income, net (5)	2,717	7,663	6,031	6,636	
4,649					
Income (loss) before provision (benefit) for income taxes	(6,942)	(18,159)	(16,405)	(15,401)	
2,739					
Net income (loss)	(24,843)	(11,423)	(12,517)	(9,087)	
1,616					
Balance Sheet Data					
Cash and cash equivalents	58,383	-	-	-	
-					
Total assets	125,885	97,981	107,085	188,431	
135,698					
Stockholders' equity (6)	107,172	86,990	92,556	129,389	
106,781					

</TABLE>

- (1) Effective September 1, 1997, the Company changed its 52/53 week fiscal year which ends on the Sunday nearest August 31 to a fiscal year end of August 31. For ease of presentation, all fiscal years in this report are referred to as having ended on August 31.
- (2) Merchandise sales and cost of goods sold relate to international and electronic merchandising businesses.
- (3) PEI historically provided administrative services to the Company. Amounts allocated to the Company for corporate administrative expenses for fiscal years 1997, 1996, 1995, 1994 and 1993 were \$1,065, \$1,350, \$1,363, \$752 and

\$705, respectively.

- (4) Real estate operations relates to properties held for sale which were transferred to PriceSmart in connection with the Distribution and reflects rental revenue, rental expenses, gain or loss on sale of properties and provisions for asset impairment related to these properties.

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- (5) Interest and other income includes interest income, loss on sale of investment, equity in the losses of international joint ventures and minority interest of partners in merchandising joint venture businesses.
- (6) Stockholders' equity represents the net assets transferred and the earnings of the businesses and assets comprising PriceSmart on an historical basis.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis compares the results of operations for the three fiscal years ended August 31, 1997, and should be read in conjunction with the consolidated financial statements and the accompanying notes included elsewhere in this report. All dollar amounts are in thousands.

MERCHANDISE SALES

	INTERNATIONAL SALES -----	PERCENT CHANGE -----	ELECTRONIC SHOPPING SALES -----	PERCENT CHANGE -----
Fiscal 1997 . . .	\$58,085	127%	\$ 957	-91%
Fiscal 1996 . . .	25,541	-35%	10,670	-61%
Fiscal 1995 . . .	39,343	-	27,230	-

During fiscal 1997, international sales increased due to the opening of the Panama City location in October 1996, the sales of which are reflected in the Company's consolidated financial statements, and due to increases in the sales of U.S.-sourced products to licensees operating existing and new stores in Saipan, Guam, China (Beijing) and Indonesia. With respect to the electronic shopping business, sales during fiscal 1997 declined sharply as a result of the Company's decision to discontinue such business in January 1997.

During fiscal 1996, international sales declined primarily due to the elimination of the export trading business which had been selling U.S.-sourced goods to customers in Hong Kong and Mexico. Such export sales declined from \$33.7 million in fiscal 1995 to \$2.2 million in fiscal 1996. Offsetting much of this decline in international sales were shipments to the Saipan licensee which rose from \$5.7 million in fiscal 1995 to \$23.4 million in fiscal 1996. With respect to the electronic shopping business, sales declined significantly in fiscal 1996 largely due to the discontinuance of display samples of merchandise at the Costco locations that participated in the kiosk-based merchandising program.

MERCHANDISE GROSS MARGIN

<TABLE>
<CAPTION>

PERCENT CHANGE -----	PERCENT OF SALES -----	INTERNATIONAL -----	PERCENT CHANGE -----	PERCENT OF SALES -----	ELECTRONIC SHOPPING -----
<S> <C>	<C>	<C>	<C>	<C>	<C>
-245%	-87.36%	\$3,931	296%	6.77%	\$ (836)
-76%	5.39%	992	-32%	3.88%	575
-	8.67%	1,456	-	3.70%	2,361

</TABLE>

During fiscal 1997, international gross margins increased due to the opening in October 1996 of the Panama City location, which operates at a higher gross margin than earned on exports of U.S.-sourced products, and due to increased shipments of U.S.-sourced products to foreign licensees. With respect to electronic shopping, gross margins were negatively impacted by reserves of \$0.9 million associated with markdowns to sell certain returned and discontinued merchandise.

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During fiscal 1996, the amount of international gross margin declined primarily due to the elimination of the export trading business, offset by gross margins earned on shipments to the Saipan licensee. With respect to the electronic shopping business, gross margins declined due to the significant reduction in sales and reserves of \$1.0 million associated with markdowns to sell certain returned and discontinued merchandise.

OTHER REVENUES

	INTERNATIONAL ROYALTIES & FEES -----	PERCENT CHANGE -----	AUTO REFERRAL, TRAVEL AND OTHER PROGRAMS -----	PERCENT CHANGE -----
Fiscal 1997	\$3,139	45%	\$12,194	23%
Fiscal 1996	2,164	291%	9,875	13%
Fiscal 1995	553	-	8,769	-

During fiscal 1997, international royalties and fees increased primarily as a result of the newly established licensee operations in Indonesia and China (Beijing). With respect to the Auto Referral, Travel and other programs, increases in cruise sales to Costco members and increases in car rental referral commissions accounted for substantially all of the revenue increase.

During fiscal 1996, international royalties and fees increased primarily as a result of the newly established licensee operations in Saipan and Guam, as well as certain fees for the Indonesia and China (Beijing) license arrangements. With respect to the Auto Referral and Travel programs, commissions from the newly established car rental referral program more than offset revenue reductions incurred when the Company discontinued its airline ticketing program in February 1995.

SELLING, GENERAL AND ADMINISTRATIVE
<TABLE>
<CAPTION>

REFERRAL, AND OTHER PROGRAMS -----	PERCENT CHANGE -----	INTERNATIONAL -----	PERCENT CHANGE -----	ELECTRONIC SHOPPING -----	PERCENT CHANGE -----	AUTO TRAVEL -- <C>
<S>		<C>	<C>	<C>	<C>	<C>
<C>						
\$9,846	4%	\$11,400	39%	\$4,296	-64%	
9,425	6%	8,196	47%	12,098	-31%	
8,861	-	5,567	-	17,546	-	

During fiscal 1997, international expenses rose largely due to increased staffing, higher travel expenses to support the needs of licensees in Indonesia and China (Beijing), establishment of a reserve for doubtful accounts and expenses related to the Company's pursuit of international licensing opportunities in additional countries. At the end of fiscal 1996, expenses associated with the electronic shopping program declined significantly upon the expiration of certain contractual obligations to pay Costco \$4.5 million per year for marketing-related activities and location rent expense. Auto Referral and Travel Program expenses were generally consistent with the prior year's comparable period as expansion of the car rental referral and Costco cruise programs did not generate any significant increase in expenses.

During fiscal 1996, international expenses increased primarily as a result of redirecting much of the Price Club Mexico merchandising support group towards new international markets. Prior to the Company's sale of its investment in Price Club Mexico in April 1995, expenses associated with these employees were generally reimbursed by Price Club Mexico. With respect to the electronic shopping programs, expenses associated with the Costco kiosk-based program were significantly reduced when display samples and in-store sales staffing were discontinued during fiscal 1996 and when central office staffing was reduced. In addition, electronic shopping expenses for fiscal 1995 reflected approximately \$2.3 million of equipment and fixture write-downs related to the decision to remodel the display sample areas within the Costco locations. Auto and travel program expenses were

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generally consistent with the prior year's comparable period as expense reductions associated with discontinuing the airline ticketing program were offset by increased costs for cruise sales support and by costs to develop the car rental referral program.

CORPORATE ADMINISTRATIVE EXPENSES

	AMOUNT	CHANGE	PERCENT CHANGE
	-----	-----	-----
Fiscal 1997	\$1,065	\$ (285)	-21%
Fiscal 1996	1,350	(13)	- 1%
Fiscal 1995	1,363	-	-

The Company historically operated as certain subsidiaries of PEI. Certain general and administrative costs of PEI were allocated to the Company, principally based on PEI's specific identification of individual cost items or otherwise based upon estimated levels of effort devoted by its general and administrative departments to individual entities or relative measures of size of entities. During fiscal 1997, corporate expenses decreased primarily due to a decrease in legal fees, while fiscal 1996 expenses were essentially unchanged from prior year levels.

REAL ESTATE OPERATIONS (NET)

<TABLE>
<CAPTION>

	REVENUES	EXPENSES	GAIN (LOSS) ON SALES	PROVISION FOR ASSET IMPAIRMENT	TOTAL
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Fiscal 1997.	\$3,031	\$ (2,900)	\$389	\$ (2,000)	\$ (1,480)
Fiscal 1996.	2,798	(3,355)	240	(8,042)	(8,359)
Fiscal 1995.	2,868	(3,530)	24	(1,600)	(2,238)

</TABLE>

Real estate operations relates to properties held for sale which were transferred to the Company in connection with the Distribution and reflects rental revenue, rental expenses, gain or loss on sale of properties and provisions for asset impairment related to these properties.

Real estate financial operations were generally consistent in the years presented. During fiscal 1997, 1996 and 1995, the noncash charges for provision for asset impairment reflected in the table above were taken to write down the carrying value of real estate properties which are being held for sale and which are expected to generate net sales proceeds below their book values.

OTHER

INTEREST INCOME. Interest income for the Company reflects earnings on City Notes and certain secured notes receivable from buyers of formerly owned properties. Interest income for fiscal 1997 declined primarily as a result of principal repayments of specific City Notes during fiscal 1997.

LOSSES FROM MEXICO JOINT VENTURE. During fiscal 1995, losses from the Price Club Mexico business of approximately \$2.4 million were allocated to the Company's 25.5% interest in the business. While the business had previously reported operating profits, the peso devaluations that began in December 1994

lead to significant deterioration of the business' financial performance that continued through the sale of the Company's investment and beyond. In addition, during fiscal 1995, the Company recognized a pretax loss of approximately \$2.6 million on the sale of its interest in Price Club Mexico to Costco in April 1995.

MINORITY INTEREST. During fiscal 1996 and 1995, minority interest represents the allocation of losses on the international merchandising business to Costco until the time that the cumulative amount of such losses equaled the cumulative amount of Costco's capital contributions. Once the book value of Costco's investment reached zero during the third quarter of fiscal 1996, the Company began to absorb 100% of losses from these joint ventures

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which were funded with stockholder advances by the Company and borrowings from PEI. For fiscal 1997, minority interest relates to an allocation of the Panama joint venture earnings to the 49% partner in this venture.

PROVISION (BENEFIT) FOR INCOME TAXES. In fiscal 1997, deferred tax assets of approximately \$22.0 million were charged to income tax expense because the realization of deferred tax assets is no longer more likely than not, and therefore, a valuation allowance was established. During the first quarter of fiscal 1996, Price Quest and Price Global Trading were restructured as limited liability companies and subsequent to that date have been treated as partnerships for income tax purposes. As a result of this change, the Company's effective income tax benefit rate rose to 37.1% for fiscal 1996. During fiscal 1995, the income tax provision was negatively impacted by the nondeductible losses from its investment in the Company's Price Quest, Price Global Trading and Price Club Mexico businesses. As a result, the effective income tax benefit rate was only 23.7% for fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company historically financed its operations primarily from PEI's real estate business. Cash provided by (used in) the Company's operations for the fiscal years ended August 31, 1997, 1996 and 1995 was \$9.1 million, \$(8.1) million and \$(18.9) million, respectively.

While the Company is well positioned to finance its business activities through a variety of sources, it expects to satisfy short-term liquidity requirements through the cash distributed to the Company prior to the Distribution, cash from operations of the Company's businesses, and principal and interest payments on the City Notes and other notes receivable. The Company also expects to generate cash from sales of the Properties, and the cash flow that may ultimately be generated by sales of these properties represents a major source of additional capital resources.

The Company's working capital requirements are not expected to exceed \$30 million over the next 12 months. During fiscal 1998, the Company estimates that it will spend approximately \$10 million in the international merchandising businesses, \$5 million in affinity-service businesses and \$15 million for business opportunities that may arise. Actual capital expenditures, investment in merchandising businesses and gross proceeds realized from property sales for fiscal 1998 may vary from estimated amounts depending on business conditions and other risks and uncertainties to which the Company and its businesses are subject.

The Company believes that the Company's cash balances and net cash provided by operating activities, principal and interest payments on notes receivable and sales of its Properties will be sufficient to meet its working capital expenditure requirements for at least the next 12 months. Management intends to invest the Company's cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

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ITEM 8 - FINANCIAL STATEMENTS

PRICESMART, INC.
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Consolidated Statements of Operations for the years ended August 31, 1997, 1996 and 1995	21
Consolidated Statements of Stockholders' Equity for the years ended August 31, 1997, 1996 and 1995	22
Consolidated Statements of Cash Flows for the years ended August 31, 1997, 1996 and 1995	23
Notes to Consolidated Financial Statements	24

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
PriceSmart, Inc.

We have audited the accompanying consolidated balance sheets of PriceSmart, Inc. as of August 31, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended August 31, 1997. Our audits also include the financial statement schedule listed in the Index at Item 14(d). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PriceSmart, Inc. at August 31, 1997 and 1996 and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule of PriceSmart, Inc. referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

San Diego, California
October 16, 1997

/s/ Ernst & Young LLP

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PRICESMART, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	AUGUST 31, 1997 ----	AUGUST 31, 1996 ----
ASSETS		
Current assets:		
Cash and equivalents	\$ 58,383	\$ -
Accounts receivable, less allowance for doubtful accounts of \$1,000 at August 31, 1997	4,806	5,506

Merchandise inventories	5,518	2,011
Prepaid expenses and other current assets . . .	578	1,854
Property held for sale, net	19,913	28,507
	<u>-----</u>	<u>-----</u>
Total current assets	89,198	37,878
Property and equipment:		
Land	2,250	-
Building and improvements	4,578	1,844
Fixtures and equipment	4,712	5,647
	<u>-----</u>	<u>-----</u>
	11,540	7,491
Less accumulated depreciation	(1,946)	(3,347)
	<u>-----</u>	<u>-----</u>
	9,594	4,144
Other assets:		
City notes receivable	23,052	29,091
Other notes receivable	4,041	6,617
Deferred income taxes	-	20,251
	<u>-----</u>	<u>-----</u>
	27,093	55,959
	<u>-----</u>	<u>-----</u>
TOTAL ASSETS	<u>\$125,885</u>	<u>\$ 97,981</u>
	<u>-----</u>	<u>-----</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 4,901	\$ 3,883
Accrued expenses	4,813	3,166
Other current liabilities	3,563	2,197
	<u>-----</u>	<u>-----</u>
Total current liabilities	13,277	9,246
Minority interest	5,436	1,745
STOCKHOLDERS' EQUITY		
Common stock, \$.0001 par value, 15,000,000 shares authorized, 5,908,235 shares issued and outstanding at August 31, 1997 and 1996	1	1
Additional paid-in capital	107,171	86,989
	<u>-----</u>	<u>-----</u>
Total Stockholders' Equity	107,172	86,990
	<u>-----</u>	<u>-----</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$125,885</u>	<u>\$ 97,981</u>
	<u>-----</u>	<u>-----</u>

See accompanying notes.

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See accompanying notes.

PRICESMART, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
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	YEARS ENDED AUGUST 31,		
	1997	1996	1995
	<u>-----</u>	<u>-----</u>	<u>-----</u>
<S>	<C>	<C>	<C>
REVENUES			
Sales:			
International	\$ 58,085	\$ 25,541	\$ 39,343
Electronic shopping	957	10,670	27,230
International royalties and other fees	3,139	2,164	553
Auto referral, travel and other programs . . .	12,194	9,875	8,769
	<u>-----</u>	<u>-----</u>	<u>-----</u>
TOTAL REVENUES	74,375	48,250	75,895

EXPENSES			
Cost of goods sold:			
International	54,154	24,549	37,887
Electronic shopping	1,793	10,095	24,869
Selling, general and administrative:			
International	11,400	8,196	5,567
Electronic shopping	4,296	12,098	17,546
Auto referral, travel and other programs	9,846	9,425	8,861
Corporate administrative expenses	1,065	1,350	1,363
TOTAL EXPENSES	82,554	65,713	96,093
OPERATING LOSS	(8,179)	(17,463)	(20,198)
OTHER			
Real estate operations, net.	(1,480)	(8,359)	(2,238)
Interest income.	2,776	3,076	2,832
Losses from Mexico joint venture	-	-	(4,988)
Minority interest.	(59)	4,587	8,187
TOTAL OTHER.	1,237	(696)	3,793
Loss before provision (benefit) for income taxes	(6,942)	(18,159)	(16,405)
Provision (benefit) for income taxes	17,901	(6,736)	(3,888)
NET LOSS	\$ (24,843)	\$ (11,423)	\$ (12,517)
NET LOSS PER SHARE	\$ (4.20)	\$ (1.93)	\$ (2.12)

</TABLE>

See accompanying notes.

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PRICESMART, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

<TABLE>
<CAPTION>

	SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	TOTAL

<S>	<C>	<C>	<C>	<C>
Investment by PEI at August 31, 1994	5,908	\$1	\$129,388	\$129,389
Net loss	-	-	(12,517)	(12,517)
Net return to PEI.	-	-	(24,316)	(24,316)

Investment by PEI at August 31, 1995	5,908	1	92,555	92,556
Net loss	-	-	(11,423)	(11,423)
Net investment by PEI.	-	-	5,857	5,857

Investment by PEI at August 31, 1996	5,908	1	86,989	86,990
Net loss	-	-	(24,843)	(24,843)
Net investment by PEI.	-	-	45,025	45,025

Balance at August 31, 1997	5,908	\$1	\$107,171	\$107,172

</TABLE>

See accompanying notes.

<PAGE>

PRICESMART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED AUGUST 31,		
	1997	1996	
	----	----	
1995			

<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net loss	\$ (24,843)	\$ (11,423)	\$
(12,517)			
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization.	1,374	2,259	
2,295			
Provision for asset impairments.	2,000	8,042	
1,600			
Provision for doubtful accounts.	1,000	-	
-			
Losses from Mexico joint venture	-	-	
4,988			
Income tax (benefit) charge.	17,901	(6,736)	
(3,888)			
Minority interest.	59	(4,587)	
(8,187)			
Change in accounts receivable and other assets	(180)	4,332	
(26,696)			
Change in accounts payable and other liabilities	5,241	209	
24,231			
Change in property held for sale	6,594	(190)	
(705)			

Net cash flows provided by (used in) operating activities	9,146	(8,094)	
(18,879)			
INVESTING ACTIVITIES			
Additions to property and equipment.	(8,131)	(2,560)	
(3,480)			
Proceeds from sale of property and equipment	97	147	
-			
Proceeds from Mexico joint venture	-	-	
4,000			
Investment in Mexico joint venture	-	-	
(3,883)			
Additions to notes receivable.	-	(1,337)	
-			
Payments of notes receivable	8,614	3,105	
2,897			

Net cash flows provided by (used in) investing activities.	580	(645)	
(466)			
FINANCING ACTIVITIES			
Net investment by PEI.	45,025	6,994	
6,850			
Costco equity contributions to subsidiaries.	-	-	
12,495			
Contributions by Panama JV partner	3,632	1,745	
-			

Net cash flows provided by financing activities	48,657	8,739	
19,345	-----	-----	----

Net increase in cash	58,383	-	
-	-----	-----	----

Cash and cash equivalents at beginning of year	-	-	
-	-----	-----	----

Cash and cash equivalents at end of year	\$ 58,383	\$ -	\$
-	-----	-----	----

</TABLE>

See accompanying notes.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

FORMATION OF THE COMPANY

PriceSmart, Inc. ("PriceSmart" or the "Company") was formed in August 1994 as a subsidiary of Price Enterprises, Inc. ("Price Enterprises" or "PEI") in connection with the spin off of PEI from Costco Companies, Inc. ("Costco"), formerly Price/Costco, Inc. PEI began to operate as separate company from Costco effective August 29, 1994 and became a separate publicly-traded company on December 21, 1994. PriceSmart initially operated under the name Price Quest, Inc. and until recently was operating under the name PQI, Inc.; however, the Company changed its name to PriceSmart, Inc. effective June 30, 1997 in anticipation of the spin-off of the Company from PEI.

In June 1997, the PEI Board of Directors determined to separate PEI's core real estate business and the merchandising businesses it operated through a number of subsidiaries. The merchandising businesses include international merchandising businesses, domestic merchandising businesses consisting of an auto referral program (the "Auto Referral Program") and a travel program (the "Travel Program"). To effect such separation, PEI first transferred to the Company, through a series of preliminary transactions, the assets listed below. PEI then distributed on August 29, 1997 all of the Company's Common Stock pro rata to PEI's existing stockholders through a special dividend (the "Distribution").

The following assets were transferred to PriceSmart pursuant to the Distribution:

- Interest in essentially all businesses which historically formed the merchandising business segment of PEI, primarily the international merchandising businesses, and the Auto Referral and the Travel programs.
- Certain real estate properties held for sale.
- Notes receivable from various municipalities and agencies ("City Notes") and certain secured notes receivable from buyers of properties formerly owned by PEI.
- Cash and cash equivalents of approximately \$58.4 million.
- All other assets and liabilities not specifically associated with PEI's portfolio of 27 investment properties ("Investment Portfolio"), except for current corporate income tax assets and liabilities.

BASIS OF PRESENTATION

These financial statements present the financial position, results of

operations, and cash flows for the Company as if it were a separate entity from PEI for all periods presented. PEI's historical basis in the assets and liabilities of the Company have been carried over. Changes in additional paid-in capital represent the net income (loss) of the Company plus the net change in cash and non-cash items transferred between the Company and PEI prior to distribution.

The consolidated financial statements include the assets, liabilities and operations transferred to the Company in connection with the Distribution. All significant intercompany accounts and transactions have been eliminated.

The Company's operations are primarily in the merchandising business. The international merchandising business licenses warehouse stores in Guam, the Northern Mariana Islands and Asia and, in one case, has a 51% ownership in a warehouse store in Panama. The Company's auto referral and travel programs offer discounts on new cars and on travel services to Costco members.

Prior to the Distribution, the Company operated as certain subsidiaries of PEI, utilizing PEI's centralized systems for cash management, payroll, employee benefit plans, insurance and administrative services. Certain operating expenses, capital expenditures and other cash requirements of the Company were paid by PEI and charged directly or allocated to the Company, principally based on PEI's specific identification of individual entities or relative measures of size of entities. Such allocated amounts are included in corporate administrative expenses and were \$1.1 million, \$1.4 million and \$1.4 million for each of the years ended August 31, 1997, 1996 and 1995, respectively. In the opinion of management, the methods for allocating corporate administrative expenses and other direct costs are reasonable. It is not practical to estimate the costs that would have been incurred by the Company if it had operated on a stand-alone basis.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR

Effective September 1, 1997, the Company changed its 52/53 week fiscal year which ends on the Sunday nearest August 31 to a fiscal year end of August 31. For ease of presentation, all fiscal years in this report are referred to as having ended on August 31.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of less than three months when purchased to be cash and cash equivalents.

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	3-7 years

MERCHANDISE INVENTORIES

Merchandise inventories, which include merchandise for resale and display samples, are valued at the lower of cost (average cost) or market.

REVENUE RECOGNITION

The Company recognizes international sales upon either shipment or arrival at destination, based on agreement. Revenues from the auto referral program are recognized on a monthly basis when billed, pursuant to contracts which are generally month-to-month. Revenues from travel programs are recognized as services are performed.

INCOME TAXES

Income taxes have been provided for in accordance with SFAS No. 109, "Accounting for Income Taxes." That standard requires companies to account for deferred taxes using the asset and liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting, including asset write-downs of real estate and related assets,

accelerated tax depreciation methods, and international fees. Additionally, deferred taxes were transferred to the Company as a result of the Costco spin out in 1994.

The Company was included in the consolidated Federal and in various combined state tax returns of PEI. The Company was allocated the benefit of its tax net operating losses used in PEI's consolidated or combined tax returns. Benefits realized by PEI were not paid to the Company but were deemed to be reductions in PEI's investment in the Company.

ASSET IMPAIRMENT

Beginning with fiscal 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," SFAS No. 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. No such indicators of impairment were present in fiscal 1997 and 1996. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company estimated the sales value, net of related selling costs, on its real estate properties which are being held for sale and recorded impairment losses of \$2.0 million and \$8.0 million in fiscal 1997 and 1996 respectively. Impairment losses of \$1.6 million in fiscal 1995 were based on a risk adjusted discounted cash flow to estimate fair value. See Note 3.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

CONCENTRATION OF CREDIT RISK

The Company sells its merchandise primarily to its international licensees. Credit is generally extended based on letters of credit.

STOCK-BASED COMPENSATION

In October 1995, the Financial Accounting Standards Board issued "Accounting for Stock-Based Compensation" ("SFAS No. 123") which is effective for fiscal years beginning after December 1995. Under SFAS No. 123, stock-based compensation expense is measured using either the intrinsic-value method as prescribed by Accounting Principle Board Opinion No. 25 or the fair-value method described in SFAS No. 123. The Company adopted SFAS No. 123 in fiscal 1997 using the intrinsic-value method; accordingly, there has been no effect on the Company's financial position or results of operations.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

	OWNERSHIP	BASIS OF PRESENTATION
PB Real Estate	51%	Consolidated
Ventures Services, Inc.	100%	Consolidated
PriceCostco Panama	51%	Consolidated
Mexico Clubs, LLC	51%	Consolidated (Sold in fiscal 1995)
Price Club Mexico	50%	Equity Method (Sold in fiscal 1995)

AUTHORIZED STOCK

The Company's authorized stock consists of 15 million shares of \$0.0001 par value common stock and 2 million shares of \$0.0001 par value preferred stock. No preferred stock has been issued.

NET LOSS PER SHARE

Net loss per share for all periods presented is based on the 5,908,235

shares issued in connection with the Distribution.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 3 - PROPERTY HELD FOR SALE

Property held for sale primarily includes former membership warehouse club facilities and unimproved land, which the Company expects to dispose of in the next twelve months. Property held for sale consists of the following (in thousands):

	AUGUST 31, 1997 ----	AUGUST 31, 1996 ----
Land and land improvements	\$16,181	\$23,667
Building and improvements	10,120	16,110
Construction in progress	-	520
Deferred rents	601	547
Deferred leasing costs, net.	423	346
	-----	-----
	27,325	41,190
Accumulated depreciation	(2,617)	(4,641)
Provision for asset impairments:		
Unimproved land.	(755)	(2,665)
Properties with buildings.	(4,040)	(5,377)
	-----	-----
	(4,795)	(8,042)
	-----	-----
	\$19,913	\$28,507
	-----	-----

Because the properties are held for sale, the net results of the real estate operations are presented on the combined statement of operations, and consist of the following (in thousands):

<TABLE>
<CAPTION>

	YEARS ENDED AUGUST 31, -----		
	1997 ----	1996 ----	1995 ----
<S>	<C>	<C>	<C>
Rental income.	\$3,031	\$2,798	\$2,868
Gains on sales of real estate.	389	240	24
	-----	-----	-----
Total revenue.	3,420	3,038	2,892
Operating, maintenance and administrative.	1,690	1,724	1,427
Property taxes	672	857	884
Depreciation and amortization.	538	774	1,219
Provision for asset impairments.	2,000	8,042	1,600
	-----	-----	-----
Total expenses	4,900	11,397	5,130
	-----	-----	-----
Real estate operations, net.	\$ (1,480)	\$ (8,359)	\$ (2,238)
	-----	-----	-----

</TABLE>

Provision for asset impairments represent noncash charges taken to write-down the carrying value of real estate properties which are being held for sale or redevelopment, and which are expected to generate net sales proceeds below their book values. In 1995, the provision for asset impairments was directly written off against the related properties held for sale.

The Company determines the estimated carrying value of properties held for sale based upon the expected net sales proceeds to be received, taking into consideration existing sales contracts, past and current sales negotiations and relevant market data.

Certain properties held for sale generate future minimum rental income of

approximately \$1.7 million per year. These properties are leased under noncancelable leases with remaining terms ranging from less than one year to 17 years.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 4 - CITY NOTES RECEIVABLE

The City Notes include amounts loaned to municipalities and agencies to facilitate real property acquisition and improvements and carry interest rates which range from 7% to 10%. Repayment of the majority of these notes is generally based on that municipality's allocation of sales tax revenues generated by retail businesses located on a particular property associated with such City Note. City Note repayments are calculated in accordance with specific revenue sharing agreements; and, under the terms of most City Notes, the unpaid balance of the note is forgiven on its maturity date. The carrying values of these notes was established when PEI was spun out from Costco. The carrying values are evaluated by the Company in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan." Interest income is recognized based upon the stated interest rates of the various notes and amounted to \$2.1 million, \$2.5 million and \$2.7 million for the years ended August 31, 1997, 1996 and 1995 respectively. At August 31, 1997 and 1996, the aggregate stated principal value plus compounded interest amounted to \$67 million and \$71 million, respectively. As a result, the total carrying value of the City Notes is less than the stated principal value and interest by \$44 million and \$42 million, respectively. As of August 31, 1997, twelve City Notes were outstanding with maturity dates ranging from 1999-2028.

NOTE 5 - PROFIT SHARING AND 401(k) PLAN

Substantially all of the employees of the Company are participants in PriceSmart's defined contribution profit sharing and 401(k) plan. Profit sharing contributions, if any, are based on a discretionary amount determined by the Board of Directors and are allocated to each participant based on the relative compensation of the participant, subject to certain limitations, to the compensation of all participants. The Company makes a matching 401(k) contribution equal to 50% of the participant's contribution up to an annual maximum matching contribution of \$250.

Profit sharing contributions of approximately \$406,000, \$158,000 and \$504,000 were made for the benefit of PriceSmart plan participants during fiscal 1997, 1996, and 1995, respectively. Employer contributions to the 401(k) plan were approximately \$24,000, \$31,000 and \$31,000 during fiscal 1997, 1996 and 1995, respectively.

NOTE 6 - STOCK OPTION PLANS

On August 6, 1997, the Company adopted the 1997 Stock Option Plan of PriceSmart, Inc. (the "Plan") for the benefit of its eligible employees, consultants and independent directors. The Plan authorizes 700,000 shares of the Company's common stock for issuance. The Compensation Committee of the Board administers the Plan with respect to grants to employees or consultants of the Company and the full Company Board administers the Plan with respect to director options. At August 31, 1997, there were no options granted under this Plan.

Certain employees and directors of the Company participated in PEI stock option plans. Upon consummation of the Distribution, the unvested PEI options held by these individuals were cancelled. To replace those cancelled options, the Company will grant options to purchase PriceSmart common stock at share amounts and prices per share so that the employees and directors will be in substantially the same economic position as they were prior to the Distribution.

The following is a summary of the replacement options the Company plans to issue subsequent to August 31, 1997.

<TABLE>
<CAPTION>

Weighted Average Range of	Weighted Average	Weighted Average Remaining	Options
------------------------------	------------------	-------------------------------	---------

Exercise Price of Options Exercisable	Options	Exercise Price	Life in Years	Exercisable	
<S> \$8.59 - 9.49	<C> 329,688	<C> \$8.65	<C> 3.35	<C> -	<C>
\$10.68 - 14.69	17,364	\$11.67	4.00	-	
	347,052	\$8.80	3.39	-	

</TABLE>

The weighted-average fair value per option granted during 1997 and 1996 were \$3.48 and \$2.69, respectively.

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Pro forma information regarding net income is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS 123. The fair value of these options was estimated at the date of grant using the "Black-Scholes" method with the following weighted average assumptions for 1997 and 1996: risk-free interest rate of 6%; no annual dividend; volatility factor of the expected market price of the Company's common stock of 26.54%; and an expected option life of three years. The effect of applying the "Black-Scholes" method of SFAS 123 to options granted in 1997 and 1996 did not result in pro forma net income amounts that are materially different from amounts reported. Accordingly, such pro forma information is not presented herein.

NOTE 7 - INCOME TAXES

The provision (benefit) for income taxes consist of the following (in thousands):

	YEARS ENDED AUGUST 31,		
	1997	1996	1995
Current:			
Federal.....	\$ (3,612)	\$ (3,431)	\$ (161)
State.....	-	(807)	(262)
	(3,612)	(4,238)	(423)
Deferred:			
Federal.....	20,945	(1,935)	(3,513)
State.....	568	(563)	48
	21,513	(2,498)	(3,465)
Total provision (benefit).....	\$ 17,901	\$ (6,736)	\$ (3,888)

A reconciliation between the Federal statutory rate and the effective tax rate follows (in thousands):

	YEARS ENDED AUGUST 31,		
	1997	1996	1995
Federal taxes at the statutory rate.....	\$ (2,430)	\$ (6,355)	\$ (5,742)
State taxes, net of federal benefit.....	(416)	(1,091)	(638)
Tax losses of 51% owned subsidiaries....		708	1,538
Valuation allowance.....	20,683	-	-
Price Club Mexico operations.....	-	-	893
All other, net.....	64	2	61
Total provision (benefit).....	\$ 17,901	\$ (6,736)	\$ (3,888)

The significant components of deferred income taxes are attributable to the following temporary differences (in thousands):

	AUGUST 31, 1997	AUGUST 31, 1996
	-----	-----
Deferred tax assets:		
Real estate properties.....	\$6,961	\$10,217
City notes receivable.....	12,535	11,756
Net operating losses.....	5,437	5,437
International revenues and expenses.....	228	241
Inventory and equipment reserves.....	-	304
All other, net.....	1,913	470
	-----	-----
Total deferred tax assets.....	27,074	28,425
Deferred tax liabilities:		
Deferred rental income.....	(261)	(214)
Deferred state income taxes.....	(693)	(1,261)
	-----	-----
Total deferred tax liabilities.....	(954)	(1,475)
Valuation allowance.....	(26,120)	(5,437)
	-----	-----
Net deferred tax assets.....	-	\$21,513
	-----	-----

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

As a result of the Distribution, the Company is no longer a member of the PEI consolidated or combined group for Federal or state income tax purposes. As such, realization of deferred tax assets is no longer more likely than not and therefore a valuation allowance was established for the net amount of deferred tax assets at August 31, 1997.

At August 31, 1997 and 1996, the Company had combined net operating loss (NOL) carryforwards of approximately \$13.7 million for Federal income tax purposes which may be applied against future taxable income. A valuation allowance was established for potential tax benefit of these NOL carryforwards as the certainty of their ultimate utilization is not sufficient to allow for deferred tax assets to be recorded. These NOL carryforwards will expire in 2009 unless previously utilized.

During fiscal 1996, deferred tax assets of \$351,000, representing Costco's interest in such assets, was offset against Costco's minority interest in Price Quest, L.L.C. In addition, a short-term deferred tax asset of \$1.3 million is included in current assets at August 31, 1996.

NOTE 8 - SALE OF INTEREST IN MEXICO JOINT VENTURE

In April 1995, the Company completed the sale of its interest in the Mexico joint venture in return for cash of \$4.0 million and cancellation of debt of \$30.5 million. The sale of the interest in the Mexico joint venture resulted in a \$2.6 million loss (\$2.1 million after-tax) which is included in losses from Mexico joint venture in fiscal 1995.

The investment by PEI at August 31, 1994 is net of a charge of \$1.7 million for the accumulated foreign currency translation related to the Company's investment in the Mexico joint venture.

NOTE 9 - RELATED PARTY TRANSACTIONS

As a result of the Distribution to stockholders of the Company and for the purpose of governing certain of the ongoing relationships between the Company and PEI after the Distribution, and to provide mechanisms for an orderly transition, the Company and PEI have entered into various agreements, and will adopt policies, as described below.

The Company and PEI have entered into an Asset Management and Disposition Agreement dated as of August 26, 1997 calling for PEI to provide asset management services with respect to certain properties distributed to the Company. As consideration for such services, the Company will pay PEI management fees, leasing fees, disposition fees and developer's fees. Such agreement has a two-year term; provided that either the Company or PEI may terminate the agreement upon 60 days written notice.

The Company and PEI have entered into a Transitional Services Agreement dated as of August 26, 1997 pursuant to which the Company and PEI will provide

certain services to one another. Fees for such transitional services (which shall not include real estate management services) will reflect the costs of providing such services, which may include cash management services, certain accounting services, litigation management or any other similar services that the Company or PEI may require. The Transitional Services Agreement will terminate on December 31, 1997 unless extended in writing by the parties.

The Company and PEI have entered into a Tax Sharing Agreement dated as of August 26, 1997 defining the parties' rights and obligations with respect to tax returns and tax liabilities for taxable years and other taxable periods ending on or before the Distribution Date. In general, PEI will be responsible for (i) filing all Federal and state income tax returns of the Company, PEI and any of their subsidiaries for all taxable years ending on or before or including the Distribution Date and (ii) paying the taxes relating to such returns to the extent attributable to pre-Distribution Date periods.

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PRICESMART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

NOTE 10 - GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

	YEAR ENDED AUGUST 31, 1997
Revenues:	
United States.....	\$ 51,806
Latin America.....	22,569

	\$ 74,375

Operating income (loss):	
United States.....	\$ (8,299)
Latin America.....	120

	\$ (8,179)

Identifiable assets:	
United States.....	\$ 113,749
Latin America.....	12,136

	\$ 125,885

Foreign operations were not significant in fiscal 1996 and 1995. The Latin American operations consist of a 51% interest in a joint venture in Panama whose currency is the U.S. dollar.

Export sales were approximately \$58.1 million, \$25.5 million and \$39.3 million for the years ended August 31, 1997, 1996 and 1995, respectively. Approximately 37% of revenues in the year ended August 31, 1997, 48% of revenues in the year ended August 31, 1996 and 27% of revenues in the year ended August 31, 1995 were from a single customer.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

The Company's Board of Directors is comprised of six directors: Robert E. Price, Jeffrey S. Halis, Katherine L. Hensley, Leon C. Janks, Lawrence B. Krause and Gilbert A. Partida. Such directors will serve until the next Annual Meeting of Stockholders of the Company and until their respective successors have been duly elected and qualified.

The table below indicates the name, position with the Company and age of each Director.

NAME	POSITION WITH PRICESMART	AGE
Robert E. Price	Chairman of the Board, President and Chief Executive Officer	54
Jeffrey S. Halis	Director	42
Katherine L. Hensley	Director	60
Leon C. Janks	Director	47
Lawrence B. Krause	Director	67
Gilbert A. Partida	Director	35

Robert E. Price has been Chairman of the Board, President and Chief Executive Officer of the Company since the Distribution and has held the same positions with the Company since July 1994. Mr. Price is also Chairman of the Board of PEI and has held that position since July 1994. Mr. Price was also President and Chief Executive Officer of PEI from July 1994 until the Distribution. Mr. Price was Chairman of the Board of Costco from October 1993 to December 1994. From 1976 to October 1993, he was Chief Executive Officer and a director of The Price Company ("TPC"). Mr. Price served as Chairman of the Board of TPC from January 1989 to October 1993, and its President from 1976 until December 1990.

Jeffrey S. Halis has been a director of the Company since November 1997. He is the founder of Tyndall Partners, L.P., a Delaware limited partnership, which is a significant stockholder of the Company. He has been a director of Kinder-Care Learning Centers (1993-1997) and is currently a director of Enstar Group, a publicly held company.

Katherine L. Hensley has been a director of the Company since July 1997 and served as a director of PEI from December 1994 until the Distribution. She is a lawyer and 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. Ms. Hensley is 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 the Company since July 1997 and served as a director of PEI from March 1995 until the Distribution. He has been a partner in the accounting firm of Alder, Green & Hasson in Los Angeles, California since 1980. Mr. Janks has extensive experience in domestic and international business serving a wide variety of clients in diverse businesses.

Lawrence B. Krause has been a director of the 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.

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Gilbert A. Partida has been a director of the Company since July 1997. Mr. Partida is President and Chief Executive Officer of the Greater San Diego Chamber of Commerce, a position he has held since January 1993. Prior to joining the Chamber of Commerce, Mr. Partida was an attorney with the law firm of Gray, Cary, Ames & Frye in San Diego, California from 1987 to 1992.

COMMITTEES OF THE BOARD OF DIRECTORS OF THE COMPANY

AUDIT COMMITTEE. The Audit Committee consists of Messrs. Janks, Partida and Price. The Audit Committee reviews the annual audits of the Company's independent public accountants, reviews and evaluates internal accounting controls, recommends the selection of the Company's independent public accountants, reviews and passes upon (or ratifies) related party transactions, and conducts such reviews and examinations as it deems necessary with respect to

the practices and policies of, and the relationship between, the Company and its independent public accountants.

COMPENSATION COMMITTEE. The Compensation Committee consists of Ms. Hensley and Messrs. Krause and Partida. The Compensation Committee reviews salaries, bonuses and stock options of senior officers of the Company, and administers the Company's executive compensation policies and stock option plans.

NOMINATING COMMITTEE. The Nominating Committee consists of Ms. Hensley and Mr. Price. The Nominating Committee recommends 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 gives appropriate consideration to qualified persons recommended by stockholders for nomination as Directors provided that such recommendations are accompanied by information sufficient to enable the Nominating Committee to evaluate the qualifications of the nominee.

EXECUTIVE COMMITTEE. The Executive Committee consists of Messrs. Price and Janks and Ms. Hensley. The Executive Committee 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 the Company, except as provided in the Delaware General Corporation Law or the Bylaws of the Company.

FINANCE COMMITTEE. The Finance Committee consists of Messrs. Janks, Krause and Partida. The Finance Committee reviews and makes recommendations with respect to (i) annual budgets, (ii) investments, (iii) financing arrangements and (iv) the creation, incurrence, assumption or guaranty by the Company of any indebtedness, obligation or liability, except, in each case, for any such transactions entered into in the ordinary course of business of the Company.

COMPENSATION OF THE BOARD OF DIRECTORS

Each non-employee director of the Company receives \$20,000 per year for serving on the Board of Directors and an additional \$5,000 per year for serving as chairman of any committee of the Company Board. In addition, non-employee directors who serve on committees of the Company Board (in a capacity other than chairman of a committee) receive \$500 for each meeting attended. The chairman or vice chairman of any committee may receive additional compensation to be fixed by the Company Board. Each director is eligible to receive stock grants and stock options pursuant to the PriceSmart Stock Option Plan.

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

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EXECUTIVE OFFICERS

Set forth below are the names, positions and ages of the executive officers of the Company:

NAME	POSITION WITH PRICESMART	AGE
Robert E. Price.....	Chairman of the Board, President and Chief Executive Officer	54
Robert M. Gans.....	Executive Vice President, Secretary and General Counsel	48
Karen J. Ratcliff...	Executive Vice President and Chief Financial Officer	45
Theodore Wallace....	Executive Vice President and Chief Operating Officer	48

Robert E. Price has been Chairman of the Board, President and Chief Executive Officer of the Company since the Distribution and has held the same positions with the Company since July 1994. Mr. Price is also Chairman of the Board of PEI and has held that position since July 1994. Mr. Price was also President and Chief Executive Officer of PEI from July 1994 until the Distribution. Mr. Price was Chairman of the Board of Costco from October 1993 to December 1994. From 1976 to October 1993, he was Chief Executive Officer and a director of TPC. Mr. Price served as Chairman of the Board of TPC from January 1989 to October 1993, and its President from 1976 until December 1990.

Robert M. Gans has been Executive Vice President, Secretary and General Counsel of the Company since the Distribution. From October 17, 1994 until the Distribution, Mr. Gans had been Executive Vice President and General Counsel of PEI. 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.

Karen J. Ratcliff has been Executive Vice President and Chief Financial Officer of the Company since September 1997. From October 1995 to September 1997, Ms. Ratcliff operated a financial advisory firm in Orange County. From January 1991 to August 1995, Ms. Ratcliff worked for a publicly traded company, Vans, Inc., serving first as Vice President and Controller and, subsequently, as Vice President and Chief Financial Officer. Ms. Ratcliff also spent a number of years working at the Securities and Exchange Commission in Washington, D.C. and at KPMG Peat Marwick. Ms. Ratcliff graduated from California State University at Dominguez Hills in 1983 with Bachelor of Science Degrees in Accounting and Business Information Systems and is a Certified Public Accountant.

Theodore Wallace has been Executive Vice President and Chief Operating Officer of the Company since the Distribution. From November 1994 until the Distribution, Mr. Wallace had been an Executive Vice President of PEI and served as Chief Executive Officer of Price Ventures, Inc., a former subsidiary of PEI ("Price Ventures"). From October 1993 to November 1994, Mr. Wallace was Executive Vice President of Costco overseeing international expansion into the Pacific Rim and other markets. Mr. Wallace became an Executive Vice President of TPC in 1984 and, from 1988 until Fall 1992, he was Chief Operating Officer (East Coast) of TPC. He was a director of TPC from October 1988 to October 1993. He joined TPC as a warehouse manager in September 1977 and was its Vice President of Operations from 1983 to 1988.

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CERTAIN OTHER OFFICERS

Set forth below are the names, positions and ages of certain significant employees of the Company, all of whom transferred from PEI to the Company concurrently with the Distribution:

NAME	POSITION WITH PRICESMART	AGE
Kevin C. Breen.....	Senior Vice President, Operations	37
Daniel L. Brockman....	Senior Vice President, Finance	43
Connie M. Depew.....	Vice President, Service Centers	40
Edward H. Depew, III..	Vice President, Distribution and Logistics	52
Glen C. Dobi.....	Vice President, Travel Program	37
Brud E. Drachman.....	Vice President, Construction	43
Walt H. Green.....	Vice President, Auto Program	55
Thomas L. Hammer.....	Senior Vice President, Buying and Merchandising	43
Thomas D. Martin.....	Senior Vice President, Merchandising	41
William J. Naylon, Jr.	Vice President, Operations	35
Joseph J. Tebo.....	Senior Vice President, International Business	61

Kevin C. Breen had been Executive Vice President of Price Ventures since February 1997, overseeing operational and construction management areas for the international merchandising business. Prior to joining PEI as Vice President in August 1994, Mr. Breen served as Vice President of Costco with responsibility for managing the 17-location region in Southern Los Angeles and Orange County. From September 1991 until the merger with Costco, he was Vice President of TPC with regional operations responsibilities. Mr. Breen began his career with TPC in March 1979 and became a warehouse manager in December 1984.

Daniel L. Brockman had been with PEI since October 1994, initially as the Director of Internal Audit. Mr. Brockman later became the Chief Financial Officer of PEI's Price Global, Price Quest and Price Ventures subsidiaries and held such positions until the Distribution was consummated. From 1989 to 1994, Mr. Brockman worked for TPC and Costco in a variety of financial executive positions, including Director of Internal Audit, Director of Finance and Director of Financial Planning. Mr. Brockman graduated from San Diego State University with a B.S. in Accounting in 1977 and is a Certified Public Accountant.

Connie M. Depew had been with PEI since its inception in August 1994 as the Director of Warehouse Operations. From February 1983 to August 1994, Ms. Depew worked for TPC and Costco where she worked in various warehouse administrative roles and ultimately Warehouse Manager for Signal Hill. Prior to joining TPC, Ms. Depew worked as an internal auditor for FedMart.

Edward H. Depew, III had been with PEI since its inception in August 1994, and was responsible for export distribution and transportation worldwide. Prior to joining PEI, Mr. Depew worked for Costco as Vice President of International Distribution, focusing on Costco's Mexican and Korean operations. From 1989 to 1993, Mr. Depew was Vice President of West Coast distribution for TPC. Mr. Depew possesses over 25 years of experience in warehousing and transportation

management.

Glen C. Dobi joined PEI in August 1994 as the Director of PriceCostco Realty, overseeing an affinity-based business offering home selling services to Costco members. During 1995, the program was discontinued and Mr. Dobi began to work for the Costco Travel Program, a program he currently manages. From September 1991 to 1994, Mr. Dobi worked for TPC and Costco where he was a financial analyst for TPC's chief financial officer. Mr. Dobi graduated from the University of Texas with an MBA degree and a B.S. degree in engineering.

Brud E. Drachman had been with PEI since August 1994, overseeing design, construction and facility equipment procurement for the international merchandising businesses. Mr. Drachman's previous international experience was with Costco, focusing on Mexico and Korea development. He joined TPC in 1987 as Project Manager and participated in a variety of domestic projects. Mr. Drachman graduated from San Diego State University with a B.A. degree in political science in 1978.

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Walt H. Green had been with PEI since its inception in August 1994 as the Director of the Auto Referral Program. From November 1988 to August 1994, Mr. Green worked for TPC and Costco where he worked as an automotive products buyer. Prior to joining TPC, Mr. Green spent seven years with Select-A-Car, Inc. as a customer representative and manager for a related business at a local credit union location. Mr. Green graduated from the University of Wisconsin with a B.A. degree in marketing and economics in 1967.

Thomas L. Hammer had been Executive Vice President of Price Ventures since February 1997, overseeing the buying and merchandising areas for the international merchandising business, with specific focus on U.S.-sourced brand name and private label goods. Prior to joining PEI as Vice President in July 1994, Mr. Hammer served as Vice President of Costco, overseeing the merchandising area of Price Club Mexico. He joined TPC in July 1983 as a buyer and has served in various management roles in TPC's buying offices.

Thomas D. Martin had been Executive Vice President of Price Ventures since February 1997, directing merchandising strategies and product sourcing for its international merchandising business, in addition to managing its trading company activities. Prior to joining PEI as Vice President in July 1994, Mr. Martin served as Vice President of Costco and directed the merchandising efforts for Price Club Korea and PriceCostco Saipan. He joined TPC in May 1977 and has served in various management roles in both buying and store operations for TPC.

William J. Naylon Jr. joined PEI in October 1995 as Managing Director for PriceSmart Indonesia. Mr. Naylon has been stationed in Indonesia since February 1996 overseeing the start up and development of the Indonesia licensee's headquarters and first two PriceSmart outlets. Prior to joining PEI, Mr. Naylon was the warehouse manager of the Westbury, New York Price Club. Mr. Naylon began his career with TPC in 1985.

Joseph J. Tebo had been the President of Price Ventures since November 14, 1994. From May 1994 to November 1994, Mr. Tebo was President of the Tebo Group, an international retail consulting firm. From January 1990 to April 1994, Mr. Tebo was President and Chief Executive Officer of AM/PM International, a wholly owned subsidiary of Atlantic Richfield Company (ARCO), which has developed licensing and joint venture arrangements for AM/PM convenience stores in 10 countries throughout the Pacific Rim and the Americas.

ITEM 11. EXECUTIVE COMPENSATION

Prior to the Distribution, the individuals serving as the Company's chief executive officer and the two next most highly compensated executive officers (the "Named Executive Officers") were employed by PEI. The following Summary Compensation Table sets forth a summary of the compensation paid during the past three fiscal years by PEI to these individuals. The compensation amounts in the following tables represent all compensation paid to each such individual in connection with his position with PEI.

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SUMMARY COMPENSATION TABLE

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AWARDS NAME AND PRINCIPAL ----- UNDERLYING POSITION(S) (4) COMPENSATION (\$) (2) -----	ALL OTHER YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$) (1)	SECURITIES OPTIONS/ SARS (#)
<S> <C> Robert E. Price, 9,750 President and Chief 4,422 Executive Officer 9,500	1997	225,000	0	0	0
	1996	225,000	0	0	0
	1995	243,340	0	0	0
Theodore Wallace, 9,750 Executive Vice- 3,960 President and Chief 9,500 Operating Officer	1997	200,000	0	0	0
	1996	200,000	0	0	0
	1995	215,191	0	100,000 (3)	100,000
Robert M. Gans, 9,750 Executive Vice- 250 President, Secretary 0 and General Counsel	1997	175,000	40,000	0	0
	1996	150,000	35,000	0	0
	1995	132,693	25,000	0	75,000

- (1) Except as otherwise indicated, perquisites to each officer did not exceed the lesser of \$50,000 or 10% of the total salary and bonus for such officer.
- (2) The amounts shown for fiscal 1997 constitute contributions to The Price Enterprises Profit Sharing and 401(k) Plan and PEI's 401(k) matching contribution of \$250 for fiscal 1997 on behalf of each Named Executive Officer. The amounts shown for fiscal 1996 constitute contributions to The Price Enterprises Profit Sharing and 401(k) Plan for the period of September 4, 1995 through December 31, 1995, and the Company's 401(k) matching contribution of \$250 for fiscal 1996 on behalf of each Named Executive Officer. During fiscal 1996, the "plan year" for The Price Enterprises Profit Sharing and 401(k) Plan was converted to a calendar year from a fiscal year.
- (3) Amount constitutes a retention bonus paid to Mr. Wallace for agreeing to transfer employment from Costco to PEI in fiscal 1995.
- (4) The Named Executive Officers resigned as officers of PEI on August 29, 1997, and became officers of the Company. The current executive officers of the Company are described above under the heading "Executive Officers."

No stock options were granted to the Named Executive Officers during fiscal 1997 and no stock options were outstanding as of the end of such year. Messrs. Wallace and Gans, however, received on October 8, 1997 non-qualified stock options to purchase shares of the Company's Common Stock, containing substantially equivalent terms as the unvested options to purchase shares of PEI common stock held by such individuals prior to the Distribution, which unvested options were cancelled upon these individuals' termination of employment from PEI. The exercise price of and the number of shares covered by these replacement options were set to preserve the aggregate spread in value attributed to such unvested PEI options which had been held by such individuals. In addition, on October 8, 1997, Mr. Gans was granted options to purchase an additional 10,000 shares of Common Stock.

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INDEMNIFICATION AGREEMENTS

The Company has entered into indemnification agreements with its directors and certain officers (each, an "Indemnified Person"). An Indemnified Person is

specifically indemnified and held harmless under such agreements for costs and expenses, including without limitation, damages, judgments, amounts paid in settlement, reasonable costs of investigation, reasonable attorneys' fees, costs of investigative, judicial or administrative proceedings or appeals, costs or attachment of similar bonds, fines, penalties, and excise taxes assessed with respect to employee benefit plans actually and reasonably incurred in connection with a threatened, pending or completed claim, action, suit or proceeding by reason of the fact that (i) he or she is or was a director, officer, employee and/or agent of the Company; or (ii) is or was serving as a director, officer, employee, trustee and/or agent of another corporation or entity at the request of the Company. To qualify for indemnification, the claim must not be: (i) based solely upon an Indemnified Person's gaining in fact any personal profit or advantage to which he or she was not legally entitled; (ii) an accounting for profits made from the purchase or sale of securities pursuant to Section 16(b) of the Exchange Act; and (iii) based solely upon knowingly fraudulent, deliberately dishonest, or willful misconduct on the part of the Indemnified Person. The Company will indemnify the Indemnified Person to the extent that (i) the Indemnified Person gives the Company prompt written notice of any claim; (ii) expenses have not been advanced pursuant to Article Eighth of the Company's Amended and Restated Certificate of Incorporation; (iii) the Indemnified Person has not already received payment pursuant to collectible insurance policies; and (iv) indemnification is not unlawful.

Under such indemnification agreements, the Company will advance costs and expenses incurred by the Indemnified Person in advance of the final disposition of an action, suit or proceeding if he or she undertakes to repay amounts advanced if it is ultimately determined by a court of competent jurisdiction that he or she is not entitled to be indemnified by the Company. The Company will advance costs and expenses related to defending or investigating an action, suit or proceeding unless a determination is made that (i) the Indemnified Person did not act in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company; (ii) the Indemnified Person intentionally breached his or her duty to the Company or its stockholders; (iii) with respect to any criminal action or proceeding, the Indemnified Person had reasonable cause to believe his or her conduct was unlawful. Such determination will be made by a majority vote of a quorum of the Board consisting of directors not a party to the suit, action or proceeding, by a written opinion of independent legal counsel, by the stockholders or by a final, nonappealable adjudication in a court of competent jurisdiction. If the Company advances costs and expenses of any action, suit or proceeding, the Company reserves the right to assume the defense of such action, suit or proceeding upon written notice to the Indemnified Person of its intention to do so. After delivery of such notice, the Company shall not be liable for any costs or expenses incurred by the Indemnified Person in retaining separate counsel unless (i) the employment of separate counsel was previously authorized by the Company; (ii) the Indemnified Person reasonably concludes that joint representation would entail a conflict of interest; or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, suit or proceeding. The indemnification provisions and provisions for advancing expenses in such agreements are expressly not exclusive of any other rights of indemnification or advancement of expenses pursuant to the Delaware General Corporation Law ("DGCL") and the Company's Certificate of Incorporation and Bylaws.

PRICESMART STOCK OPTION PLAN

In August 1997, the Company adopted the 1997 PriceSmart Stock Option Plan of PriceSmart, Inc. (the "PriceSmart Stock Option Plan"). The PriceSmart Stock Option Plan was approved by PEI as sole stockholder of the Company as of August 7, 1997. The principal purposes of the PriceSmart Stock Option Plan are to provide incentives for officers, employees and consultants of the Company and its subsidiaries through the granting of options ("Options"), thereby stimulating their personal and active interest in the Company's development and financial success, and inducing them to remain in the Company's employ. In addition to Options granted to officers, employees or consultants, the PriceSmart Stock Option Plan provides for formula grants of Options ("Director Options") to the Company's independent non-employee directors.

Under the PriceSmart Stock Option Plan, not more than 700,000 shares of Common Stock (or the equivalent in other equity securities) are authorized for issuance upon exercise of Options. Furthermore, the maximum number of shares which may be subject to Options granted under the PriceSmart Stock Option Plan to

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any individual in any calendar year cannot exceed 125,000. The Company has granted to certain executive officers and other employees, Options to purchase shares of Common Stock.

The principal features of the PriceSmart Stock Option Plan are summarized below.

ADMINISTRATION. The Compensation Committee of the Board (the "Committee") administers the PriceSmart Stock Option Plan with respect to grants to employees or consultants of the Company and the full Company Board administers the PriceSmart Stock Option Plan with respect to Director Options. The Committee consists of three members of the Company Board, each of whom is a "non-employee director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended ("Rule 16b-3"), and, with respect to Options which are intended to constitute performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), an "outside director" for the purposes of Section 162(m) of the Code. Subject to the terms and conditions of the PriceSmart Stock Option Plan, the Company Board or Committee has the authority to select the persons to whom Options are to be granted, to determine the number of shares to be subject thereto and the terms and conditions thereof, and to make all other determinations and to take all other actions necessary or advisable for the administration of the PriceSmart Stock Option Plan. Similarly, the Company Board has discretion to determine the terms and conditions of Director Options and to interpret and administer the PriceSmart Stock Option Plan with respect to Director Options. The Committee (and the Company Board) are also authorized to adopt, amend and rescind rules relating to the administration of the PriceSmart Stock Option Plan.

ELIGIBILITY. Options under the PriceSmart Stock Option Plan may be granted to individuals who are then officers or other employees of the Company or any of its present or future subsidiaries. Such Options also may be granted to consultants of the Company selected by the Company Board or Committee for participation in the PriceSmart Stock Option Plan. Non-employee directors of the Company will be granted NQSOs (as defined herein) pursuant to the formula grant provisions of the PriceSmart Stock Option Plan.

OPTIONS UNDER THE PRICESMART OPTION PLAN. The PriceSmart Option Plan provides that the Committee may grant or issue stock Options. Each grant will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the grant.

Nonqualified Stock Options ("NQSOs") will provide for the right to purchase Common Stock at a specified price which, except with respect to NQSOs intended to qualify as performance-based compensation under Section 162(m) of the Code, may be less than fair market value on the date of grant (but not less than par value), and usually will become exercisable (in the discretion of the Company Board or Committee) in one or more installments after the grant date, subject to the participant's continued employment with the Company and/or subject to the satisfaction of individual or Company performance targets established by the Company Board or Committee. NQSOs may be granted for any term specified by the Company Board or Committee.

Incentive Stock Options ("ISOs") will be designed to comply with the provisions of the Code and will be subject to certain restrictions contained in the Code. Among such restrictions, ISOs must have an exercise price not less than the fair market value of a share of Common Stock on the date of grant, may only be granted to employees, must expire within a specified period of time following the optionee's termination of employment, and must be exercised within the ten years after the date of grant. ISOs may be subsequently modified to disqualify them from treatment as ISOs. In the case of an ISO granted to an individual who owns (or is deemed to own) at least 10% of the total combined voting power of all classes of stock of the Company, the PriceSmart Stock Option Plan provides that the exercise price must be at least 110% of the fair market value of a share of Common Stock on the date of grant and the ISO must expire upon the fifth anniversary of the date of its grant.

SECURITIES LAWS AND FEDERAL INCOME TAXES. The PriceSmart Stock Option Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3. The PriceSmart Stock Option Plan has been and will be administered, and Options have been and will be granted, and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the PriceSmart Stock Option Plan and Options granted thereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Under current federal tax laws, in general, recipients of grants of NQSO's under the PriceSmart Stock Option Plan are taxable under Section 83 of the Code upon their receipt of Common Stock or cash with respect to such grants and, subject to Section 162(m) of the Code, the Company will be entitled to an income

tax deduction with respect to the amounts taxable to such recipients. Under Sections 421 and 422 of the Code, recipients of ISOs are generally not taxable on their receipt of Common Stock upon their exercise of ISOs if the ISOs and option stock are held for certain minimum holding periods and, in such event, the Company is not entitled to income tax deductions with respect to such exercises. Participants in the PriceSmart Stock Option Plan will be provided with detailed information regarding the tax consequences relating to the various types of grants under the plan.

In general, under Section 162(m) of the Code ("Section 162(m)"), income tax deductions of publicly-held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises and non-qualified benefits paid) for certain executive officers exceeds \$1 million (less the amount of any "excess parachute payments" as defined in Section 280G of the Code) in any one year. However, under Section 162(m), the deduction limit does not apply to certain "performance-based compensation" established by an independent compensation committee which is adequately disclosed to, and approved by, stockholders. In particular, stock options will satisfy the "performance-based compensation" exception if the options are granted by a qualifying compensation committee, the plan sets the maximum number of shares that can be granted to any person within a specified period and the compensation is based solely on an increase in the stock price after the grant date (i.e., the option exercise price is equal to or greater than the fair market value of the stock subject to the award on the grant date). Under a Section 162(m) transition rule for compensation plans of corporations which are privately held and which become publicly held, the Stock Option Plan will not be subject to Section 162(m) until the earlier of (i) the material modification of the Stock Option Plan; (ii) the issuance of all employer stock and other compensation that has been allocated under the Stock Option Plan; or (iii) the first meeting of stockholders at which directors are to be elected that occurs after December 31, 1999 (the "Transition Date").

The Company has attempted to structure the Stock Option Plan in such a manner that, after the Transition Date, subject to obtaining stockholder approval for the stock options, the remuneration attributable to stock options which meet the other requirements of Section 102(m) will not be subject to the \$1,000,000 limitation. The Company has not, however, requested a ruling from the IRS or an opinion of counsel regarding this issue.

PROFIT SHARING AND 401(k) PLAN

PEI and the Company have taken all action necessary or appropriate to permit the Company to become a sponsor of and to permit employees of the Company to participate in the PEI Plan. The PEI Plan is a profit-sharing plan designed to be a "qualified" plan under applicable provisions of the Code, covering all employees who have completed one year of service, as defined in the PEI Plan. Under the PEI Plan, each of PEI and the Company may, in its discretion, make annual contributions with respect to its employees which shall not exceed for each participant the lesser of: (a) 25% of the participant's compensation for such year, or (b) the greater of (i) 25% of the defined benefit dollar limitation then in effect under section 415(b)(1) of the Code or (ii) \$30,000. In addition, participants may make voluntary contributions. The PEI Plan also permits employees to defer (in accordance with section 401(k) of the Code) a portion of their salary and contribute those deferrals to the PEI Plan.

All participants in the PEI Plan are fully vested in their voluntary contributions and earnings thereon. Vesting in the remainder of a participant's account is based upon his or her years of service with the Company, PEI, Costco, TPC and certain affiliated parties. A participant initially is 20% vested after the completion of two years of service, and an additional 20% vested after the completion of each of his or her next four years of service, so that the participant is 100% vested after the completion of six years of service.

A participant becomes fully vested in his or her entire account upon retirement due to permanent disability, attainment of age 65 or death. In addition, the PEI Plan provides that the Board of Directors of the Company may at any time declare the PEI Plan partially or completely terminated with respect to the employees of the Company in which event the account of each participant with respect to whom the PEI Plan is terminated will become fully vested.

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PEI and the Company will jointly sponsor the PEI Plan until 30 days after written notice from either party to the other requesting an end to joint sponsorship of the PEI Plan (the "Cut-Off Date"). Effective as of the Cut-Off Date, either PEI or the Company will take all action necessary to establish and administer a new profit sharing and 401(k) plan (the "New Plan"), which would be expected to have terms and conditions substantially similar to the PEI Plan. The New Plan will be a split up of that portion of the PEI Plan which is

attributable to employees of PEI or the Company, as the case may be. Board of Directors of each PEI and the Company also has the right at any time to discontinue contributions to the PEI Plan. If PEI or the Company fails to make one or more substantial contributions to the PEI Plan for any period of three consecutive years in each year of which PEI or the Company realized substantial current earnings, such failure will automatically be deemed a complete discontinuance of contributions. In the event of such a complete discontinuance of contributions, the account of each participant will become fully vested.

EMPLOYMENT CONTRACTS

Mr. Gans entered into an employment agreement with PEI for a term of three years commencing October 17, 1994. Pursuant to his agreement, Mr. Gans received a base annual salary of \$150,000 through fiscal year 1996. This base salary was increased by PEI's Compensation Committee to \$175,000 beginning fiscal year 1997. On April 28, 1997 the term of the employment agreement was extended to October 16, 1998. PEI assigned Mr. Gans' employment agreement to the Company pursuant to the assignment provisions contained in the agreement, and on September 2, 1997 the term of the employment agreement was extended to October 16, 2000. Under the agreement, Mr. Gans may not engage in any activities, with or without compensation, that would interfere with the performance of his duties or that would be adverse to the Company's interests, without the prior written consent of the Company. The agreement provides that Mr. Gans will be eligible to participate in the Company's bonus plan and receive all other benefits offered to officers under the Company's standard company benefits practices and plans. Mr. Gans may terminate his agreement at any time on 90 days prior written notice. The Company may terminate the agreement for cause upon immediate notice thereof, or upon the death or disability of Mr. Gans. In the event that the Company terminates the agreement for any reason other than cause, Mr. Gans shall be entitled, for the remainder of the term of the agreement, to the continuation of his base salary payable in conformity with the Company's normal payroll period, and to inclusion in the stock option plan, profit sharing and 401(k) plan and medical plans of the Company for the remainder of the term of the agreement. The foregoing severance benefits are the exclusive benefits that would be payable to Mr. Gans by reason of his termination, and the Company is not obligated to segregate any assets or procure any investment in order to fund such severance benefits. The agreement also contains confidentiality provisions and other terms and conditions customary to executive employment agreements.

Ms. Ratcliff entered into an employment agreement with the Company for a term of two years commencing September 29, 1997. Pursuant to this Agreement, Ms. Ratcliff will serve as Executive Vice President and Chief Financial Officer of the Company at a base annual salary of \$135,000 during the term of the agreement. The agreement also anticipates that Ms. Ratcliff will receive options to purchase 50,000 shares of the Company's Common Stock under the PriceSmart Stock Option Plan, subject to the Compensation Committee granting such options at its sole discretion, such options to be exercisable at 20% per year over a five-year period. Under the agreement, Ms. Ratcliff may not engage in any activities, with or without compensation, that would interfere with the performance of her duties or that would be adverse to the Company's interests, without the prior written consent of the Company. The agreement provides that Ms. Ratcliff will be eligible to participate in the Company's bonus plan and receive all other benefits offered to officers under the Company's standard company benefits practices and plans. Ms. Ratcliff may terminate her agreement at any time on 90 days prior written notice. The Company may terminate the agreement for cause upon immediate notice thereof, or upon the death or disability of Ms. Ratcliff. In the event that the Company terminates the agreement for any reason other than cause, Ms. Ratcliff shall be entitled to the continuation of her base salary payable in conformity with the Company's normal payroll period for six months or for the remainder of the employment term, whichever is longer, and if the agreement is not terminated then, upon expiration of the employment term, Ms. Ratcliff shall be entitled to continuation of her base salary for six months, payable in conformity with the Company's normal payroll period. The foregoing severance benefits are the exclusive benefits that would be payable to Ms. Ratcliff by reason of her termination, and the Company is not obligated to segregate any assets or procure any investment in order to fund such severance benefits. The

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agreement also contains confidentiality provisions and other terms and conditions customary to executive employment agreements.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares of Company Common Stock owned as of November 14, 1997 by (i) the Named Executive Officers (as hereinafter defined) and directors of the Company, (ii) all of the Company's executive officers and directors as a group and (iii) all other stockholders known by the Company to own beneficially more than five percent of the Common Stock. A list of the individuals who are the executive officers of the Company is set forth under the heading "Executive Officers" in "Item 10. Directors and Executive Officers of the Registrant." Except as otherwise indicated, each individual named is expected to have sole investment and voting power with respect to the securities shown.

Name and Address(1) -----	Amount and Nature of Beneficial Ownership -----	Percent Beneficially Owned -----
Robert E. Price.....	1,281,903 (2)	21.7%
Jeffrey S. Halis.....	518,125 (3)	8.8%
Katherine L. Hensley.....	2,787 (4)	*
Leon C. Janks.....	0 (5)	*
Lawrence B. Krause.....	300 (6)	*
Gilbert A. Partida.....	0 (7)	*
Robert M. Gans.....	7,163 (8)	*
Karen J. Ratcliff.....	0 (9)	*
Theodore Wallace.....	17,372 (10)	*
Sol Price.....	2,116,601 (11)	35.8%
All Executive Officers and Directors as a group (nine persons).....	1,827,650 (12)	30.8%

* Less than 1% beneficially owned.

(1) The address for all persons listed, other than Sol Price is c/o PriceSmart, Inc., 4649 Morena Boulevard, San Diego, California 92117. The address for Sol Price is c/o The Price Entities, 7979 Ivanhoe Avenue, Suite 520, La Jolla, California 92037.

(2) 1,281,903 shares are beneficially owned by Robert E. Price. Of such shares, 655,500 shares are held through trusts of which Mr. Price is a trustee. Mr. Price disclaims beneficial ownership of 625,125 shares which are held by the Price Family Charitable Fund, of which Mr. Price is a Director.

(3) 518,125 shares are beneficially owned by Jeffrey S. Halis. Of such shares, 308,525 shares are owned by Tyndall Partners, L.P., a Delaware limited partnership; 128,925 shares are owned by Tyndall Institutional Partners, L.P., a Delaware limited partnership; 49,625 shares are owned by Madison Avenue Partners, L.P., a Delaware limited partnership; 29,800 shares are owned by Halo International, Ltd., a company organized under the laws of the Cayman Islands; and 1,250 shares are owned individually by Mr. Halis. Pursuant to the Agreement of Limited Partnership of each of Tyndall Partners, L.P., Tyndall Institutional Partners, L.P., and Madison Avenue Partners, L.P., and the Investment Management Agreement of Halo International, Ltd., Mr. Halis possesses sole voting and investment control over all securities owned by the entities names above. Excludes 3,000 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.

(4) Includes 2,621 shares subject to non-qualified stock options which will become exercisable within 60 days of the date of this table. Excludes 8,241 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.

(5) Excludes 10,862 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.

(6) Excludes 3,000 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.

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(7) Excludes 3,000 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.

(8) Includes 7,163 shares subject to non-qualified stock options which will become exercisable within 60 days of the date of this table. Excludes 49,312 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days

- of the date of this table.
- (9) Excludes 50,000 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.
 - (10) Includes 9,550 shares subject to non-qualified stock options which will become exercisable within 60 days of the date of this table. Excludes 52,416 shares subject to non-qualified stock options which are not presently exercisable and which will not be exercisable within 60 days of the date of this table.
 - (11) Includes 1,446,164 shares held through trusts of which Mr. Price is a trustee. Mr. Price disclaims beneficial ownership of 625,125 shares which are held by the Price Family Charitable Fund, of which Mr. Price is a Director. Mr. Price also disclaims beneficial ownership of 45,312 shares which are held by certain trusts of which Mr. Price is a co-trustee.
 - (12) See notes (2) through (10) above.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has engaged in certain transactions which indirectly benefit PEI. Sol Price, who beneficially owns approximately 36% of the Company's outstanding Common Stock, is the father of Robert E. Price, the Chairman of the Board, President and Chief Executive Officer of the Company. Sol Price beneficially owns approximately 36% of PEI's common stock. Robert E. Price, who beneficially owns approximately 22% of the Company's outstanding Common Stock, also beneficially owns approximately 22% of PEI's common stock and is PEI's Chairman of the Board.

For the purpose of governing certain of the ongoing relationships between the Company and PEI after the Distribution and to provide mechanisms for an orderly transaction, the Company and PEI entered into the various agreements, and have adopted the policies described below.

The Company and PEI entered into a Distribution Agreement, which provides for, among other things, (i) the division between the Company and PEI of certain assets and liabilities; (ii) the Distribution; and (iii) certain other agreements governing the relationship between the Company and PEI following the Distribution.

The Company and PEI have entered into an Asset Management and Disposition Agreement dated as of August 26, 1997 calling for PEI to provide asset management services with respect to the Properties. Among other things, PEI will collect rents and pay operating expenses, maintain and repair such Properties, prepare month-end financial statements, hire brokers and prepare brokers' agreements, lease available space within such Properties and dispose of such Properties. As consideration for such services, the Company will pay PEI management fees based on annual rents from such Properties, leasing fees based on the gross leasable floor areas of each such Properties, disposition fees based on percentages of the sales prices for Properties that are sold and a developer's fee of 3% of all "hard" construction costs managed by PEI on behalf of the Company. Such agreement has a two-year term; provided that either the Company or PEI may terminate the agreement upon 60 days written notice.

PEI and the Company have entered into a Transitional Services Agreement dated as of August 26, 1997 pursuant to which the Company and PEI will provide certain services to one another. The fees for such transitional services (which shall not include real estate management services) will be based on hourly rates designed to reflect the costs (including indirect costs) of providing such services. The transitional services to be provided to PEI and to the Company pursuant to such agreement may include cash management services, certain accounting services, litigation management or any other similar services that PEI or the Company may require. The Transitional Services Agreement will terminate on December 31, 1997 unless extended in writing by the parties.

The Company and PEI have entered into a Tax Sharing Agreement dated as of August 26, 1997 defining the parties' rights and obligations with respect to tax returns and tax liabilities, including, in particular, Federal and state income tax returns and liabilities, for taxable years and other taxable periods ending on or before the date the Distribution was consummated (the "Distribution Date"). In general, PEI will be responsible for (i) filing all Federal and state income tax returns of PEI, the Company and any of their subsidiaries for all taxable years ending on or before or including the Distribution Date and (ii) paying the taxes relating to such returns (including any deficiencies proposed by applicable taxing authorities), to the extent attributable to pre-Distribution Date periods. The Company and PEI will each be responsible for filing its own returns and paying its own taxes for post-Distribution Date

periods.

The ongoing relationships between PEI and the Company may present certain conflict situations for Robert E. Price who serves as Chairman of the Board, President and Chief Executive Officer of the Company and Chairman of the Board of PEI. Mr. Price and certain other officers and directors of the Company also own shares of common stock in both PEI and the Company. The Company and PEI will adopt appropriate policies and procedures to be followed by the Board of Directors of each company to limit the involvement of Mr. Price (or such other officers and directors having a significant ownership interest in the companies) in conflict situations, including matters relating to contractual relationships or litigation between PEI and the Company. Such procedures include requiring Mr. Price to abstain from voting as a director of both companies with respect to matters that present a significant conflict of interest between the companies.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) The following financial statements are included in Part II, Item 8 of this Form 10-K

Report of Independent Auditors

Consolidated Balance Sheets as of August 31, 1997 and 1996

Consolidated Statements of Operations for each of the three years ended August 31, 1997, 1996 and 1995

Consolidated Statements of Stockholders' Equity for each of the three years ended August 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows for each of the three years August 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

- (b) Reports on Form 8-K: No reports on Form 8-K were filed during the fourth quarter of fiscal 1997.
- (c) See Exhibit Index and Exhibits attached to this report
- (d) Financial Statement Schedules

See "Schedule II: Valuation and Qualifying Accounts" attached to this report

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Schedule II

PRICESMART, INC.

VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
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Balance of

Additions

Balance at Provisions for Asset Impairments Deductions	Beginning of Period	Charged to Costs and Expenses	
End of Period			
<S>	<C>	<C>	<C>
<C>			
Year ended August 31, 1995	\$ -	\$1,600,000	
\$(1,600,000) (1)			
Year ended August 31, 1996	-	8,042,000	-
8,042,000			
Year ended August 31, 1997	8,042,000	2,000,000	
(5,247,000) (2)			4,795,000

</TABLE>

(1) Provision for asset impairments was directly written off against the related properties held for sale.

(2) Deductions from asset impairments related to the sale of seven properties and the recovery of prior year write-down of land.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: November 25, 1997

PRICESMART, INC.

By: /s/ ROBERT E. PRICE

Title Chairman, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Robert E. Price ----- Robert E. Price	Chairman, President and Chief Executive Officer (Principal Executive Officer)	November 25, 1997
/s/ Karen J. Ratcliff ----- Karen J. Ratcliff	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	November 25, 1997
/s/Jeffrey S. Halis ----- Jeffrey S. Halis	Director	November 25, 1997
/s/Katherine L. Hensley ----- Katherine L. Hensley	Director	November 25, 1997
/s/Leon C. Janks ----- Leon C. Janks	Director	November 25, 1997
/s/Lawrence B. Krause	Director	November 25, 1997

Lawrence B. Krause

/s/Gilbert A. Partida Director

November 25, 1997

Gilbert A. Partida

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PRICESMART, INC.

EXHIBIT INDEX AND EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
2.1(1)	Distribution Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
3.1(2)	Amended and Restated Certificate of Incorporation of PriceSmart, Inc.
3.2(2)	Amended and Restated Bylaws of PriceSmart, Inc.
10.1(2)	1997 Stock Option Plan of PriceSmart, Inc.
10.2(3)	Agreement Concerning Transfer of Certain Assets dated as of November 1996 by and among Price Enterprises, Inc., Costco Companies, Inc. and certain of their respective subsidiaries
10.3(4)	Employment Agreement dated September 20, 1994 between Price Enterprises, Inc. and Robert M. Gans
10.4(1)	Employee Benefits and Other Employment Matters Allocation Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
10.5(1)	Tax Sharing Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
10.6(1)	Asset Management and Disposition Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
10.7(5)	Third Amendment to Employment Agreement dated April 28, 1997 between Price Enterprises, Inc. and Robert M. Gans
10.8(6)	Form of Indemnity Agreement
10.9(1)	Transitional Services Agreement dated as of August 26, 1997 between the Company and Price Enterprises, Inc.
10.10(2)	Assignment and Assumption of Employment Agreement dated August 29, 1997 between the Company and Price Enterprises, Inc.
10.11(2)	Fourth Amendment to Employment Agreement dated as of September 2, 1997 between the Company and Robert M. Gans
10.12(2)	Employment Agreement dated as of September 29, 1997 between the Company and Karen Ratcliff
21.1(7)	Subsidiaries of PriceSmart, Inc.
23.1(2)	Consent of Ernst & Young LLP, Independent Auditors
27.1(2)	Financial Data Schedule

-
- (1) Incorporated by reference to the Current Report on Form 8-K filed September 12, 1997 by Price Enterprises, Inc.
 - (2) Filed herewith.
 - (3) Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 10 filed July 3, 1997.
 - (4) Incorporated by reference to Exhibit 10.14 to Amendment No. 1 to the Registration Statement on Form S-4 of Price Enterprises, Inc. filed with the Commission on November 3, 1994.
 - (5) Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Price Enterprises, Inc. for the quarter ended June 8, 1997 filed with the Commission on July 17, 1997.
 - (6) Incorporated by reference to Exhibit 10.8 to Amendment No. 1 to the Company's Registration Statement on Form 10 filed with the Commission on August 1, 1997.

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(7) Incorporated by reference to Exhibit 21.1 to Amendment No. 2 to the Company's Registration Statement on Form 10 filed with the Commission on August 13, 1997.

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EXHIBIT 3.1

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
PRICESMART, INC.

PRICESMART, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

1. The Corporation's original Certificate of Incorporation was filed on August 17, 1994. An amendment to said Certificate of Incorporation was filed on November 27, 1995 changing the name of the Corporation to PQI, Inc. A further amendment to said Certificate of Incorporation was filed on June 30, 1997 changing the name of the Corporation to PriceSmart, Inc.

2. That by action taken by unanimous written consent of the Board of Directors on July 29, 1997, resolutions were duly adopted setting forth a proposed amendment and restatement of the Certificate of Incorporation of the Corporation, declaring said amendment and restatement to be advisable and directing its officers to submit said amendment and restatement to the sole stockholder of the Corporation for consideration thereof. The resolution setting forth the proposed amendment and restatement is as follows:

"THEREFORE, BE IT RESOLVED, that the Certificate of Incorporation of the Corporation is hereby amended to read in its entirety as follows, subject to the required consent of the sole stockholder of the corporation:

FIRST: The name of the Corporation is PriceSmart, Inc. (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have the authority to issue is 17,000,000, which shall consist of 15,000,000 shares of Common Stock, each having a par value of \$.0001 (the "Common Stock") and 2,000,000 shares of Preferred Stock, each having a par value of \$.0001 (the "Preferred Stock").

The Board of Directors is hereby authorized from time to time to provide by resolution for the issuance of shares of preferred stock in one of more series not exceeding in the aggregate the number of shares of Preferred Stock authorized by this Certificate of Incorporation, as amended from time to time; and to determine with respect to each such series the voting powers, if any (which voting powers, if granted, may be full or limited), designations, preference and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions relating thereto, including without limiting the generality of the foregoing, the voting rights relating to shares of Preferred Stock of any series (which may be one of more votes per share or a fraction of a vote per share, which may vary over time and which may be applicable generally or only upon the happening and continuance of stated events or conditions), the rate of dividend to which holders of Preferred Stock of any series may be entitled (which may be cumulative or noncumulative), the rights of holders of Preferred Stock of any series in the event of liquidation, dissolution or winding up of the affairs of the Corporation, the rights, if any, of holders of Preferred Stock of any series to convert or exchange such shares of Preferred Stock of such series for shares of any other class or series of capital stock or for any other securities, property or assets of the

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price or prices or the rate or rates applicable to such rights to convert or exchange and the adjustment thereof, the time or times during which the right to convert or exchange shall be applicable and the time or times during which a particular price or rate shall be applicable), whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates, and whether any shares of that series shall be redeemed pursuant to a retirement or sinking fund or otherwise and the terms and conditions of such obligation.

Before the Corporation shall issue any shares of Preferred Stock of any series, a certificate setting forth a copy of the resolution or resolutions of the Board of Directors, fixing the voting powers, designations, preferences, the relative, participating, optional or other rights, if any, and the qualifications, limitations and restrictions, if any, relating to the shares of Preferred Stock of such series, and the number of shares of Preferred Stock of such series authorized by the Board of Directors to be issued shall be made under seal of the Corporation and signed by and shall be filed and a copy thereof recorded in the manner prescribed by the GCL. The Board of Directors is further authorized to increase or decrease (but not below the number of such shares of such series then outstanding) the number of shares of any series subsequent to the issuance of shares of that series.

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(a) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(b) The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the Bylaws of the Corporation.

(c) The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the Bylaws of the Corporation. The election of directors need not be by written ballot unless the Bylaws so provide.

(d) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any Bylaws adopted by the stockholders; PROVIDED, HOWEVER, that no Bylaws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

SIXTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

SEVENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Corporation in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

EIGHTH: (a) Subject to Article EIGHTH (c), the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or

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agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) Subject to Article EIGHTH (c), the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) Any indemnification under this Article EIGHTH (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Article EIGHTH (a) or Article EIGHTH (b), as the case may be. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Article EIGHTH (a) or Article EIGHTH (b), or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

(d) Notwithstanding any contrary determination in the specific case under Article EIGHTH (c), and notwithstanding the absence of any determination thereunder, any present or former director or officer of the Corporation may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Article EIGHTH (a) and Article EIGHTH (b). The basis of such indemnification by a court shall be a determination by such court that indemnification of such person is proper in the circumstances because he has met the applicable standards of conduct set forth in Article EIGHTH (a) or Article EIGHTH (b), as the case may be. Neither a contrary determination in the specific case under Article EIGHTH (c) nor the absence of any determination thereunder shall be a defense

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to such application or create a presumption that such person seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Article EIGHTH (d) shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, such person seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

(e) Expenses incurred by a person who is or was a director or officer of the Corporation in defending or investigating a threatened or pending

action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article EIGHTH.

(f) The indemnification and advancement of expenses provided by or granted pursuant to this Article EIGHTH shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Article EIGHTH (a) and Article EIGHTH (b) shall be made to the fullest extent permitted by law. The provisions of this Article EIGHTH shall not be deemed to preclude the indemnification of any person who is not specified in Article EIGHTH (a) or Article EIGHTH (b) but whom the Corporation has the power or obligation to indemnify under the provisions of the GCL, or otherwise.

(g) The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article EIGHTH or Section 145 of the GCL.

(h) For purposes of this Article EIGHTH, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article EIGHTH with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article EIGHTH, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such person with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article EIGHTH. For purposes of any determination under Article EIGHTH (c), a person shall be deemed to have acted in good faith in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to

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have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" is used in this Article EIGHTH (h) shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Article EIGHTH (h) shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Article EIGHTH (a) or (b), as the case may be.

(i) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article EIGHTH shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person.

(j) Notwithstanding anything contained in this Article EIGHTH to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Article EIGHTH (d)), the Corporation shall not be obligated to indemnify any person in connection with a proceeding (or part, thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

(k) The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article EIGHTH to directors and officers of the Corporation.

NINTH: No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article NINTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification."

3. That thereafter, by consent of the sole stockholder of all of the issued and outstanding shares of stock of the Corporation in accordance with Section 228 of the General Corporation Law of the State of Delaware, all of the shares of the Corporation were voted in favor of the amendment.

4. That said Amended and Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

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IN WITNESS WHEREOF, PRICESMART, INC. has caused this Certificate to be signed by Robert E. Price, its President and Daniel T. Carter, its Secretary, this 29th day of August, 1997.

PRICESMART, INC.

a Delaware corporation

By: /s/ Robert E. Price

Name: Robert E. Price

Title: President

ATTEST

/s/ Daniel T. Carter

Name: Daniel T. Carter

Title: Secretary

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EXHIBIT 3.2

AMENDED AND RESTATED

BYLAWS OF
PRICESMART, INC.
(HEREINAFTER CALLED THE "CORPORATION")
ARTICLE I
OFFICES

SECTION 1. REGISTERED OFFICE. The registered office of the Corporation shall be established and maintained in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II
MEETINGS OF STOCKHOLDERS

SECTION 1. PLACE OF MEETINGS. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

SECTION 2. ANNUAL MEETINGS. The Annual Meetings of Stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meeting the stockholders shall elect Directors in the manner provided in the Certificate of Incorporation and in the Bylaws, and transact such other business as may properly be brought before the meeting. Written notice of the Annual Meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

SECTION 3. SPECIAL MEETINGS. Unless otherwise prescribed by law or by the Certificate of Incorporation, Special Meetings of Stockholders, for any purpose or purposes may be called by either (i) the Chairman, (ii) the Vice Chairman, (iii) the President, (iv) any Vice President, (v) the Secretary or (vi) any Assistant Secretary, if there be one, and shall be called by any such officer at the request in writing by a majority of the entire Board of Directors, or at the request in writing of stockholders owning a majority of the capital stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting. Written notice of a Special Meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

SECTION 4. QUORUM. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum and the votes present may continue to transact business until adjournment. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is

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fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

SECTION 5. VOTING. Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

SECTION 6. CONSENT OF STOCKHOLDERS IN LIEU OF MEETING. Unless otherwise

provided in the Certificate of Incorporation, any action required or permitted to be taken at any Annual or Special Meeting of Stockholders of the Corporation, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

SECTION 7. LIST OF STOCKHOLDERS ENTITLED TO VOTE. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

SECTION 8. STOCK LEDGER. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 7 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

ARTICLE III DIRECTORS

SECTION 1. NUMBER AND ELECTION OF DIRECTORS. The Board of Directors shall consist of three or more members, the exact number of which shall be fixed from time to time by the Board of Directors. Except as provided in Section 2 of this Article, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders, and each director so elected shall hold office until the Annual Meeting in which his term expires and until his successor is duly elected and qualified, or until his earlier resignation or removal. Any director may resign at any time upon written notice to the Corporation. Directors need not be stockholders.

SECTION 2. VACANCIES. Vacancies, and newly created directorships resulting from any increase in the authorized number of directors, may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director. The directors so chosen shall hold office until the next annual election of directors and until their successors are duly elected and qualified, or until their earlier resignation or removal. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

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SECTION 3. DUTIES AND POWERS. The business of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

SECTION 4. MEETINGS. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, the Vice Chairman, the President, or any director. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail, telephone, facsimile or telegram not less than forty-eight (48) hours before the date of the meeting.

SECTION 5. QUORUM. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors a majority of the entire Board of Directors shall constitute a quorum for the transaction of business. The act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 6. ACTIONS OF BOARD. Unless otherwise provided by the Certificate

of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

SECTION 7. MEETINGS BY MEANS OF CONFERENCE TELEPHONE. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 shall constitute presence in person at such meeting.

SECTION 8. COMMITTEES. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. Any committee, to the extent allowed by law and provided in these Bylaws or the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation; but no committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws of the Corporation; and, unless the resolution or the Certificate of Incorporation expressly so provides, no committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Each committee shall keep regular minutes and report to the Board of Directors when required.

SECTION 9. COMPENSATION. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

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SECTION 10. INTERESTED DIRECTORS. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction. Any such contract or transaction shall be made on commercially reasonable terms substantially equivalent to terms available from third parties in an arm's-length transaction in the competitive marketplace.

ARTICLE IV OFFICERS

SECTION 1. GENERAL. The executive officers of the Corporation shall be chosen by the Board of Directors and shall include a Chairman of the Board of Directors, a President and Chief Executive Officer, a Secretary and a Chief Financial Officer. The Board of Directors, in its discretion, may also choose one or more Executive Vice Presidents (each of whom shall also be an executive officer), a Treasurer (who shall also be an executive officer) and Vice

Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors and the Vice Chairman of the Board of Directors, need such officers be directors of the Corporation.

SECTION 2. ELECTION. The Board of Directors at its first meeting held after each Annual Meeting of Stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the entire Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by a majority of the entire Board of Directors. The salaries of all executive officers of the Corporation shall be fixed by the Board of Directors.

SECTION 3. CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board of Directors shall possess the same power as the President to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. During the absence or disability of the President, the Chairman of the Board of Directors shall exercise all the powers and discharge all the duties of the President. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors. The Chairman of the Board of Directors may only be appointed or removed by a majority of the entire Board of Directors.

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SECTION 4. VICE CHAIRMAN OF THE BOARD OF DIRECTORS. The Vice Chairman of the Board of Directors shall, in the absence or disability of the Chairman of the Board of Directors, preside at meetings of the stockholders and the Board of Directors. The Vice Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors.

SECTION 5. PRESIDENT. The President shall, subject to the control of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these Bylaws, the Board of Directors or the President. In the absence or disability of the Chairman of the Board of Directors or the Vice Chairman of the Board of Directors, or if there be none, the President shall preside at all meetings of the stockholders and the Board of Directors. The President shall be the Chief Executive Officer of the Corporation. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these Bylaws or by the Board of Directors. The President may only be appointed or removed by a majority of the entire Board of Directors.

SECTION 6. EXECUTIVE VICE PRESIDENTS AND VICE PRESIDENTS. At the request of the President or in his absence or in the event of his inability or refusal to act (and if there be no Chairman of the Board of Directors), the Senior Executive Vice President, and then the Executive Vice President or the Executive Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President (including Senior Executive and Executive Vice Presidents) shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Chairman of the Board of Directors and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

SECTION 7. SECRETARY. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose

supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

SECTION 8. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall also serve as the Treasurer unless Treasurer shall be separately appointed by the Board of Directors and shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board of

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Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Chief Financial Officer and of the financial condition of the Corporation.

SECTION 9. ASSISTANT SECRETARIES. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

SECTION 10. ASSISTANT TREASURERS. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer.

SECTION 11. OTHER OFFICERS. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V STOCK

SECTION 1. FORM OF CERTIFICATES. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman or Vice Chairman of the Board of Directors, or the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 2. SIGNATURES. Where a certificate is countersigned by (i) a transfer agent other than the Corporation or its employee, or (ii) a registrar other than the Corporation or its employee, any other signature on the

certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 3. LOST CERTIFICATES. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost stolen or destroyed (unless otherwise authorized by the Board). When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance

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thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 4. TRANSFERS. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued.

SECTION 5. RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. BENEFICIAL OWNERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI NOTICES

SECTION 1. NOTICES. Whenever written notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex, facsimile or cable, in which event notice shall be deemed given upon receipt.

SECTION 2. WAIVERS OF NOTICE. Whenever any notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Neither the business transacted or to be transacted at, nor the purpose of any meeting need be specified in any written waiver of notice thereof.

ARTICLE VII GENERAL PROVISIONS

SECTION 1. DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of

any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems

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proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

SECTION 2. DISBURSEMENTS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 3. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

SECTION 4. CORPORATE SEAL. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII INDEMNIFICATION

The power, right and obligation of the Corporation to indemnify any director or officer of the Corporation and employees and agents of the Corporation shall be as set forth in Article EIGHTH of the Certificate of Incorporation. All directors and officers of the Corporation shall be entitled to indemnification as set forth in the Certificate of Incorporation.

ARTICLE IX AMENDMENTS

SECTION 1. These Bylaws may be altered, amended or repealed, in whole or in part, or new Bylaws may be adopted by the stockholders or by the Board of Directors; provided, however, that notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such meeting of stockholders or Board of Directors as the case may be. All such amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors.

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EXHIBIT 10.1

THE 1997 STOCK OPTION PLAN OF PRICESMART, INC.

PriceSmart, Inc., a Delaware corporation, has adopted The 1997 Stock Option Plan of PriceSmart, Inc. (this "Plan"), effective August 29, 1997, for the benefit of its eligible employees, consultants and directors.

The purposes of this Plan are as follows:

(1) To provide an additional incentive for directors, key Employees and consultants to further the growth, development and financial success of the Company by personally benefiting through the ownership of Company stock which recognizes such growth, development and financial success.

(2) To enable the Company to obtain and retain the services of directors, key Employees and consultants considered essential to the long range success of the Company by offering them an opportunity to own stock in the Company which will reflect the growth, development and financial success of the Company.

ARTICLE I DEFINITIONS

1.1 GENERAL. Wherever the following terms are used in this Plan they shall have the meanings specified below, unless the context clearly indicates otherwise.

1.2 AWARD LIMIT. "Award Limit" shall mean 125,000 shares of Common Stock, as adjusted pursuant to Section 7.3.

1.3 BOARD. "Board" shall mean the Board of Directors of the Company.

1.4 CODE. "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.5 COMMITTEE. "Committee" shall mean the Compensation Committee of the Board, or another committee or subcommittee of the Board, appointed as provided in Section 6.1.

1.6 COMMON STOCK. "Common Stock" shall mean the common stock of the Company, par value \$.0001 per share.

1.7 COMPANY. "Company" shall mean PriceSmart, Inc., a Delaware corporation.

1.8 CORPORATE TRANSACTION. "Corporate Transaction" shall mean any of the following stockholder-approved transactions to which the Company is a party:

(a) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Company is incorporated, form a holding company or effect a similar reorganization as to form whereupon this Plan and all Options are assumed by the successor entity;

(b) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to clause (a), above; or

(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

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1.9 DIRECTOR. "Director" shall mean a member of the Board.

1.10 DISTRIBUTION. "Distribution" shall mean the distribution of Common Stock to the stockholders of Price Enterprises, Inc.

1.11 EMPLOYEE. "Employee" shall mean any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company, or of any corporation which is a Subsidiary.

1.12 EXCHANGE ACT. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

1.13 FAIR MARKET VALUE. "Fair Market Value" of a share of Common Stock as of a given date shall be (i) the closing price of a share of Common Stock on the principal exchange on which shares of Common Stock are then trading, if any (or as reported on any composite index which includes such principal exchange), on the trading day previous to such date, or if shares were not traded on the trading day previous to such date, then on the next preceding date on which a trade occurred, or (ii) if Common Stock is not traded on an exchange but is quoted on Nasdaq or a successor quotation system, the closing price of a share of Common Stock on the trading day previous to such date as reported by Nasdaq or such successor quotation system; or (iii) if Common Stock is not publicly traded on an exchange and not quoted on Nasdaq or a successor quotation system, the Fair Market Value of a share of Common Stock as established by the Committee (or the Board, in the case of Options granted to Independent Directors) acting in good faith.

1.14 INCENTIVE STOCK OPTION. "Incentive Stock Option" shall mean an option which conforms to the applicable provisions of Section 422 of the Code and which is designated as an Incentive Stock Option by the Committee.

1.15 INDEPENDENT DIRECTOR. "Independent Director" shall mean a member of the Board who is not an Employee of the Company.

1.16 NON-QUALIFIED STOCK OPTION. "Non-Qualified Stock Option" shall mean an Option which is not designated as an Incentive Stock Option by the Committee.

1.17 OPTION. "Option" shall mean a stock option granted under Article III of this Plan. An Option granted under this Plan shall, as determined by the Committee, be either a Non-Qualified Stock Option or an Incentive Stock Option; PROVIDED, HOWEVER, that Options granted to Independent Directors and consultants

shall be Non-Qualified Stock Options.

1.18 OPTIONEE. "Optionee" shall mean an Employee, consultant or Independent Director granted an Option under this Plan.

1.19 PLAN. "Plan" shall mean The 1997 Stock Option Plan of PriceSmart, Inc.

1.20 QDRO. "QDRO" shall mean a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

1.21 RULE 16B-3. "Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended from time to time.

1.22 SECTION 162(M) PARTICIPANT. "Section 162(m) Participant" shall mean any key Employee designated by the Committee as a key Employee whose compensation for the fiscal year in which the key Employee is so designated or a future fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code.

1.23 SUBSIDIARY. "Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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1.24 TERMINATION OF CONSULTANCY. "Termination of Consultancy" shall mean the time when the engagement of an Optionee as a consultant to the Company or a Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, by resignation, discharge, death or retirement; but excluding terminations where there is a simultaneous commencement of employment with the Company or any Subsidiary. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Consultancy, including, but not by way of limitation, the question of whether a Termination of Consultancy resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Consultancy. Notwithstanding any other provision of this Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate a consultant's service at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

1.25 TERMINATION OF DIRECTORSHIP. "Termination of Directorship" shall mean the time when an Optionee who is an Independent Director ceases to be a Director for any reason, including, but not by way of limitation, a termination by resignation, failure to be elected, death or retirement. The Board, in its sole and absolute discretion, shall determine the effect of all matters and questions relating to Termination of Directorship with respect to Independent Directors.

1.26 TERMINATION OF EMPLOYMENT. "Termination of Employment" shall mean the time when the employee-employer relationship between an Optionee and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding (i) terminations where there is a simultaneous reemployment or continuing employment of an Optionee by the Company or any Subsidiary, (ii) at the discretion of the Committee, terminations which result in a temporary severance of the employee-employer relationship, and (iii) at the discretion of the Committee, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment; PROVIDED, HOWEVER, that, unless otherwise determined by the Committee in its discretion, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Employment if, and to the extent that with respect to Incentive Stock Options, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section. Notwithstanding any other provision of this Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate an Employee's employment at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

ARTICLE II
SHARES SUBJECT TO PLAN

2.1 SHARES SUBJECT TO PLAN.

(a) The shares of stock subject to Options shall be Common Stock. The aggregate number of such shares which may be issued upon exercise of such Options or rights or upon any such awards under the Plan shall not exceed 700,000. The shares of Common Stock issuable upon exercise of such Options may be either previously authorized but unissued shares or treasury shares.

(b) The maximum number of shares which may be subject to Options granted under the Plan to any individual in any fiscal year shall not exceed the Award Limit. To the extent required by Section 162(m) of the Code, shares subject to Options which are canceled continue to be counted against the Award Limit

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and if, after grant of an Option, the price of shares subject to such Option is reduced, the transaction is treated as a cancellation of the Option and a grant of a new Option and both the Option deemed to be canceled and the Option deemed to be granted are counted against the Award Limit.

2.2 ADD-BACK OF OPTIONS. If any Option to acquire shares of Common Stock under this Plan expires or is canceled without having been fully exercised, or is exercised in whole or in part for cash as permitted by this Plan, the number of shares subject to such Option but as to which such Option was not exercised prior to its expiration, cancellation or exercise may again be optioned hereunder, subject to the limitations of Section 2.1. Furthermore, any shares subject to Options which are adjusted pursuant to Section 7.3 and become exercisable with respect to shares of stock of another corporation shall be considered cancelled and may again be optioned hereunder, subject to the limitations of Section 2.1. Shares of Common Stock which are delivered by the Optionee or withheld by the Company upon the exercise of any Option under this Plan, in payment of the exercise price thereof, may again be optioned hereunder, subject to the limitations of Section 2.1. Notwithstanding the provisions of this Section 2.2, no shares of Common Stock may again be optioned if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

ARTICLE III GRANTING OF OPTIONS

3.1 ELIGIBILITY. Any Employee or consultant selected by the Committee pursuant to Section 3.4(a)(i) shall be eligible to be granted an Option. Each Independent Director of the Company shall be eligible to be granted Options at the times and in the manner set forth in Section 3.4(d).

3.2 DISQUALIFICATION FOR STOCK OWNERSHIP. No person may be granted an Incentive Stock Option under this Plan if such person, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any then existing Subsidiary or parent corporation (within the meaning of Section 422 of the Code) unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code.

3.3 QUALIFICATION OF INCENTIVE STOCK OPTIONS. No Incentive Stock Option shall be granted to any person who is not an Employee.

3.4 GRANTING OF OPTIONS

(a) The Committee shall from time to time, in its absolute discretion, and subject to applicable limitations of this Plan:

(i) Determine which Employees are key Employees and select from among the key Employees or consultants (including Employees or consultants who have previously received Options under this Plan) such of them as in its opinion should be granted Options;

(ii) Subject to the Award Limit, determine the number of shares to be subject to such Options granted to the selected key Employees or consultants;

(iii) Subject to Section 3.3, determine whether such Options are to be Incentive Stock Options or Non-Qualified Stock Options and whether such Options are to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code; and

(iv) Determine the terms and conditions of such Options, consistent with this Plan; PROVIDED, HOWEVER, that the terms and conditions of Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall include, but not be limited to, such terms and conditions as may be necessary to meet the applicable provisions

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(b) Upon the selection of a key Employee or consultant to be granted an Option, the Committee shall instruct the Chief Executive Officer of the Company to issue the Option and may impose such conditions on the grant of the Option as it deems appropriate. Without limiting the generality of the preceding sentence, the Committee may, in its discretion and on such terms as it deems appropriate, require as a condition on the grant of an Option to an Employee or consultant that the Employee or consultant surrender for cancellation some or all of the unexercised Options or other rights which have been previously granted to him under this Plan or otherwise. An Option, the grant of which is conditioned upon such surrender, may have an Option price lower (or higher) than the exercise price of such surrendered Option or other award, may cover the same (or a lesser or greater) number of shares as such surrendered Option or other award, may contain such other terms as the Committee deems appropriate, and shall be exercisable in accordance with its terms, without regard to the number of shares, price, exercise period or any other term or condition of such surrendered Option or other award.

(c) Any Incentive Stock Option granted under this Plan may be modified by the Committee to disqualify such option from treatment as an "incentive stock option" under Section 422 of the Code.

(d) During the term of the Plan, each person who is an Independent Director as of the date of the the Distribution automatically shall be granted (i) an Option to purchase three thousand (3,000) shares of Common Stock (subject to adjustment as provided in Section 7.3) on the 26th day after the Distribution and (ii) an Option to purchase one thousand (1,000) shares of Common Stock (subject to adjustment as provided in Section 7.3) on the date of each annual meeting of stockholders after such Distribution at which the Independent Director is reelected to the Board. During the term of the Plan, a person who is initially elected to the Board after the consummation of the Distribution and who is an Independent Director at the time of such initial election automatically shall be granted (i) an Option to purchase three thousand (3,000) shares of Common Stock (subject to adjustment as provided in Section 7.3) on the date of such initial election and (ii) an Option to purchase one thousand (1,000) shares of Common Stock (subject to adjustment as provided in Section 7.3) on the date of each annual meeting of stockholders after such initial election at which the Independent Director is reelected to the Board. In addition, the Board shall grant Options ("Replacement Options") to each Independent Director who is a member of the Board of Directors of Price Enterprises, Inc., a Delaware corporation ("PEI"), and whose PEI stock options terminate unexercised as a result of the Independent Director's resignation from such Board of Directors in order to become a member of the Board, in an amount and upon terms and conditions which provide the Independent Director with Replacement Options with a value which is comparable to the value of the terminated PEI options, as determined by the Board. Members of the Board who are employees of the Company who subsequently retire from the Company and remain on the Board will not receive an initial Option grant pursuant to clause (i) of the preceding sentence, but to the extent that they are otherwise eligible, will receive, after retirement from employment with the Company, Options as described in clause (ii) of the preceding sentence.

ARTICLE IV TERMS OF OPTIONS

4.1 OPTION AGREEMENT. Each Option shall be evidenced by a written Stock Option Agreement, which shall be executed by the Optionee and an authorized officer of the Company and which shall contain such terms and conditions as the Committee (or the Board, in the case of Options granted to Independent Directors) shall determine, consistent with this Plan. Stock Option Agreements evidencing Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 162(m) of the Code. Stock Option Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to meet the applicable provisions of Section 422 of the Code.

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4.2 OPTION PRICE. The price per share of the shares subject to each Option shall be set by the Committee; PROVIDED, HOWEVER, that such price shall be no less than the par value of a share of Common Stock, unless otherwise permitted by applicable state law, and (i) in the case of Options intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code, such price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted; (ii) in the case of Incentive Stock Options such price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted (or the date the

Option is modified, extended or renewed for purposes of Section 424(h) of the Code); (iii) in the case of Incentive Stock Options granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code), such price shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code); and (iv) in the case of Options granted to Independent Directors, such price shall equal 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted; PROVIDED, HOWEVER, that the price of each share subject to each Option granted to Independent Directors on the date of the Distribution shall equal the average of the trading price for the Common Stock for the twenty days commencing on the sixth day after the effective date of the Distribution.

4.3 OPTION TERM. The term of an Option shall be set by the Committee in its discretion; PROVIDED, HOWEVER, that, (i) in the case of Options granted to Independent Directors, the term shall be ten (10) years from the date the Option is granted, without variation or acceleration hereunder, but subject to Section 5.6, and (ii) in the case of Incentive Stock Options, the term shall not be more than ten (10) years from the date the Incentive Stock Option is granted, or five (5) years from such date if the Incentive Stock Option is granted to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code). Except as limited by requirements of Section 422 of the Code and regulations and rulings thereunder applicable to Incentive Stock Options, the Committee may extend the term of any outstanding Option in connection with any Termination of Employment or Termination of Consultancy of the Optionee, or amend any other term or condition of such Option relating to such a termination.

4.4 OPTION VESTING

(a) The period during which the right to exercise an Option in whole or in part vests in the Optionee shall be set by the Committee and the Committee may determine that an Option may not be exercised in whole or in part for a specified period after it is granted; PROVIDED, HOWEVER, that, unless the Committee otherwise provides in the terms of the Option or otherwise, no Option shall be exercisable by any Optionee who is then subject to Section 16 of the Exchange Act within the period ending six months and one day after the date the Option is granted; and PROVIDED, FURTHER, that Options granted to Independent Directors, other than Replacement Options, shall become exercisable in cumulative annual installments of 25% on each of the first, second, third and fourth anniversaries of the date of Option grant, without variation or acceleration hereunder except as provided in Section 7.3(b). At any time after grant of an Option, the Committee may, in its sole and absolute discretion and subject to whatever terms and conditions it selects, accelerate the period during which an Option (except an Option granted to an Independent Director) vests.

(b) No portion of an Option which is unexercisable at Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, shall thereafter become exercisable, except as may be otherwise provided by the Committee in the case of Options granted to Employees or consultants either in the Stock Option Agreement or by action of the Committee following the grant of the Option.

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(c) To the extent that the aggregate Fair Market Value of stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by an Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company and any parent or subsidiary corporation (within the meaning of Section 422 of the Code) of the Company) exceeds \$100,000, such Options shall be treated as Non-Qualified Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options into account in the order in which they were granted. For purposes of this Section 4.4(c), the Fair Market Value of stock shall be determined as of the time the Option with respect to such stock is granted.

4.5 CONSIDERATION. In consideration of the granting of an Option, the Optionee shall agree, in the written Stock Option Agreement, to remain in the employ of (or to consult for or to serve as an Independent Director of, as applicable) the Company or any Subsidiary for a period of at least six months (or such shorter period as may be fixed in the Stock Option Agreement or by action of the Committee following grant of the Option) after the Option is granted (or, in the case of an Independent Director, until the next annual meeting of stockholders of the Company). Nothing in this Plan or in any Stock

Option Agreement hereunder shall confer upon any Optionee any right to continue in the employ of, or as a consultant for, the Company or any Subsidiary, or as a director of the Company, or shall interfere with or restrict in any way the rights of the Company and any Subsidiary, which are hereby expressly reserved, to discharge any Optionee at any time for any reason whatsoever, with or without good cause.

ARTICLE V EXERCISE OF OPTIONS

5.1 PARTIAL EXERCISE. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Committee (or the Board, in the case of Options granted to Independent Directors) may require that, by the terms of the Option, a partial exercise be with respect to a minimum number of shares.

5.2 MANNER OF EXERCISE. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company or his office:

(a) A written notice complying with the applicable rules established by the Committee (or the Board, in the case of Options granted to Independent Directors) stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Optionee or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Committee (or the Board, in the case of Options granted to Independent Directors), in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act of 1933, as amended, and any other federal or state securities laws or regulations. The Committee or Board may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised pursuant to Section 7.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option; and

(d) Full cash payment to the Secretary of the Company for the shares with respect to which the Option, or portion thereof, is exercised. However, the Committee (or the Board, in the case of Options granted to Independent Directors), may in its discretion (i) allow a delay in payment up to thirty (30) days from the date the Option, or portion thereof, is exercised; (ii) allow payment, in whole or in part, through the delivery of shares of Common Stock owned by the Optionee, duly endorsed for transfer to the

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Company with a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof; (iii) allow payment, in whole or in part, through the surrender of shares of Common Stock then issuable upon exercise of the Option having a Fair Market Value on the date of Option exercise equal to the aggregate exercise price of the Option or exercised portion thereof; (iv) allow payment, in whole or in part, through the delivery of property of any kind which constitutes good and valuable consideration; (v) allow payment, in whole or in part, through the delivery of a full recourse promissory note bearing interest (at no less than such rate as shall then preclude the imputation of interest under the Code) and payable upon such terms as may be prescribed by the Committee or the Board; (vi) allow payment, in whole or in part, through the delivery of a notice that the Optionee has placed a market sell order with a broker with respect to shares of Common Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; or (vii) allow payment through any combination of the consideration provided in the foregoing subparagraphs (ii), (iii), (iv), (v) and (vi). In the case of a promissory note, the Committee (or the Board, in the case of Options granted to Independent Directors) may also prescribe the form of such note and the security to be given for such note. The Option may not be exercised, however, by delivery of a promissory note or by a loan from the Company when or where such loan or other extension of credit is prohibited by law.

5.3 CONDITIONS TO ISSUANCE OF STOCK CERTIFICATES. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to fulfillment of all of the following conditions, any one of which may be issued by the Company, in its discretion:

(a) The admission of such shares to listing on all stock exchanges on which

such class of stock is then listed;

(b) The completion of any registration or other qualification of such shares under any state or federal law, or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body which the Committee or Board shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee (or Board, in the case of Options granted to Independent Directors) shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the exercise of the Option as the Committee (or Board, in the case of Options granted to Independent Directors) may establish from time to time for reasons of administrative convenience; and

(e) Subject to Section 5.2(d), the receipt by the Company of full payment for such shares, including payment of any applicable withholding tax.

5.4 RIGHTS AS STOCKHOLDERS. The holders of Options shall not be, nor have any of the rights or privileges of, stockholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such holders.

5.5 OWNERSHIP AND TRANSFER RESTRICTIONS. The Committee (or Board, in the case of Options granted to Independent Directors), in its absolute discretion, may impose such restrictions on the ownership and transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such restriction shall be set forth in the respective Stock Option Agreement and may be referred to on the certificates evidencing such shares. The Committee may require the Employee to give the Company prompt notice of any disposition of shares of Common Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Employee or (ii) one year

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after the transfer of such shares to such Employee. The Committee may direct that the certificates evidencing shares acquired by exercise of an Option refer to such requirement to give prompt notice of disposition.

5.6 LIMITATIONS ON EXERCISE OF OPTIONS GRANTED TO INDEPENDENT DIRECTORS. No Option granted to an Independent Director may be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of twelve (12) months from the date of the Optionee's death;

(b) the expiration of twelve (12) months from the date of the Optionee's Termination of Directorship by reason of his permanent and total disability (within the meaning of Section 22(e)(3) of the Code);

(c) the expiration of three (3) months from the date of the Optionee's Termination of Directorship for any reason other than such Optionee's death or his permanent and total disability, unless the Optionee dies within said three-month period; or

(d) The expiration of ten years from the date the Option was granted.

ARTICLE VI ADMINISTRATION

6.1 COMPENSATION COMMITTEE. The Compensation Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under this Plan) shall consist solely of two or more Independent Directors appointed by and holding office at the pleasure of the Board, each of whom is both a "non-employee director" as defined by Rule 16b-3 and an "outside director" for purposes of Section 162(m) of the Code. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may be filled by the Board.

6.2 DUTIES AND POWERS OF COMMITTEE. It shall be the duty of the Committee to conduct the general administration of this Plan in accordance with its provisions. The Committee shall have the power to interpret this Plan and the agreements pursuant to which Options are granted or awarded, and to adopt such rules for the administration, interpretation, and application of this Plan as

are consistent therewith and to interpret, amend or revoke any such rules. Notwithstanding the foregoing, the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Options granted to Independent Directors. Any such grant or award under this Plan need not be the same with respect to each Optionee. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under this Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

6.3 MAJORITY RULE; UNANIMOUS WRITTEN CONSENT. The Committee shall act by a majority of its members in attendance at a meeting at which a quorum is present or by a memorandum or other written instrument signed by all members of the Committee.

6.4 COMPENSATION; PROFESSIONAL ASSISTANCE; GOOD FAITH ACTIONS. Members of the Committee shall receive such compensation, if any, for their services as members as may be determined by the Board. All expenses and liabilities which members of the Committee incur in connection with the administration of this Plan shall be borne by the Company. The Committee may, with the approval of the Board, employ attorneys, consultants, accountants, appraisers, brokers, or other persons. The Committee, the Company and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee

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or the Board in good faith shall be final and binding upon all Optionees, the Company and all other interested persons. No members of the Committee or Board shall be personally liable for any action, determination or interpretation made in good faith with respect to this Plan or Options, and all members of the Committee and the Board shall be fully protected by the Company in respect of any such action, determination or interpretation.

ARTICLE VII MISCELLANEOUS PROVISIONS

7.1 NOT TRANSFERABLE. Options under this Plan may not be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution or pursuant to a QDRO, unless and until such options have been exercised, or the shares underlying such options have been issued, and all restrictions applicable to such shares have lapsed. No Option or interest or right therein shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

During the lifetime of the Optionee, only he may exercise an Option (or any portion thereof) granted to him under the Plan, unless it has been disposed of pursuant to a QDRO. After the death of the Optionee, any exercisable portion of an Option may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement or other agreement, be exercised by his personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

7.2 AMENDMENT, SUSPENSION OR TERMINATION OF THIS PLAN. Except as otherwise provided in this Section 7.2, this Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Board or the Committee. However, without approval of the Company's stockholders given within twelve months before or after the action by the Board or the Committee, no action of the Board or the Committee may, except as provided in Section 7.3, increase the limits imposed in Section 2.1 on the maximum number of shares which may be issued under this Plan, and no action of the Board or the Committee may be taken that would otherwise require stockholder approval as a matter of applicable law, regulation or rule. Furthermore, no modification of the Award Limit shall be effective prior to the approval of the Company's stockholders. No amendment, suspension or termination of this Plan shall, without the consent of the holder of Options, alter or impair any rights or obligations under any Options theretofore granted or awarded, unless the award itself otherwise expressly so provides. No Options may be granted or awarded during any period of suspension or after termination of this Plan, and in no event may any Incentive Stock Option be granted under this Plan after the

first to occur of the following events:

(a) The expiration of ten years from the date the Plan is adopted by the Board; or

(b) The expiration of ten years from the date the Plan is approved by the Company's stockholders under Section 7.4.

7.3 CHANGES IN COMMON STOCK OR ASSETS OF THE COMPANY, ACQUISITION OR LIQUIDATION OF THE COMPANY AND OTHER CORPORATE EVENTS.

(a) Subject to Section 7.3(d), in the event that the Committee (or the Board, in the case of Options granted to Independent Directors) determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split,

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reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Committee's sole discretion (or in the case of Options granted to Independent Directors, the Board's sole discretion), affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Option, then the Committee (or the Board, in the case of Options granted to Independent Directors) shall, in such manner as it may deem equitable, adjust any or all of

(i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Options may be granted under the Plan, (including, but not limited to, adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued and adjustments of the Award Limit),

(ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Options, and

(iii) the grant or exercise price with respect to any Option.

(b) Subject to Section 7.3(d), in the event of any Corporate Transaction or other transaction or event described in Section 7.3(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Committee (or the Board, in the case of Options granted to Independent Directors) in its discretion is hereby authorized to take any one or more of the following actions whenever the Committee (or the Board, in the case of Options granted to Independent Directors) determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any option under this Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee (or the Board, in the case of Options granted to Independent Directors) may provide, either by the terms of the agreement or by action taken prior to the occurrence of such transaction or event and either automatically or upon the optionee's request, for either the purchase of any such Option for an amount of cash equal to the positive difference, if any, between the amount that could have been obtained upon the exercise of such Option and the exercise price of such Option, or realization of the optionee's rights had such Option been currently exercisable or payable or fully vested or the replacement of such Option with other rights or property selected by the Committee (or the Board, in the case of Options granted to Independent Directors) in its sole discretion;

(ii) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee (or the Board, in the case of Options granted to Independent Directors) may provide, either by the terms of such Option or by action taken prior to the occurrence of such transaction or event, that for a specified period of time prior to such transaction or event, such Option shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in (i) Section 4.4 or (ii) the provisions of such Option;

(iii) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee (or the Board, in the case of Options granted to Independent Directors) may provide, either by the terms of such Option or by action taken prior to the occurrence of such transaction or event, that upon such event, such Option be assumed by the successor or survivor corporation, or a

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parent or subsidiary thereof, or shall be substituted for by similar Options covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(v) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee (or the Board, in the case of Options granted to Independent Directors) may make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Options and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Options and Options which may be granted in the future.

(c) Subject to Section 7.3(d) and 7.8, the Committee (or the Board, in the case of Options granted to Independent Directors) may, in its discretion, include such further provisions and limitations in any Option as it may deem equitable and in the best interests of the Company.

(d) With respect to Options which are granted to Section 162(m) Participants and are intended to qualify as performance-based compensation under Section 162(m) (4) (C), no adjustment or action described in this Section 7.3 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b) (1) of the Code or would cause such option to fail to so qualify under Section 162(m) (4) (C), as the case may be, or any successor provisions thereto. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Committee (or the Board, in the case of Options granted to Independent Directors) determines that the option is not to comply with such exemptive conditions. The number of shares of Common Stock subject to any option shall always be rounded to the next whole number.

7.4 APPROVAL OF PLAN BY STOCKHOLDERS. This Plan will be submitted for the approval of the Company's stockholders within twelve months after the date of the Board's initial adoption of this Plan. Options may be granted prior to such stockholder approval, provided that such Options shall not be exercisable prior to the time when this Plan is approved by the stockholders, and provided further that if such approval has not been obtained at the end of said twelve-month period, all Options previously granted under this Plan shall thereupon be canceled and become null and void.

7.5 TAX WITHHOLDING. The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Optionee of any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting, exercise or payment of any Option. The Committee (or the Board, in the case of Options granted to Independent Directors) may in its discretion and in satisfaction of the foregoing requirement allow such Optionee to elect to have the Company withhold shares of Common Stock otherwise issuable under such Option (or allow the return of shares of Common Stock) having a Fair Market Value equal to the sums required to be withheld.

7.6 LOANS. The Committee may, in its discretion, extend one or more loans to key Employees in connection with the exercise or receipt of an Option granted under this Plan. The terms and conditions of any such loan shall be set by the Committee.

7.7 FORFEITURE PROVISIONS. Pursuant to its general authority to determine the terms and conditions applicable to awards under the Plan, the Committee (or the Board, in the case of Options granted to Independent Directors) shall have the right (to the extent consistent with the applicable exemptive conditions of Rule 16b-3) to provide, in the terms of Options made under the Plan, or to require the recipient to agree by separate written instrument, that (i) any proceeds, gains or other economic benefit actually or constructively received by the recipient upon any receipt or exercise of an Option, or upon the receipt or resale of any Common Stock underlying such Option, must be paid to the Company, and (ii) the Option shall terminate and any unexercised portion of such Option (whether or not vested) shall be forfeited, if (a) a Termination of Employment, Termination of Consultancy or Termination of Directorship

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occurs prior to a specified date, or within a specified time period following receipt or exercise of the Option, or (b) the recipient at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Committee (or the Board, as applicable).

7.8 LIMITATIONS APPLICABLE TO SECTION 16 PERSONS AND PERFORMANCE-BASED COMPENSATION. Notwithstanding any other provision of this Plan, this Plan, and any Option granted to any individual who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Options granted hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule. Furthermore, notwithstanding any other provision of this Plan, any Option which is granted to a Section 162(m) Participant and is intended to qualify as performance-based compensation as described in Section 162(m)(4)(C) of the Code shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as performance-based compensation as described in Section 162(m)(4)(C) of the Code, and this Plan shall be deemed amended to the extent necessary to conform to such requirements.

7.9 EFFECT OF PLAN UPON OPTIONS AND COMPENSATION PLANS. The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company (i) to establish any other forms of incentives or compensation for Employees, Directors or Consultants of the Company or any Subsidiary or (ii) to grant or assume options or other rights otherwise than under this Plan in connection with any proper corporate purpose including but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

7.10 COMPLIANCE WITH LAWS. This Plan, the granting and vesting of Options under this Plan and the issuance and delivery of shares of Common Stock and the payment of money under this Plan or under Options granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under this Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Options granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

7.11 TITLES. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Plan.

7.12 GOVERNING LAW. This Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

* * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of PriceSmart, Inc. on August 6, 1997.

Executed on this 29th day of August, 1997.

/s/ Robert M. Gans

Secretary

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ASSIGNMENT AND ASSUMPTION OF EMPLOYMENT AGREEMENT

This Assignment and Assumption of Employment Agreement is made this 29th day of August, 1997, by and between Price Enterprises, Inc., a Delaware corporation (the "Assignor") and PriceSmart, Inc. a Delaware corporation (the "Assignee").

RECITALS

- A) Assignor is a party an Employment Agreement, dated as of September 20, 1994, an amendment to said Employment Agreement, dated as of April 11, 1996, a second amendment to said Employment Agreement dated as of July 23, 1996 and a third amendment to said Employment Agreement, dated as of April 28, 1997 (collectively, "Employment Agreements") which were entered into by Assignor and Robert M. Gans.
- B) Assignor and Assignee are parties to a Distribution Agreement dated August 26, 1997.
- C) This instrument is executed in accordance with the terms of Section 6.2 of the Employment Agreement and Section 6.02 of the Distribution Agreement.

AGREEMENT:

- 1) ASSIGNMENT AND ASSUMPTION. Assignor does hereby assign, transfer, set over and deliver to Assignee all of Assignor's rights, benefits, duties and obligations under the Employment Agreements, subject to all of the terms, conditions, reservations and limitations set forth in the Employment Agreements, and Assignee does hereby accept such assignment and agrees to assume and discharge, in accordance with the terms thereof, all of the burdens and obligations of Assignor contained in or pursuant to the Employment Agreements.
- 2) BINDING EFFECT. This Agreement shall be binding upon and shall inure to the benefit of the respective successors, assigns and representatives of the parties hereto.
- 3) EFFECTIVE DATE. The effective date of this Agreement is August 29, 1997.
- 4) GOVERNING LAW. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of California.

Executed in San Diego, California, as of the date first written above.

PriceSmart, Inc.

Price Enterprises, Inc.

By: /s/ Robert E. Price

By: /s/ Joseph R. Satz

Its: President

Its: Vice Pres.

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FOURTH AMENDMENT TO EMPLOYMENT AGREEMENT

This Fourth Amendment to Employment Agreement was made and entered into as of September 2, 1997, by and between PriceSmart, Inc., a Delaware Corporation ("Employer") and Robert M. Gans ("Executive").

RECITALS

- A) On September 20, 1994 an Employment Agreement was made and entered into by and between Executive and Employer's Assignor, Price Enterprises, Inc.
- B) On April 11, 1996, Section 2.3 of the Employment Agreement was amended, such that Executive became entitled to three weeks paid vacation each year.

- C) On July 23, 1996, Section 2.1 of the Employment Agreement was amended, such that Executive's annual base salary was increased to \$175,000.
- D) On April 28, 1997, Section 3.1 of the Employment Agreement was amended, such that Executive's employment term was extend to October 16, 1998.
- E) On August 29, 1997, the Employment Agreement and amendments thereto were assigned by Price Enterprises, Inc. to Employer.
- F) Employer and Executive now desire to further amend the Employment Agreement, as set forth hereinbelow:

AGREEMENT

- 1) Section 3.1 of the Employment Agreement, which currently provides:

The term of Executive's employment hereunder shall commence on October 17, 1994 and shall continue until October 16, 1998, unless sooner terminated or extended as hereinafter provided (the "Employment Term").

is hereby amended to provide as follows:

The term of Executive's employment hereunder shall commence on October 17, 1994 and shall continue until

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October 16, 2000, unless sooner terminated or extended as hereinafter provided (the "Employment Term").

- 2) All other terms of the Employment Agreement shall remain unaltered and fully effective.

Executed in San Diego, California, as of the date first written above.

EXECUTIVE

EMPLOYER

Robert M. Gans

PRICESMART, INC.

/s/ Robert M. Gans

By: /s/ Robert E. Price

Name: Robert E. Price

Its: President

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EXHIBIT 10.12

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of the 29th day of September, 1997, by and between PriceSmart, Inc., a Delaware corporation ("Employer"), and Karen Ratcliff ("Executive").

RECITALS

A. Employer desires to employ Executive as Chief Financial Officer and Executive Vice-President of Employer.

B. Executive desires to accept such position upon the terms and subject to the conditions herein provided.

TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants and conditions hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

EMPLOYMENT AND DUTIES

1.1 POSITION AND DUTIES. Executive shall serve as Chief Financial Officer and Executive Vice-President of Employer. Executive shall have such duties and authority as are customary for, and commensurate with, such position, and such other related duties and authority as may from time to time be delegated or assigned to her by the Chief Executive Officer or the Board of Directors of Employer. Executive shall discharge her duties in a diligent and professional manner.

1.2 OUTSIDE BUSINESS ACTIVITIES PRECLUDED. During her employment, Executive shall devote her full energies, interest, abilities and productive time to the performance of this Agreement. Executive shall not, without the prior written consent of Employer, perform other services of any kind or engage in any other business activity, with or without compensation, that would interfere with the performance of her duties under this Agreement. Executive shall not, without the prior written consent of Employer, engage in any activity adverse to Employer's interests.

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1.3 PLACE OF EMPLOYMENT. Unless the parties agree otherwise in writing, during the Employment Term (as defined in Section 3.1 below) Executive shall perform the services she is required to perform under this Agreement at Employer's offices located in San Diego, California; provided, however, that Employer may from time to time require Executive to travel temporarily to other locations on Employer's business.

ARTICLE II

COMPENSATION

2.1 SALARY. For Executive's services hereunder, Employer shall pay as base salary to Executive the amount of \$135,000 during each year of the Employment Term. Said salary shall be payable in equal installments in conformity with Employer's normal payroll period. Executive's salary shall be reviewed by Employer's Board of Directors from time to time at its discretion, and Executive shall receive such salary increases, if any, as Employer's Board of Directors, in its sole discretion, shall determine.

2.2 BONUS. In addition to the salary set forth in Section 2.1 above, during the Employment Term Executive shall participate in Employer's bonus plan for executive management personnel. All decisions regarding said bonus plan shall be made in the sole discretion of Employer's Board of Directors, or the Compensation Committee thereof.

2.3 OTHER BENEFITS. Executive shall be entitled to participate in and receive benefits under Employer's standard company benefits practices and plans for officers of Employer, including medical insurance, long-term disability, life insurance, profit sharing and retirement plan, and Employer's other plans, subject to and on a basis consistent with the terms, conditions and overall administration of such practices and plans. Executive shall be entitled to a paid vacation of three (3) weeks each year, which will be paid out in conformity with Employer's normal vacation pay practices. Employer may in its sole discretion grant such

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additional compensation or benefits to Executive from time to time as Employer deems proper and desirable.

2.4 EXPENSES. During the term of her employment hereunder, Executive shall be entitled to receive prompt reimbursement for all reasonable business-related expenses incurred by her, in accordance with the policies and procedures from time to time adopted by Employer, provided that Executive properly accounts for such business expenses in accordance with Employer policy. Additionally, subject to Employer's prior approval (which shall not be unreasonably withheld), Executive shall be reimbursed for reasonable expenses incurred by Executive for ninety (90) days of interim lodging in San Diego, CA. as well as for reasonable expenses incurred by Executive in moving from Orange, CA. to San Diego.

2.5 STOCK OPTION PLAN. Employer has adopted The 1997 Stock Option Plan of PriceSmart, Inc. (the "Stock Plan"). The parties anticipate that on or about October 7, 1997 Executive will receive options to purchase 50,000 shares of Employer's Common Stock, exercisable at a price equal to the average closing price of a share of the Common Stock for the period September 9, 1997 through October 6, 1997, with such options vesting at twenty percent (20%) per year over a period of five (5) years and expiring six (6) years from the date of grant. Such anticipated grant of options to purchase 50,000 shares of Common Stock shall be subject in all respects to the sole discretion of the Compensation Committee of Employer's Board of Directors, as set forth in the Stock Plan. In addition, such options shall be granted in accordance with and subject to all other terms, conditions and restrictions set forth in the Stock Plan.

2.6 DEDUCTIONS AND WITHHOLDINGS. All amounts payable or which become payable under any provision of this Agreement shall be subject to any deductions authorized by Executive and any deductions and withholdings required by law.

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ARTICLE III

TERM OF EMPLOYMENT

3.1 TERM. The term of Executive's employment hereunder shall commence on September 29, 1997 and shall continue until September 28, 1999 unless sooner terminated or extended as hereinafter provided (the "Employment Term").

3.2 EXTENSION OF TERM. The Employment Term may be extended by written amendment to this Agreement signed by both parties.

3.3 EARLY TERMINATION BY EXECUTIVE. Executive may terminate this Agreement at any time by giving Employer written notice of her resignation ninety (90) days in advance; provided, however, that the Board of Directors may determine upon receipt of such notice that the effective date of such resignation shall be immediate or some time prior to the expiration of the ninety-day notice period. Executive's employment shall terminate as of the effective date of her resignation as determined by the Board of Directors.

3.4 TERMINATION FOR CAUSE. Prior to the expiration of the Employment Term, Executive's employment may be terminated for Cause by the Board of Directors of Employer, immediately upon delivery of notice thereof. For these purposes, termination for "Cause" shall mean termination because of Executive's (a) repeated and habitual failure to perform her duties or obligations hereunder; (b) engaging in any act that has a direct, substantial and adverse effect on Employer's interests; (c) personal dishonesty, willful misconduct, or breach of fiduciary duty involving personal profit; (d) intentional failure to perform her stated duties; (e) willful violation of any law, rule or regulation which materially adversely affects her ability to discharge her duties or has a direct, substantial and adverse effect on Employer's interests; (f) any material breach of this contract by Executive; or (g) conduct authorizing termination under Cal. Labor Code Section 2924.

3.5 TERMINATION DUE TO DEATH OR DISABILITY. Executive's employment hereunder shall terminate immediately upon her death. In the event that by reason of injury, illness or

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other physical or mental impairment Executive shall be: (a) completely unable to perform her services hereunder for more than three (3) consecutive months, or (b) unable to perform her services hereunder for fifty percent (50%) or more of the normal working days throughout six (6) consecutive months, then Employer may terminate Executive's employment hereunder immediately upon delivery of notice thereof. Executive's beneficiaries, estate, heirs, representatives, or assigns, as appropriate, shall be entitled to the proceeds, if any, due under any Employer-paid life insurance policy held by Executive, as determined by and in accordance with the terms of any such policy, as well as any vested benefits and accrued vacation benefits.

ARTICLE IV

BENEFITS AFTER TERMINATION OF EMPLOYMENT -----

4.1 BENEFITS UPON TERMINATION. Upon termination of this Agreement under Section 3.3 (Early Termination by Executive), Section 3.4 (Termination for Cause) or Section 3.5 (Termination Due to Death or Disability), all salary and benefits of Executive hereunder shall cease immediately. Upon termination of this Agreement by Employer (prior to the expiration of the Employment term) for any reason other than those set forth in Section 3.4 or Section 3.5, Executive shall be entitled to the continuation of Executive's base salary for six (6) months or for the remainder of the Employment Term, whichever is greater, payable in equal installments in conformity with Employer's normal payroll period. If this Agreement is not terminated, then, upon expiration of the Employment Term, and if Executive's employment by Employer does not thereafter continue upon mutually agreeable terms, Executive shall be entitled to continuation of Executive's base salary for six (6) months, payable in equal installments in conformity with Employer's normal payroll period. Notwithstanding any of the foregoing, should Executive commence full-time employment as a financial officer with another company prior to the payments under this Section 4.1 becoming payable to Executive, any payments remaining payable to Executive shall then cease. During the period of any severance pay,

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Executive shall cooperate with Employer in providing for the orderly transition of Executive's duties and responsibilities to other individuals, as reasonably requested by Employer.

4.2 RIGHTS AGAINST EMPLOYER. The benefits payable under this Article IV are exclusive, and no amount shall become payable to any person (including the Executive) by reason of termination of employment for any reason, with or without Cause, except as provided in this Article IV. Employer shall not be obligated to segregate any of its assets or procure any investment in order to fund the benefits payable under this Article IV.

ARTICLE V

CONFIDENTIAL INFORMATION -----

5.1 Executive acknowledges that Employer holds as confidential, and Executive may have access to during the Employment Term, certain information and knowledge respecting the intimate and confidential affairs of Employer in the various phases of its business, including, but not limited to, trade secrets, data and know-how, improvements, inventions, techniques, marketing plans, strategies, forecasts, pricing information, and customer lists. During her employment by Employer and thereafter, Executive shall not directly or indirectly disclose such information to any person or use any such information, except as required in the course of her employment during the Employment Term. All records, files, keys, documents, and the like relating to Employer's business, which Executive shall prepare, copy or use, or come into contact with, shall be and remain Employer's sole property, shall not be removed from Employer's premises without its written consent, and shall be returned to Employer upon the termination of this Agreement.

ARTICLE VI

GENERAL PROVISIONS -----

6.1 ENTIRE AGREEMENT. This Agreement contains the entire understanding and sole and entire agreement between the parties with respect to the subject matter hereof, and supersedes any and all prior agreements, negotiations and discussions between the parties

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hereto with respect to the subject matter covered hereby. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may not be modified or amended by oral agreement, but rather only by an agreement in writing signed by Employer and by Executive which specifically states the intent of the parties to amend this Agreement.

6.2 ASSIGNMENT AND BINDING EFFECT. Neither this Agreement nor the rights or obligations hereunder shall be assignable by the Executive. Employer may assign this Agreement to any successor or affiliate of Employer, and upon such assignment any such successor or affiliate shall be deemed substituted for Employer upon the terms and subject to the conditions hereof. In the event of any merger of Employer or the transfer of all (or substantially all) of Employer's assets, the provisions of this Agreement shall be binding upon, and inure to the benefit of, the surviving business entity or the business entity to which such assets shall be transferred.

6.3 ARBITRATION. The parties hereto agree that any and all disputes (contract, tort, or statutory, whether under federal, state or local law) between Executive and Employer (including Employer's employees, officers, directors, stockholders, members, managers and representatives) arising out of Executive's employment with Employer, the termination of that employment, or this Agreement, shall be submitted to final and binding arbitration. Such arbitration shall take place in the County of San Diego, and may be compelled and enforced according to the California Arbitration Act (Code of Civil Procedure Sections 1280 ET SEQ.). Unless the parties mutually agree otherwise, such arbitration shall be conducted before the American Arbitration Association, according to its Commercial Arbitration Rules. Judgment on the award the arbitrator renders may be entered in any court having jurisdiction over the parties.

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Arbitration shall be initiated in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

6.4 NO WAIVER. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or be construed as a further or continuing waiver of any such term, provision or condition, or as a waiver of any other term, provision or condition of this Agreement.

6.5 GOVERNING LAW; RULES OF CONSTRUCTION. This Agreement has been negotiated and executed in, and shall be governed by and construed in accordance with the laws of, the State of California. Captions of the several Articles and Sections of this Agreement are for convenience of reference only, and shall not be considered or referred to in resolving questions of interpretation with respect to this Agreement.

6.6 NOTICES. Any notice, request, demand or other communication required or permitted hereunder shall be deemed to be properly given when personally served in writing, or when deposited in the United States mail, postage pre-paid, addressed to Employer or Executive at her last known address. Each party may change its address by written notice in accordance with this Section.

Address for Employer:

PriceSmart, Inc.
4649 Morena Boulevard
San Diego, CA. 92117

Address for Executive:

Karen Ratcliff
2209 Vistro Canyon Rd.
Orange, CA 92867

6.7 SEVERABILITY. The provisions of this Agreement are severable. If any provision of this Agreement shall be held to be invalid or otherwise

unenforceable, in whole or in part, the remainder of the provisions or enforceable parts hereof shall not be affected thereby and shall be enforced to the fullest extent permitted by law.

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6.8 ATTORNEYS' FEES. In the event of any arbitration or litigation brought to enforce or interpret any part of this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees, as well as all other litigation costs and expenses as an element of damages.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the date first above written.

EMPLOYER

EXECUTIVE

PRICESMART, INC.

By: /s/ Robert E. Price

/s/ Karen Ratcliff

Name: Robert E. Price

Karen Ratcliff

Title: President

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EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the 1997 Stock Option Plan of PriceSmart, Inc. of our report dated October 16, 1997, with respect to the consolidated financial statements and schedule of PriceSmart, Inc. included in its Annual Report (Form 10-K) for the year ended August 31, 1997.

ERNST & YOUNG LLP

San Diego, California
November 25, 1997

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