DESC S A DE C V
Form 6-K
May 05, 2004

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

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April , 2004

Commission File Number: 001-13196

DESC, S.A. DE C.V.
(Translation of registrant's name into English)

PASEO DE LOS TAMARINDOS 400-B, BOSQUES DE LAS LOMAS, 05120 MEXICO, D.F., MEXICO
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F |X| Form 40-F | |

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes |_| No |X|

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-___________

The following is included in this report on Form 6-K:

	Item
1.	Financial Statements of the Registrant for the years ended December 31, 2003 and 2002, together with the independent auditors' report
2.	Consolidated Financial Statements of Cantiles de Mita, S.A.

de C.V. for the years ended December 31, 2003 and 2002,
together with the independent auditors' report

ITEM 1

Desc, S.A. de C.V.

Financial statements for the years ended December 31, 2003 and 2002, and Independent Auditors' Report Dated March 26, 2004

Desc, S.A. de C.V.
Independent Auditor's Report and Financial Statements 2003 and 2002

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Independent Auditors' Report to the Board of Directors and Stockholders of Desc, S.A. de C.V.:

We have audited the accompanying balance sheets of Desc, S.A de C.V. (the "Company") as of December 31, 2003 and 2002, and the related statements of loss, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The financial statements of the chemical and food segments were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of such other auditors. Those statements reflect total assets constituting 42% of consolidated total assets as of December 31, 2003, and 2002, and total revenues constituting 54% and 53%, respectively, of consolidated total revenues for the years then ended. Additionally, the Company's investment in the aforementioned entities as of December 31, 2003 and 2002 represents 39% and 34%, respectively, of total investment in shares of subsidiaries and 89% and 93%, respectively, of the equity in net income of subsidiaries.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and the United States of America. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

As mentioned in Notes 1b. and 10 to the accompanying financial statements, in December 2003 the Company satisfactorily concluded negotiations to restructure a significant portion of its short and long-term debt.

As mentioned in Note 3a. to the accompanying financial statements, as of December 31, 2003 the Company and its subsidiaries early adopted the provisions of new Bulletin C-15, "Impairment of the Value of Long-lived Assets and their Disposal", which establishes that an impairment loss has occurred if the present value of estimated net future cash flows of a cash generating unit is less than the book value of long-lived assets, tangible or intangible. The effect in thousands of pesos derived from the application of this principle was the recognition of $29,675 of impairment in the value of the goodwill with a charge to 2003 results. The effect in the subsidiaries generated a decrease in the investment in shares of subsidiaries of $1,117,067 and a charge to the equity in the net loss of subsidiaries for the same amount.

As discussed in Note 2, the accompanying financial statements have been prepared in compliance with legal regulations that require presentation of the Company's financial statements as a legal entity. Accordingly, the investment in shares of subsidiaries is accounted for by use of the equity method. Consolidated financial statements are presented separately, on which we issued an unqualified opinion on March 26, 2004, and should be consulted for decision-making purposes.

In our opinion, based on our audits and the reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of Desc, S.A. de C.V. as a legal entity, as of December 31, 2003 and 2002, and the results of its operations, changes in its stockholders' equity and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

The accompanying financial statements have been translated into English for the convenience of users.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member firm of Deloitte Touche Tohmatsu

/s/ Luis Javier Fernandez Barragan

C.P.C. Luis Javier Fernandez Barragan
March 26, 2004

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Desc, S.A. de C.V.
Balance sheets
As of December 31, 2003 and 2002
Expressed in thousands of constant Mexican pesos

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 286,453	$ 1,314,009
Accounts receivable from subsidiaries	6,756,643	4,951,442
Other accounts receivable	192,235	374,956
Total current assets	7,235,331	6,640,407

Investment in shares of:		
Subsidiaries	10,435,230	11,229,255
Associated companies	104,486	107,817
	10,539,716	11,337,072
Property, net	239,263	307,879
Deferred income taxes	32,617	--
Other assets, net	517,290	428,769
Total	$ 18,564,217	$ 18,714,127
Liabilities and stockholders' equity		
Current liabilities:		
Bank loans	$ 26,374	$ 1,806,572
Accounts payable and accrued liabilities	323,973	402,006
Accounts payable to subsidiaries	1,257,629	631,803
Total current liabilities	1,607,976	2,840,381
Long-term debt	10,434,269	7,922,192
Deferred income taxes	--	33,918
Related parties - long-term	183,762	--
Total liabilities	12,226,007	10,796,491
Stockholders' equity:		
Capital stock	11,715,914	11,715,914
Paid-in surplus	1,170,390	1,170,390
Retained earnings	17,525,927	19,766,314
Reserve for repurchase of shares	996,847	996,847
Cumulative effect of initial recognition of deferred income taxes	(1,887,308)	(1,887,308)
Cumulative effect of restatement	(23,036,402)	(23,690,416)
Adjustment of additional employee retirement liability of subsidiaries	(147,158)	(154,105)
Total stockholders' equity	6,338,210	7,917,636
Total	$ 18,564,217	$ 18,714,127

The accompanying notes are part of these financial statements.

Desc, S.A. de C.V.
Statements of loss
For the years ended December 31, 2003 and 2002
Expressed in thousands of constant Mexican pesos

	2003	2002
Revenues:		
Dividends received	$ 102,452	$ 286,113
Equity in net income (loss) of subsidiaries-		
For continuing operations (net of dividends received)	(586,757)	(508,901)
For discontinued operations	14,513	(451,224)
For change in accounting principle	(1,117,067)	--
Equity in net losses of subsidiaries	(1,586,859)	(674,012)
Administrative expenses	107,512	65,376
Other (expenses) income	(108,471)	56,328
Integral financial cost:		
Interest income	412,061	366,319
Interest expense	(905,404)	(630,835)

UDIS variation	(93,847)	(120,648)
Exchange gain (loss), net	(133,781)	(293,352)
Monetary position gain	182,466	202,485
	(538,505)	(476,031)
Loss before provision for deferred income taxes and change in accounting principle	(2,341,347)	(1,159,091)
Provision for deferred income taxes	(130,635)	(74,546)
Loss before change in accounting principle	(2,210,712)	(1,084,545)
Change in accounting principle	(29,675)	--
Net loss for the year	$ (2,240,387)	$ (1,084,545)

The accompanying notes are part of these financial statements.

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Desc, S.A. de C.V.
Statements of changes in stockholders' equity
For the years ended December 31, 2003 and 2002
Expressed in thousands of constant Mexican pesos

	Capital stock		
	Number of shares	Historical	Restatement
Balances, January 1, 2002	1,369,079,376	$ 17,798	$ 11,698,116
Dividends declared	--	--	--
Comprehensive income (loss)	--	--	--
Balances, December 31, 2002	1,369,079,376	17,798	11,698,116
Comprehensive income (loss)	--	--	--
Balances, December 31, 2003	1,369,079,376	$ 17,798	$ 11,698,116

** TABLE CONTINUED...**

	Reserve for repurchase of shares	Cumulative effect of initial recognition of deferred income taxes	Cumulative effect of restatement
Balances, January 1, 2002	$ 996,847	$ (1,887,308)	$ (24,106,568)
Dividends declared	--	--	--
Comprehensive income (loss)	--	--	416,152
Balances, December 31, 2002	996,847	(1,887,308)	(23,690,416)
Comprehensive income (loss)	--	--	654,014

Balances, December 31, 2003	$ 996,847	$ (1,887,308)	$ (23,036,402)

** TABLE COMPLETE **

The accompanying notes are part of these financial statements.

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Desc, S.A. de C.V.
Statements of changes in financial position
For the years ended December 31, 2003 and 2002
Expressed in thousands of constant Mexican pesos

	2003	2002
Operating activities:		
Loss before change in accounting principle	$ (2,210,712)	$ (1,084,545)
Add (deduct)- Items which do not require (generate) resources-		
Equity in net losses of subsidiaries	1,586,859	674,012
Depreciation and amortization	53,089	43,295
Goodwill write-off	99,236	--
Deferred income taxes	(130,635)	(74,546)
	(602,163)	(441,784)
Changes in operating assets and liabilities-		
Other accounts receivable	182,721	136,336
Accounts payable and accrued liabilities	128,282	(169,587)
Accounts receivable from subsidiaries, net	(1,179,375)	(2,154,230)
	(868,372)	(2,187,482)
Change in accounting principle	(29,675)	--
Net resources used in operating activities	(1,500,210)	(2,629,265)
Financing activities:		
Payments of bank loans and long-term debt	(6,257,742)	(1,551,986)
Proceeds from short-term bank loans and long-term debt	7,361,105	5,171,179
Increase in bank loans and long-term debt due to merger	--	786,952
Effect of the variance on constant pesos on short-term bank loans and long-term debt	(371,484)	(303,389)
Related parties - long-term	124,482	--
Deferred income taxes	64,100	350,011
Dividends paid	(206,315)	(440,469)
Adjustment of additional employee retirement liability of subsidiaries	6,947	(154,105)
Net resources generated by financing activities	721,093	3,858,193
Investing activities:		
Net increase in stockholders' equity of subsidiaries	(254,236)	(2,896)
Dividends received	102,452	286,113
Retirements of properties, net	64,644	17,076
Increase in properties due to merger	--	(146,380)
Other assets	(161,299)	(125,832)
Other assets due to merger	--	(51,611)
Net resources applied to investing activities	(248,439)	(23,530)

Net increase (decrease) in cash and cash equivalents	(1,027,556)	1,205,398
Cash and cash equivalents:		
Balance at the beginning of the year	1,314,009	108,611
Balance at the end the year	$ 286,453	$ 1,314,009

The accompanying notes are part of these financial statements.

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Desc, S.A. de C.V.
Notes to the financial statements
As of December 31, 2003 and 2002
Expressed in thousands of constant Mexican pesos

1. Principal activities and significant events

Activities- Desc, S.A. de C.V. ("DESC" or the "Company") is the controlling stockholder of a group of companies whose principal activities are carried out in the automotive, chemical, food and real estate industries. The Company has no employees and therefore no labor obligations.

Significant events-

a. The economic slowdown experienced in the last few years had a significant impact in the United States of America and Mexico, with adverse consequences on the results of DESC, primarily in the automotive and chemical sectors. For this reason, during 2003 and 2002 DESC decided to reviewing its investment portfolio and realigning its operating structure to reflect market conditions. Therefore, during 2002 DESC decided to close the following non-strategic businesses: spark plugs and electric parts from the automotive sector, the natural pigments business in the chemicals sector, and in the food sector the hog raising operation in the Bajio region and the shrimp farming business, which was donated to the Instituto Tecnologico de Estudios Superiores de Monterrey; it also began a downsizing program which continued during 2003, during which period the group's work force was reduced by 15.1%.

b. In December 2003 the Company satisfactorily concluded the agreement with bank creditors to refinance syndicated loans and a significant part of the Company's short-term debt. The total amount of the restructured debt was approximately US$667,000 (US$445,700 and $1,223,000 of long-term loans and US$112,000 of revolving credit and letters of credit), which represents around 63% of the Company's consolidated debt. The terms of the negotiation include maturity of the debt after five years and a grace period of 30 months as of January 2004 for payment of principal. The interest rates obtained for the dollar debt are LIBOR rate plus a variable interest margin, while the rate for the Mexican peso debt is TIIE (Interbank interest rate) plus a variable interest margin (see Note 10).

c. Continuing with the programs mentioned in subsection a) above, the following resolutions were adopted at the Stockholders' Ordinary General and Special Meeting held on April 28, 2003:

   i. Merge DESC with Industrias Resistol, S.A. de C.V., with DESC surviving as the merged company. Such merger went into effect for accounting and tax purposes as of September 29, 2003, DESC sold basically all of the assets of the aforementioned subsidiary engaged in the manufacture and sale of adhesives and

waterproofing materials as of September 30, 2003. As a result of such asset sale, the Company generated an income of $31,897, which is recorded in the statement of loss under the heading "Other expenses".

ii. Merge DESC with Industrias Ruiz Galindo, S.A. de C.V., with DESC surviving as the merged company. Such merger went into effect for accounting and tax purposes as of May 1, 2003, for which reason as of this date Industrias Ruiz Galindo, S.A. de C.V. ceased to exist as a legal entity.

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2. Basis of presentation

a. Financial statements as a legal entity - The accompanying financial statements have been prepared in compliance with legal regulations that require presentation of the Company's financial statements as a legal entity. Accordingly, all investments in shares of subsidiaries are valued by the equity method. Consolidated financial statements are presented separately, on which the independent auditors issued an unqualified opinion dated March 26, 2004. Such consolidated financial statements should be consulted for decision-making purposes.

b. Investments in shares- Investments in shares have been recorded using the equity method, based on the financial statements prepared using the same accounting polices of the Company.

Equity in results and changes in net worth of the subsidiaries bought and sold during the year are included in the financial statements from or up to the transaction date and are restated in purchasing power of the Mexican peso of December 31, 2003.

These financial statements should be read in conjunction with the consolidated financial statements of Desc, S.A. de C.V. and subsidiaries. A summary of selected consolidated captions is as follows:

	2003	2002
Total assets	$ 26,734,990	$ 30,469,705
Total liabilities	$ 16,828,773	$ 18,644,222
Total stockholders' equity	$ 9,906,217	$ 11,825,483
Net sales	$ 21,755,055	$ 20,360,380
Operating income	$ 842,464	$ 1,081,300

c. Conversion of financial statements of subsidiaries- The financial statements of foreign subsidiaries, whose operation is not integrated into that of the Mexican companies (foreign entity), are restated using the national inflation index of the respective country and are converted to Mexican pesos at the exchange rate in effect at the end of the year. The financial statements in local currency of foreign companies whose operations are integrated with those of the Mexican companies are converted at the exchange rates in effect at the transaction closing or origin, depending on whether they are monetary or nonmonetary items, and are restated by using the Mexican National Consumer Price Index (NCPI). The conversion effects of the foreign

entity are recorded in stockholders' equity in the "Cumulative restatement effect" account. Additionally, the conversion effects of the integrated transactions are recorded in results of the year in net comprehensive financing cost, within the "Monetary position gain" account. Such effects are not material.

d. Comprehensive income (loss)- Comprehensive income (loss) is comprised of the net income for the period plus (less) any gains or losses that under specific accounting regulations are recorded directly in stockholders' equity, such as the gain or loss from holding nonmonetary assets. In 2003 and 2002, other comprehensive income is comprised of the gain or loss from holding nonmonetary assets, the effect of translation of foreign subsidiaries, and the adjustment of additional employee retirement liability of subsidiaries.

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e. Reclassifications- Certain amounts in the financial statements at December 31, 2002 have been reclassified in order to conform to the presentation of the financial statements at December 31, 2003.

3. Significant accounting policies

The accounting policies followed by the Company are in conformity with generally accepted accounting principles in Mexico, which require management to make certain estimates and use certain assumptions to determine the valuation of some of the balances included in the financial statements and to make the disclosures required for inclusion therein. Although actual results may differ from those estimates, management believes that the estimates and assumptions used were appropriate in the circumstances. The significant accounting policies followed by the Company are as follows:

a. Changes in accounting policies- The Company and its subsidiaries early adopted the provisions of new Bulletin C-15, "Impairment in the value of long-lived assets and their disposal" ("C-15"). C-15 establishes, among other issues, that in the presence of indicators of impairment of a long-lived asset in use, whether tangible or intangible, including goodwill, entities must determine the possible loss from impairment, unless they have evidence clearly demonstrating that such indicators are of a temporary nature. To calculate the loss from impairment requires the determination of the recovery value, now defined as the higher of the net selling price of a cash generating unit and its use value, which is the present value of future net cash flows, at an appropriate discount rate. In the provisions prior to C-15, net future cash flows referenced to the purchasing power in effect at the evaluation date were used, without requiring the discounting of such flows. The effect derived from the application of this new principle was the recognition of $29,675 of impairment in the value of the goodwill with a charge to 2003 results. The effect in the subsidiaries generated a decrease in the investment in shares of subsidiaries of $1,117,067 and a charge to the equity in the net loss of subsidiaries for the same amount

Bulletin C-8, "Intangible Assets" (C-8), went into effect in 2003. This bulletin establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Any preoperating costs incurred after the effective date of this Bulletin should be recorded as an expense, unless they meet certain criteria. The unamortized balance of capitalized preoperating costs under the former Bulletin C-8 will continue to be amortized. During the year ended December 31, 2003, there was no adverse effect

derived from the application of new Bulletin C-8.

Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" (C-9), establishes additional guidelines clarifying the accounting for liabilities, provisions and contingent assets and liabilities, as well as new standards for the use of present value techniques to measure liabilities and accounting for the early settlement of obligations. During the year 2003, there was no effect derived from the application of new Bulletin C-9.

b. Recognition of the effects of inflation- The Company restates all of its financial statements in terms of the purchasing power of the Mexican peso as of the end of the latest period, thereby comprehensively recognizing the effects of inflation. The prior year amounts presented herein differ from those originally reported in terms of Mexican pesos of the respective year. Consequently, all financial statement amounts are comparable, both for the current and the prior year, because all are stated in terms of Mexican pesos of the same purchasing power.

c. Temporary investments- Temporary investments are stated at the lower of acquisition cost plus accrued yields, or at market value, yields are recorded in the statement of loss.

d. Property - This item is recorded at acquisition cost and is restated by applying the NCPI factors. Depreciation is calculated using the straight-line method applied to month-end balances based on the average restated value of the year deducted from salvage value of 5% of its restated value, and their estimated useful lives.

e. Financial instruments - Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and yields of financial instruments are recognized in results of the period in which they occur.

f. Derivative financial instruments - These instruments are traded only with authorized institutions and trading limits have been established for each institution. The Company does not carry out transactions with derivative financial instruments for the purpose of speculation.

The derivative financial instruments currently used by the Company are primarily hedge contracts to reduce its exposure to exchange rate fluctuations. Premiums paid are amortized over the term of the derivative financial instrument using the unpaid balance of the liability being hedged.

Derivative financial instruments identified as hedges are valued by applying the same valuation criteria used for the assets or liabilities hedged, and the effects of their valuation are recognized in results of operations, net of costs, expenses, or revenue from the assets or liabilities whose risks are being hedged. The financial assets or liabilities generated by these instruments are presented in the balance sheet as a reduction of the liabilities or assets whose risks are being hedged

g. Other assets- This line item is represented mainly by (i) patents acquired in 1999, for their exploitation in certain countries, which are being amortized over a 10-year period; (ii) debt placement expenses that are amortized over the life of the corresponding debt; (iii) goodwill which up to 2003, was amortized over a three-year period, the terms over which the benefits from the investment were realized.

h. Impairment of long-lived assets in use- The Company reviews the book value of long-lived assets in use tangible and intangible, in the presence of any indicator of impairment that might indicate that such book value might not be recoverable, considering the higher of the present value of future net cash flows or the net selling price, in the event of their eventual disposal. The impairment is recorded considering the amount by which the book value exceeds the higher of the aforementioned values.

i. Provisions - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

j. Income and asset taxes - Income tax (ISR) is recorded in results of the year in which it is incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities, plus any future benefits from tax loss carryforwards. Deferred ISR assets are reduced by any benefits that, in the opinion of management, will probably not be realized.

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The asset tax paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented on the balance sheet with deferred ISR.

k. Foreign currency balances and transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the statements of income.

l. Restatement of stockholders' equity- This item consists of monetary position result accumulated through the first restatement of the financial statements and the gain (loss) from holding non-monetary assets, because price levels increased above (below) inflation.

m. Integral financial cost- This represents the net effect of interest earned and incurred, exchange gains and losses and the monetary position gain, which is the result of maintaining monetary assets and liabilities whose real purchasing power is modified by the effects of inflation.

4. Cash and cash equivalents

	2003	2002
Cash	$ 19,133	$ 26,746
Restricted cash	16,400	--

Temporary investments	250,920	1,287,263
	$ 286,453	$ 1,314,009

As part of the sale of the assets of Industrias Resistol, S.A. de C.V., the Company received $53,539 in cash with formal restrictions as to its availability, of which $16,400 represents short-term restricted cash, and $37,139 on a long-term basis, recorded under the heading "Other assets".

5. Other accounts receivable

	2003	2002
Recoverable taxes	$ 74,273	$ 214,802
Other debtors	117,962	160,154
	$ 192,235	$ 374,956

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6. Investment in shares

	2003		2002	
	% of Participacion	Total	% of Participacion	
Principal subsidiaries:				
Automotive segment-				
Desc Automotriz, S.A. de C.V.	99.9%	$ 3,177,132	99.9%	$
Chemical segment-				
Industrias Negromex, S.A. de C.V.	99.9%	711,174	99.9%	
Paratec, S.A. de C.V.	--	--	99.9%	
Industrias Resistol, S.A. de C.V.	--	--	99.9%	
Quimir, S.A. de C.V.	99.9%	87,983	99.9%	
Girsa Concentradora, S. A. de C.V.	99.9%	780,076	99.9%	
Resirene, S.A. de C.V.	99.9%	191,242	99.9%	
Rexcel, S.A. de C.V.	99.9%	105,326	99.9%	
Dynasol Elastomeros, S.A.	50.1%	453,339	50.1%	
Food segment-				
Agroken, S.A. de C.V.	99.9%	543,613	99.9%	
Corfuerte, S.A. de C.V. ("CORFUERTE")	96.1%	598,251	77.6%	
Authentic Acquisition Corporation ("AAC")	99.9%	262,803	81.3%	
Real estate segment-				
Cantiles de Mita, S.A. de C.V.	96%	2,091,152	96%	
Canada de Santa Fe, S.A. de C.V.	73%	889,975	73%	
Promociones Bosques, S.A. de C.V.	100%	410,548	100%	
Inmobiliaria Dine, S.A. de C.V.	100%	88,234	100%	
Club Ecuestre Chiluca, S.A. de C.V.	--	--	78%	
Other		44,382		
		$ 10,435,230		$ 1

To simplify Company's administrative structure, DESC was merged with DINE on April 25, 2002, with DESC surviving as the merged company. Additionally Club Ecuestre Chiluca, S.A. de C.V. and Paratec, S.A. de C.V. were merged into Cantiles de Mita, S.A. de C.V. and Industrias Negromex, S.A. de C.V.

in June and September 2003, respectively.

Sale of certain assets of Industrias Resistol, S.A. de C.V. - As mentioned in Note 1c, on September 29, 2003 the merger of Industrias Resistol, S.A. de C.V. into DESC went into effect for accounting and tax purposes. On September 30, 2003 DESC sold basically all the assets of such subsidiary engaged in the manufacture and sale of adhesives and mortar proofing materials suspending its operations in such businesses. Consequently, the financial statements include the equity in the loss of the subsidiary Industrias Resistol, S.A. de C.V. for the period from January 1 through September 30, 2003 and as of December 31, 2002, of $(110,745) and $(21,509), respectively.

Purchase of minority interests of CORFUERTE and AAC - As mentioned in Note 16, on November 11, 2003 the minority shareholders of the subsidiaries CORFUERTE and AAC formally notified their decision to exercise the sale option of their shares to DESC, which was formalized on January 29, 2004. Consequently, as of November 11, 2003 the shareholding of DESC in such subsidiaries increased from 77.6% to 96.1% and from 81.3% to 99.9%, respectively. The amount paid was US$14.3 million ($156,194) and is recorded as a liability in "Other payables and accrued liabilities". The difference between the book value of the shares acquired and the amount paid was recorded through adjustments to the investment in shares of those subsidiaries.

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7. Property

	2003	2002	Annual Depreciation %
Real estate property	$ 191,545	$ 191,545	3.33 to 10.00%
Less- Accumulated depreciation	(59,859)	(50,079)	
	131,686	141,466	
Land	20,033	20,033	
Projects-in-progress for sale	87,544	146,380	
	$ 239,263	$ 307,879	

8. Other assets

	2003	2002	Annual Amortization %
UDI placement expenses, net	$ 7,653	$ 10,613	14%
Secured bond placement expenses, net	7,355	11,817	28%
Syndicated loan fee, net	124,866	33,143	20%
Patents, net	186,926	172,185	10%
Goodwill, net	--	39,793	33%
Works of art	60,405	56,556	
Trust fund of shares	92,206	103,894	
Restricted cash long-term	37,139	--	
Other assets not subject to amortization	740	768	
	$ 517,290	$ 28,769	

9. Accounts payable and accrued liabilities

	2003	2002
Accounts payable	$ 51,739	$ 50,013
Account payable to minority investors	156,194	--
Interest payable	89,102	91,537
Dividends payable	2,013	208,328
Other accounts payable	24,925	52,128
	$ 323,973	$ 402,006

a. On January 7, 2003, the Company's subsidiary Fenoquimia, S.A. de C.V. was notified of a new ancillary claim filed by Sales Nacionales, S.A. de C.V., in which the latter quantifies the aforementioned damages and monetary losses in the amount of $159,804. Such claim was answered by Fenoquimia, S.A. de C.V.; however, on December 11, 2003, the Company reached an agreement with its counterparty to conclude this dispute, with a one-time payment of $54,480 in cash and real estate assets, for which there was a provision recorded in prior years.

b. Certain subsidiaries are engaged in lawsuits as plaintiffs and defendants in the regular course of operations. These lawsuits always involve uncertainty, and some of them may result in adverse judgments for the companies. While it is impossible to determine the amount involved in pending lawsuits, management believes that any resulting liability would not materially affect the financial position or results of operations of the companies.

10. Bank loans and long-term debt

	2003				
	Maturity	Interest rate	Amount	Maturity	In
Syndicated loan-					
US$445.7 million	2006 to 2008	LIBOR + 1.625 to LIBOR +4	$ 4,992,311	--	
$1,223 million	2006 to 2008	TIIE + 1.125 to TIIE + 4	1,222,553	--	
US$100 million	2006	LIBOR + 1.375 to LIBOR +3.5	1,119,980	--	
US$97.17 million	--	--	--	2005	LI
US$177.83 million	--	--	--	2007	LI
$1,300 million	--	--	--	2007	T
Medium-term promissory notes-					
680.6 million UDIS	2006 and 2007	9% and 8.20%	2,281,268	2006 and 2007	9
Loans-					
US$15 million	--	--	--	2004	
US$35 million	--	--	--	2004	
Secured bonds					
US$73 million	2007	8.75%	818,157	2007	
			$ 10,434,269		

As of December 31, 2003 and 2002, the LIBOR rate was 1.46% and 1.38%, respectively, and TIIE was 7.90% and 8.45%, respectively.

Long-term debt maturities are as follows:

2006	$ 4,277,650
2007	4,084,997
2008	2,071,622
	$ 10,434,269

Short-term bank loans are denominated as of December 31, 2003 and 2002 are denominated in US dollars and amount $26,374, and $1,806,572, respectively. Debt refinancing- As mentioned in Note 1, during December 2003, an agreement was satisfactorily reached with the bank creditors to refinance the Company's syndicated loans and most of its short-term debt. The most important terms of the financial restructuring signed on December 23, 2003 are indicated below:

a. Syndicated loan of US$445.7 million at the LIBOR interest rate plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortization, which fluctuates between 1.625 and 4.000, with maturities between 2006 and 2008. As of December 31, 2003, the variable margin is 3.5. The interest will be payable on a monthly or quarterly basis.

b. Syndicated loan of $1,223 million, at an interest rate equal to TIIE plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortizations, which fluctuates between 1.125 and 4.000, with maturities from 2006 to 2008, respectively. As of December 31, 2003 the variable margin determined is 3.5. The interest will be payable on a monthly basis.

c. Credit of US$112 million, divided into two tranches, (i) US$100 million revolving credit, at the LIBOR interest at rate plus a variable margin depending on the index obtained in the consolidated debt to operating profit financial ratio, less depreciation and amortization, which fluctuates between 1.375 and 3.50, and (ii) US$12 million credit letters, both with maturity in 2006. As of December 31, 2003 the Company has applied dispositions against the tranche of US$100 million, and the variable interest margin determined is 3.0. The interest will be payable on a monthly or quarterly basis.

As part of the conditions negotiated, the operating subsidiaries and certain holding subsidiaries were considered jointly and severally liable and guarantors for the debt, and a package of concrete guarantees was created consisting of fixed assets, accounts receivable of the real estate sector and stock in certain subsidiaries.

The financing received establishes certain restrictions for the Company, with which the Company has complied. The most important restrictions are:

- Maintain the interest coverage ratio in excess of 2.25. At the close of 2003 the ratio is 2.91.

- Maintain the ratio of total debt of subsidiaries to consolidated debt below 0.20. At the close of 2003 the ratio is 0.11.

- Maintain the ratio of consolidated debt to operating profit, plus depreciation to amortization, at below 5.35 based on nominal pesos and U.S. dollars. At the close of 2003 the ratio is 4.96.

- Maintain the ratio of consolidated debt to total capitalization below 0.55. At the close of 2003 the ratio is 0.53.

- Certain restrictions on the establishment of new liens.

- Restriction on the sale and investments in assets, as well as lease transactions.

- Restriction on the sale of assets, except when performed at market value and the proceeds obtained are used to pay the debt.

- Certain restrictions applicable to dividend declarations.

Medium-term promissory notes- In October 1999 and July 2000, the Company issued medium-term promissory notes equivalent to 324,000,000 and 356,568,600 units of investment ("UDIS"), respectively. The UDI value as of December 31, 2003 was 3.352003, which is equal to $1,086,049 and $1,195,219, respectively. The issues bear quarterly interest of 9% and 8.20%, respectively, and mature in 2006 and 2007, respectively. There are no restrictions on the promissory notes.

Issuance of secured bonds- On October 9, 1997, DINE issued long-term bonds guaranteed by DESC in international markets at 8.75% annual interest, with principal and interest due and payable on October 9, 2007. As a result of the merger between DESC and DINE, DESC acquired the obligations related to the issue of such bonds.

At December 31, 2003 the book value of the bonds issued by DINE is US$73 million with a fair value of US$70.8 million.

11. Related parties

Club Ecuestre Chiluca, S.A. de C.V., a 77.26% subsidiary of the Company, sold all of its territorial reserves for US$79.4 million. Prior to the sale of such reserves, the Company acquired the remaining 22.74% interest from minority shareholders (which in turn are the Company's main shareholders) at their commercial value, which will be paid on the same terms and conditions as the realization of the account receivable; i.e., four annual payments from December 2004 to 2007. Therefore, such balance is presented in the balance sheets as a long-term liability. The difference between the purchase price of the minority interest and the book value of the shares acquired is included in other expenses for the year ended December 31, 2003 as "Goodwill write-off from Club Ecuestre Chiluca, S.A. de C.V."

12. Stockholders' equity

During a Stockholders' Ordinary and Extraordinary General Meeting held on April 28, 2003, the stockholders approved the following:

1. The merger of DESC and Industrias Resistol, S.A. de C.V., with DESC as the surviving company. Such merger became effective for accounting and tax purposes on September 29, 2003.

2. The merger of DESC and Industrias Ruiz Galindo, S.A. de C.V., with DESC as the surviving company. Such merger became effective for accounting and tax purposes on May 1, 2003; therefore, as of such date Industrias Ruiz Galindo, S.A. de C.V. ceased to exist as a legal entity

During a Stockholders' Ordinary and Extraordinary General Meeting held on

April 25, 2002, the stockholders approved the following:

1. Payment of cash dividends of 29 Mexican cents for each of the outstanding shares, equivalent to $397,033, whose restated amount is $428,936, payable in four quarterly payments in July and October 2002 and January and April 2003.

2. Merger of DESC and DINE, with DESC as the surviving company. Such merger became effective for accounting and tax purposes on May 1, 2002; therefore, as of such date DINE ceased to exist as a legal entity.

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As of December 31, 2001, 2002, and 2003 capital stock is represented by:

	Number of Shares	Historical Amount
Fixed portion-		
Nominative Series "A" shares (without withdrawal rights and which must represent at least 51% of voting stock)	587,479,900	$ 7,637
Variable portion-		
Nominative Series "B" shares (with withdrawal rights and which may not represent more than 49% of voting stock)	506,257,866	6,581
Series "C" shares (with voting restrictions)	275,341,610	3,580
	1,369,079,376	$ 17,798

Series "A" and "B" shares may only be acquired by Mexican citizens or Mexican entities with an exclusion clause for foreign investors. Series "C" shares may be freely subscribed.

This shareholding structure was modified on March 8, 2004, as indicated in Note 18.

Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The annual net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve each year, until the reserve equals 20% of capital stock. This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.

During the year ended 2002 the Company distributed restated retained earnings of $428,936, as dividends, reducing total equity to an amount lower than restated capital stock, which for accounting purposes represents a capital reduction.

The balances of the stockholders' equity tax accounts as of December 31 are:

	2003	2002

Contributed capital account	$ 9,105,963	$ 9,105,963
Net tax income account	4,190,160	4,394,401
Total	$ 13,296,123	$ 13,500,364

13. Transactions and balances in foreign currency

The Company valued its foreign currency assets and liabilities, represented mainly by U.S. dollars, at the exchange rates effective at December 31, 2003 and 2002 of 11.1998 and 10.3613 Mexican pesos per U.S. dollar, respectively, as the Company expects to use foreign currency assets to settle foreign currency liabilities.

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As of December 31, 2002 and 2001, monetary assets and liabilities denominated in U.S. dollars were as follows:

	2003	2002
Current monetary assets	15,646	110,554
Monetary liabilities-		
Current	2,355	170,197
Long-term	635,209	398,051
Net liability position in foreign currency	621,918	457,694

During the years ended December 31, 2003 and 2002, the Company paid interest in foreign currency amounting to US$42 million and US$19.1 million respectively, and received interest by US$0.27 and US$0.8 million, respectively.

As of March 26, 2004, the unaudited foreign exchange position was similar to that at yearend, and the exchange rate was 11.0130 Mexican pesos per U.S. dollar.

14. Transactions and balances with subsidiaries

	2003	2002
Receivable-		
Automotive segment-		
Ejes Tractivos, S.A. de C.V.	55,415	51,708
Hayes Wheels Acero, S.A. de C.V.	292,025	--
Hayes Wheels Aluminio, S.A. de C.V.	349,730	--
Moresa, S.A. de C.V.	24,696	--
Morestana, S.A. de C.V.	29,181	31,128
Pinturas, Estampados y Montaje, S.A. de C.V.	15,507	59,217
Pistones Moresa, S.A. de C.V.	241,879	255,850
Transmisiones y Equipos Mecanicos, S.A. de C.V.	296,071	269,353
Chemical segment-		
Bioquimex Natural, S.A. de C.V.	28,501	116,233
Dynasol Elastomeros, S.A. de C.V.	582,578	454,359
Fenoquimia, S.A. de C.V.	350,401	288,608
Forestaciones Operativas de Mexico, S.A. de C.V.	33,854	22,283
Girsa Corporativo, S.A. de C.V.	12,351	75,893
H2Orizontes, S.A. de C.V.	32,051	13,666

Industrias Negromex, S.A. de C.V.	404,137	47,181
Industrias Resistol, S.A. de C.V.	--	69,678
Nhumo, S.A. de C.V.	100,771	58,724
Paratec, S.A. de C.V.	262	64,192
Paratec Elastomers, LLC	19,881	19,401
Plastiglas, S.A. de C.V.	22,928	18,138
Quimir, S.A. de C.V.	28,188	53,474
Resirene, S.A. de C.V.	187,470	135,581
Rexcel, S.A. de C.V.	220,087	181,593
Food segment-		
Authentic Aquisition Corporation	245,595	--
Corfuerte, S.A. de C.V.	938,313	819,236
Grupo Porcicola Mexicano, S.A. de C.V.	694,028	684,168
Nutrimientos GPM, S.A. de C.V.	--	9,439

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	2003	2002
Real estate segment-		
Bosques de Chiluca, S.A. de C.V.	46,449	30,519
Cantiles de Mita, S.A. de C.V.	862,801	813,873
Canada de Santa Fe, S.A. de C.V.	--	35,142
Club de Golf Punta Mita, S.A. de C.V.	26,664	24,531
Club Ecuestre Chiluca, S.A. de C.V.	--	93,205
Corporativo Dine, S.A. de C.V.	198,680	100,341
Holding Dicomex, S.A. de C.V.	36,203	16,680
Inmobiliaria Dine, S.A. de C.V.	21,523	6,883
Promotora Inmobiliaria Hidalguense, S.A. de C.V.	--	2,305
Resort Club Punta Mita, S.A. de C.V.	--	27,639
Desc Corporativo, S.A. de C.V.	219,137	--
Other	139,286	1,221
	$ 6,756,643	$ 4,951,442
Payable-		
Automotive segment-		
Desc Automotriz, S.A. de C.V.	$ 801,485	$ 237,891
Spicer, S.A. de C.V.	--	310,890
Chemical segment-		
CID Centro de Investigacion y Desarrollo, S. A. de C. V.	374,983	6,814
Girsa Concentradora, S.A. de C.V.	21,626	--
Tecno-Industria, R. F., S. A. de C. V.	--	12,474
Real estate segment-		
Bosques de las Lomas, S.A. de C.V.	--	23,057
Canada de Santa Fe, S.A. de C.V.	6,543	--
Inmobiliaria Thiers, S.A. de C.V.	7,564	--
Promociones Bosques, S.A. de C.V.	15,221	31,837
Aeropycsa, S.A. de C.V.	20,410	--
Other	9,797	8,840
	$ 1,257,629	$ 631,803

Transactions with subsidiaries derived from the following:

	2003	2002
Administrative expenses	$ 4,984	$ 5,288
Interest income	$ 392,131	$ 352,833

Interest expense	$ 54,243	$ 69,941

15. Income and asset taxes

The Company is subject to income taxes ("ISR") and tax on assets ("IMPAC"). ISR is computed by taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated constant prices, which permit the deduction of current costs, and taxable income is increased or reduced on certain monetary assets and liabilities through the annual adjustment for inflation, which is similar to the monetary position result. ISR is calculated in terms of currency when the transactions occurred and not in terms of the currency at yearend. Up to 2002, the income tax rate was 35%, with the obligation to pay this tax each year at the 30% rate, with the remaining 5% payable when income is distributed.

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The tax rate was 35% in 2002 and 34% in 2003 and reduces by one percentage point each year until reaching 32% in 2005. The deduction for employee statutory profit sharing ("PTU") and the obligation to withhold taxes on dividends paid to individuals or foreign residents were also eliminated. IMPAC is calculated by applying 1.8% to the Company's asset position, as defined in the law, and is payable only to the extent that it exceeds ISR payable for the same period. If in any year IMPAC exceeds the ISR payable, the IMPAC payment for such excess may be reduced by the amount by which ISR exceeded IMPAC in the three preceding years and any required payment of IMPAC can be credited against the excess of ISR over IMPAC during the next 10 years

DESC is subject to ISR and IMPAC with its subsidiaries on a consolidated basis in the proportion in which the Company holds the voting stock of its subsidiaries at the balance sheet date. As of January 1, 2002, the proportion is calculated based on the average daily equity percentage that DESC holds of its subsidiaries during the year. The tax results of the subsidiaries are consolidated at 60% of such proportion. Estimated payments of ISR and IMPAC of both DESC and its subsidiaries are made as if the Company did not file a consolidated tax return.

Tax loss carryforwards- As of December 31, 2003, the Company has tax loss carryforwards, which will be indexed for inflation through the year applied, in the following restated amounts:

Maturity	Amount
2010	$ 1,110,496
2011	100,359
2012	576,857
	$ 1,787,712

On December 12, 2003, the Company won the lawsuit involving the deduction of the loss from the sale of shares obtained in 2000, as an operating tax loss; consequently, as of that date such loss is presented within tax loss carryforwards.

Deferred income taxes- The tax effects of the temporary differences that generated deferred tax liabilities (assets) are as follows:

	2003	2002

Property	$ (29,401)	$ (32,285)
Reserves and provisions	(21,996)	(101,778)
Tax loss carryforwards	(572,067)	(468,587)
Tax losses applied	592,141	609,190
Other	(1,294)	27,378
	$ (32,617)	$ 33,918

16. Financial instruments

The Company has contracted exchange rate forwards and calls on U.S. dollar debts, fixing the exchange rate to hedge against exchange losses on U.S. dollar loans. The exchange result of the forward or call is recorded in the integral financing result, by offsetting the exchange result from the liability hedged, while the asset generated is deducted from the hedged liability. As of December 31, 2003 the Company has four contracts to buy and sell U.S. dollars for a total amount of US$2.1 million maturing during 2004.

The Company also has interest rate swaps to manage the interest rate risk on its variable interest debt. The Company has entered into interest rate swaps in which it pays amounts calculated based on fixed interest rates and receives amounts calculated based on variable interest rates. The difference between such amounts is recorded in the net integral financing cost, offsetting the effect of the variable interest rate on the hedged loans. The asset generated in the swap is deducted from the payable interest hedged.

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The market value of the derivative contracts mentioned above is estimated based on quoted market prices to terminate the contracts at the reporting date. As of December 31, 2003 the market value of the financial instruments is $47,405, and the net loss recorded during the year for the forwards, calls and swaps was $124,928.

Sales options in the food sector- With regard to the 1998 acquisition of CORFUERTE and AAC, companies in the food sector, the Company executed contracts known as "puts" with its minority shareholders so that at a given date and amount, DESC would undertake to acquire the shareholding packages of such minority shareholders.

On November 11, 2003, the minority shareholders of CORFUERTE and AAC formally notified their decision to exercise their put options to DESC, which was formalized on January 29, 2004. Accordingly, as of the date, the shareholding percentage of DESC in such subsidiaries increased from 77.6% to 96.1% and from 81.3% to 99.9%, respectively. The amount paid was US$14.3 million ($156,194) and is recorded in the balance sheets as a liability under the heading of "Other payables and accrued liabilities."

17. Other (expense) income

	2003	2002
Gain on sale of assets of Industrias Resistol, S.A. de C.V.	$ 31,897	$ --
Goodwill write-off from Club Ecuestre Chiluca, S.A. de C.V.	(59,280)	--
Goodwill write-off from Industrias Ruiz Galindo, S.A. de C.V.	(39,956)	--
Preoperating expenses and patent amortization	--	(26,155)

Loss on sale of shares	(8,015)	(12,837)
Royalties	10,769	9,600
Gain (loss) on sale of property	(43,102)	4,015
Trust fund of share restatement	--	31,751
Analysis and adjustment of taxes	(17,048)	45,261
Other, net	16,264	4,693
	$ (108,471)	$ 56,328

18. Subsequent events

Resolutions adopted at stockholders' meetings- At a Stockholders' Special Meeting and a Stockholders' Ordinary and Extraordinary Meeting held on March 8, 2004, the following resolutions were adopted:

a. The mandatory conversion of the totality of the Series "C" shares into Series "B" shares, and the cancellation of the inscription of the Series "C" shares in the National Securities Registry. This agreement went into effect on March 16, 2004. As of that date, the American Depositary Shares (ADS), which are registered with the Securities and Exchange Commission, and are traded in the New York Stock Exchange, Inc., will represent 20 Series "B" shares.

b. The voluntary conversion of the Series "A" shares into Series "B" shares and the voluntary conversion of Series "B" shares into Series "A" shares, by those shareholders who so request. The Series "A" shares have not been and will not be registered under the 1933 Securities Act, or under any other applicable law in jurisdictions other than Mexico. Consequently, the voluntary conversion will be offered only in Mexico and the US shareholders of DESC will not be able to participate.

c. The amendments to the corporate bylaws of DESC, which include the elimination of the restrictions on foreigners holding Series "B" shares.

d. Proposal to perform a capital stock increase in the amount of $2,738 million (US$248 million), through the issuance of 912,719,584 new ordinary shares at a subscription price of three pesos per share.

With regard to the proposed capital increase, DESC entered into a Share Subscription Collaboration Agreement with Inversora Bursatil, S.A. de C.V. Casa de Bolsa, Grupo Financiero Inbursa ("Inbursa"). Such agreement establishes that, if the shareholders do not exercise their entire right of first refusal regarding the shares subject to the increase, DESC will be obligated to offer, and Inbursa will be obligated to subscribe, subject to certain conditions, for itself or on account of third parties, up to the equivalent of $2,000 million, in unsubscribed shares at the same price of three pesos per share. The rights of first refusal to such subscription will be offered only in Mexico.

Close of operations of Fenoquimia, S.A. de C.V. - On February 17, 2004, the Company decided to begin closing down the operation of Fenoquimia, S. A. de C. V., which is engaged in the production and sale of phenol.

The investment in shares of the aforementioned subsidiary as of December 31 2003 and 2002 amounts $(282,527) and $(246,157), respectively, and the equity in the net loss $(72,720) and $(86,564), respectively.

Joint investment with Hayes Lemmerz, Int. - On January 15, 2004 Desc Automotriz, S.A. de C.V. concluded its joint investment with Hayes Lemmerz, Int. ("HLI"). To do this, the assets of the aluminum wheel rim plant were sold to HLI and 40% of the shares owned by HLI, were acquired for US$1.00, so that now Desc Automotriz, S.A. de C.V. owns 100% of the shares of the Company that manufactures steel wheel rims. In 2004 the dissolution of the joint investment will be recorded as an item of stockholders' equity.

19. New accounting principles

In May 2003, the IMCP issued Bulletin C-12, "Financial Instruments of a Debt or Equity Nature or a Combination of Both" (C-12), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. C-12 is the compilation of the standards issued by the IMCP with respect to the issue of debt or equity financial instruments, or a combination of both, and includes additional standards on the accounting recognition for these instruments. Consequently, C-12 indicates the basic differences between liabilities and stockholders' equity and establishes the rules for classifying and valuing the components of debt and equity of combined financial instruments in the initial recognition. Subsequent recognition and valuation of liabilities and stockholders' equity of the financial instruments is subject to the standards issued previously in the applicable bulletins. The Company believes that the effects of adopting this new accounting principle will not have significant effects on its financial position and results of operations.

* * * * * *

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ITEM 2

Cantiles de Mita, S.A. de C.V. and Subsidiary

(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Consolidated Financial Statements
for the Years Ended December 31, 2003 and 2002, and Independent Auditors' Report Dated January 27, 2004

Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Independent Auditors' Report and Consolidated Financial Statements 2003 and 2002

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Independent Auditors' Report to the Board of Directors and Stockholders of Cantiles de Mita, S.A. de C.V.:

We have audited the accompanying balance sheets of Cantiles de Mita, S.A. de C.V and Subsidiary (the "Company") as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity and changes in financial position for the years then ended all expressed in thousand of Mexican pesos of purchasing power of December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. 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.

As discussed in Note 2 to the accompanying consolidated financial statements, during a General Extraordinary Stockholders' Meeting held on June 5, 2003, the stockholders approved to merge the Company with its affiliated company, Club Ecuestre Chiluca, S. de R.L. de C.V., with the Cantiles de Mita, S.A. de C.V. remaining as the merging entity, acquiring all the rights and obligations of the merged company beginning June 5, 2003. The effects of the merger were recorded from a tax and legal standpoint as of the date in which the merger occurred. As a result, in accordance with Mexican Law, the Company lost the future benefits of the tax loss carryforwards and recoverable tax on assets paid and canceled a deferred income tax benefit $41,189 in 2003. Additionally, in accordance with accounting principles generally accepted in Mexico, the accompanying financial statements combine both entities as if the merger had taken place at the beginning of 2002.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company sold its shares in its subsidiary Bosques de Chiluca, S.A. de C.V. in May 2003. Accordingly, the results of operations of Bosques de Chiluca, S.A. de C.V. were included in the accompanying consolidated statements of income through the date of the sale, in conformity with accounting principles generally accepted in Mexico.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of Cantiles de Mita, S. A. de C. V. and Subsidiary as of December 31, 2003 and 2002, and the results of its operations, changes in its stockholders' equity and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
A Member Firm of Deloitte Touche Tohmatsu

/s/ Miguel Angel del Barrio Burgos

C.P.C. Miguel Angel del Barrio Burgos

January 27, 2004

Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Consolidated Balance Sheets
As of December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

Assets	2003	2002
Cash and temporary investments	$ 2,311	$ 92,439
Accounts receivable, net	1,076,748	206,292
Due from related parties	202,507	49,940
Land held for development and real estate projects	2,160,376	2,767,648
Investment in shares	3,224	3,349
Furniture and equipment, net	2,218	2,970
Other assets, net	238	241
Total	$ 3,447,622	$ 3,122,879
Liabilities and stockholders' equity		
Accounts and notes payable to contractors	$ 1,577	$ 3,765
Due to related parties and holding company	974,064	1,014,202
Other accounts payable and accrued liabilities	81,290	60,006
Deferred income tax	304,816	58,462
Total liabilities	1,361,747	1,136,435
Stockholders' equity:		
Capital stock	1,214,803	1,214,803
Retained earnings	733,814	538,787
Cumulative effect of deferred income tax	(139,069)	(139,069)
Excess in restated stockholders' equity	276,327	230,284
Majority stockholders' equity	2,085,875	1,844,805
Minority stockholders' equity in subsidiary	--	141,639
Total stockholders' equity	2,085,875	1,986,444
Total	$ 3,447,622	$ 3,122,879

See accompanying notes to consolidated financial statements.

Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Consolidated Statements of Income
For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	2003	2002
Revenues from sale of land	$ 1,162,370	$ 374,087
Cost of sale of land	586,511	192,408
Gross profit	575,859	181,679
Operating expenses	119,914	85,520

Operating income	455,945	96,159
Other expenses, net	8,365	2,640
Net comprehensive financing cost (income):		
Interest income	(12,736)	(6,855)
Interest expense	96,477	69,393
Exchange loss (gain), net	2,989	(24,430)
Monetary position gain	(3,031)	(44,079)
	83,699	(5,971)
Income before income tax	363,881	99,490
Income tax expense	169,749	68,233
Consolidated net income	$ 194,132	$ 31,257
Allocation of consolidated net income:		
Net income of majority stockholders	$ 195,027	$ 35,428
Net loss of minority stockholders	(895)	(4,171)
	$ 194,132	$ 31,257

See accompanying notes to consolidated financial statements.

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Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Grupo Desc, S.A. de C.V.)

Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	Capital stock		Retained earnings	Cumulative effect of deferred income taxes	E
	Historical	Restatement			
Balances as of January 1, 2002	$ 296,183	$ 918,620	$ 503,359	$ (139,069)	$
Comprehensive income (loss) -					
Consolidated net income	--	--	35,428	--	
Effect from holding nonmonetary assets	--	--	--	--	
	--	--	35,428	--	
Balances as of December 31, 2002	296,183	918,620	538,787	(139,069)	
Decrease in minority interest in subsidiary's capital stock from sale of subsidiary	--	--	--	--	
Comprehensive income (loss) -					
Consolidated net income	--	--	195,027	--	
Effect from holding nonmonetary assets	--	--	--	--	
	--	--	195,027	--	
Balances as of December 31, 2003	$ 296,183	$ 918,620	$ 733,814	$ (139,069)	$

See accompanying notes to consolidated financial statements.

Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Consolidated Statements of Changes in Financial Position
For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

	2003	2002
Operating activities:		
Consolidated net income	$ 194,132	$ 31,257
Items which did not require resources:		
Depreciation	904	920
Deferred income tax	157,451	59,975
	352,487	92,152
Change in operating assets and liabilities:		
(Increase) decrease in:		
Account receivable, net	(875,226)	(29,625)
Due from related parties	(135,195)	(16,908)
Investment in real estate projects	(162,044)	(148,989)
Cost of land	586,511	192,408
Decrease (increase) in:		
Accounts and notes payable to contractors	(2,188)	(9,825)
Due to related parities and holding company	48,618	(187,900)
Other accounts payable and accrued liabilities	28,096	35,716
Net resources used in operating activities	(158,941)	(72,971)
Financing activities:		
Due to holding company (Desc, S. A. de C. V.)	(40,264)	206,169
Variation in due to holding company in constant pesos	(35,219)	(42,536)
Net resources (used in) generated by financing activities	(75,483)	163,633
Investing activities:		
Loss on sale of subsidiary	144,320	--
Acquisition of furniture and equipment, net	(152)	(2,199)
Investment in shares	125	84
Other assets	3	--
Net resources generated by (used in) investing activities	144,296	(2,115)
Cash and temporary investments:		
(Decrease) increase	(90,128)	88,547
Balance at beginning of year	92,439	3,892
Balance at end of year	$ 2,311	$ 92,439

See accompanying notes to consolidated financial statements.

Cantiles de Mita, S.A. de C.V. and Subsidiary
(A wholly-owned subsidiary of Desc, S.A. de C.V.)

Notes to Consolidated Financial Statements
For the years ended December 31, 2003 and 2002
(In thousands of Mexican pesos of purchasing power of December 31, 2003)

1. Nature of business and significant event

Activity - Cantiles de Mita, S.A. de C.V. (the "Company") is a wholly-owned subsidiary of Desc, S.A. de C.V. (DESC) and is engaged mainly in the acquisition and sale of real estate, as well as the development and sale of all types of real estate projects.

The Company is managed by an Administrative Board, which allows the Company to function without hiring personnel. Consequently, the Company is not obligated to pay employee profit sharing nor does it have employee benefit liabilities.

Significant event - The economic crisis of the last few years has significantly affected the real estate market in Mexico. The Company has continuously discussed and established strategies to face this downturn in the economy, such as the divestiture and sale of its territorial reserves. During 2003 the Company sold one of its territorial reserve located in Chiluca, Estado de Mexico.

2. Basis of presentation and operating cycle

Explanation for translation into English - The accompanying financial statements have been translated from Spanish into English for use outside of Mexico. These financial statements are presented on the basis of accounting principles generally accepted in Mexico (MEX GAAP). Certain accounting practices applied by the Company that conform with MEX GAAP may not conform with accounting principles generally accepted in the country of use.

Operating cycle - The operating cycle of the Company's real estate activities fluctuate from a term of approximately 18 to 60 months. Accordingly, the accompanying balance sheets have not been classified into current and long term, so that the Company's financial position is reflected more accurately.

Consolidation of financial statements - The 2002 consolidated financial statements include those of the Cantiles de Mita, S.A. de C.V. (Cantiles) and its subsidiary, Bosques de Chiluca, S.A. de C.V. (Bosques), whose shareholding percent was 51%. The 2003 consolidated financial statements include those of Cantiles and, through May 2003, its 51% of its share in the operations of Bosques. In May 2003, the Company sold its shareholding percentage in Bosques de Chiluca, as discussed below.

Merger of Club Ecuestre Chiluca, S. de R.L. de C.V. - During General Extraordinary Stockholders' Meeting held on June 5, 2003, the stockholders approved to merge the Cantiles with its affiliated company, Club Ecuestre Chiluca, S. de R. L. de C. V., with the Cantiles remaining as the merging company and acquiring all the rights and obligations of the merged company beginning June 5, 2003, the date when the merger went into effect. The merger was recorded from a tax and legal standpoint as of the date the merger occurred. As such, in accordance with Mexican Law, the Company lost the future benefits of the tax loss carryforwards and recoverable tax on assets paid and canceled a deferred income tax benefit of $41,189 in 2003.

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In accordance with accounting principles generally accepted in Mexico, a retroactive effect of the merger is presented. As such, the accompanying financial statements present combined information of both entities as if the merge occurred at the beginning of 2002. Consequently, the financial statements as of and for the year ended December 31, 2002, are different

from those originally issued in the prior year.

Comparability - Significant events affecting the comparability of the financial statements are:

a. Sale of subsidiary - As discussed above, the Company sold its shares in its subsidiary Bosques de Chiluca, S.A. de C.V. in May 2003. Accordingly, the results of operations of Bosques de Chiluca, S.A. de C.V. were included in the accompanying consolidated statements of income through the date of the sale, in conformity with accounting principles generally accepted in Mexico. The financial information of Bosques as of and though the date of the sale transaction, in Mexican pesos of purchasing power of December 31, 2003, is summarized below:

Balance sheet:	
Total assets	$ 325,486
Total liabilities	(42,506)
Stockholders' equity	$ 282,980
Income statement:	
Costs and expenses	$ 2,802
Income tax benefit	(925)
Net loss	$ (1,877)

Comprehensive income (loss) - Comprehensive income (loss) presented in the accompanying statement of changes in stockholders' equity represents the Company's total activity during each year, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period which, in accordance with MEX GAAP, are presented directly in stockholders' equity without affecting the statements of income. In 2003 and 2002, the other comprehensive income (loss) items consist of the effect from holding nonmonetary assets.

Reclassifications - Certain amounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified in order to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

3. Summary of significant accounting policies

The accounting policies followed by the Company are in conformity with MEX GAAP, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

a. New accounting policies - The Company early adopted Bulletin C-15, "Impairment in the Value of Long-Lived Assets and Their Disposal" (C-15), issued by the Mexican Institute of Certified Public Accountants. C-15 establishes, among other things, new rules for the calculation and recognition of impairment losses for long-lived assets and their reversal. It also provides guidance as to indicators of impairment in the carrying amount of tangible and intangible long-lived assets in use, including goodwill. If such indicators of impairment exist, companies must test for impairment unless there is conclusive evidence that the indicators of

impairment are temporary. The calculation of such loss requires the determination of the recoverable value, which is now defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the net present value of discounted future net cash flows. The accounting principles issued prior to this new Bulletin used future net cash flows, without requiring the discounting of such cash flows. Since the long-lived assets of the Company do not have any indicators of impairment as established in this new bulletin, the early adoption of C-15 did not have a material effect on the Company's consolidated financial position or results of operations.

Beginning January 1, 2003, the Company adopted the provisions of new Bulletin C-8, "Intangible Assets" ("C-8"), which established that project development cost should be capitalized if they fulfill the criteria established for recognition as assets preoperating cost that are not considered development cost should be recorded as a period expense; and intangible assets considered to have indefinited useful lives are not amortized, but instead are subject to impairment tests. The unamortized balance of capitalized preoperating costs up to December 31, 2002 under the former Bulletin C-8 will continue to be amortized according to the provisions of that Bulletin. The adoption of C-8 did not have a material effect on the Company's financial position or results of operations.

Beginning January 1, 2003, the Company also adopted the provisions of new Bulletin C-9, "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments" ("C-9"), which establishes additional guidelines clarifying the accounting for provisions, accruals and contingent liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement of substitution of obligations. The adoption of C-9 did not have a material effect on the Company's financial position or results of operations.

b. Recognition of the effects of inflation - The Company restates its financial statements to Mexican peso purchasing power of the most recent balance sheet date presented. Accordingly, the financial statements of the prior year have been restated to Mexican pesos of purchasing power of December 31, 2003 and, therefore, differ from those originally reported in the prior year.

c. Temporary investments - Temporary investments are stated at the lower of acquisition cost plus accrued yields, or estimated net realizable value.

d. Land held for development and real estate projects - Land held for development represents land reserves, which together with developed land and ongoing and completed real estate projects, are considered inventories, as they are held for sale. They are recorded at acquisition, development and construction costs, usually in U.S. dollars, and are restated based on the devaluation factor of the Mexican peso against the U.S. dollar, for the purpose of showing values in accordance with the current situation of the real estate market, without exceeding net realizable value.

e. Investment in shares - Investment in shares is represented by the shares of certain beach clubs in the Punta Ixtapa project, which are accounted for under the cost method, restated using factors derived from the National Consumer Price Index (NCPI) from the date of acquisition through year-end.

f. Furniture and equipment - Furniture and equipment are initially recorded at acquisition cost and restated using the NCPI. Depreciation is calculated using the straight-line method based on remaining useful lives of the related assets, as follows:

	% of depreciation
Furniture and office equipment	10.00
Transportation equipment	25.00
Computer equipment	30.00

g. Financial instruments - Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and yields of financial instruments are recognized in results of the period in which they occur. Dividends from equity financial instruments are recognized in results of operations of the same period in which the fair value of the financial instrument is adjusted by such dividends.

h. Income tax and tax on assets - Income tax (ISR) is recorded in results of the year in which it is incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred ISR assets are reduced by any benefits about which there is uncertainty as to their realizability.

The tax on assets paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented on the balance sheet with deferred ISR liability (increasing the deferred ISR assets).

i. Foreign currency balances and transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the statements of income.

j. Excess in restated stockholder's equity - Represents the accumulated monetary position result through the initial restatement of the financial statements and the gain (loss) from holding nonmonetary assets, which resulted form restating certain nonmonetary assets above (below) inflation of the land held for development and real estate projects, less the related deferred income tax effect.

k. Revenue and cost recognition - The revenues from and cost of sales of urbanized land are recognized in results when the sales are formalized and/or when a deposit that guarantees the transaction is received. The individual cost is assigned to land and the real estate project considering the related sales value within the total project, in order to maintain the same profit margin throughout the project.

Revenues and costs of the real estate projects are originally recorded as a deferred credit for construction commitments and as real estate projects-in-progress. They are recognized in results based on the percentage-of-completion method.

Revenues, costs and expenses are restated from the month in which they arise through year-end, based on factors derived from the NCPI.

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l. Monetary position gain - Monetary position result, which represents the

erosion (increase) of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. Gains result from maintaining a net monetary liability position.

4. Cash and temporary investments

	2003	2002
Cash	$ 2,311	$ 59,624
Temporary investments	--	32,815
	$ 2,311	$ 92,439

5. Accounts receivable, net

	2003	2002
Trade accounts	$ 1,086,078	$ 139,931
Allowance for present value of noncurrent trade accounts	(34,378)	--
	1,051,700	139,931
Recoverable taxes	20,150	35,419
Sundry debtors	4,898	30,942
	$ 1,076,748	$ 206,292

The expected collection date of accounts receivable from customers, without considering the present value reserve, are as follows:

	2003
2004	$ 188,219
2005	252,342
2006	251,553
2007 and thereafter	393,964
	$ 1,086,078

6. Land held for development and real estate projects

	2003	2002
Undeveloped land	$ 947,491	$ 1,596,612
Developed land	56,634	79,962
Real estate projects in-progress	1,152,781	1,083,827
Advances to contractors	3,470	7,247
	$ 2,160,376	$ 2,767,648

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The detail of Company's undeveloped land and real estate projects- in-progress as of December 31, 2003, is as follows:

Square meters available for   Current s

Project	Location	% of DESC	Product	sale	of the pr
I. Undeveloped land					
Punta Mita	Punta Mita, Nayarit	100	Vacation homes	2,523,896	Planning a presale
Punta Ixtapa	Punta Ixtapa, Guerrero	100	Vacation homes	48,142	Planning
II. Developed land					
Santa Fe Reserve	Santa Fe, Cuajimalpa, Mexico, D.F.	73	Corporate offices	11,745	Sale of la
Punta Ixtapa	Punta Ixtapa Guerrero	100	Vacation homes	121,569	Sale
La Estadia	Atizapan, Edo. de Mexico	77.25	Homes	26,188	Sale
III. Real estate projects-in-progress					
Punta Mita	Punta Mita, Nayarit	100	Vacation homes	2,701,198	Presale an constructi work super

Punta Ixtapa- The Company entered into a transfer-of-ownership and guarantee trust agreement with Fonatur through Inmobiliaria Akko, S.A. de C.V. to develop a vacation resort in Ixtapa, Gro. (Punta Ixtapa).

Under the trust, the Company is committed mainly to build a housing development consisting of condominiums and villas and leave a portion of the land for commercial and office space, and single-family homes, as well as for the construction of a sports club. All these structures are part of the equity of the trust.

If the clauses of the agreement are not complied with by the Company, Fonatur may elect to request the execution of the trust guarantee within a term not exceeding one year or demand compulsory compliance thereof. In both instances, the Company would be obligated to pay for all the damages caused. However, as of December 31, 2003, this project, which is identified in Section II of the developed land, has been completed. Consequently, management believes it is unlikely that the Company will fail to meet its obligations with Fonatur.

Punta Mita- Punta Mita is a tourist development located north of Bahia de Banderas in the state of Nayarit with an overall area of over 700 hectares to be built and developed in five stages; the first stage considers the sale of lots for housing and hotel construction and the construction of a golf course, which opened late in 1999. This project has required meticulous urban planning as well as providing basic services to the lots. This consisted of the construction of, among others, a 20-kilometer long aqueduct.

During 2003 and 2002, the Company continued the development of land of the first stage of project Punta Mita and the sale of the residential lots. Under the trust entered into with Fideicomiso Bahia de Banderas, the Company is committed to develop a vacation resort consisting of a hotel, golf course, and a housing development consisting of condominiums and villas.

7. Furniture and equipment

	2003	2002
Furniture and office equipment	$ 1,795	$ 1,795
Transportation equipment	4,438	4,340
Computer equipment	301	305
	6,534	6,440
Less- Accumulated depreciation	(4,316)	(3,470)
Total	$ 2,218	$ 2,970

8. Other accounts payable and accrued liabilities

	2003	2002
Advances from customers	$ 18,377	$ 1,068
Sundry creditors	52,359	41,071
Payable taxes	10,554	17,867
Total	$ 81,290	$ 60,006

9. Stockholders' equity

a. As of December 31, 2003 and 2002, capital stock consisted of:

	Number of Shares	Amount
Fixed Capital:		
Nominative Series "A" shares	4,005	$ 11
Variable Capital:		
Nominative Series "A" shares	459,990	1,162
Nominative Series "B" shares	116,770,356	295,010
	117,234,351	$ 296,183

b. During General Extraordinary Stockholders' Meeting held on June 5, 2003, the stockholders approved to merge the Company with its affiliated company, Club Ecuestre Chiluca, S. de R.L. de C.V., with the Company remaining as the merging company and acquiring all the rights and obligations of the merged company. See further discussion in Note 2. As a result, the previous series of shares for each respective company were cancelled and exchanged for a new series of shares for the merged entity.

c. Common stock consists of nominative shares. Series A shares represents 1% of the total stock and may be owned only by Mexican citizens. Series B shares represents 99% of the total stock and have no ownership limitations. Variable capital may be increased without limitation.

d. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against future income tax payable of the year in which the tax on the dividend is paid the two

fiscal years following such payment. As a result of the fiscal 2003 tax reform, tax paid on the distribution of stockholders' equity as of January 1, 2003, can only be credited against income tax for the year in which the dividend tax is paid and in the next two years

10. Foreign currency balances and transactions

a. The Company valued their assets and liabilities in foreign currency, mainly in U.S. dollars, in pesos using the exchange rates in effect at the close of each fiscal year, as the Company expects to use assets in foreign currency to settle liabilities also denominated in foreign currency. At December 31, the foreign currency position is as follows:

	Thousand of U.S. dollars	
	2003	2002
Monetary assets	97,037	21,199
Monetary liabilities	(104,605)	(17)
Monetary (liability) asset position, net	(7,568)	21,182
Equivalent in thousands of Mexican pesos	$ (84,760)	$ 219,473

b. During the fiscal years ended December 31, 2002 and 2003, the Company performed transactions in foreign currency that were converted to and recorded in Mexican pesos at the exchange rates in effect on the date of each transaction. Transactions in foreign currency were as follows:

	Thousand of U.S. dollars	
	2003	2002
Sales	(106,997)	(34,813)
Interest income	(38)	(331)
Other income	(9)	(30)
Selling expenses	2,138	1,902
Interest expense	4,179	9,503
Other expenses	1,030	144

As discussed in Note 3d., the land held for development and real estate projects is recorded at acquisition, development and construction costs, usually in U.S. dollars, and restated based on the devaluation factor of the Mexican peso against the U.S. dollar, for the purpose of showing values in accordance with the current situation of the real estate market. Furthermore, the cost of sales is denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the month before were the sale occurred.

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c. The exchange rates in effect at the date of the balance sheet and of issuance of the financial statements where as follows:

December 31,	January 27,

	2003	2002	2004
U.S. dollar	$ 11.1998	$ 10.3613	$ 10.9178

11. Balances and transactions with related parties and holding company
During 2003 and 2002, the Company had the following transactions with affiliated companies and other related parties:

	2003	2002
Interest income	$ (10,506)	$ (1,549)
Interest expense	$ 96,211	$ 69,369
Management services	$ 54,690	$ 65,478
Loss from share purchases	$ 10,587	$ --

As of December 31, 2003 and 2002, balances receivable and payable with affiliated companies were as follows:

	2003	2002
Due from related parties-		
Operadora de Nayarit, S.A. de C.V.	$ 140,393	$ --
Inmobiliaria Dine, S.A. de C.V.	34,163	31,218
Club de Golf Punta Mita, S.A. de C.V.	22,900	12,469
Turistica Akko, S.A. de C.V.	4,343	4,396
Resort Club Punta Mita, S.A. de C.V.	--	1,857
Bosques de las Lomas, S.A. de C.V.	575	--
Bosques de Chiluca, S.A. de C.V.	133	--
	$ 202,507	$ 49,940
Due to related parties and holding company-		
Desc, S.A. de C.V. (holding company)	$ 862,795	$ 938,278

RGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">**We are dependent upon our president and other key executives. If we lose the services of these individuals we may not be able to fully implement our business plan and future growth strategy, which would harm our business and prospects.**

Our successful transition from a manufacturer and marketer of footwear and jeanswear to a licensor of intellectual property is largely due to the efforts of Neil Cole, our president, chief executive officer and chairman. Our continued success is largely dependent upon his continued efforts and those of the other key executives he has assembled. Although we have entered into an employment agreement with Mr. Cole, expiring on December 31, 2007, as well as employment agreements with other of our key executives, there is no guarantee that we will not lose their services. To the extent that any of their services become unavailable to us, we will be required to hire other qualified executives, and we may not be successful in finding or hiring adequate replacements. This could impede our ability to fully implement our business plan and future growth strategy, which would harm our business and prospects. As we grow, our success will also depend on our ability to hire and retain additional qualified marketing and product development personnel to raise consumer awareness of the brand names we acquire and help our licensees maintain the freshness of their product lines and meet market trend expectations. We may not be able to hire or retain such necessary personnel.

We are currently in litigation that could negatively impact our financial results.

We are currently a plaintiff and cross-defendant in a litigation pending in California state court involving our wholly-owned subsidiary, Unzipped, a defendant in a litigation pending in federal district court in New York involving a former supplier and a defendant in a litigation pending in New York state court involving one of our licensees. Even if we prevail on all counts in these actions, the costs of these litigation matters have been and are expected to continue to be high. They are not only expensive but time consuming to pursue and defend, thereby diverting our available cash and personnel resources from other business affairs. Moreover, if we are ultimately required to pay the monetary damages sought from us in these actions, or if it is adjudicated that our contractual rights concerning Unzipped are invalid, our operating results and profitability would be reduced.

Until recently we incurred losses on a consistent basis and we may not be able to sustain our profitability in the future.

Although in connection with our new business model we have recorded net income of $15.7 million and $3.2 million for the six month periods ended June 30, 2006 and 2005, respectively, $15.9 million for the year ended December 31, 2005 (including a non-cash tax benefit of approximately $5.0 million) and $241,000 for the 11-month period ended December 31, 2004, and while our transition to a licensing business, among other things, has resulted in our operating income for such periods not being comparable to that of comparable prior year periods, prior to our transition to a brand management company, we consistently sustained net losses, including, in the fiscal years ended January 31, 2004, 2003 and 2002, net losses of $11.3 million, $3.9 million and $2.3 million, respectively. We cannot guarantee you that we will continue to be profitable in the future.

Risks related to our securities

The market price of our common stock has been, and may continue to be, volatile, which could reduce the market price of our common stock.

The publicly traded shares of our common stock have experienced, and are likely to experience in the future, significant price and volume fluctuations. This market volatility could reduce the market price of our common stock, regardless of our operating performance. In addition, the trading price of our common stock could change significantly over short periods of time in response to actual or anticipated variations in our quarterly operating results, announcements by us, our licensees or our respective competitors, factors affecting our licensees' markets generally or changes in national or regional economic conditions, making it more difficult for shares of our common stock to be sold at a favorable price or at all. The market price of our common stock could also be reduced by general market price declines or market volatility in the future or future declines or volatility in the prices of stocks for companies in the trademark licensing business or companies in the industries in which our licensees compete.

Future sales of our common stock may cause the prevailing market price of our shares to decrease.

We have issued a substantial number of shares of common stock that are eligible for resale under Rule 144 of the Securities Act and that may become freely tradable. We have also already registered a substantial number of shares of common stock that are issuable upon the exercise of options and warrants and have registered for resale a substantial number of restricted shares of common stock issued in connection with our acquisitions. If the holders of our options and warrants choose to exercise their purchase rights and sell the underlying shares of common stock in the public market, or if holders of currently restricted shares of our common stock choose to sell such shares in the public market under Rule 144 or otherwise, the prevailing market price for our common stock may decline. The sale of shares issued upon the exercise of our derivative securities could also further dilute the holdings of our existing stockholders. In addition, future public sales of shares of our common stock could impair our ability to raise capital by offering equity securities.

Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of recovering the amount of deferred tax assets recorded on the balance sheet and the likelihood of adverse outcomes resulting from examinations by various taxing authorities in order to determine the adequacy of our provision for income taxes. We cannot guarantee that the outcomes from these evaluations and continuous examinations will not harm our reported operating results and financial conditions.

Provisions in our charter and in our share purchase rights plan and Delaware law could make it more difficult for a third party to acquire us, discourage a takeover and adversely affect existing stockholders.

Certain provisions of our certificate of incorporation and our share purchase rights plan, either alone or in combination with each other, could have the effect of making more difficult, delaying or deterring unsolicited attempts by others to obtain control of our company, even when these attempts may be in the best interests of our stockholders. Our certificate of incorporation authorizes 75,000,000 shares of common stock to be issued. Based on our outstanding capitalization at September 12, 2006, assuming the exercise of all outstanding options and warrants, there are still a total of approximately 27,000,000 shares of common stock available for issuance by our board of directors without stockholder approval. Our certificate of incorporation also authorizes our board of directors, without stockholder approval, to issue up to 5,000,000 shares of preferred stock, in one or more series, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of our common stock, none of which has been issued to date. And, under our share purchase rights plan, often referred to as a “poison pill,” if anyone acquires 15% or more of our outstanding shares, all of our stockholders (other than the acquirer) have the right to purchase additional shares of our common stock for a fixed price. We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which could prevent us from engaging in a business combination with a 15% or greater stockholder for a period of three years from the date it acquired that status unless appropriate board or stockholder approvals are obtained.

These provisions could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market price. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

We do not anticipate paying cash dividends on our common stock. Investors in this offering may never obtain a return on their investment.

You should not rely on an investment in our common stock to provide dividend income, as we have not paid any cash dividends on our common stock and do not plan to pay any in the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our existing licensing operations, further develop our trademarks and finance the acquisition of additional trademarks. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment.

Use of Proceeds

We will not receive any proceeds from the sale of common stock by the selling stockholders named in this prospectus.

We have agreed to pay certain expenses in connection with the registration of the shares being offered by the selling stockholders.

Selling Stockholders

The following table sets forth certain information regarding the selling stockholders, based on information provided to us by the selling stockholders. The table assumes for calculating each selling stockholder's beneficial and percentage ownership that options, warrants or convertible securities that are held by such stockholder (but not those held by any other person) and that are exercisable or convertible within 60 days from September 12, 2006 have been exercised or converted. Percentage ownership of common stock after the offering assumes the sale of all of the shares being offered by the selling stockholders pursuant to this prospectus.

Selling Security Holder	Number of Shares of Common Stock Beneficially Owned Prior to the Offering	Shares Being Offered	Common Stock Beneficially Owned After the Offering	
			Number of Shares	Percent of Outstanding Shares
Contrarian Funds, L.L.C. (1)	74,012	74,012(2)	0	0
DDJ October Fund Onshore Feeder, Limited Partnership (3)	866	866(2)	0	0
Greenco Enterprises, Inc. (4)	5,447	5,447(2)	0	0
Mudd (USA) LLC (5)	3,269,231	3,269,231(6)	0	0
October OS Investment Sub 2005, Ltd. (7)	509	509(2)	0	0
Southlake & Co. (8)	372,970	372,970(2)	0	0
The Foothill Group, Inc.(9)	25,341	25,341(2)	0	0
The October Fund, Limited Partnership (10)	3,278	3,278(2)	0	0

* Less than one percent

(1) Contrarian Funds, L.L.C. has advised us that the natural persons that have voting and dispositive power over its shares of our common stock are Jon R. Bauer, its managing member, and Janice Stanton, Gil Tenzer and Michael Restifo, each a member of the selling stockholder.

(2) Represents shares of common stock that we issued to the selling stockholder, as a designee of DDJ Capital Management, LLC, the assignee of London Fog Group, Inc., as part of the 482,423 shares of common stock that we issued, together with $30.5 million in cash, as consideration for our acquisition of certain assets, including the London Fog brand, from London Fog Group, Inc. in August 2006, referred to as acquisition shares. See "Our Company - Recent developments."

(3) DDJ October Fund Onshore Feeder, Limited Partnership has advised us that DDJ Capital Management LLC, the manager of the selling stockholder's general partner, October G.P., LLC, is the selling stockholder's investment manager and, as such, has voting and dispositive power over the selling stockholder's shares of our common stock. Based on information provided by DDJ Capital management LLC, the natural person having voting and dispositive power over these shares is David J. Breazzano, by virtue of his membership interests in DDJ Capital management LLC.

(4) Greenco Enterprises, Inc. has advised us that the natural person that has voting and dispositive power over its shares of our common stock is David Greenstein, its President and a member of its board of directors.

(5) Mudd (USA) LLC has advised us that the natural persons having voting and/or investment control over its shares of our common stock are Mr. Wing Kwok, its Chairman, Mr. Conrad Lung, its President, and Mr. Richard Gilbert, its Chief Financial Officer.

(6) Represents shares of common stock we issued to Mudd (USA) LLC in connection with our April 2006 acquisition of certain of its assets related to its business of marketing, licensing and managing its MUDD® brands, trademarks, intellectual property and related names worldwide, excluding China, Hong Kong, Macau and Taiwan, including 286,866 shares currently pledged as collateral to support certain of Mudd (USA)'s post-closing obligations to us in connection with the acquisition. In January 2007 and each quarter thereafter while any of the pledged shares remain pledged, a portion of such shares equal in value to up to $1.0 million are to be released.

Mudd (USA) has agreed not to directly or indirectly, through an "affiliate" or "associate" or otherwise, offer, sell, pledge, hypothecate, grant an option for sale, or otherwise dispose of, or transfer or grant any rights with respect thereto, in any manner, either privately or publicly (each a "Transfer"), more than 50%, or 1,634,616, of the shares offered hereby, or enter into any agreement or any transaction that has the effect of transferring, in whole or in part, directly or indirectly, the economic consequence of more than 50%, or 1,634,616, of the shares offered hereby (regardless of whether any such agreement or transaction is to be settled by delivery of the securities, in cash or otherwise) prior to December 11, 1006, without our consent. Further, Mudd (USA) has agreed not to Transfer, in aggregate, more than 75%, or 2,451,923, of the shares offered hereby prior to March 11, 2007, without our consent.

(7) October OS Investment Sub 2005, Ltd. has advised us that DDJ Capital Management LLC is its investment advisor and, as such, has voting and dispositive power over its shares of our common stock. Based on information provided by DDJ Capital management LLC, the natural person having voting and dispositive power over these shares is David J. Breazzano, by virtue of his membership interests in DDJ Capital management LLC.

(8) Southlake & Co. is the nominee name used by the custodian of GMAM Investment Funds Trust II for administrative reasons only. GMAM Investment Funds Trust II is the underlying beneficial owner of the selling stockholder's shares of our common stock and has advised us that DDJ Capital Management LLC is its investment advisor and, as such, has voting and dispositive power over such shares. Based on information provided by DDJ Capital management LLC, the natural person having voting and dispositive power over these shares is David J. Breazzano, by virtue of his membership interests in DDJ Capital Management LLC.

(9) The Foothill Group, Inc. has advised us that the natural person that has voting and dispositive power over its shares of our common stock is Jeff Nikora, its executive vice president.

(10) The October Fund, Limited Partnership has advised us that DDJ Capital Management LLC, the manager of the selling stockholder's general partner, October G.P., LLC, is the selling stockholder's investment manager and, as such, has voting and dispositive power over the selling stockholder's shares of our common stock. Based on information provided by DDJ Capital management LLC, the natural person having voting and dispositive power over these shares is David J. Breazzano, by virtue of his membership interests in DDJ Capital management LLC.

Plan of Distribution

We have been advised that the selling stockholders, which may include pledgees, donees, transferees or other successors-in-interest who have received shares from the selling stockholders after the date of this prospectus, may from time to time, sell all or a portion of the shares offered hereby in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to these market prices or at negotiated prices.

All costs, expenses and fees in connection with the registration of the shares offered by this prospectus other than those of any counsel for the selling stockholders, shall be borne by us. Brokerage costs, if any, attributable to the sale of the selling stockholder's shares will be borne by the selling stockholder.

The shares may be sold by the selling stockholders by one or more of the following methods:

- block trades in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the shares as principal to facilitate the transaction;
- purchases by a broker or dealer as principal and resale by such broker dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- over-the counter distribution in accordance with the rules of the Nasdaq National Market;
- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- through the writing of put or call options on the shares or other hedging transactions (including the issuance of derivative securities), whether the options or other derivative securities are listed on an option or other exchange or otherwise;
- privately negotiated transactions;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The transactions described above may or may not involve brokers or dealers.

The selling stockholders will not be restricted as to the price or prices at which the selling stockholders may sell their shares. Sales of shares by the selling stockholders may depress the market price of our common stock since the number of shares which may be sold by the selling stockholder may be relatively large compared to the historical average weekly trading of our common stock. Accordingly, if the selling stockholders were to sell, or attempt to sell, all of such shares at once or during a short time period, we believe such a transaction could adversely affect the market price of our common stock.

From time to time the selling stockholders may pledge their shares under margin provisions of customer agreements with its brokers or under loans or other arrangements with third parties. Upon a default by the selling stockholders, the broker or such third party may offer and sell any pledged shares from time to time.

In effecting sales, brokers and dealers engaged by a selling stockholder may arrange for other brokers or dealers to participate in the sales as agents or principals. Brokers or dealers may receive commissions or discounts from the selling stockholder or, if the broker-dealer acts as agent for the purchaser of such shares, from the purchaser in amounts to be negotiated, which compensation as to a particular broker dealer might be in excess of customary commissions which are not expected to exceed those customary in the types of transactions involved. Broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share, and to the extent the broker-dealer is unable to do so acting as agent for a selling stockholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to such selling stockholder. Broker-dealers who acquire shares as principal may then resell those shares from time to time in transactions

- in the over-the counter market or otherwise;
- at prices and on terms prevailing at the time of sale;
- at prices related to the then-current market price; or
- in negotiated transactions.

These resales may involve block transactions or sales to and through other broker-dealers, including any of the transactions described above. In connection with these sales, these broker-dealers may pay to or receive from the purchasers of those shares commissions as described above. A selling stockholder may also sell the shares in open market transactions under Rule 144 under the Securities Act, rather than under this prospectus.

The selling stockholders and any broker-dealers or agents that participate with the selling stockholder(s) in sales of the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with these sales. In this event, any commissions received by these broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We have agreed to indemnify the selling stockholders against certain liabilities under the Securities Act. The selling stockholder(s) may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act.

The selling stockholders are subject to applicable provisions of the Securities Exchange Act of 1934 and the SEC's rules and regulations, including Regulation M, which provisions may limit the timing of purchases and sales of the shares by the selling stockholders.

In order to comply with certain states' securities laws, if applicable, the shares may be sold in those jurisdictions only through registered or licensed brokers or dealers. In certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state, or unless an exemption from registration or qualification is available and is obtained.

Unaudited Pro Forma Condensed Combined Financial Statements

Introduction

As previously reported by us in a Current Report on Form 8-K filed with the SEC on April 17, 2006, we completed our acquisition of certain assets of Mudd (USA) LLC related to its business of marketing, licensing and managing its MUDD® brands, trademarks, intellectual property and related names worldwide, excluding China, Hong Kong, Macau and Taiwan, on April 11, 2006. We paid the following consideration for such assets: (i) $45 million in cash, which was funded from a portion of the proceeds of the notes issued by IP Holdings LLC, a special purpose entity in which we own, directly, a 53.5% limited liability company interest and, indirectly through our other subsidiaries, the remaining limited liability company interests, and (ii) our issuance to the seller of 3,269,231 restricted shares of our common stock. In connection with the transaction, we simultaneously sold the assets to IP Holdings LLC. On April 11, 2006, IP Holdings LLC also entered into a license agreement with Mudd (USA) LLC in which it granted Mudd (USA) LLC the exclusive right to use the Mudd® trademark in connection with the design, manufacture, sale and distribution of women's and children's woven bottoms and related products in the United States. Mudd (USA) LLC has guaranteed, for two years, certain minimum licensing revenues to us from the purchased assets and royalties under the license agreement. The guarantee and certain other of the seller's obligations to us under the purchase agreement are secured by its pledge of a portion of the cash and shares issued by us as consideration in the acquisition.

The financing for the purchase by IP Holdings LLC of the purchased assets from us was accomplished through its private placement of asset-backed notes. The issuance of the notes raised $49.0 million in new financing for IP Holdings LLC (before giving effect to the payment of expenses in connection with the issuance of the notes and required deposits to reserve funds) and refinanced the approximately $87.0 million principal amount of the notes then outstanding under the notes previously issued by IP Holdings LLC. The notes are secured by the purchased assets, as well as by other intellectual property assets owned by IP Holdings LLC. The payment of the principal amount of, and interest on, the notes will be made from amounts received by IP Holdings LLC under license agreements with various licensees of the purchased assets and other intellectual property assets of IP Holdings LLC. We are not obligated, and our assets are not available, to pay any amounts with respect to the notes if amounts received by IP Holdings LLC under such license agreements are insufficient to make the required payments. In addition, the assets of IP Holdings LLC are not available to pay any of our obligations.

The following unaudited pro forma condensed combined financial statements give effect to three acquisitions recently completed by us, including: (a) our purchase of certain Mudd assets in April 2006, (b) the Rampage brand acquisition in September 2005 and (c) the Joe Boxer brand acquisition in July 2005, under the purchase method of accounting. These unaudited pro forma condensed combined statements are presented for illustrative purposes only. The pro forma adjustments are based upon available information and certain assumptions that our management believes are reasonable. The unaudited pro forma condensed combined financial statements do not purport to represent what our results of operations would actually have been if the acquisitions had actually occurred at the beginning of the periods presented, nor do they purport to project our results of operations for any future period.

Under the purchase method of accounting, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair values. The estimated fair values, useful lives and amortization of certain assets acquired are based on a preliminary valuation and are subject to final valuation adjustments. The Mudd, Joe Boxer and Rampage trademarks have been determined to have an indefinite useful life, and, therefore, consistent with SFAS No. 142, "Gooodwill and Other Intangible Assets," no amortization will be recorded in our consolidated statements of operations. Instead, the related intangible asset will be tested for impairment at least annually, with any related impairment charge recorded to the statement of operations at the time of determining such impairment.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2005 were prepared by combining our historical statement of operations for the year ended December 31, 2005 with the Mudd statements of revenues and direct operating expenses of the assets sold for the year ended March 31, 2006 and the Joe Boxer and Rampage results of operations prior to the dates of the related acquisitions, giving effect to each of the acquisitions as though they had occurred at the beginning of the year (January 1, 2005). The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2006 were prepared by combining our historical statement of operations for the six months ended June 30, 2006 with financial information from the Mudd statements of revenues and direct operating expenses of the assets sold for the three months ended March 31, 2006 (prior to the date of the acquisition), giving effect to the Mudd acquisition as though it had occurred at the beginning of the period (January 1, 2006).

The consolidated historical financial information for Iconix is derived from our audited consolidated financial statements for the year ended December 31, 2005 included in our Annual Report on Form 10-K for the year ended December 31, 2005 and our unaudited condensed consolidated financial statements for the six months ended June 30, 2006 included in our Quarterly Report on Form 10-Q for the six months ended June 30, 2006, each of which is incorporated herein by reference. The historical information of Mudd for the year ended March 31, 2006 is derived from the related audited financial information previously filed by us with the SEC in our Current Report on Form 8-K/A on June 27, 2006, which is incorporated herein by reference. The historical unaudited information for Mudd for the three months ended March 31, 2006 is derived from its audited statements of assets sold and statement of revenues and direct operating expenses of assets sold for the year ended March 31, 2006. The historical financial information of Joe Boxer is derived from its historical financial statements previously filed by us with the SEC in our Current Report on Form 8-K/A on October 14, 2005, which is incorporated herein by reference. The historical financial information of Rampage is derived from its historical financial statements previously filed by us with the SEC in our Current Report on Form 8-K/A on December 2, 2005, which is incorporated herein by reference. In addition, the pro forma statements of operation include 21 days of historical operations from July 1, 2005 to July 21, 2005 for Joe Boxer and two and a half months of historical operations from July 1, 2005 to September 15, 2005 for Rampage.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year ended December 31, 2005
('000 omitted, except per share information)

	Year Ended 12/31/2005 Iconix Historical	2005 Closed Acquisitions Historical Note (a)	2005 Closed Acquisitions Pro Forma Adjustments Note (b)	Year Ended 3/31/2006 Mudd Historical	Mudd Pro Forma Adjustment	Notes	Pro Forma Iconix
Licensing income	30,156	14,890	-	10,994	8,000	(c)	64,040
Net revenue	30,156	14,890	-	10,994	8,000		64,040
Selling, general & administrative expenses	13,880	4,588	835	6,061	868	(d)	26,232
Special charges	1,466	-	-	-	-		1,466
Operating income (loss)	14,810	10,302	(835)	4,933	7,132		36,342
Net interest expense (income)	3,902	1,243	2,518	-	4,738	(e)	12,401
Income (loss) before income taxes	10,908	9,059	(3,353)	4,933	2,394		23,941
Provision (benefit) for income taxes	(5,035)	-	1,000	-	2,491	(f)	(1,544)
Net income (loss)	$ 15,943	$ 9,059	$ (4,353)	$ 4,933	$ (97)		$ 25,485
Earnings per share:							
Basic	$ 0.51						$ 0.66
Diluted	$ 0.46						$ 0.61
Weighted number of common shares outstanding:							
Basic	31,284		6,521		3,269	(g)	38,512
Diluted	34,773		6,521		3,327	(g)	42,059

See accompanying introduction and notes to unaudited pro forma condensed combined financial statements

Unaudited Pro Forma Condensed Combined Statement of Operations
For the six months ended June 30, 2006
('000 omitted, except per share information)

	Six Months Ended 6/30/2006 Iconix Historical	Three Months Ended 3/31/2006 Mudd Historical	Pro Forma Adjustment	Notes	Pro Forma Iconix
Licensing income	31,678	2,607	2,000	(c)	36,285
Net revenue	31,678	2,607	2,000		36,285
Gross profit	31,678	2,607	2,000		36,285
Selling, general & administrative expenses	11,501	3,107	217	(d)	14,825
Special charges	1,268	-	-		1,268
Operating income (loss)	18,909	(500)	1,783		20,192
Net interest expense (income)	4,826	-	1,185	(e)	6,011
Income (loss) before income taxes	14,083	(500)	598		14,181
Provision (benefit) for income taxes	(1,619)	-	33	(f)	(1,586)
Net income (loss)	$ 15,702	$ (500)	$ 565		$ 15,767
Earnings per share:					
Basic	$ 0.42				$ $ 0.40
Diluted	$ 0.37				$ $ 0.35
Weighted number of common shares outstanding:					
Basic	37,208		1,834	(g)	$ 39,042
Diluted	42,872		1,950	(g)	44,822

See accompanying introduction and notes to unaudited pro forma condensed combined financial statements

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Unaudited Pro Forma Condensed Combined Financial Statements

The financial information presented in the unaudited pro forma condensed combined financial statements is based on amounts and adjustments that our management believes to be factually supportable. We have made no attempt to include forward looking assumptions in such information.

Notes to Unaudited Pro Forma Condensed Combined Statements of Operations

(a) Represents historical information for the 2005 closed acquisitions for the Joe Boxer acquisition for the period from January 1, 2005 to July 21, 2005 and for the Rampage acquisition for the period from January 1, 2005 to September 14, 2005 derived from the following amounts:

(000's omitted)

	Joe Boxer 1/1/05 - 6/30/05	Joe Boxer 7/1/05 - 7/21/05	Rampage 1/1/05 - 6/30/05	Rampage 7/1/05 - 7/21/05	2005 closed acquisitions (historical)
Licensing income	$ 7,978	$ 1,161	$ 3,899	$ 1,852	$ 14,890
SG&A	2,015	246	1,542	785	4,588
Operating income	5,963	915	2,357	1,067	10,302
Interest expense - net	290	35	684	234	1,243
Income before income taxes	5,673	880	1,673	833	9,059
Provision (benefit) for income taxes	-	-	-	-	-
Net income	$ 5,673	$ 880	$ 1,673	$ 833	$ 9,059

(b) Represents pro forma adjustments for the 2005 closed acquisitions for the Joe Boxer acquisition for the period from January 1, 2005 to July 21, 2005 and for the Rampage acquisition for the period from January 1, 2005 to September 14, 2005 and is comprised of:

(000's omitted)

	Joe Boxer 1/1/05 - 6/30/05	Joe Boxer 7/1/05 - 7/21/05	Rampage 1/1/05 - 6/30/05	Rampage 7/1/05 - 7/21/05	2005 closed acquisitions (pro forma adjustments)
Licensing income	$ -	$ -	$ -	$ -	$ -
SG&A	340	42	320	133	835(1)
Operating loss	(340)	(42)	(320)	(133)	(835)
Interest expense - net	1,744	214	317	243	2,518(2)
Loss before income taxes	(2,084)	(256)	(637)	(376)	(3,353)
Provision (benefit) for income taxes	1,000	-	-	-	1,000(3)
Net loss	$ (3,084)	$ (256)	$ (637)	$ (376)	$ (4,353)
Weighted number of common shares outstanding:					
Basic		4,350		2,171	6,521(4)
Diluted		4,350		2,171	6,521

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(1) For Joe Boxer, represents the six months and 21 days of additional amortization of acquired intangible assets of $1.3 million on a straight line basis over the remaining contract period of 2.5 years (approximately $299,000 in

total) and the deferred refinancing fees of $1 million incurred in the related financing arrangement over the seven-year life of the debt (approximately $83,000 in total). For Rampage, represents the eight months and 15 days of additional amortization of acquired Rampage licensing contracts of $550,000, Rampage domain name of $230,000 and non-compete agreement of $600,000, on a straight line basis over the remaining contract period of three, five, and two years, respectively (approximately $375,000 in total), as well as amortization of the deferred financing fees of $774,000 which is amortized over the seven-year life of the related debt (approximately $78,000 in total).

(2) For Joe Boxer, represents the incremental interest expense at the historical interest rate of 8.45% related to refinancing incurred as part of the acquisition. For Rampage, represents the incremental interest expense at the historical interest rate of 8.1% related to refinancing incurred as part of the acquisition.

(3) Represents the additional deferred income tax provision that would have been recorded against the incremental earnings generated from the acquired Joe Boxer business based on the amount of deferred tax asset recorded in the related purchase accounting.

(4) Represents the shares of our common stock that were issued as part of the Joe Boxer and Rampage acquisitions.

(c) Represents guaranteed minimum royalty revenues to be earned by us from the core jeans licensee, Mudd (USA) LLC under the licensing agreement we signed with it as part of the acquisition. The jeanswear licensing agreement is a two-year contract with guaranteed minimum payments of $8.0 million per year. Prior to the acquisition, revenue from the seller's jeans business was included in other of its operations, not sold to us, which operations included businesses focused on the design, manufacture and sales of apparel goods.

(d) Represents adjustments related to the amortization of the value assigned to the acquired Mudd licensing contracts of $700,000, Mudd domain name of $340,000 and non-compete agreement of $1.4 million, on a straight line basis over the remaining contract period or estimated lives of two, five and four years, respectively (approximately $768,000 annually) . Additionally includes approximately $100,000 annually for contractual compensation expense related to the management of the brand.

(e) Represents interest expense at current interest rate of 9.47% (LIBOR of 5.47% plus 4.00%) related to incremental financing incurred for the Mudd acquisition (approximately $4.6 million annually) and amortization of deferred financing fees incurred in closing the Mudd financing arrangement over the five-year term of the financed debt (approximately $98,000 annually).

(f) Represents the provision for income taxes at a 34% effective rate related to the pro forma adjustments to income and the historical pre-tax income. The taxes were not historically reflected due to the entities prior status as a limited liability company.

(g) Represents the effect of the shares of our common stock and warrants that we issued as part of the Mudd acquisition.

Legal Matters

Blank Rome LLP of New York, New York will pass upon the validity of the shares of common stock being offered by this prospectus.

Experts

The financial statements and schedules and management's report on the effectiveness of internal control over financial reporting of Iconix Brand Group, Inc. incorporated by reference in this prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in its reports incorporated herein by reference, and are incorporated herein in reliance upon such reports given upon the authority of said firm as experts in auditing and accounting.

The financial statements of Mudd (USA) LLC incorporated by reference in this prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in its report incorporated herein by reference, and are incorporated herein in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

The financial statements of Joe Boxer Company, LLC incorporated by reference in this prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in its report incorporated herein by reference, and are incorporated herein in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

The financial statements of Rampage Licensing, LLC incorporated by reference in this prospectus (including schedules appearing therein) have been incorporated by reference herein in reliance upon the reports of Cohn Handler & Co., Rampage's independent public accounting firm, as set forth in their report incorporated by reference herein, and have been incorporated in this prospectus by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Where You Can Find More Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 and we file reports and other information with the SEC.

You may read and copy any of the reports, statements, or other information we file with the SEC at the SEC's Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site at http://www.sec.gov that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. The Nasdaq Stock Market maintains a Web site at http://www.nasdaq.com that contains reports, proxy statements and other information filed by us.

Incorporation of Certain Documents By Reference

We have filed with the SEC, Washington, D.C., a registration statement on Form S-3 under the Securities Act of 1933, covering the securities offered by this prospectus. This prospectus does not contain all of the information that you can find in our registration statement and the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance such statement is qualified by reference to each such contract or document filed or incorporated by reference as an exhibit to the registration statement.

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The SEC allows us to "incorporate by reference" the information we file with them. This means that we may disclose important information to you by referring you to other documents filed separately with the SEC. The information we incorporate by reference in this prospectus is legally deemed to be a part of this prospectus, and later information that we file with the SEC will automatically update and supersede the information in this prospects and the documents listed below. We incorporate the documents listed below:

· our Quarterly Report on Form 10-Q for the three months ended June 30, 2006, filed with the SEC on August 10, 2006;

· our Quarterly Report on Form 10-Q for the three months ended March 31, 2006, filed with the SEC on May 10, 2006;

· our Current Reports on Form 8-K filed with the SEC on January 5, 2006, April 6, 2006, April 17, 2006, April 27, 2006, June 8, 2006, August 15, 2006, August 17, 2006, August 24, 2006, September 1, 2006 and September 28, 2006, and amendments to Current Reports on Form 8-K/A filed with the SEC on October 7, 2005, October 14, 2005, December 2, 2005 and June 27, 2006;

· our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC on March 21, 2006;

· our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005, filed with the SEC on September 28, 2006;

· all documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the initial registration statement of which this prospectus forms a part; and

· the description of our common stock and our preferred share purchase rights contained in our Registration Statements on Form 8-A, filed with the SEC and all amendments or reports filed by us for the purpose of updating those descriptions.

All reports and other documents subsequently filed by us pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and to be part hereof from the dates of filing of such reports and other documents; provided, however, that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K.

You may request a copy of these filings, at no cost, by writing or telephoning us at Iconix Brand Group, Inc., 1450 Broadway, New York, New York 10018, telephone number (212) 730-0030.

We have not authorized anyone else to provide you with information different from that contained or incorporated by reference in this prospectus. This prospectus is not an offer to sell nor is it a solicitation of an offer to buy any security in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus nor any sale made under this prospectus shall, under any circumstances, imply that there has been no change in our affairs since the date of this prospectus or that the information contained in this prospectus or incorporated by reference herein is correct as of any time subsequent to its date.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The expenses payable by the Registrant in connection with the issuance and distribution of the securities being registered (estimated except for the SEC Registration fee)are as follows:

SEC registration fee	$	6,111.03
Accounting fees and expenses		15,000.00
Legal fees and expenses		20,000.00
Miscellaneous expenses		3,888.97
Total	$	45,000.00

Item 15. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware (“GCL”) provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director.

Section 102(b) of the GCL permits a corporation, by so providing in its certificate of incorporation, to eliminate or limit director’s liability to the corporation and its shareholders for monetary damages arising out of certain alleged breaches of their fiduciary duty. Section 102(b)(7) of the GCL provides that no such limitation of liability may affect a director’s liability with respect to any of the following: (i) breaches of the director’s duty of loyalty to the corporation or its shareholders; (ii) acts or omissions not made in good faith or which involve intentional misconduct of knowing violations of law; (iii) liability for dividends paid or stock repurchased or redeemed in violation of the GCL; or (iv) any transaction from which the director derived an improper personal benefit. Section 102(b)(7) does not authorize any limitation on the ability of the corporation or its shareholders to obtain injunctive relief, specific performance or other equitable relief against directors.

Article Ninth of the registrant’s Certificate of Incorporation and the registrant’s By-laws provide that all persons who the registrant is empowered to indemnify pursuant to the provisions of Section 145 of the GCL (or any similar provision or provisions of applicable law at the time in effect), shall be indemnified by the registrant to the full extent permitted thereby. The foregoing right of indemnification shall not be deemed to be exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors, or otherwise.

Article Tenth of the registrant’s Certificate of Incorporation provides that no director of the registrant shall be personally liable to the registrant or its stockholders for any monetary damages for breaches of fiduciary duty as a director, except for liability (i) for any breach of the director’s duty of loyalty to the registrant or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the GCL; or (iv) for any transaction from which the director derived an improper personal benefit.

The registrant's employment agreements with Mr. Neil Cole, the registrant’s Chief Executive Officer, Mr. Andrew Tarshis, the registrant’s Senior Vice President and General Counsel and Ms. Deborah Sorell Stehr, the registrant’s Senior Vice President-Business Affairs and Licensing provide that the registrant shall indemnify each of them for

expenses incurred by them arising from actions, proceedings or claims against such persons while performing services for the registrant as an employee, officer or director. Mr. Cole’s employment agreement also provides for the registrant to use its best efforts to obtain directors’ and officers’ liability insurance for him and the employment agreements for Mr. Tarshis and Ms. Stehr provide that such persons will be added to the registrant’s directors' and officers' liability insurance.

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Item 16. Exhibits.

5 Opinion of Blank Rome *

23.1 Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm of Iconix Brand Group, Inc. *

23.2 Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm of JBC Holdings, LLC*

23.3 Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm of Mudd (USA) LLC*

23.4 Consents of Cohn Handler & Co (related to the financial information for Rampage)+

23.5 Consent of Blank Rome LLP (included in Exhibit 5 hereto)

24 Power of Attorney (included on the signature page of the Registration Statement filed with the SEC on September 15, 2006.)

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* Filed herewith

+ Previously filed

Item 17. Undertakings

Undertaking Required by Regulation S-K, Item 512(a).

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

i. To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the “Securities Act”);

ii. To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

iii. To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that clauses (i), (ii) and (iii) do not apply if the information required to be included in a post-effective amendment by such clauses is contained in reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Age of 1934 that are incorporated by reference in the Registration Statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 18th day of October 2006.

ICONIX BRAND GROUP, INC.

By: /s/ Neil Cole

Neil Cole
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following person in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Neil Cole Neil Cole	Chief Executive Officer, President and Director (Principal Executive Officer)	October 18, 2006
/s/ Warren Clamen Warren Clamen	Chief Financial Officer (Principal Financial and Accounting Officer)	October 18, 2006
Barry Emanuel	Director	October __, 2006
Steven Mendelow	Director	October __, 2006
* Michael Groveman	Director	October 18, 2006
* Drew Cohen	Director	October 18, 2006

*By: /s/ Neil Cole
Neil Cole, Attorney-in-Fact