

DESC S A DE C V
Form 20-F
June 30, 2004
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As filed with the Securities and Exchange Commission on June 30, 2004.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

DESC, S.A. DE C.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Paseo de los Tamarindos 400-B, Bosques de las Lomas, 05120 Mexico, D.F.

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing Twenty Series B Shares ⁽¹⁾	New York Stock Exchange, Inc.
Series B Shares, without expression of par value ⁽²⁾	New York Stock Exchange, Inc.

(1) Evidenced by American Depositary Receipts.

(2) Not for trading, but only in connection with the registration of the American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

8-³/₄% Guaranteed Notes due 2007 of Desc, S.A. de C.V.

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.⁽³⁾

Series A Common Stock, without expression of par value: 587,479,900

Series B Common Stock, without expression of par value: 506,257,866

Series C Common Stock, without expression of par value: 275,341,610

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

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

(3) At our stockholders' meetings held on March 8, 2004, our stockholders approved a mandatory conversion of all of the issued and outstanding Series C shares into Series B shares on a one-for-one basis (the "Reclassification"). The effective date of the Reclassification was March 16, 2004. At the effective date of the Reclassification, each Series C share was reclassified as a Series B share and each of our American Depositary Shares, which formerly represented twenty Series C shares, thereafter represented twenty Series B shares. As of May 19, 2004, the number of outstanding shares of each of the issuer's classes of capital or common stock was as follows:

Series A Common Stock: 1,166,108,597

Series B Common Stock: 1,115,690,363

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Presentation of Information

In this annual report:

Automotive Sector means the numerous companies of Desc that operate our autoparts business as more fully described in Item 4. Information on our Company Automotive ;

Chemical Sector means the numerous companies of Desc that operate our chemical business as more fully described in Item 4. Information on our Company Chemicals ;

Depository means Citibank, N.A., as depository, under that certain Amended and Restated Deposit Agreement, dated as of June 29, 1994, effective as of July 20, 1994, amended as of July 15, 1996, among Desc, Citibank, N.A. and all holders and beneficial owners from time to time of American Depositary Receipts (ADRs), evidencing American Depositary Shares (ADSs), issued thereunder. Each ADS currently represents twenty Series B shares of Desc;

Desc Automotriz means Desc Automotriz, S.A. de C.V. (formerly Unik, S.A. de C.V.), a wholly owned subsidiary of Desc engaged in the autoparts business;

Dollars and **\$** refer to the currency of the United States of America;

Financial Statements means Desc s audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001;

GAAP means generally accepted accounting principles in the indicated country;

LIBOR means the London interbank offered rate;

Mexico means the United Mexican States;

Mexican government means the Mexican federal government;

NCPI means the Mexican National Consumers Price Index, a measure of inflation in Mexico;

Noon Buying Rate means the noon buying rate in New York City for cable transfers in Pesos as certified for customs purposes by the U.S. Federal Reserve Bank, expressed in Pesos per \$1.00;

Notes means the notes issued pursuant to that certain Indenture, dated as of October 17, 1997, among Desc (as successor to Dine, S.A. de C.V.), as issuer, Desc, as guarantor, and Deutsche Bank Trust Company Americas (as successor to Bankers Trust Company), as trustee, authorizing the creation of an issue of \$150,000,000 aggregate principal amount of 8¾% Guaranteed Notes due 2007;

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Pesos and Ps. refer to the currency of Mexico. Except as otherwise indicated, all Peso amounts reflect thousands of Pesos;

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Real Estate Sector means the numerous companies of Desc that operate our real estate business as more fully described in Item 4. Information on our Company Real Estate ;

Food Sector means the numerous companies of Desc that operate our branded food and pork businesses as more fully described in Item 4. Information on our Company Food ;

SEC means the U.S. Securities and Exchange Commission;

TIEE means the *Tasa de Interes Interbancaria de Equilibrio* or Equilibrium Interbank Interest Rate; and

we, our, us and similar terms, as well as Desc, mean Desc, S.A. de C.V. and its consolidated subsidiaries, unless the context indicates otherwise.

Our fiscal year ends on December 31 of each year, and references to fiscal year reflect a 52-week period.

Our Financial Statements are expressed in Pesos and prepared in accordance with Mexican GAAP, which differ from U.S. GAAP in significant respects, in particular by requiring Mexican companies to recognize effects of inflation. Please see Notes 23 and 24 to our Financial Statements for a discussion of the principal differences between Mexican GAAP and U.S. GAAP as they relate to Desc.

The Mexican Institute of Public Accountants has issued Bulletin B-10, Recognition of the Effects of Inflation on Financial Information , as amended, and Bulletin B-12, Statement of Changes in Financial Position . These bulletins outline the inflation accounting methodology mandatory for all Mexican companies reporting under Mexican GAAP. Mexican GAAP provides for the recognition of effects of inflation by restating nonmonetary assets and liabilities using the NCPI, restating the components of stockholders' equity using the NCPI and recording gains or losses in purchasing power due to the holding of monetary liabilities or assets. Mexican GAAP also requires that all financial information be presented in constant Pesos, having the same purchasing power for each period indicated taking into account inflation, as of the date of the most recent balance sheet presented. The effect of these inflation accounting principles has not been reversed in the reconciliation to U.S. GAAP, as permitted by the SEC.

In this annual report, all financial data presented in Pesos for all periods in the Financial Statements, unless otherwise indicated, have been restated in constant Pesos as of December 31, 2003. Dollar amounts, unless otherwise indicated, are stated on a nominal, that is, noninflation adjusted basis, except for convenience translations of Peso amounts.

Solely for your convenience, this annual report contains translations of Peso amounts into Dollars. We have used an exchange rate of Ps. 11.1998 per Dollar for these translations, which is the exchange rate quoted by Banco de México on December 31, 2003. The Noon Buying Rate was Ps. 11.242 per \$1.00 on December 31, 2003. Translations contained in this annual report do not constitute representations that the stated Peso amounts actually represent Dollar amounts or vice versa, or that amounts could be or could have been converted into Dollars or Pesos, as the case may be, at any particular rate.

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Cautionary Statement for Purposes of the Safe Harbor

Provisions of the Private Securities Litigation Reform Act of 1995

This annual report includes forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology such as estimate, project, believe, anticipate, intend, expect, plan, may, will, would, could, or should or the negative of these words or other variations of these words or other similar expressions. These forward-looking statements reflect the current views of our management with respect to our future financial performance and future events. All forward-looking statements contained in this annual report, including those presented with numerical specificity, however, are uncertain. They are based on assumptions and are subject to many risks and uncertainties that could cause actual results to differ materially from our expectations described in these forward-looking statements. These factors include, among other things, the following:

changes in general political, economic and business conditions, especially an economic downturn or slow economic growth in Mexico or North America;

Mexican political instability, including the reversal of market-oriented reforms and economic recovery measures or the failure of those reforms and measures to achieve their goals;

fluctuations in the demand of our products or for products in which our products are incorporated;

competitive product and pricing pressures in both the domestic and international markets;

foreign currency rate fluctuations and fluctuations in other market rate sensitive instruments to which we are a party;

shortages or interruptions in the supply of fuel or production materials or an increase in the cost of raw materials;

labor strikes;

changes in business strategy; and

other risks and uncertainties, some of which are described under the heading **Risk Factors** in **Item 3. Key Information**.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Risks and uncertainties also include the impact of any future events with material unforeseen impacts. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. We do not undertake any obligation or intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by U.S. federal securities laws. Any forward-looking statement speaks only as of the date on which it is made.

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Statements Regarding Competitive Position

Statements made in Item 4. Information on our Company and Item 5. Operating and Financial Review and Prospects referring to our competitive position are based on our belief and, in some cases, on a range of sources, including market studies by consultants retained by Desc, independent market information provided by Mexican institutions and our internal assessment of market share based on the financial results and performance of market participants and analysis of various market indicators.

No Internet Site is Part of This Annual Report

Desc maintains an Internet site at www.desc.com.mx. Information contained in or otherwise accessible through this website is not part of this annual report. All references in this annual report to this Internet site are inactive textual references to this URL (uniform resource locator) and are for your informational purposes only.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The table below presents selected consolidated financial data of Desc for the fiscal years ended December 31, 1999, 2000, 2001, 2002 and 2003. You should read this information in conjunction with Item 5. Operating and Financial Review and Prospects and the Financial Statements included elsewhere in this annual report.

The Financial Statements have been prepared in accordance with Mexican GAAP, which differ in significant respects from U.S. GAAP, in particular by requiring Mexican companies to recognize effects of inflation. Please refer to Note 4 of our Financial Statements for a summary of our significant accounting policies and Notes 23 and 24 for a description of the principal differences between Mexican GAAP and U.S. GAAP, as they relate to Desc, and a reconciliation to U.S. GAAP of Desc's net income (loss) and stockholders' equity. The effect of inflation accounting principles has not been reversed in the reconciliation to U.S. GAAP as permitted by the SEC.

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Mexico has experienced high inflation in the past, although inflation rates have declined significantly in recent years. The annual rates of inflation in Mexico, as measured by changes in the NCPI, were 12.3% in 1999, 9.0% in 2000, 4.4% in 2001, 5.7% in 2002 and 4.0% in 2003. In accordance with Mexican GAAP rules on inflation accounting, the Financial Statements recognize effects of inflation and restate data for prior periods in constant Pesos as of December 31, 2003. Accordingly, financial data for all periods in the selected consolidated financial information derived from the Financial Statements and presented below have been restated in constant Pesos as of December 31, 2003.

Selected Consolidated Financial Information

Year ended December 31,

	1999	2000	2001	2002	2003	Convenience Translation ⁽¹⁾ 2003
<i>(In thousands, except for net income (loss) per share/ADS and weighted average shares outstanding)</i>						
Income statement data:						
Mexican GAAP:						
Net sales	Ps. 28,105,698	Ps. 26,209,221	Ps. 22,092,872	Ps. 20,360,380	Ps. 21,755,055	\$ 1,942,450
Operating income	3,794,538	2,589,893	1,962,256	1,081,300	842,464	75,221
Income (loss) from continuing operations	2,977,135	484,945	802,570	(584,969)	(1,042,512)	(93,083)
Discontinued operations ⁽²⁾	40,490	7,170	(253,863)	(629,868)	22,896	2,044
Extraordinary items	0	76,494	(309,998)	0	0	0
Change in accounting policy	0	143,184	0	0	(1,384,294)	(123,600)
Net consolidated income (loss) for the year	3,017,625	711,793	238,709	(1,214,837)	(2,403,910)	(214,639)
Minority interest	(797,408)	(396,391)	(193,263)	130,292	163,523	14,601
Majority net income (loss)	2,220,217	315,402	45,446	(1,084,545)	(2,240,387)	(200,038)
Income (loss) from continuing operations per share	1.28	0.05	0.39	(0.28)	(0.55)	(0.05)
Majority net income (loss) per share	1.29	0.19	0.03	(0.68)	(1.41)	(0.13)
Majority net income (loss)	25.80	3.80	0.57	(13.60)	(28.20)	(2.52)

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per ADS ⁽³⁾						
Dividends declared per share	0.00	0.28	0.28	0.27	0.00	0.00
Dividends declared per ADS ⁽⁴⁾	0.00	5.71	5.68	5.34	0.00	0.00
U.S. GAAP amounts:						