DOT HILL SYSTEMS CORP
Form S-3/A
August 11, 2003

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As filed with the United States Securities and Exchange Commission on August 11, 2003

Registration No. 333-107756

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment
No. 1 to

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

DOT HILL SYSTEMS CORP.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**13-3460176** (I.R.S. Employer Identification Number)

6305 El Camino Real
Carlsbad, California 92009
(760) 931-5500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

James L. Lambert
Chief Executive Officer and President
Dot Hill Systems Corp.
6305 El Camino Real
Carlsbad, California 92009
(760) 931-5500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common stock, par value $0.001 per share(4)	10,350,000	$14.08	$145,728,000	$11,789(5)

(1) Includes 1,350,000 shares subject to the underwriters' over-allotment option.

(2) Estimated in accordance with Rule 457(c) of the Securities Act of 1933, as amended, solely for the purpose of computing the amount of the registration fee. Based on $14.08, the average of the high and low sales prices of the registrant's common stock quoted on the Nasdaq National Market on August 7, 2003.

(3) Calculated by multiplying 0.0000809 by the proposed maximum aggregate offering price.

(4) Includes associated rights to purchase shares of the registrant's Series A Junior Participating Preferred Stock.

(5) Previously paid.

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

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

Subject to Completion, dated August 11, 2003

PROSPECTUS

9,000,000 Shares

Dot Hill Systems Corp.

Common Stock

This is an offering of shares of common stock of Dot Hill Systems Corp. Of the 9,000,000 shares being offered, Dot Hill is selling 7,705,000 shares and the selling stockholders are selling 1,295,000 shares. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is traded on the Nasdaq National Market under the symbol "HILL". On August 6, 2003, the last reported sale price of our common stock on the Nasdaq National Market was $14.66 per share.

Investing in our common stock involves risks. "Risk Factors" begin on page 6.

	Per Share	Total
Public Offering Price	$ [ ]	$ [ ]
Underwriting Discounts and Commissions	$ [ ]	$ [ ]
Proceeds to Dot Hill Systems Corp. (before expenses)	$ [ ]	$ [ ]
Proceeds to Selling Stockholders (before expenses)	$ [ ]	$ [ ]

We and the selling stockholders have granted the underwriters a 30-day option to purchase up to 1,350,000 additional shares of our common stock to cover over-allotments.

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

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about [ ], 2003.

LEHMAN BROTHERS

DEUTSCHE BANK SECURITIES

RBC CAPITAL MARKETS

ROTH CAPITAL PARTNERS

, 2003

[photograph of Dot Hill hardware and software products]

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You should rely only on the information contained in or incorporated by reference into this prospectus. Neither we nor the underwriters have authorized anyone, including the selling stockholders, to provide you with information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in "Risk Factors" and information incorporated herein by reference before making an investment decision. In this prospectus, "Dot Hill," "our company," "we," "us" and "our" refer to Dot Hill Systems Corp.

Dot Hill Systems Corp.

We are a provider of storage systems for organizations requiring high reliability, high performance networked storage and data management solutions in an open systems architecture. Our storage solutions consist of integrated hardware and software products employing a modular system that allows end-users to add capacity as needed. Our broad range of products, from medium capacity stand-alone storage units to complete turn-key, multi-terabyte storage area networks, provides end-users with a cost-effective means of addressing increasing storage demands without sacrificing performance. Our SANnet products have been distinguished by certification as Network Equipment Building System, or NEBS, Level 3 and are MIL STD-810F compliant based on their ruggedness and reliability.

Our products and services are sold worldwide to end-users primarily through our channel partners, including original equipment manufacturers, or OEMs, systems integrators, or SIs, and value added resellers, or VARs. In May 2002, we entered into a three-year OEM agreement with Sun Microsystems, or Sun, to provide our storage hardware and software products for private label sales by Sun. We have been shipping our products to Sun for resale to Sun's customers since October 2002. We continue to develop new products for resale by Sun and other channel partners and expect to begin shipping two additional new products for resale later this year. We also have OEM relationships with Comverse Technology, Inc., Motorola, Inc. and StorageTek Corp. We will continue to pursue additional OEM relationships with other industry leaders to benefit from their extensive direct and indirect distribution networks, installed customer base and sales and marketing resources.

As part of our focus on indirect sales channels, we have outsourced substantially all of our manufacturing operations to Solectron Corporation, a leading electronics manufacturing services company. Our agreement with Solectron allows us to reduce sales cycle times and manufacturing infrastructure, enhance working capital and improve margins by taking advantage of Solectron's manufacturing and procurement economies of scale.

The need for high reliability, high performance networked storage and data management solutions continues to grow rapidly. International Data Corporation, or IDC, estimates that the total combined amount worldwide of storage-related expenditures will increase from approximately $54.0 billion in 2002 to over $71.4 billion in 2006, growing at an overall compound annual growth rate, or CAGR, of 7.2% (IDC, *Worldwide Disk Storage Systems Forecast and Analysis, 2002 - 2006*, December 2002). We offer high reliability, high performance storage area network, or SAN, systems in an open systems architecture in several configurations, including Fibre Channel and network attached storage, or NAS. According to IDC, by 2006 Fibre Channel SANs will represent 40.1% of total worldwide storage systems expenditures, up from 23.9% in 2002, and growing at a 14.7% CAGR from $4.8 billion in 2002 to $8.2 billion in 2006. IDC also estimates that by 2006 NAS devices will represent 20.0% of total worldwide storage systems expenditures, up from 8.3% in 2002, and growing at a 25.6% CAGR from $1.7 billion in 2002 to $4.1 billion in 2006.

Our products are installed worldwide at companies ranging from small businesses to large enterprises, government agencies and other institutions. Our entry-level and midrange products incorporate a number of high performance features found on high-end systems at prices suitable for end-users in the entry-level and midrange storage markets. We serve a broad range of end-users across all storage markets, with product lines ranging from 180 gigabyte, or GB, appliances to complete 28

terabyte, or TB, storage systems. Our products may be integrated in a modular building block fashion or configured into a complete storage solution and enable our indirect channel partners to customize solutions for end-users by bundling our products with value-added hardware, software and services.

We have broad management and technical experience in designing, developing and marketing networked storage solutions. Our senior management has over 150 years of combined experience in the storage industry and our research and development programs are driven by our innovative engineering team.

Our Strategy

Over the past year we have focused on achieving profitable growth by moving from a direct sales to an indirect sales channel model, outsourcing our manufacturing and service operations, and focusing on our core competencies in research, engineering and design. Our objective is to capture an increasing share of the open systems storage solutions market by:

- expanding our existing OEM relationships;
- broadening our indirect sales channels;
- extending our technology leadership; and
- pursuing strategic alliances, partnerships and acquisitions.

Our Company

Dot Hill was formed in 1999 by the combination of Box Hill Systems Corp. and Artecon, Inc. We reincorporated in Delaware in 2001. Our telephone number is (760) 931-5500. Our principal executive offices are located at 6305 El Camino Real, Carlsbad, California 92009. We have facilities in Carlsbad, California, Japan and the Netherlands. We also have sales offices in Boston, Massachusetts, Germany, Singapore and the United Kingdom. Our website address is http://www.dothill.com. Information contained on our website does not constitute a part of this prospectus. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and all amendments to those reports that we file with the Securities and Exchange Commission, or SEC, are currently available free of charge to the general public through our website. These reports are accessible on our website promptly after being filed with the SEC.

We recently elected to move from the American Stock Exchange to the Nasdaq National Market, where our common stock began trading on July 28, 2003.

The Dot Hill logo, SANnet®, SANscape®, SANpath®, Dot Hill Systems® and Dot Hill® are our registered trademarks. All other trade names and trademarks mentioned in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered by Dot Hill	7,705,000 shares
Common stock offered by selling stockholders	1,295,000 shares
Common stock to be outstanding after this offering	40,179,273 shares
Use of proceeds	We intend to use the net proceeds of this offering to finance the growth of our business, expand research and development and for general corporate purposes. We may also use a portion of the proceeds for acquisitions or other investments. We will not receive any of the net proceeds from the sale of the shares by the selling stockholders.
Nasdaq National Market symbol	"HILL"

The number of shares of our common stock to be outstanding after the offering set forth above is based on 32,474,273 shares outstanding as of August 5, 2003. The number of outstanding shares excludes:

- an aggregate of 6,766,938 shares of our common stock reserved for issuance under our equity incentive plans, of which 3,580,476 shares were subject to outstanding stock options as of August 5, 2003, at a weighted average exercise price of $4.03 per share; and

- an aggregate of 2,065,316 shares of our common stock issuable upon exercise of outstanding warrants.

ABOUT THIS PROSPECTUS

Unless otherwise indicated, the information in this prospectus assumes no exercise of the underwriters' over-allotment option.

Prior to making a decision about investing in our common stock, you should consider carefully the specific risks contained in the section "Risk Factors" beginning on page 6, and any applicable prospectus supplement, together with all of the other information contained in this prospectus and any prospectus supplement or appearing or incorporated by reference in the registration statement of which this prospectus is a part.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes financial data regarding our business. You should read this information together with the consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus or incorporated herein by reference. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Dot Hill was formed in 1999 by the combination of Box Hill Systems and Artecon.

	Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands, except per share data)						
Statement of Operations Data:							
Net revenue	$ 168,355	$ 124,216	$ 121,197	$ 56,277	$ 46,936	$ 22,096	$ 78,950
Gross profit	58,591	37,604	43,467	11,459	1,492	2,637	15,550
Operating income (loss)	279	(13,454)	(3,969)	(28,369)	(37,764)	(18,539)	770
Net income (loss)	584	(9,047)	(948)	(43,391)	(34,303)	(15,062)	1,096
Net income (loss) attributable to common stockholders	584	(9,047)	(948)	(43,391)	(34,759)	(15,062)	955
Net income (loss) per share:							
Basic	$ 0.03	$ (0.39)	$ (0.04)	$ (1.76)	$ (1.39)	$ (0.61)	$ 0.03
Diluted	$ 0.02	$ (0.39)	$ (0.04)	$ (1.76)	$ (1.39)	$ (0.61)	$ 0.03
Weighted average shares outstanding:							
Basic	22,903	23,385	24,253	24,703	24,953	24,854	28,877
Diluted	24,442	23,385	24,253	24,703	24,953	24,854	32,954

The following table summarizes our balance sheet as of June 30, 2003:

on an actual basis; and

on an as adjusted basis to give effect to the sale by us and the selling stockholders of 9,000,000 shares in this offering, at an assumed offering price of $14.66 per share, after deducting estimated underwriting discounts and commissions and offering expenses payable by us.

	As of June 30, 2003	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash, cash equivalents and short-term investments	$ 30,677	$ 136,952
Working capital	19,856	126,131
Total assets	58,094	164,369
Total long-term debt	266	266
Total stockholders' equity	$ 24,406	$ 130,681

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before purchasing our common stock, you should carefully consider the risks described below in addition to the other information in this prospectus. Our business, results of operations and financial condition may be materially and adversely affected due to any of the following risks. The risks described below are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. The trading price of our common stock could decline due to any of these risks, and you could lose all or part of your investment. In assessing these risks, you should also *refer to the other information contained or incorporated by reference in this prospectus, including our financial statements and related notes.*

Risks Related to Our Business and Industry

Under our OEM agreement with Sun, Sun is not required to make minimum purchases or purchase exclusively from us, and we cannot assure you that our relationship with Sun will not be terminated or will generate significant sales.

Our business is highly dependent on our relationship with Sun. Sales to Sun accounted for 25.0% and 81.0% of our net revenue for the year ended December 31, 2002 and the six months ended June 30, 2003, respectively. Our OEM agreement with Sun has an initial term of three years and may be renewed at the discretion of Sun. However, there are no minimum purchase requirements or guarantees in our agreement with Sun, the agreement does not obligate Sun to purchase its storage solutions exclusively from us and Sun may cancel purchase orders submitted under the agreement at any time. Sun may terminate the entire contract prior to the contract expiration date upon the occurrence of certain events that are not remedied within a specified cure period. The decision by Sun not to renew its contract with us, to terminate the contract, to cease making purchases or to cancel purchase orders would cause our revenues to decline substantially. We cannot be certain if, when or to what extent Sun might terminate its contract with us, cancel purchase orders, cease making purchases or elect not to renew the contract upon the expiration of the initial term. We expect to receive a substantial majority of our projected net revenue for the year ended December 31, 2003 from sales of our products to Sun. We cannot assure you that we will achieve these expected sales levels. If we do not achieve the sales levels we expect to receive from Sun, our business and result of operations will be significantly harmed.

Any decline in Sun's sales could harm our business.

A substantial majority of our revenues are generated by sales to Sun, which sells our products as separate units or bundled with its servers. If Sun's storage related sales decline, our revenues will also decline and our business could be materially harmed. In addition, Sun's quarterly operating results typically fluctuate downward in the first quarter of their fiscal year when compared with the immediately preceding fourth quarter. If these fluctuations cause Sun to decrease purchases of our storage products, our results in the first quarter of Sun's fiscal years, which is our third quarter, could be harmed.

We are dependent on sales to a relatively small number of customers.

Because we intend to expand sales to channel partners, we expect to experience continued concentration in our customer base. As a result, if our relationship with any of our customers is disrupted, we would lose a significant portion of our anticipated net revenue. We cannot guarantee that

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our relationship with Sun or other channel partners will expand or not otherwise be disrupted. Factors that could influence our relationship with significant channel partners, including Sun, include:

- our ability to maintain our products at prices that are competitive with those of other storage system suppliers;
- our ability to maintain quality standards for our products sufficient to meet the expectations of our channel partners; and
- our ability to produce, ship and deliver a sufficient quantity of our products in a timely manner to meet the needs of our channel partners.

None of our contracts with our existing channel partners, including Sun, contain any minimum purchasing commitments. Further, we do not expect that future contracts with channel partners, if any, will include any minimum purchasing commitments. Changes in the timing or volume of purchases by our major customers could result in lower revenue. In addition, our existing contracts do not require our channel partners to purchase our products exclusively or on a preferential basis over the products of any of our competitors. Consequently, our channel partners may sell the products of our competitors.

The loss of one or more suppliers could slow or interrupt the production and sales of our products.

Solectron, our third party manufacturer, relies on third parties to supply key components of our storage products. Many of these components are available only from limited sources in the quantities and quality we require. Solectron purchases the majority of our redundant arrays of independent disks, or RAID, controllers from Infortrend Technology, Inc., or Infortrend. Solectron may not be able to purchase the type or quantity of components from third party suppliers as needed in the future.

From time to time there is significant market demand for disk drives, RAID controllers and other components, and we may experience component shortages, selective supply allocations and increased prices of such components. In such event, we may be required to purchase our components from alternative suppliers. Even if alternative sources of supply for critical components such as disk drives and controllers become available, incorporating substitute components into our products could delay our ability to deliver our products in a timely manner. For example, we estimate that replacing Infortrend's RAID controllers with those of another supplier would involve several months of hardware and software modification, which could significantly harm our ability to meet our customers' orders for our products, damage our customer relationships and result in a loss of sales.

Manufacturing disruptions could harm our business.

We rely on Solectron to manufacture substantially all of our products. If our agreement with Solectron is terminated or if Solectron does not perform its obligations under our agreement, it could take several months to establish alternative manufacturing for our products and we may not be able to fulfill our customers' orders in a timely manner. Under our OEM agreement with Sun, Sun has the right to require that we use a third party to manufacture our products. Such an external manufacturer must meet Sun's engineering, qualification and logistics requirements. If our agreement with Solectron terminates, we may be unable to find another external manufacturer that meets Sun's requirements.

With our increased use of third-party manufacturers, our ability to control the timing of shipments has continued and will continue to decrease. Delayed shipment could result in the deferral or cancellation of purchases of our products. Any significant deferral or cancellation of these sales would harm our results of operations in any particular quarter. Net revenue for a period may be lower than predicted if large orders forecasted for that period are delayed or are not realized, which could result in cash flow problems or a decline in our stock price.

We experienced losses in each of the past three years and may continue to experience losses in the future and may need to raise additional funds to continue our operations.

For the years ended December 31, 2000, 2001 and 2002, we incurred net losses of $0.9 million, $43.4 million and $34.3 million, respectively. We cannot assure you that we will be profitable in any future period. We have expended, and will continue to be required to expend, substantial funds to pursue engineering, research and development projects, enhance marketing efforts and otherwise operate our business. Our future capital requirements will depend on, and could increase substantially as a result of, many factors, including:

- our plans to maintain and enhance our engineering, research, development and product testing programs;
- the success of our manufacturing strategy;
- the success of our sales and marketing efforts;
- the extent and terms of any development, marketing or other arrangements;
- changes in economic, regulatory or competitive conditions; and
- costs of filing, prosecuting, defending and enforcing intellectual property rights.

Our available cash, cash equivalents and short-term investments as of June 30, 2003 totaled $30.7 million, which, together with cash generated by operations and the net proceeds from this offering, we believe will finance our operations through at least the next twelve months. We may need to raise additional funds to continue our operations and to avoid liquidity problems, either through borrowings or the sale of our debt or equity securities. In addition, unanticipated events, such as Sun's failure to meet its product purchase forecast or extraordinary expenses or operating expenses in excess of our projections, may require us to raise funds sooner than we expect. We may not be able to raise additional funds on commercially reasonable terms or at all. Any sales of our debt or equity securities in the future may have a substantial dilutive effect on our existing stockholders. If we are able to borrow funds, we may be required to grant liens on our assets to the provider of any source of financing or enter into operating, debt service or working capital covenants with any provider of financing that could hinder our ability to operate our business in accordance with our plans. As a result, our ability to borrow money on a secured basis may be impaired, and we may not be able to issue secured debt on commercially reasonable terms or at all.

Our quarterly operating results have fluctuated significantly in the past and are not a good indicator of future performance.

Our quarterly operating results have fluctuated significantly in the past as shown in the following table and are not a good indicator of future performance.

Quarter	Net Revenue	Net Income (Loss)
	(in millions)	
First Quarter 2001	$ 18.6	$ (28.7)
Second Quarter 2001	14.9	(5.7)
Third Quarter 2001	12.3	(3.3)
Fourth Quarter 2001	10.5	(5.7)
First Quarter 2002	10.9	(6.2)
Second Quarter 2002	11.2	(8.9)
Third Quarter 2002	8.6	(7.3)
Fourth Quarter 2002	16.3	(11.9)
First Quarter 2003	30.5	(1.5)
Second Quarter 2003	48.4	2.6

In addition, the announcement of financial results that fall short of the results anticipated by the public markets could have an immediate and significant negative effect on the trading price of our common stock in any given period.

We may have difficulty predicting future operating results due to both internal and external factors affecting our business and operations, which could cause our stock price to decline.

Our operating results may vary significantly in the future depending on a number of factors, many of which are out of our control, including:

- the size, timing, cancellation or rescheduling of significant orders;
- product configuration, mix and quality issues;
- market acceptance of our new products and product enhancements and new product announcements or introductions by our competitors;
- manufacturing costs;
- deferrals of customer orders in anticipation of new products or product enhancements;
- changes in pricing by us or our competitors;

our ability to develop, introduce and market new products and product enhancements on a timely basis;

hardware component costs and availability, particularly with respect to hardware components obtained from Infortrend, a sole-source provider;

our success in creating brand awareness and in expanding our sales and marketing programs;

the level of competition;

potential reductions in inventories held by channel partners;

slowing sales of the products of our channel partners;

technological changes in the open systems storage market;

levels of expenditures on research, engineering and product development;

changes in our business strategies;

personnel changes; and

general economic trends and other factors.

If our customers delay or cancel orders or return products, our results of operations could be harmed.

We generally do not enter into long-term purchase contracts with customers, and customers usually have the right to extend or delay shipment of their orders, return products and cancel orders. As a result, sales in any period are generally dependent on orders booked and shipped in that period. Delays in shipment orders, product returns and order cancellations in excess of the levels we expect would harm our results of operations.

Our sales cycle varies substantially and future net revenue in any period may be lower than our historical revenues or forecasts.

Our sales are difficult to forecast because the open systems storage market is rapidly evolving and our sales cycle varies substantially from customer to customer. Customer orders for our products can range in value from a few thousand dollars to over a million dollars. The length of time between initial

contact with a potential customer and the sale of our product may last from three to 24 months. This is particularly true during times of economic slowdown, for sales to channel partners and for the sale and installation of complex solutions. We have shifted our business strategy to focus primarily on channel partners, with whom sales cycles are generally lengthier, more costly and less certain than direct sales to end-users.

Additional factors that may extend our sales cycle, particularly orders for new products, include:

the amount of time needed for technical evaluations by customers;

- customers' budget constraints and changes to customers' budgets during the course of the sales cycle;
- customers' internal review and testing procedures; and
- our engineering work to integrate a storage solution with a customer's system.

Our net revenue is difficult for us to predict since it is directly affected by the timing of large orders. Due to the unpredictable timing of customer orders, we may ship products representing a significant portion of our net sales for a quarter during the last month of that quarter. In addition, our expense levels are based, in part, on our expectations as to future sales. As a result, if sales levels are below expectations, our operating results may be disproportionately affected. We cannot assure you that we will experience sales growth in future periods.

The market for our products is subject to substantial pricing pressure that decreases our margins.

Pricing pressures exist in the data storage market and have harmed and may in the future continue to harm our revenue and earnings. These pricing pressures are due, in part, to continuing decreases in component prices, such as those of disks and RAID controllers. Decreases in component prices are customarily passed-on to customers by storage companies through a continuing decrease in price of storage hardware systems. In addition, because we expect to continue to make most of our sales to a small number of customers, we are subject to continued pricing pressures from our customers, particularly our OEM customers. Pricing pressures are also due, in part, to the current difficult economic conditions, which have led many companies in our industry to pursue a strategy of decreasing prices in order to win sales, the narrowing of functional differences among competitors, which forces companies to compete on price as opposed to features of products, and the introduction of new technologies, which leaves older technology more vulnerable to pricing pressures. To the extent we are unable to offset those pressures with commensurate cost reductions from our suppliers or by providing new products and features, our margins will be harmed.

Our success depends significantly upon our ability to protect our intellectual property and to avoid infringing the intellectual property of third parties, which could result in costly, time-consuming litigation or even the inability to offer certain products.

We rely primarily on patents, copyrights, trademarks, trade secrets, nondisclosure agreements and common law to protect our intellectual property. For example, we have registered trademarks for SANnet, SANpath, SANscape and Dot Hill and the Dot Hill logo. We also had eight U.S. patents and no patents pending as of June 30, 2003. We do not expect that our patents will provide us with any meaningful competitive advantage relative to the other protections we rely on. Despite our efforts to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. In addition, the laws of foreign countries may not adequately protect our intellectual property rights. Our efforts to protect our intellectual property from third party discovery and infringement may be insufficient and third parties may independently develop technologies similar to ours, duplicate our products or design around our patents.

Third parties have in the past asserted, and in the future may assert, that our products and technologies infringe their intellectual property, which could result in infringement lawsuits being filed against us. We expect that providers of storage products will increasingly be subject to infringement claims as the number of products and competitors increases. From time to time, we receive letters from third parties suggesting that we may require a license from such third parties to manufacture or sell our products. We evaluate all such communications to assess whether to seek a license from the patent owner. We may require licenses that could have a material impact on our business. In addition, we cannot assure you that we would prevail in any litigation related to infringement claims against us. Moreover, we cannot assure you that additional third parties will not assert infringement claims against us in the future.

If we were to become party to any litigation to protect our intellectual property from infringement by a third party, or as a result of a claim that our products and technologies infringe the intellectual property of a third party, we would likely incur substantial legal fees and expenses and our management's attention would be distracted from the operations of our business. Further, any settlement or adverse judgment involving a determination that our products or technology infringe the intellectual property of a third party could require us to pay substantial damages or royalties to a third party which could impede our ability to price our products competitively and could adversely affect our gross profit. In such event we could also be required to obtain a license from the third party to continue to sell our products or use our technologies. We may not be able to obtain a license from a third party on commercially reasonable terms, or at all. If we or our suppliers were unable to license protected technology, we could be prohibited from marketing products that incorporate the protected technology. We could also incur substantial costs to redesign our products in a manner to avoid infringement of third party intellectual property rights.

The market for storage systems is intensely competitive and our results of operations, pricing and business could be harmed if we fail to maintain or expand our market position.

The storage market is intensely competitive and is characterized by rapidly changing technology. We compete primarily against independent storage system suppliers, including EMC Corporation, Hitachi Data Systems, LSI Logic Storage Systems and Network Appliance. We also compete with traditional suppliers of computer systems, including Dell Computer Corporation, Hewlett-Packard Company, and IBM Corporation, which market storage systems as well as other computer products.

Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources than us. As a result, they may have more advanced technology, larger distribution channels, stronger brand names, better customer service and access to more customers than we do. Other large companies with significant resources could become direct competitors, either through acquiring a competitor or through internal efforts. Additionally, a number of new, privately held companies are currently attempting to enter the storage market, some of which may become significant competitors in the future. Any of these existing or potential competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, promotion and sale of products or deliver competitive products at lower prices than us.

We also expect that competition will increase as a result of industry consolidation and the creation of companies with new, innovative product offerings. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced operating margins and potential loss of market share, any of which could harm our business.

We believe that the principal competitive factors affecting the storage systems market include:

- Product performance, features, scalability and reliability;
- Price;
- Product breadth;
- Timeliness of new product introductions; and
- Interoperability and ease of management.

We cannot assure you that we will be able to successfully incorporate these factors into our products and compete against current or future competitors or that competitive pressures we face will not harm our business. If we are unable to develop and market products to compete with the products of competitors, our business will be materially and adversely affected. In addition, if major channel partners who are also competitors cease purchasing our products in order to concentrate on sales of their own products, our business will be harmed.

The open systems storage market is rapidly changing and we may be unable to keep pace with or properly prepare for the effects of those changes.

The open systems data storage market in which we operate is characterized by rapid technological change, frequent new product introductions, evolving industry standards and consolidation among our competitors, suppliers and customers. Customer preferences in this market are difficult to predict and changes in those preferences and the introduction of new products by us or our competitors could render our existing products obsolete. Our success will depend upon our ability to address the increasingly sophisticated needs of customers, to enhance existing products, and to develop and introduce on a timely basis, new competitive products, including new software and hardware, and enhancements to existing software and hardware, that keep pace with technological developments and emerging industry standards. If we cannot successfully identify, manage, develop, manufacture or market product enhancements or new products, our business will be harmed. In addition, consolidation among our competitors, suppliers and customers may harm our business by increasing the resources of our competitors, reducing the number of suppliers available to us for our product components and increasing competition for customers by reducing customer-purchasing decisions.

A significant percentage of our expenses are fixed, and if we fail to generate revenues in associated periods, our operating results will be harmed.

Although we have taken a number of steps to reduce operating costs, we may have to take further measures to reduce expenses if we continue to experience operating losses or do not achieve a stable net income. A number of factors could preclude us from successfully bringing costs and expenses in line with our net revenue, such as the fact that our expense levels are based in part on our expectations as to future sales, and that a significant percentage of our expenses are fixed, which limits our ability to reduce expenses quickly in response to any shortfalls in net revenue. As a result, if net revenue does not meet our projections, operating results may be negatively affected. We may experience shortfalls in net revenue for various reasons, including:

- significant pricing pressures that occur because of declines in selling prices over the life of a product or because of increased competition;

- sudden shortages of raw materials or fabrication, test or assembly capacity constraints that lead our suppliers and manufacturers to allocate available supplies or capacity to other customers, which, in turn, may harm our ability to meet our sales obligations; and

- the reduction, rescheduling or cancellation of customer orders.

In addition, we typically plan our production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. From time to time, in response to anticipated long lead times to obtain inventory and materials from our outside suppliers, we may order materials in advance of anticipated customer demand. This advance ordering has continued and may to result in excess inventory levels or unanticipated inventory write-downs due to expected orders that fail to materialize.

Our business and operating results may suffer if we encounter significant product defects.

Our products may contain undetected errors or failures when first introduced or as we release new versions. During 2003, we plan to introduce a number of new products, particularly in our SANnet II family of systems. We may discover errors in our products after shipment, resulting in a loss of or delay in market acceptance, which could harm our business. Our standard warranty provides that if the system does not function to published specifications, we will repair or replace the defective component or system without charge. Significant warranty costs, particularly those that exceed reserves, could adversely impact our business. In addition, defects in our products could result in our customers claiming damages against us for property damage or consequential damage and could also result in our loss of customers and goodwill. Any such claim could distract management's attention from operating our business and, if successful, result in damage claims against us that might not be covered by our insurance.

Our success depends on our ability to attract and retain key personnel.

Our performance depends in significant part on our ability to attract and retain talented senior management and other key personnel. Our key personnel include James Lambert, our President and Chief Executive Officer, Dana Kammersgard, our Chief Technical Officer, and Preston Romm, our Chief Financial Officer. If any one of these individuals were to terminate his employment with us, we would be required to locate and hire a suitable replacement. Competition for attracting talented employees in the technology industry is intense. We may be unable to identify suitable replacements for any employees that we lose. In addition, even if we are successful in locating suitable replacements, the time and cost involved in recruiting, hiring, training and integrating new employees, particularly key employees responsible for significant portions of our operations, could harm our business by delaying our production schedule, our research and development efforts, our ability to execute on our business strategy and our client development and marketing efforts.

Many of our customer relationships are based on personal relationships between the customer and our sales representatives. If these representatives terminate their employment with us, we may be forced to expend substantial resources to attempt to retain the customers that the sales representatives serviced. Ultimately, if we were unsuccessful in retaining these customers, our revenue would decline.

We have recently made several reductions in our workforce. Although the reductions were designed to reduce our operating costs, the reductions have increased the responsibilities of our remaining employees. As a result, we face risks associated with transferring the duties of our former employees to our remaining employees. In addition to the expense involved in retraining employees, there is a risk that our current work force will be unable to effectively manage all of the duties of our former employees, which could adversely impact our research and development efforts, our general accounting and operating activities, our sales efforts and our production capabilities.

Our executive officers and directors and their affiliates own a significant percentage of our outstanding shares, which could prevent us from being acquired and adversely affect our stock price.

As of June 30, 2003, our executive officers, directors and their affiliates beneficially owned approximately 16.4% of our outstanding shares of common stock. These individual stockholders may be

able to influence matters requiring approval by our stockholders, including the election of a majority of our directors. The voting power of these stockholders under certain circumstances could have the effect of delaying or preventing a change in control of us. This concentration of ownership may also make it more difficult or expensive for us to obtain financing. Further, any substantial sale of shares by these individuals could depress the market price of our common stock and impair our ability to raise capital in the future through the sale of our equity securities.

Protective provisions in our charter and bylaws and the existence of our stockholder rights plan could prevent a takeover which could harm our stockholders.

Our certificate of incorporation and bylaws contain a number of provisions that could impede a takeover or prevent us from being acquired, including, but not limited to, a classified board of directors, the elimination of our stockholders' ability to take action by written consent and limitations on the ability of our stockholders to remove a director from office without cause. Our board of directors may issue additional shares of common stock or establish one or more classes or series of preferred stock with such designations, relative voting rights, dividend rates, liquidation and other rights, preferences and limitations as determined by our board of directors without stockholder approval. In addition, we adopted a stockholder rights plan in May 2003 that is designed to impede takeover transactions that are not supported by our board of directors. Each of these charter and bylaw provisions and the stockholder rights plan gives our board of directors, acting without stockholder approval, the ability to prevent, or render more difficult or costly, the completion of a takeover transaction that our stockholders might view as being in their best interests.

The exercise of outstanding warrants may result in dilution to our stockholders.

Dilution of the per share value of our common stock could result from the exercise of outstanding warrants. As of June 30, 2003, there were outstanding warrants to purchase 2,065,315 shares of our common stock. The warrants have exercise prices ranging from $2.97 to $4.50 per share and expire at various dates through March 14, 2008. When the exercise price of the warrants is less than the trading price of our common stock, exercise of the warrants would have a dilutive effect on our stockholders. The possibility of the issuance of shares of our common stock upon exercise of the warrants could cause the trading price of our common stock to decline.

Risks Related to This Offering

Our stock price may be highly volatile and could decline substantially and unexpectedly.

The trading price of our shares of common stock has been affected by the factors disclosed in this section as well as prevailing economic and financial trends and conditions in the public securities markets. Share prices of companies in technology-related industries, such as ours, tend to exhibit a high degree of volatility. The announcement of financial results that fall short of the results anticipated by the public markets could have an immediate and significant negative effect on the trading price of our shares in any given period. Such shortfalls may result from events that are beyond our immediate control, can be unpredictable and, since a significant proportion of our sales during each fiscal quarter tend to occur in the latter stages of the quarter, may not be discernible until the end of a financial reporting period. These factors may contribute to the volatility of the trading value of our shares regardless of our long-term prospects. The trading price of our shares may also be affected by developments, including reported financial results and fluctuations in trading prices of the shares of other publicly-held companies, in our industry generally and our business segment in particular, which may not have any direct relationship with our business or prospects.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We could be the target of similar litigation in the future. Securities litigation could result in the expenditure of substantial funds, divert management's attention and resources, harm our reputation in the industry and the securities markets and reduce our profitability.

Future sales of our common stock may hurt our market price.

A substantial number of shares of our common stock will be available for resale after the offering. If our stockholders sell substantial amounts of our common stock in the public market following the offering, the market price of our common stock could decline. These sales might also make it more difficult for us to sell equity securities in the future at times and prices that we deem appropriate.

We, all of our executive officers and directors and the selling stockholders have agreed not to offer, sell or otherwise dispose of any shares of capital stock or any securities which may be converted into or exchanged for any shares of our capital stock for a period of 90 days from the date of this prospectus, other than the shares being sold pursuant to this prospectus. However, the underwriters may waive this restriction and allow us or them to sell shares at any time. Shares of common stock subject to these lock-up agreements and held by executive officers, directors and selling stockholders will become eligible for sale in the public market upon expiration of these lock-up agreements, subject to limitations imposed by Rule 144 under the Securities Act of 1933.

We may spend or invest a substantial portion of the net proceeds of this offering in ways in which you might not agree.

We have broad discretion to determine how we spend or invest the net proceeds from this offering. You will not have an opportunity to evaluate the economic, financial or other information upon which we base our decisions on how to use these proceeds and, subject to certain exceptions, we will be able to use and allocate the net proceeds without first obtaining stockholder approval.

Geopolitical military conditions, including terrorist attacks and other acts of war, may materially and adversely affect the markets on which our common stock trades, the markets in which we operate, our operations and our profitability.

Terrorist attacks and other acts of war, and any response to them, may lead to armed hostilities and such developments would likely cause instability in financial markets. Armed hostilities and terrorism may directly impact our facilities, personnel and operations which are located in the United States and internationally, as well as those of our channel partners, suppliers, third party manufacturer and customers. Furthermore, severe terrorist attacks or acts of war may result in temporary halts of commercial activity in the affected regions, and may result in reduced demand for our products. These developments could have a material adverse effect on our business and the trading price of our common stock.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus and in the information incorporated herein by reference, including in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities and the effects of competition and regulation. Forward-looking statements include all statements that are not historical facts. You can identify these statements by the use of forward-looking terminology, such as the words "believe," "expect," "anticipate," "intend," "plan," "estimate," "may," "might" or other similar expressions.

Forward-looking statements involve significant risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this prospectus, even if new information becomes available or other events occur in the future. You should understand that many important factors, in addition to those discussed in the section entitled "Risk Factors" and elsewhere in this prospectus and in the information incorporated herein by reference, could cause our results to differ materially from those expressed or suggested in forward-looking statements.

USE OF PROCEEDS

We expect to receive net proceeds of approximately $106.3 million from this offering after deducting the underwriting discount and estimated offering expenses, based on an assumed offering price of $14.66 per share. If the underwriters' over-allotment option is exercised in full, our estimated net proceeds will be approximately $121.6 million, based on an assumed offering price of $14.66 per share. We will not receive any of the net proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds for general corporate purposes and to expand our research and development efforts. We may also use a portion of the proceeds for acquisitions or other investments. However, we have no present understanding or agreement relating to any specific acquisition or investment.

We have not yet determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have significant flexibility in applying the net proceeds of the offering. Pending their use as described above, we may invest the net proceeds of this offering in interest-bearing investment-grade instruments or bank deposits.

DIVIDEND POLICY

We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain earnings, if any, to finance operations and to expand our business.

Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant.

During the period beginning in December 2002 and ending April 2003, we paid a total of $0.1 million in dividends on our then outstanding preferred stock. In April 2003, all of our outstanding preferred stock was converted to shares of our common stock and no longer accrues dividends.

MARKET PRICE FOR OUR COMMON STOCK

Our common stock traded on the New York Stock Exchange beginning on September 16, 1997 under the symbol "BXH". In August 1999, Box Hill Systems merged with Artecon and we changed our name to Dot Hill Systems Corp. and our trading symbol changed to "HIL". We moved to the American Stock Exchange on December 12, 2002, where we continued to trade our common stock under the symbol "HIL". On July 28, 2003, our common stock was included for quotation on the Nasdaq National Market where our common stock is currently traded under the symbol "HILL".

The following table sets forth for the periods indicated the per share range of the high and low closing sales prices or closing bid prices, of our common stock as reported on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market, as applicable.

	Low	High
Year Ended December 31, 2001		
First Quarter	$ 1.92	$ 8.00
Second Quarter	1.59	2.75

	Low	High
Third Quarter	1.28	2.53
Fourth Quarter	1.06	2.20
Year Ended December 31, 2002		
First Quarter	1.55	3.15
Second Quarter	2.10	4.69
Third Quarter	2.50	3.95
Fourth Quarter	1.60	3.50
Year Ended December 31, 2003		
First Quarter	3.10	6.12
Second Quarter	6.01	14.00
Third Quarter (through August 6, 2003)	13.11	17.47

On August 6, 2003, the last reported sale price for our common stock on the Nasdaq National Market was $14.66 per share. As of August 5, 2003, there were 32,474,273 shares of our common stock outstanding held by approximately 5,228 holders of record.

CAPITALIZATION

The following table sets forth, as of June 30, 2003, our capitalization:

- on an actual basis; and

- on an as adjusted basis to give effect to the sale of the 9,000,000 shares offered by us and the selling stockholders in this offering (excluding the over-allotment shares) at an assumed offering price of $14.66 per share, after deducting the underwriting discounts and commissions and estimated offering expenses and our anticipated application of the net proceeds of the offering.

You should read this table together with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this prospectus or incorporated herein by reference.

	As of June 30, 2003	
	Actual	As Adjusted
	(unaudited) (in thousands)	
Cash, cash equivalents and short-term investments	$ 30,677	$ 136,952
Debt:		
Borrowings under credit lines	$ 266	$ 266
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; no shares issued and outstanding		
	32	40

	As of June 30, 2003	
Common stock, $0.001 par value, 100,000,000 shares authorized; 32,273,208 shares issued and outstanding on an actual basis; 39,978,208 shares issued and outstanding on an as adjusted basis		
Additional paid-in capital	127,405	233,680
Accumulated deficit	(102,482)	(102,482)
Deferred compensation	(38)	(38)
Accumulated other comprehensive loss	(511)	(511)
Total stockholders' equity	24,406	130,689
Total capitalization	$ 24,672	$ 130,955

The number of outstanding shares of our common stock as of June 30, 2003 excludes:

- an aggregate of 6,766,938 shares of our common stock reserved for issuance under our equity incentive plans, of which 3,707,759 shares were subject to outstanding stock options as of June 30, 2003, at a weighted average exercise price of $3.91 per share; and

- an aggregate of 2,065,316 shares of our common stock issuable upon exercise of outstanding warrants.

Including the shares of our common stock listed above as excluded shares, the number of outstanding shares of our common stock calculated on a fully diluted basis as of June 30, 2003 is 38,046,283.

DILUTION

As of June 30, 2003, our net tangible book value was $24.1 million or $0.75 per share. "Net tangible book value per common share" is determined by dividing our net tangible book value (total tangible assets less total liabilities) by the number of shares of common stock outstanding. After giving effect to the sale of the shares of our common stock in the assumed offering at an offering price of $14.66 per share, and after deducting the underwriting discount and estimated expenses of the offering, our pro forma net tangible book value as of June 30, 2003, would have been approximately $130.4 million in the aggregate, or $3.26 per share. This represents an immediate increase in net tangible book value of $2.51 per share to existing holders and immediate dilution of $11.40 per share to new investors purchasing shares of common stock in the offering. The following table illustrates this per share dilution:

Assumed public offering price	$ 14.66
Net tangible book value per common share as of June 30, 2003	0.75
Increase attributable to new investors	2.51
Pro forma net tangible book value per common share as of June 30, 2003, after giving effect to the offering	$ 3.26
Dilution per common share to new investors	$ 11.40

"Dilution per common share to new investors" means the difference between the assumed public offering price per share of common stock and the pro forma net tangible book value per common share as of June 30, 2003, after giving effect to the offering.

SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated financial data presented below from our consolidated financial statements and related notes included in this prospectus or incorporated herein by reference. You should read the selected consolidated financial data together with our consolidated financial statements and related notes and the section of this prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." In August 1999, Box Hill Systems merged with Artecon and we changed our name to Dot Hill Systems Corp.

Statement of operations data for the years ended December 31, 2000, 2001 and 2002, and the balance sheet data as of December 31, 2001 and 2002 have been derived from our audited consolidated financial statements which are included elsewhere in this prospectus. Statement of operations data for the years ended December 31, 1998 and 1999 and balance sheet data as of December 31, 1998, 1999 and 2000 have been derived from our audited consolidated financial statements not included herein. Statement of operations data for the six months ended June 30, 2002 and 2003, and the balance sheet data as of June 30, 2003, have been derived from our unaudited consolidated financial statements which are included elsewhere in this prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands, except per share data)						
Statement of Operations Data:							
Net revenue	$ 168,355	$ 124,216	$ 121,197	$ 56,277	$ 46,936	$ 22,096	$ 78,950
Cost of goods sold	109,764	86,612	77,730	44,818	45,444	19,459	63,400
Gross profit	58,591	37,604	43,467	11,459	1,492	2,637	15,550
Operating expenses:							
Sales and marketing	34,839	24,204	31,747	23,717	22,513	13,495	6,812
Research and development	9,946	7,401	8,798	6,673	10,043	4,867	4,897
General and administrative	9,981	10,837	6,891	4,533	5,150	2,814	3,071
Stockholder officers' compensation	1,275						
Impairment of intangible assets	867	1,224					
Merger and restructuring expenses	1,404	7,392		4,905	1,550		
Operating income (loss)	279	(13,454)	(3,969)	(28,369)	(37,764)	(18,539)	770
Net income (loss)	$ 584	$ (9,047)	$ (948)	$ (43,391)	$ (34,303)	$ (15,062)	$ 1,096
Net income (loss) attributable to common stockholders	$ 584	$ (9,047)	$ (948)	$ (43,391)	$ (34,759)	$ (15,062)	$ 955
Net income (loss) per share:							
Basic	$ 0.03	$ (0.39)	$ (0.04)	$ (1.76)	$ (1.39)	$ (0.61)	$ 0.03
Diluted	$ 0.02	$ (0.39)	$ (0.04)	$ (1.76)	$ (1.39)	$ (0.61)	$ 0.03
Weighted average shares outstanding:							
Basic	22,903	23,385	24,253	24,703	24,953	24,854	28,877

	Year Ended December 31,					Six Months Ended June 30,	
Diluted	24,442	23,385	24,253	24,703	24,953	24,854	32,954

	As of December 31,					As of June 30,
	1998	1999	2000	2001	2002	2003
	(in thousands)					
Balance Sheet Data:						
Cash, cash equivalents, restricted cash and short-term investments	$ 59,807	$ 47,951	$ 33,653	$ 16,457	$ 12,082	$ 30,677
Working capital	78,867	58,946	54,454	25,832	2,755	19,856
Total assets	127,030	103,658	102,879	46,191	32,228	58,094
Total long-term debt	11,908	272	186	330	275	266
Total stockholders' equity	79,964	72,823	73,770	30,611	5,785	24,406

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes related thereto included elsewhere in this prospectus.

Overview

We are a provider of storage systems for organizations requiring high reliability, high performance networked storage and data management solutions in an open systems architecture. Our storage solutions consist of integrated hardware and software products employing a modular system that allows end-users to add capacity as needed. Our broad range of products, from medium capacity stand-alone storage units to complete turn-key, multi-terabyte storage area networks, provides end-users with a cost-effective means of addressing increasing storage demands without sacrificing performance.

Our products and services are sold worldwide to end-users primarily through our channel partners, including OEMs, SIs and VARs. In May 2002, we entered into a three-year OEM agreement with Sun to provide our storage hardware and software products for private label sales by Sun. We have been shipping our products to Sun for resale to Sun's customers since October 2002. We continue to develop new products for resale by Sun and other channel partners and expect to begin shipping two additional new products for resale later this year. We intend to continue expanding our non-OEM sales channels through SIs and VARs in order to decrease our revenue concentration with OEMs.

As part of our focus on indirect sales channels, we have outsourced substantially all of our manufacturing operations to Solectron, a leading electronics manufacturing services company. Our agreement with Solectron allows us to reduce sales cycle times and manufacturing infrastructure, enhance working capital and improve margins by taking advantage of Solectron's manufacturing and procurement economies of scale.

We derive revenue primarily from sales of our SANnet II family of products. In prior periods, we derived a significant portion of our revenue from sales of our legacy products and SANnet I family of products. Except for one OEM customer to whom we continue to sell our SANnet I products, we have transitioned all customers to our SANnet II products. We derive a portion of our revenue from services associated with the maintenance service we provide for our installed products. In May 2003, we entered into a services agreement with Anacomp, Inc. to provide all maintenance, warranty and non-warranty services for our SANnet I and certain legacy products.

Cost of goods sold includes costs of materials, subcontractor costs, salary and related benefits for the production and service departments, depreciation and amortization of equipment used in the production and service departments, production facility rent and allocation of overhead.

Sales and marketing expenses consist primarily of salaries and commissions, advertising and promotional costs and travel expenses. Research and development expenses consist primarily of project-related expenses and salaries for employees directly engaged in research and development. General and administrative expenses consist primarily of compensation to officers and employees performing administrative functions and expenditures for administrative facilities. Restructuring expenses consist primarily of employee severance, lease termination costs and other office closure expenses related to the consolidation of excess facilities.

Other income is comprised primarily of interest income earned on our cash, cash equivalents, restricted cash and short-term investments and other miscellaneous income and expense items.

In August 1999, Box Hill Systems merged with Artecon and we changed our name to Dot Hill Systems Corp. We reincorporated in Delaware in 2001. Our headquarters is located in Carlsbad,

California, and we maintain international offices in Germany, Japan, the Netherlands, Singapore and the United Kingdom.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and use judgment that may impact the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. As a part of our on-going internal processes, we evaluate our estimates, including those related to inventory write-downs, warranty cost accruals, revenue recognition, bad debt allowances, long-lived assets valuation, intangible assets valuation, income taxes, including deferred income tax asset valuation, litigation and contingencies. We base these estimates upon both historical information and other assumptions that we believe are valid and reasonable under the circumstances. These assumptions form the basis for making judgments and determining the carrying values of assets and liabilities that are not apparent from other sources. Actual results could vary from those estimates under different assumptions and conditions.

We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue from hardware sales upon transfer of title. Certain of our sales arrangements include multiple elements. Generally these arrangements include delivery of the product, installation, training and product maintenance. Maintenance related to product sales entitles the customer to basic product support and significantly greater response time in resolving warranty-related issues. We allocate revenue to each element of the arrangement based on its relative fair value. For maintenance contracts, this is typically the price charged when such contracts are sold separately or renewed. Because professional services related to installation and training can be provided by other third party organizations, we allocate revenue related to professional services based on rates that are consistent with other like companies providing similar service, that is, the market rate for such services. Revenue from product maintenance contracts is deferred and recognized ratably over the contract term, generally twelve months. Revenue from installation and training is recognized as the services are performed.

For software sales, we apply Statement of Position No. 97-2, *Software Revenue Recognition,* whereby revenue is recognized from software licenses at the time the product is delivered, provided there are no significant obligations related to the sale, the resulting receivable is deemed collectible and there is vendor-specific objective evidence supporting the value of the separate contract elements. For arrangements with multiple elements, we allocate revenue to each element using the residual method based on vendor specific objective evidence of the undelivered items. A portion of the arrangement fee equal to the fair value of the undelivered elements, typically software maintenance contracts, is deferred and recognized ratably over the contract term, generally twelve months. Vendor specific objective evidence is based on the price charged when the element is sold separately. A typical arrangement includes a software licensing fee and maintenance agreement.

Valuation of Inventories

Inventories are comprised of purchased parts and assemblies, which include direct labor and overhead. We record inventories at the lower of cost or market value, with cost generally determined on a first-in, first-out basis. We perform periodic valuation assessments based on projected sales forecasts and analyzing upcoming changes in future configurations of our products and record inventory write-downs for excess and obsolete inventory. Although we strive to ensure the accuracy of our forecasts, we periodically are faced with uncertainties. The outcomes of these uncertainties are not within our control, and may not be known for prolonged periods of time. Any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventories and commitments, and consequently, on our operating results. If actual market conditions become less favorable than those forecasted, additional inventory write-downs might be required, adversely affecting operating results.

Results of Operations

The following table sets forth certain items from our statements of operations as a percentage of net revenue for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2000	2001	2002	2002	2003
Net revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	64.1	79.6	96.8	88.1	80.3
Gross profit	35.9	20.4	3.2	11.9	19.7
Operating expenses:					
Sales and marketing	26.2	42.1	48.0	61.1	8.6
Research and development	7.3	11.9	21.4	22.0	6.2
General and administrative	5.7	8.1	11.0	12.7	3.9
Restructuring expenses		8.7	3.3		
Operating income (loss)	(3.3)	(50.4)	(80.5)	(83.9)	1.0
Net income (loss)	(0.8)%	(77.1)%	(73.1)%	(68.2)%	1.4%

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Net Revenue

Net revenue increased $56.9 million, or 257.3%, to $79.0 million for the six months ended June 30, 2003 from $22.1 million for the six months ended June 30, 2002. The increase in net revenue was attributable to increased orders for our products from our channel partner, Sun, which accounted for 81.0% of our net revenue for the six months ended June 30, 2003.

Cost of Goods Sold

Cost of goods sold increased $43.9 million, or 225.8%, to $63.4 million for the six months ended June 30, 2003 from $19.5 million for the six months ended June 30, 2002. As a percentage of net revenue, cost of goods sold decreased to 80.3% for the six months ended June 30, 2003 from 88.1% for the six months ended June 30, 2002. The increase in the dollar amount of cost of goods sold was attributable to greater volume of product sales during the six months ended June 30, 2003. The decrease in cost of goods sold as a percentage of our net revenue was primarily attributable to a decrease in inventory write-downs of $3.0 million and more efficient absorption of fixed production costs.

Gross Profit

Gross profit increased $13.0 million, or 489.7%, to $15.6 million for the six months ended June 30, 2003 from $2.6 million for the six months ended June 30, 2002. As a percentage of net revenue, gross profit increased to 19.7% for the six months ended June 30, 2003 from 11.9% for the six months ended

June 30, 2002. The increase in the dollar amount of gross profit was attributable to greater volume of product sales during the six months ended June 30, 2003. Products that we sold to Sun generally carried a lower gross profit than products we sold to other customers. Our gross profit for the six months ended June 30, 2003 was reduced by a charge of $0.6 million for product launch costs.

Sales and Marketing Expenses

Sales and marketing expenses decreased $6.7 million, or 49.5%, to $6.8 million for the six months ended June 30, 2003 from $13.5 million for the six months ended June 30, 2002. As a percentage of net revenue, sales and marketing expenses decreased to 8.6% for the six months ended June 30, 2003 from 61.1% for the six months ended June 30, 2002. This decrease in the dollar amount of sales and marketing expenses was attributable to a reduction in our sales and marketing headcount of 34 employees between June 30, 2002 and June 30, 2003. The reduction was made in conjunction with our shift toward an indirect sales model, implemention of fixed cost reduction measures, such as closure of excess and unused facilities, and refocusing of our marketing resources on a smaller population of potential customers.

Research and Development Expenses

Research and development expenses remained unchanged at $4.9 million for the six-month periods ended June 30, 2003 and 2002. As a percentage of net revenue, research and development expenses decreased to 6.2% for the six months ended June 30, 2003 from 22% for the six months ended June 30, 2002. We expect to continue to invest in research and development and plan to add more members to our research and development team during the second half of 2003.

General and Administrative Expenses

General and administrative expenses increased $0.3 million, or 9.1%, to $3.1 million for the six months ended June 30, 2003 from $2.8 million for the six months ended June 30, 2002. As a percentage of net revenue, general and administrative expenses decreased to 3.9% for the six months ended June 30, 2003 from 12.7% for the six months ended June 30, 2002. The increase in the dollar amount of general and administrative expense was attributable to higher legal and other professional expenses incurred during the six months ended June 30, 2003.

Other Income

Other income increased $0.1 million, or 90.4%, to $0.3 million for the six months ended June 30, 2003 from $0.2 million for the six months ended June 30, 2002. The increase was primarily attributable to an increase in currency gain as a result of a weakening U.S. dollar.

Income Taxes

Our effective income tax rate for the first half of 2003 of 1.0% reflects our federal alternative minimum tax and state minimum tax liabilities. Our effective income tax rate for the first half of 2002 was 18.0%, primarily as a result of an income tax benefit resulting from tax refunds made available by recent tax law changes.

We have federal and state net operating loss carryforwards as of December 31, 2002 of approximately $65.9 million and $63.1 million, respectively. These net operating loss carryforwards are available to offset taxable income generated in 2003 and future years, and such federal and state amounts will begin to expire in the tax years ending 2009 and 2003, respectively. In addition, we have federal tax credit carryforwards as of December 31, 2002 of approximately $1.9 million of which $0.2 million can be carried forward indefinitely to offset future taxable income, and the remaining $1.7 million will begin to expire in the tax year ending 2008. We also have state tax credit carryforwards

as of December 31, 2002 of $1.7 million, of which $1.6 million can be carried forward indefinitely to offset future taxable income, and the remaining $0.1 million will begin to expire in the tax year ending 2006. Pursuant to current tax regulations, the annual use of certain of our federal and state net operating loss and tax credit carryforwards is limited as a result of a cumulative change in ownership of more than 50%. Future additional changes in ownership may further limit the use of such amounts.

Net Income (Loss)

Net income increased $16.2 million to net income of $1.1 million for the six months ended June 30, 2003 from a net loss of $15.1 million for the six months ended June 30, 2002. This increase of $16.2 million was due to an increase in gross profit of $13.0 million, a decrease in operating expenses of $6.4 million, an increase in other income of $0.1 million and a decrease in income tax benefit of $3.3 million.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net Revenue

Net revenue decreased $9.4 million, or 16.6%, to $46.9 million for the year ended December 31, 2002 from $56.3 million for the year ended December 31, 2001. The decrease in net revenue was attributable to unfavorable market conditions resulting in a 49.3% decrease in sales from the telecommunications sector and a 38.5% decrease in sales from the commercial sector, partially offset by an $11.6 million increase in sales to our largest OEM customer.

Gross Profit

Gross profit decreased $10.0 million, or 87.0%, to $1.5 million for the year ended December 31, 2002 from $11.5 million for the year ended December 31, 2001. As a percentage of net revenue, gross profit decreased to 3.2% for the year ended December 31, 2002 from 20.4% for the year ended December 31, 2001. The decrease in gross profit, both in absolute terms and as a percentage of net revenue, is attributable to a $8.3 million charge over the course of 2002 for excess and obsolete inventory, $5.1 million of which was related to the impact that our SANnet II product launch had on inventories of our legacy SANnet product, and $2.0 million in ramp-up costs and inefficiencies incurred during the fourth quarter of 2002 related to our new SANnet II SCSI product, which was launched in October 2002.

Sales and Marketing Expenses

Sales and marketing expenses decreased $1.2 million, or 5.1%, to $22.5 million for the year ended December 31, 2002 from $23.7 million for the year ended December 31, 2001. As a percentage of net revenue, sales and marketing expenses increased to 48.0% for the year ended December 31, 2002 from 42.1% for the year ended December 31, 2001. We incurred a one-time charge to sales and marketing expenses of $3.6 million related to the issuance of a warrant to purchase our common stock to Sun in May 2002. The decrease in the dollar amount of sales and marketing expenses, excluding the charge for the warrant, is attributable to fixed cost reduction measures, such as geographical restructuring of the sales force and our efforts to focus our marketing resources on a smaller population of potential channel partners.

Research and Development Expenses

Research and development expenses increased $3.3 million, or 50.5%, to $10.0 million for the year ended December 31, 2002 from $6.7 million for the year ended December 31, 2001. As a percentage of net revenue, research and development expenses increased to 21.4% for the year ended December 31, 2002 from 11.9% for the year ended December 31, 2001. The increase in the dollar amount of research

and development expenses is attributable to costs related to the development of our next-generation SANnet II product line, the first member of which was released in October 2002. In addition, the increase as a percentage of net revenues was due in part to lower sales revenue during 2002 compared to 2001.

General and Administrative Expenses

General and administrative expenses increased $0.7 million, or 13.6%, to $5.2 million for the year ended December 31, 2002 from $4.5 million for the year ended December 31, 2001. As a percentage of net revenue, general and administrative expenses increased to 11% for the year ended December 31, 2002 from 8.1% for the year ended December 31, 2001. The increase in the dollar amount of general and administrative expenses resulted primarily from increased premiums for directors and officers insurance of approximately $0.2 million, and legal expenses of approximately $0.4 million associated with the Sun, Solectron and Infortrend business arrangements.

Restructuring Expenses

In March 2001, we announced plans to reduce our full-time workforce by up to 30% and reduce other expenses in response to delays in customer orders, lower than expected revenues and slowing global market conditions. The cost reduction actions were designed to reduce our breakeven point in light of an economic downturn. The cost reductions resulted in a charge for employee severance, lease termination costs and other office closure expenses related to the consolidation of excess facilities. We recorded restructuring expenses in the first quarter of 2001 of approximately $2.9 million.

In June 2001, we announced plans to further reduce our full-time workforce by up to 17% and reduce other expenses in response to a continuing economic downturn and overall decrease in revenue. As a result of these additional restructuring actions, we recorded additional restructuring expenses during the second quarter of 2001 of approximately $1.5 million.

During the fourth quarter of 2001, we increased our March 2001 related restructuring accrual by approximately $0.2 million and our June 2001 related restructuring accrual by approximately $0.3 million due to the deterioration of various real estate markets and the inability to sublet excess space in our Carlsbad and New York City facilities.

During the fourth quarter of 2002, we again increased our March 2001 restructuring accrual by approximately $0.7 million and our June 2001 restructing accrual by approximately $0.9 million to reflect additional deterioration of real estate markets in Carlsbad and New York City, as well as the effects of lease buyouts negotiated on several other facilities and a sublease arrangement reached on another facility.

The following is a summary of restructuring activity recorded during the years ended December 31, 2001 and 2002:

March 2001 Restructuring

	Restructuring Expenses in 2001	Amounts Utilized in 2001	Accrued Restructuring Expenses at December 31, 2001	Additional Restructuring Expenses in 2002	Amounts Utilized in 2002	Accrued Restructuring Expenses at December 31, 2002
	(in thousands)					
Employee termination costs	$ 1,271	$ (1,269)	$ 2	$	$ (2)	$
Impairment of property and equipment	1,007	(1,007)				
Facility closures and related costs	792	(398)	394	693	(426)	661
Professional fees and other	20	(20)				
Total	$ 3,090	$ (2,694)	$ 396	$ 693	$ (428)	$ 661

June 2001 Restructuring

	Restructuring Expenses in 2001	Amounts Utilized in 2001	Accrued Restructuring Expenses at December 31, 2001	Additional Restructuring Expenses in 2002	Amounts Utilized in 2002	Accrued Restructuring Expenses at December 31, 2002
	(in thousands)					
Employee termination costs	$ 259	$ (259)	$	$	$	$
Impairment of property and equipment	350	(350)				
Facility closures and related costs	1,206	(361)	845	857	(777)	925
Total	$ 1,815	$ (970)	$ 845	$ 857	$ (777)	$ 925

Other Income

We had net other income of $0.3 million in each of 2002 and 2001. Although there was no change to total other income, interest income decreased by approximately $0.6 million from 2001 to 2002 as a result of converting higher-yielding investment securities into a lower-yield money market account and offsetting the decrease in interest income was a decrease in other expense resulting from an approximately $0.7 million accrual made during 2001 for a pending litigation settlement.

Income Taxes

During the second quarter of 2002, we recorded an income tax benefit of $3.3 million related to tax refunds made available by recent tax law changes. We received $0.9 million of this benefit during 2002 and $2.4 million in 2001.

Our 2002 effective income tax rate of 8.3% reflects federal income tax refunds made available by recent tax law changes partially offset by state, local and foreign taxes. Our effective income tax rate for 2001 was (54.6)%, primarily as a result of a $16.0 million charge to the income tax provision in connection with an increase in the valuation allowance provided for deferred income tax assets.

As of December 31, 2002, we had federal and state net operating loss carryforwards of approximately $65.9 million and $63.1 million, respectively, which will begin to expire in the tax years ending 2009 and 2003, respectively. In addition, we have federal tax credit carryforwards of

approximately $1.9 million of which $0.2 million can be carried forward indefinitely to offset future taxable income, and the remaining $1.7 million will begin to expire in the tax year ending 2008. We also have state tax credit carryforwards of $1.7 million, of which $1.6 million can be carried forward indefinitely to offset future taxable income, and the remaining $0.1 million will begin to expire in the tax year ending 2006. Pursuant to current tax regulations, the annual use of certain of our federal and state net operating loss and tax credit carryforwards is limited as a result of a cumulative change in ownership of more than 50%. Future additional changes in ownership may further limit the use of such amounts.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net Revenue

Net revenue decreased $64.9 million, or 53.6%, to $56.3 million for the year ended December 31, 2001 from $121.2 million for the year ended December 31, 2000. The decrease in net revenue is attributable to the global economic downturn and its effect on demand, particularly from the telecommunications and commercial sectors, as well as our strategy to shift away from certain products developed by our predecessor companies, Box Hill and Artecon.

Gross Profit

Gross profit decreased $32.0 million, or 73.6%, to $11.5 million for the year ended December 31, 2001 from $43.5 million for the year ended December 31, 2000. As a percentage of net revenue, gross profit decreased to 20.4% for the year ended December 31, 2001 from 35.9% for the year ended December 31, 2000. The decrease in gross profit as a percentage of net revenue was attributable to a less efficient absorption of fixed manufacturing costs due to the decrease in revenue and a $3.0 million increase in our inventory reserve related to the downturn in the market since the start of 2001, partially offset by costs reductions taken in the first and second quarters of 2001. Excluding inventory write-downs of $3.0 million for 2001, gross profit was 25.7% of net revenue for the year ended December 31, 2001.

Sales and Marketing Expenses

Sales and marketing expenses decreased $8.0 million, or 25.3%, to $23.7 million for the year ended December 31, 2001 from $31.7 million for the year ended December 31, 2000. As a percentage of net revenue, sales and marketing expenses increased to 42.1% for the year ended December 31, 2001 from 26.2% for the year ended December 31, 2000. The decrease in the dollar amount of sales and marketing expenses was attributable to a decrease in salaries and sales compensation of $6.5 million as a result of the restructuring actions taken in the first and second quarters of 2001, a $3.1 million reduction in the reserves for sales and service evaluation and demonstration equipment, offset by higher marketing and advertising expenses in 2001 compared to 2000 of $1.3 million. The increase in sales and marketing expenses as a percentage of net revenue was attributable to the lower sales revenue in 2001.

Research and Development Expenses

Research and development expenses decreased $2.1 million, or 24.2%, to $6.7 million for the year ended December 31, 2001 from $8.8 million for the year ended December 31, 2000. As a percentage of net revenue, research and development expenses increased to 11.9% for the year ended December 31, 2001 from 7.3% for the year ended December 31, 2000. The decrease in the dollar amount of research and development expenses was attributable to a $1.0 million decrease in prototype and test equipment expenses, a $0.6 million reduction in the reserves for engineering test and evaluation equipment, and a $0.4 million decrease in salaries and compensation expenses due to the reduction in headcount in 2001

compared to 2000. The increase in research and development expenses as a percentage of net revenue was attributable to the lower sales revenue in 2001.

General and Administrative Expenses

General and administrative expenses decreased $2.4 million, or 34.2%, to $4.5 million for the year ended December 31, 2001 from $6.9 million for the year ended December 31, 2000. As a percentage of net revenue, general and administrative expenses increased to 8.1% of net revenue for the year ended December 31, 2001 from 5.7% for the year ended December 31, 2000. The decrease in general and administrative expenses was attributable to a $1.4 million decrease in compensation and related expenses due to a reduction in head count, a $0.2 million decrease in legal expenses, a $0.1 million decrease in travel-related expenses, and a $0.2 million decrease in amortization expenses for certain other intangible assets that were fully amortized as of December 31, 2000. Additionally, general and administrative expenses for 2000 included a one-time severance and compensation payment of approximately $0.6 million to a prior executive officer.

Restructuring Expenses

In March 2001, we announced plans to reduce our full-time workforce by up to 30% and reduce other expenses in response to delays in customer orders, lower than expected revenues and slowing global market conditions. The cost reduction actions were designed to reduce our breakeven point in light of an economic downturn. The cost reductions resulted in a charge for employee severance, lease termination costs and other office closure expenses related to the consolidation of excess facilities. We recorded restructuring expenses in the first quarter of 2001 of approximately $2.9 million, as follows:

		(in thousands)
Employee termination costs	$	1,271
Impairment of property and equipment		1,007
Facility closures and related costs		637
Professional fees and other		20
Total	$	2,935

In June 2001, we announced plans to further reduce our full-time workforce by up to 17% and reduce other expenses in response to a continuing economic downturn and overall decrease in revenue. As a result of these additional restructuring actions, we recorded additional restructuring expenses during the second quarter of 2001 of approximately $1.5 million, as follows:

		(in thousands)
Employee termination costs	$	259
Impairment of property and equipment		350
Facility closures and related costs		861
Total	$	1,470

Employee termination costs consist primarily of severance payments for 180 employees. Impairment of property and equipment consists of the write-down of certain fixed assets associated with facility closures. Facility closures and related costs consist of lease termination costs and four sales offices and closure of our New York City location.

During the fourth quarter of 2001, we increased our March 2001 related restructuring accrual by approximately $0.2 million and our June 2001 related restructuring accrual by approximately $0.3 million due to the deterioration of various real estate markets and the inability to sublet excess space in our Carlsbad and New York City facilities.

The following is a summary of restructuring activity recorded during the year ended December 31, 2001:

March 2001 Restructuring

	Restructuring Expense	Amounts Utilized in 2001	Accrued Restructuring Expenses at December 31, 2001
		(in thousands)	
Employee termination costs	$ 1,271	$ (1,269)	$ 2
Impairment of property and equipment	1,007	(1,007)	
Facility closures and related costs	792	(398)	394
Professional fees and other	20	(20)	
Total	$ 3,090	$ (2,694)	$ 396

June 2001 Restructuring

	Restructuring Expense	Amounts Utilized in 2001	Accrued Restructuring Expenses at December 31, 2001
		(in thousands)	
Employee termination costs	$ 259	$ (259)	$
Impairment of property and equipment	350	(350)	
Facility closures and related costs	1,206	(361)	845
Total	$ 1,815	$ (970)	$ 845

Other Income

Other income decreased $2.5 million, or 89.4%, to $0.3 million for the year ended December 31, 2001 from $2.8 million for the year ended December 31, 2000. As a percentage of net revenue, other income decreased to 0.5% for the year ended December 31, 2001 from 2.3% for the year ended December 31, 2000. The decrease in the dollar amount of other income is attributable to a decrease in interest income earned on cash, cash equivalents and short-term investments of $1.1 million as a result of a decrease in our overall investments and declining interest rates in 2001 compared to 2000, a $0.7 million legal settlement recorded in 2001, a $0.4 million benefit from residual merger reserves from the Storage Dimensions, Inc./Artecon and Box Hill Systems/Artecon mergers recorded during 2000, and $0.3 million of other income recorded in 2000 as a result of a settlement reached with a former vendor.

Income Taxes

Our effective income tax rate was (54.6)% for the year ended December 31, 2001 compared to 16.8% for the comparable 2000 period. The 2001 effective income tax rate reflects the effect of a $16.0 million charge to the income tax provision in connection with an increase in the valuation allowance provided for deferred income tax assets.

Liquidity and Capital Resources

As of June 30, 2003, we had $30.7 million of cash, cash equivalents and short-term investments and working capital of $19.9 million. Assuming an offering price of $14.66, we expect to receive

approximately $106.3 million in net proceeds ($121.6 million if the over-allotment option is exercised in full) from the sale of our common stock in this offering.

We have an agreement with Wells Fargo Bank, National Association, which allows us to borrow up to $15.0 million under a revolving line of credit that expires May 1, 2004. The maximum amount we may borrow under this line is limited by the amount of our cash and investment balances held at the bank at any given time and may be reduced by the amount of any outstanding letters of credit with the bank. Borrowings under this line of credit are collateralized by a pledge of our deposits held at the bank. As of June 30, 2003, the amount available on this line was $15.0 million. Borrowings under this line of credit incur interest at the bank's prime rate or 50 basis points above LIBOR, at our option. Each month we pay interest only on outstanding balances, with the principal due at maturity. As of June 30, 2003, there was no balance outstanding under this line of credit.

Our Japanese subsidiary has three lines of credit with Tokyo Mitsubishi Bank and one line of credit with National Life Finance Corporation in Japan, for borrowings of up to an aggregate of 70 million yen, or approximately $0.6 million as of June 30, 2003, at interest rates ranging from 1.7% to 2.6%. Interest is due monthly, with principal due and payable on various dates through August 2008. Borrowings are secured by the inventories of our Japanese subsidiary. As of June 30, 2003, the total amount outstanding under the four credit lines was approximately 31.8 million yen, or approximately $0.3 million.

For the six months ended June 30, 2003, we had cash flow from operations of $7.0 million. We presently expect cash, cash equivalents, short-term investments, cash generated from operations and the net proceeds from this offering to be sufficient to meet our operating and capital requirements for at least the next twelve months. However, we may need additional capital to pursue acquisitions or significant capital improvements. The actual amount and timing of working capital and capital expenditures that we may incur in future periods may vary significantly and will depend upon numerous factors, including the amount and timing of the receipt of revenues from continued operations, our ability to manage our relationships with third party manufacturers, the status of our relationship with key customers, partners and suppliers, the timing and extent of the introduction of new products and services and growth in personnel and operations.

Effect of Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect the adoption of EITF Issue 00-21 to have a significant effect on our financial statements.

In May 2003, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Account Standards, or SFAS, No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the first interim period beginning after June 15, 2003, with certain exceptions. The adoption of this statement, effective July 1, 2003, is expected to have an insignificant effect on our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Credit Risk

Our exposure to market rate risk for changes in interest rates relates to our investment portfolio. Our primary investment strategy is to preserve the principal amounts invested, maximize investment yields, and maintain liquidity to meet projected cash requirements. Accordingly, we invest in instruments such as money market funds, certificates of deposit, U.S. Government/Agencies bonds, notes, bills and municipal bonds that meet high credit quality standards, as specified in our investment policy guidelines. Our investment policy also limits the amount of credit exposure to any one issue, issuer, and type of instrument. We do not currently use derivative financial instruments in our investment portfolio and we do not enter into market risk sensitive instruments for trading purposes. We do not expect to incur any material losses with respect to our investment portfolio.

The following table provides information about our investment portfolio at June 30, 2003. For investment securities, the table presents carrying values at June 30, 2003 and related weighted average interest rates by expected maturity dates.

	June 30, 2003 (amounts in thousands)
Cash equivalents	$ 10,793
Average interest rate	0.9%
Short-term investments	10,045
Average interest rate	2.4%
Total portfolio	$ 20,838
Average interest rate	1.4%

We have a line of credit agreement, which accrues interest at a variable rate. As of June 30, 2003, we had no balance under this line. Were we to incur a balance under this line, we would be exposed to interest rate risk on such debt.

Foreign Currency Exchange Rate Risk

A portion of our international business is presently conducted in currencies other than the U.S. dollar. Foreign currency transaction gains and losses arising from normal business operations are credited to or charged against earnings in the period incurred. As a result, fluctuations in the value of the currencies in which we conduct our business relative to the U.S. dollar will cause currency transaction gains and losses, which we have experienced in the past and continue to experience. Due to the substantial volatility of currency exchange rates, among other factors, we cannot predict the effect of exchange rate fluctuations upon future operating results. There can be no assurances that we will not experience currency losses in the future. We have not previously undertaken hedging transactions to cover currency exposure and we do not intend to engage in hedging activities in the future.

BUSINESS

Overview

We are a provider of storage systems for organizations requiring high reliability, high performance networked storage and data management solutions in an open systems architecture. Our storage solutions consist of integrated hardware and software products employing a modular system that allows end-users to add capacity as needed. Our broad range of products, from medium capacity stand-alone storage units to complete turn-key, multi-terabyte storage area networks, provides end-users with a cost-effective means of addressing increasing storage demands without sacrificing performance. Our SANnet products have been distinguished by certification as NEBS Level 3 and are MIL STD-810F compliant based on their ruggedness and reliability.

Our products and services are sold worldwide to end-users primarily through our channel partners, including OEMs, SIs and VARs. In May 2002, we entered into a three-year OEM agreement with Sun to provide our storage hardware and software products for private label sales by Sun. We have been shipping our products to Sun for resale to Sun's customers since October 2002. We continue to develop new products for resale by Sun and other channel partners and expect to begin shipping two additional new products for resale later this year.

As part of our focus on indirect sales channels, we have outsourced substantially all of our manufacturing operations to Solectron. Our agreement with Solectron allows us to reduce sales cycle times and manufacturing infrastructure, enhance working capital and improve margins by taking advantage of Solectron's manufacturing and procurement economies of scale.

Industry Background

Growth of Data Storage

The efficient generation, storage and retrieval of digital data and content has become increasingly strategic and mission-critical to organizations. The volume of this data continues to grow rapidly, driven by several factors including:

- the proliferation of different types of data, including graphics, video, text and audio;
- the emergence of Internet-based communication protocols which enable users to rapidly duplicate, change and re-communicate data;
- new government regulation necessitating additional storage in certain industries, such as recent requirements imposed on healthcare companies and evolving regulatory requirements for financial services companies;
- the implementation of enterprise-wide databases containing business management information;
- gains in network bandwidth and the technology for managing and classifying large volumes of data; and
- increased data storage requirements associated with homeland security.

According to IDC, the total storage capacity of all worldwide disk storage systems shipped will grow by 51.5% on a compounded annual basis between 2002 and 2006, reaching 2.6 million TB in 2006. IDC also estimates that the total combined amount of worldwide storage-related expenditures will increase from $54.0 billion in 2002 to over $71.4 billion in 2006, growing at an overall CAGR of 7.2%.

Traditionally, storage vendors have designed products for markets differentiated by capacity, performance, price and feature set. These storage markets are typically identified as:

- *Entry-level.* Entry-level storage products are designed for relatively low capacity, simple, stand-alone data storage needs of small organizations for which price and simplicity are the main purchasing considerations. Vendors address this market primarily through an indirect sales channel approach employing retailers and VARs that assist information technology, or IT, managers in identifying, purchasing and installing the product.
- *Midrange.* Midrange or departmental/workgroup storage products are designed for higher capacity and performance than entry-level products, but still feature ease of use and manageability, and are attached to a local server tailored to the needs of the local users. In this market, storage providers primarily sell their products to local IT managers through VARs and regional or small SIs.

High-end. High-end or data center storage products are designed for use by larger organizations where data storage and management is critical. These organizations require large capacity, high performance, automation, extreme reliability, continuous availability, systems interoperability, and global service and support. In this market, storage providers sell their products with a combination of a direct sales force and indirect channels, including OEMs, large SIs and managed services providers.

In addition to dramatic increases in the overall volume of data, the storage market has been influenced by the following major trends:

Migration to Network Computing. Computing processes and architectures have evolved from mainframe computing systems toward a centrally managed network computing environment characterized by multiple operating systems and server platforms that must share information. Organizations require large-scale data storage solutions offering:

- increased connectivity capabilities;
- greater capacity;
- higher performance;
- the ability to share data between different platforms;
- greater reliability; and
- greater protection.

Organizations have responded by implementing tailored networks, optimized for data storage functions, that facilitate data access and protection.

Increasing Focus on Total Cost of Ownership and Return on Investment. IT managers are increasingly focused on lowering the total cost of ownership and increasing their return on investment on each technology purchase. IT managers evaluate total cost of ownership and return on investment based upon several metrics, including initial purchase price, ease of provisioning, scalability, reliability and redundancy, ease of management, IT staff productivity, operating costs and after-sale service and support.

Network Storage: SANs and NAS

Customers require storage systems enabling them to capture, protect, manage and archive data across a variety of storage platforms and applications without sacrificing performance. Historically, the Small Computer Systems Interface, or SCSI, was the primary method of connecting storage to servers. Recently, Fibre Channel protocol was developed, which enables storage devices to connect to servers

over a networked architecture, allowing end-users to connect multiple storage devices with high bandwidth throughput over long distances and centrally manage their storage enviroment. Centrally managed network storage systems are designed to provide connectivity across multiple operating systems and devices and may be based on either open or proprietary technology standards. These network storage systems are generally divided into two areas: storage area networks, or SANs, and network attached storage, or NAS. Combined, IDC estimates that by 2006 NAS and Fibre Channel SAN sales will represent over 60.2% of the worldwide disk storage market compared to approximately 32.2% of the market in 2002.

Storage Area Networks. SANs apply the benefits of a networked approach to data storage applications, allowing large blocks of data to move efficiently and reliably between multiple storage devices and servers without interrupting normal network traffic. SANs provide high scalability, connectivity and fault-tolerance, which permits IT managers to create and manage centralized pools of storage and backup devices with redundant data paths. With the addition of file-sharing software, SANs also allow multiple hosts to share consolidated data, dramatically reducing the need to duplicate, move and manage multiple files in a wide variety of data-intensive applications. SANs primarily employ Fibre Channel technology.

IDC estimates that by 2006 Fibre Channel SANs will represent over 40.1% of the total spent worldwide on storage systems, up from 23.9% in 2002 and growing at a 14.7% CAGR from $4.8 billion in 2002 to $8.2 billion in 2006.

Network Attached Storage. NAS is based upon a disk array storage appliance that is attached directly to a network, rather than to a network server, and optimized for file storage. NAS appliances allow users to add storage capacity easily to networks without having to disable or increase demands on network servers. NAS storage is attractive to users principally requiring low acquisition cost, simplicity in installation and ease of management and file sharing.

IDC estimates that by 2006 NAS devices will represent 20.0% of the total spent worldwide on storage systems, up from 8.3% in 2002 and growing at a 25.6% CAGR from $1.7 billion in 2002 to $4.1 billion in 2006.

SAN/NAS Convergence. More recently, storage solutions providers are developing single storage devices capable of operating equally well in both environments. Such devices are intended to offer the ease of installation and management, file sharing, and cost effectiveness associated with NAS appliances along with the scalability, reliability, throughput and block data transfer rates offered by SANs.

Demand for High Performance, Affordable Network Storage Solutions

Customers increasingly demand higher performing, affordable solutions to address expanding storage requirements, interoperability across disparate systems, the need for improved connectivity and rising data management costs. Customers are also demanding open standards architecture and modular systems that allow them to add capacity as needed. These demands have created significant opportunities for network storage system solutions that are affordable and provide high performance.

Our Solutions

We offer a broad line of networked data storage solutions composed of standards-based hardware and software for open systems environments. Many of the performance attributes demanded by high-end/data center end-users are incorporated into our products, at prices that are suitable for the entry-level or midrange markets. Our end-users consist of entry-level, midrange and high-end/data center users, requiring cost-effective, easily managed, high performance, reliable storage systems. Our product lines range from approximately 180 GB appliances to complete 28 TB storage systems. These

offerings allow our products to be integrated in a modular building block fashion or configured into a complete storage solution, increasing OEM flexibility in creating differentiated products. Modular products also allow our indirect channel partners to customize solutions, bundling our products with value-added hardware, software and services.

Our products and services are intended to provide users with the following benefits:

Low Total Cost of Ownership and High Return on Investment. Our products combine reliability, flexibility, scalability and manageability into one of the smallest form factors in today's market. Our product set provides end-users with a low total cost of ownership due to our products' extreme reliability, the simplicity of our "plug-and-play" technology, decreased service and support costs and modular system approach that allows end-users to add capacity as needed. The modular nature of our products addresses our end-users' desire for a storage solution that does not require a large, upfront investment in a monolithic structure with unused capacity. In addition, we believe that our storage systems are among the most space-efficient in the storage industry, maximizing our customers' limited space and significantly reducing their costs. By extending and leveraging our customers' installed storage system and architecture, we are able to provide solutions that offer both a lower total cost of ownership and a higher return on investment.

Modular Scalability. Our products are designed using a single cohesive modular architecture that allows customers to size and configure storage systems to meet their specific requirements. This modular architecture also allows customers to easily expand and, in some cases, reconfigure a system as their needs change, permitting them to extend the useful life of and better utilize their existing systems. Currently our SANnet II SCSI product can be scaled from 180 GB to 5 TB of capacity in single disk increments and can also be reconfigured from direct attached storage, or DAS, to NAS by replacing our proprietary controller module. This feature enables our end-users to migrate from legacy DAS storage to network storage and scale capacity as demand increases.

Carrier-Class Reliability. We believe that high reliability is essential to our customers due to the critical nature of the data being stored. We design redundancy, 99.9998% reliability, high performance, and ruggedness into our storage systems. Redundant components have the ability to be replaced while the system is on line without interrupting network activity. All of our disk array products currently offered are certified to operate under extreme climatic and other harsh operating conditions without degradation in reliability or performance, as attested to with the NEBS Level 3 and MIL STD-810F certifications.

Open Systems, Multi-Platform Support. As an independent provider of storage products, we are well positioned to provide storage solutions on a variety of platforms and operating systems, including Linux, Unix and Windows. Our SANnet II line of systems supports multiple servers using different operating systems simultaneously. This multi-platform compatibility allows customers to standardize on a single storage system that can readily be reconfigured and redeployed at minimal cost as the customer's storage architecture changes.

Manageability. The ability to manage storage systems, particularly through software, is a key differentiator among storage vendors. SANscape, our storage management software, enables customers to more easily manage and configure their storage systems and respond to their changing system requirements. In addition, SANpath, our storage area networking software, further enhances performance and reliability.

Our Strategy

Our objective is to focus on profitable growth and capture an increasing share of the open systems storage solution market.

Focus on Profitable Growth. We have focused our business strategy in several ways to enhance our margins and increase profits.

Utilize indirect sales channels. We have adopted an indirect sales model to access end-user markets primarily through our OEM, SI and VAR partners. This allows us to benefit from our channel partners' extensive direct and indirect distribution networks, installed customer base, and greater sales, marketing, and global service and support infrastructures.

Outsource manufacturing and service operations. We outsource substantially all of our manufacturing operations to Solectron, a leading electronics manufacturing services company. Our agreement with Solectron allows us to reduce manufacturing infrastructure, enhance working capital, and improve margins by taking advantage of Solectron's manufacturing and procurement economies of scale. In addition, we encourage our channel partners to provide support and service directly to end-users.

Develop and Expand OEM Relationships. In May 2002, we entered into an OEM agreement with Sun under which Sun resells our SANnet II and SANscape products to its customers under Sun's private label. In addition to Sun, we have other OEM partners, including Comverse Technology and Motorola for our hardware products and StorageTek for our software products. We intend to continue seeking additional OEM relationships with other industry leaders to sell current and future products and expand the number of products offered to existing OEM partners to enable them to address new markets.

Broaden Non-OEM Channels to Diversify Revenues. We intend to continue expanding our non-OEM sales channels through SIs and VARs in order to decrease our revenue concentration with OEMs. In the second quarter of 2003, we launched a new channel marketing program and added 17 new non-OEM channel partners. In addition, we continue to sell direct to service providers, including NTT/Verio, Ofoto, a division of Kodak, and UUNET.

Grow and Extend Technology Leadership. We view our core competencies as the research, design and engineering of modular open storage systems. We believe that focused research and development on advanced, cost effective storage technologies is critical to our ongoing success. We intend to accelerate our expenditures on technology development and integration in order to offer more complete storage solutions and enhance our existing products to benefit our channel partners' efforts to increase sales. We expect to introduce our SANnet II NAS and Blade products later this year.

Pursue Strategic Alliances, Partnerships and Acquisitions. We will continue to evaluate and selectively pursue strategic alliances, partnerships and acquisitions that are complementary to our business. We believe that growth of the network storage market will create additional opportunities to expand our business. In addition, we believe the most efficient pursuit of these opportunities will be through strategic alliances and relationships, which allow us to leverage our existing design and marketing infrastructure while capitalizing on products, technologies and channels that may be available through potential strategic partners.

Our Products

We design our core family of open systems storage hardware and software products with the reliability, flexibility and performance necessary to meet IT managers' needs for easily scalable cost effective solutions. We offer storage systems in several configurations, including Fibre Channel, NAS and SCSI. Our software offerings consist of storage management applications, which can manage any

one or all of our storage system configurations, and performance enhancing software that we sell bundled with our storage systems or license separately to OEM customers.

All of our SANnet II products are NEBS Level 3 certified and MIL STD-810F compliant. NEBS guidelines were originally developed by Bellcore, now Telcordia, as ultra-high reliability standards for telecommunications equipment, including storage products. There are three levels of NEBS specifications. The most rugged and reliable equipment is rated carrier-class NEBS Level 3. The NEBS standards mandate a battery of tests designed to simulate the extreme conditions resulting from natural or man-made disasters and cover a range of product requirements for operational continuity. MIL STD-810F is a military standard created by the U.S. Government. It involves a range of tests used to measure the reliability of equipment in extreme conditions, including physical impact, moisture, vibration and high and low temperatures. These standards address system ruggedness and reliability, which are increasingly important requirements for end-users.

Our primary products include the following:

Product Line	Description	General Availability	Capacity	Target Market	Features
Hardware					
SANnet II SCSI	2 unit, 12 to 36 drives, Ultra160 SCSI DAS storage	4Q02	72 GB to 5.25 TB	Entry-level and Midrange	Compact 3.5 inch high enclosures, fully redundant RAID using SCSI connections, expandable storage capacity
SANnet II FC	2 unit, 12 to 192 drives, 2 Gigabit Fibre Channel SAN storage	1Q03	72 GB to 28 TB	Midrange and High-end	Complete SAN solution in a single enclosure, scalable performance and capacity without interruptions
SANnet II NAS	2 unit, 12 to 36 drives, 1 Gigabit Ethernet NAS storage	3Q03	72 GB to 5.25 TB	Midrange	Cross-platform file sharing, multiple levels of hardware RAID supported, expandable beyond a single enclosure
SANnet II Blade	1 unit, 4 to 12 drives, Ultra160 DAS or 1 Gigabit Ethernet NAS storage	4Q03	72 GB to 1.75 TB	Entry-level	Highly rack-optimized design, provides genuine hardware RAID functionality, connects to low-cost server SCSI ports
Software					

Product Line	Description	General Availability	Capacity	Target Market	Features
SANpath	Storage area networking software	1Q00	N/A	Midrange and High-end	Load balancing, multipathing, path fail over, path fail back and LUN masking
SANscape	Storage management software	1Q00	N/A	Entry-level, Midrange and High-end	Graphical and command line consoles with diagnostics, monitoring and reporting

SANnet II Family of Storage Solutions. We introduced our next generation open systems storage products, our SANnet II family, during the fourth quarter of 2002. SANnet II provides enterprise class

functionality to the entry-level, midrange and high-end storage markets at attractive prices. Through our SANnet II family of networked storage solutions, we offer compact, rugged RAID arrays that support SAN, NAS and DAS configurations. The SANnet II products provide 99.9998% uptime and are tested to operate in extreme environmental conditions. In addition, our SANnet II products share a common modular architecture and unified management system that integrates our SANpath and SANscape management software.

SANnet II SCSI. We launched our SANnet II SCSI storage product in October 2002. It is an entry-level and midrange SCSI-based storage product supporting capacities up to 5.25 TB for IT managers requiring a compact DAS storage solution.

SANnet II FC. We launched our SANnet II FC storage product in March 2003. It is a Fibre Channel-based storage product for IT managers that require an open systems storage solution for integration with a SAN.

SANnet II NAS. We expect to launch our SANnet II NAS storage product in the third quarter of 2003. Our NAS appliance supports capacities of up to 28 TB.

SANnet II Blade. We expect to launch our SANnet II Blade product during the fourth quarter of 2003. It is an entry-level ultra-compact storage solution supporting capacities up to 1.75 TB for both DAS and NAS architectures.

Software. We develop application software technologies and products that are complementary to our overall storage solutions. Our host-based software is delivered as two primary application suites: SANpath and SANscape. Our software supports widely used open systems platforms, including Linux, Unix, and Windows.

SANpath. SANpath is our storage area networking software that improves system performance and enables storage multipathing to ensure comprehensive reliability, availability and serviceability. Originally released during the first quarter of 2000, SANpath functions with SCSI or Fibre Channel connections and storage hardware, including our SANnet II storage solutions deployed within either DAS or SAN architectures. All SANpath managed environments may be re-configured without interruptions to operating systems or applications.

SANpath provides a number of features, such as: path fail over, load balancing, dynamic volume management, the reassignment of storage volume without server restarts and secure storage volume assignment via access control lists.

SANscape. SANscape is our storage management software that facilitates the monitoring, configuration and maintenance of our SANnet II storage solutions using a Java-based graphical user interface and a variety of tools. Originally released during the first quarter of 2000, SANscape also creates an optional consolidated interface for the administration of SANpath.

SANscape can be used to manage various storage solutions deployed throughout an organization. Its event tools monitor the storage solutions under management and report status changes to administrators by email, pager and other means.

Sales and Marketing

We market and distribute our products globally through our channel partners and directly to service providers. Our channel partners consist of OEMs, SIs and VARs, which we use to cost effectively pursue a wide range of potential end-users. We rely on multiple channels to reach end-user customers that range in size from small businesses to government agencies and large multinational corporations. We have established a channel partner program consisting of three tiers which distinguishes and rewards our partners for their levels of commitment and performance. We maintain a sales and marketing organization operating out of our headquarters in Carlsbad, California, with

regional offices in Germany, Japan, the Netherlands, Singapore and the United Kingdom as well as several smaller localized field sales offices throughout North America. Our products are sold under the Dot Hill brand name and under the names of our OEM customers. For the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003, our top five customers accounted for approximately 37.1%, 36.5%, 47.5% and 88.3%, respectively, of our net revenue.

As of June 30, 2003, our worldwide sales team consisted of 52 sales employees and 7 marketing employees.

OEMs

Our primary distribution channel is through OEMs. We have several OEM relationships and are actively developing new ones. Currently OEM partners include Comverse Technology, Motorola, StorageTek and Sun. OEMs generally resell our products under their own brand name and typically assume responsibility for marketing, sales, service and support. Our OEM relationships allow us to sell into geographic or vertical markets where each OEM has significant presence. For the year ended December 31, 2002, OEM sales represented 55.9% of our net sales and 83.1% for the six month period ended June 30, 2003. Sales to Sun accounted for 25.0% and 81.0% of our net revenue for the year ended December 31, 2002 and the six months ended June 30, 2003, respectively. Sales to Comverse Technology accounted for 15.0%, 9.5% and 1.6% of our net revenue for the years ended December 31, 2001 and 2002 and the six months ended June 30, 2003, respectively.

Systems Integrators and Value Added Resellers

Most of our non-OEM products are sold in conjunction with SIs and VARs who work closely with our sales force to sell our products to end-users. SIs and VARs generally resell our products under the Dot Hill brand name and share responsibility with us for marketing, sales, service and support.

In North America we sell directly to SIs and VARs. In markets outside of North America, we have relationships with a number of distributors who offer our products to local VARs or, in some countries, directly to end-users. We believe international markets represent an attractive growth opportunity and intend to expand the scope of our international sales efforts by continuing to actively pursue additional international distributors and resellers.

Service Providers

We sell directly to service providers, who integrate our storage products into their proprietary systems and provide access to their systems and related services to end-users. Our current service providers include NTT/Verio, Ofoto, a division of Kodak, and UUNET.

Marketing

We support our OEM, SI and VAR channels with a broad array of marketing programs designed to build our brand name, attract additional channel partners and generate end-user demand. Our product marketing team, located in Carlsbad, California, focuses on product strategy, product development roadmaps, the new production introduction process, product lifecycle management, demand assessment and competitive analysis. The product marketing team also ensures that product development activities, product launches, channel marketing program activities and ongoing demand and supply planning occur on a well-managed, timely basis in coordination with our development, manufacturing and sales groups, as well as our sales channel partners. The groups work closely with our sales and research and development groups to align our product development roadmap to meet key channel technology requirements.

Our Relationship with Sun

In May 2002, we entered into a three-year OEM agreement with an annual renewal to provide our SANnet II and SANscape products for private label sales by Sun. During October 2002, we began shipping to Sun the first product in our SANnet II family of systems, SANnet II SCSI, for resale to Sun's customers. We are developing new products primarily for sale by Sun and expect our relationship to continue to expand. For example, we began shipping our SANnet II FC to Sun in March 2003 and expect to begin delivery of a third product, SANnet II NAS, during the third quarter of 2003. There are no minimum purchase agreements or guarantees in our agreement with Sun, and the agreement does not obligate Sun to purchase its storage solutions exclusively from us.

As of June 30, 2003, Sun held the right to acquire from us a number of shares of common stock equal to up to 4.3% of our common stock outstanding. In May 2002, in connection with the original OEM agreement, we issued a warrant to Sun to purchase 1,239,527 shares of our common stock. In February 2003, we issued a warrant to Sun in connection with a private placement of our preferred stock. As of June 30, 2003, this warrant was exercisable for 136,291 shares of our common stock and may become exercisable for an additional 18,457 shares.

We believe that our relationship with Sun enhances our credibility in the marketplace, validates our technology and enables us to sell our products, through Sun, to a much broader customer base. In addition to expanding and enhancing our relationship with Sun, we intend to add OEM customers as a part of our overall strategy.

End-users

End-users of our products represent a wide variety of industries and range from small businesses to large enterprises, government agencies and other institutions. Our products are currently installed across many industries and markets. The table below lists representative end-users of our products:

Defense Agencies	Entertainment	Financial Services	Government Agencies
Department of National Defense and Canadian Forces	AOL Time Warner	American Express	Mexico Department of Labor
U.K. Ministry of Defense	CBS MarketWatch	Citigroup	NASA
U.S. Air Force	Fox Cable Networks	Tudor Investment	National Institute of Health
U.S. Army	Home Box Office	UBS Financial Services	U.S. Department of Justice
U.S. Navy	Vivendi Universal	VeriSign	U.S. Department of State
Healthcare	**Industrial/Technology**	**Telecommunications**	**Universities**
Arena Pharmaceuticals	Boeing	Ameritech	CalTech
Bracco Diagnostics	General Dynamics	AT&T	CASPUR
GenVault	Lockheed Martin	Lucent Technologies	CERN
Merck & Company	Raytheon	Nortel Networks Corporation	Rutgers University
St. Jude Children's Research Hospital	Texas Instruments	NTT DoCoMo	University of Stuttgart

Customer Service and Support

We recognize that providing comprehensive, proactive and responsive support is essential to establishing new customer accounts and securing repeat business. We provide comprehensive, 24 hours a day, seven days a week, 365 days a year, global customer service and support, either directly or through third party service providers, aimed at simplifying installation, reducing field failures, minimizing system downtime and streamlining administration. Through direct and third party service providers, we maintain a global network of professional engineers and technicians who provide telephonic technical support in various languages from strategically-located global response centers on a

24 hour, seven day basis. In addition, we provide four hour on-site service response on a global basis. We also offer all of our customers access to SANsolve, our web-hosted interactive support knowledge base that gives our customers the ability to find answers to technical questions as

well as initiate and track all support issues.

As part of our shift away from direct sales, we have also taken steps to better align our service and support structure with our new indirect sales model. For example, we have:

- Encouraged our channel partners to provide support and service directly to end-users. For example, Sun, our primary channel partner, provides all but the fifth and final level of support and service to its end-users; we provide that final level of support and service;

- Focused on providing the higher levels of support for a fee and the establishment of authorized service providers; and

- Entered into a services agreement in May 2003 with Anacomp to become the exclusive provider of on-site maintenance, warranty and non-warranty services for customers who purchase new maintenance agreements for our prior generation SANnet product family and other legacy products. Anacomp will also manage our non-warranty customers and be the exclusive distributor of spare parts for our legacy products. In addition, Anacomp will provide first and second level technical support for all of our product lines.

Despite our shift away from direct sales, we plan to continue to maintain our current service offerings, including onsite support contracts. These services will be performed either directly by us, or through the increased use of third party service providers.

Research and Development

Our research and development team is focused on developing innovative storage and networking products and storage management software for the open systems market. We have a history of industry firsts, including the first successfully commercialized hot-swappable SCSI Disk Array and RAID storage system for the Unix environment, and the first NEBS Level 3 certified and MIL STD-810F tested line of storage systems. We believe that our success depends on our ability to continuously develop products that meet changing customer needs and to anticipate and proactively respond to highly evolving technology in a timely and cost-effective manner. We also generally design and develop our products to have a modular architecture that can be scaled to meet customer needs and modified to respond to technological developments in the open systems computing environment across product lines.

Our areas of expertise include Linux, Unix and Windows driver and system software design, SAN storage resource management software design, data storage system design and integration and high-speed data interface design. We are currently focusing development efforts on our next-generation family of storage systems and on our software products. Projects include the launch of additional members of the SANnet II family of systems, including products supporting Serial Advanced Technology Attachment technology, commonly known as Serial ATA technology, improvements to our storage software offerings and next generation high-speed solutions that will take advantage of the latest transports and technologies.

Our research and development activities are directed by individuals with significant expertise and industry experience. Our total research and development expenses were $10.0 million for the year ended December 31, 2002 and $4.9 million for the six months ended June 30, 2003.

Manufacturing and Suppliers

In May 2002, we entered into a manufacturing agreement with Solectron whereby we outsourced substantially all of our manufacturing operations and an OEM agreement with Infortrend, a supplier of RAID controllers.

Our agreement with Solectron provides that Solectron will procure, assemble, test, stock and ship products on our behalf in accordance with procedures established by us. In addition, Solectron accepts and repairs returns of the products that it has manufactured for us. Solectron has manufactured all of the SANnet II systems since release. By outsourcing manufacturing we have been able to reduce expenses related to our internal manufacturing operations and focus on our research and development activities. Under our OEM agreement with Sun, Sun has the right to require that we use a third party to manufacture our products. This external manufacturer must meet Sun's engineering, qualification and logistics requirements.

Our OEM agreement with Infortrend entitles us to purchase controllers used in our products. Under the OEM agreement, Solectron may purchase these controllers directly from Infortrend to incorporate into our products. We incur no obligation for purchases made by Solectron from Infortrend.

Intellectual Property

Our success depends significantly upon our proprietary technology. We have received registered trademark protection for the marks SANnet®, SANpath®, SANscape®, Dot Hill®, Dot Hill Systems® and the Dot Hill® logo. We have attempted to protect our intellectual property rights primarily through copyrights, trade secrets, employee and third party nondisclosure agreements and other measures. We have registered trademarks and will continue to evaluate the registration of additional trademarks as appropriate. We claim common law protection for, and may seek to register, other trademarks. In addition, we generally enter into confidentiality agreements with our employees and with key vendors and suppliers.

As of June 30, 2003, we had been awarded a total of eight U.S. patents. However, we do not believe that our patents will provide us with any material competitive advantage. If we are unable to protect our intellectual property or infringe intellectual property of a third party, our operating results could be harmed.

Competition

The storage market is intensely competitive and is characterized by rapidly changing technology. We compete primarily against independent storage system suppliers, including EMC, Hitachi Data Systems, LSI Logic Storage Systems and Network Appliance. We also compete with traditional suppliers of computer systems, including Dell, HP and IBM, which market storage systems as well as other computer products.

Many of our existing and potential competitors have longer operating histories, greater name recognition and substantially greater financial, technical, sales, marketing and other resources. As a result, they may have more advanced technology, larger distribution channels, stronger brand names, better customer service and access to more customers than we do. Other large companies with significant resources could become direct competitors, either through acquiring a competitor or through internal efforts. Additionally, a number of new, privately held companies are currently attempting to enter the storage market, some of which may become significant competitors in the future.

We believe the principal competitive factors in the storage systems market are:

- Product performance, features, scalability and reliability;

- Price;
- Product breadth;
- Timeliness of new product introductions; and
- Interoperability and ease of management.

We believe that we compete favorably in each of these categories. To remain competitive, we believe we must invest significant resources in developing new products, enhancing our current products, and maintaining high quality standards and customer satisfaction.

Employees

As of June 30, 2003, we had 182 full-time employees, of whom 59 were engaged in sales and marketing, 56 in research and development, 43 in manufacturing, 18 in general management and administration and 6 in customer service and support. We have not had a work stoppage among our employees and none of our employees are represented under collective bargaining agreements. We consider our relations with our employees to be good.

Facilities

Our headquarters and principal research and marketing facilities occupy approximately 70,000 square feet in Carlsbad, California, under a renewable lease that expires in December 2003. In addition, we lease a sales office in Boston, Massachusetts, and six international offices in five countries: Germany, Japan, the Netherlands, Singapore and the United Kingdom. Solectron manufactures substantially all of our products. We believe that with our existing facilities and Solectron's manufacturing capabilities, we have the capacity to meet any potential increases to our forecasted production requirements and therefore believe our facilities are adequate to meet our needs in the foreseeable future.

Legal Proceedings

We are subject to various legal proceedings and claims, asserted or unasserted, which arise in the ordinary course of business. The outcome of the claims against us cannot be predicted with certainty. We believe that such litigation and claims will not have a material adverse effect on our financial condition or operating results.

MANAGEMENT

Executive Officers, Directors and Key Employees

The following table sets forth certain information concerning our executive officers, directors and key employees, including their ages, as of June 30, 2003:

Name	Age	Position
Executive Officers and Directors:		
James L. Lambert	50	Chief Executive Officer, President and Director
Dana W. Kammersgard	47	Chief Technical Officer
Preston S. Romm	49	Chief Financial Officer, Vice President, Finance, Treasurer and Secretary
Charles F. Christ(1)(2)	64	Chairman of the Board
Benjamin Brussell(1)(2)(3)	43	Director
Norman R. Farquhar(1)(2)(3)	57	Director
Chong Sup Park(3)	55	Director
William R. Sauey	75	Director
Key Employees:		
Richard B. McGee	42	Senior Vice President, Operations
Michael E. Munden	48	Senior Vice President, Customer Satisfaction
Kenneth W. Pitz	51	Senior Vice President, Sales Operations
Lisa F. Gulliver	41	Vice President, Sales OEM

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Governance and Nominating Committee.

Executive Officers and Directors

James L. Lambert has served as a director and our Chief Executive Officer since August 2000. From August 1999 to August 2000, Mr. Lambert served as our Chief Operating Officer and Co-Chief Executive Officer. Since August 1999, he has also served as our President and a director. A founder of Artecon, Mr. Lambert served as President, Chief Executive Officer and director of Artecon from its inception in 1984 until August 1999. Mr. Lambert currently serves as a director of the Nordic Group of Companies, a group of privately held companies. He holds a B.S. and a M.S. in Civil and Environmental Engineering from the University of Wisconsin, Madison. Mr. Lambert is William R. Sauey's son-in-law.

Dana W. Kammersgard has served as our Chief Technical Officer since August 1999. Mr. Kammersgard was a founder of Artecon and served as a director from its inception in 1984 until August 1999. At Artecon, Mr. Kammersgard served in various positions since 1984, including Secretary and Senior Vice President of Engineering from March 1998 until August 1999 and as Vice President of Sales and Marketing from March 1997 until March 1998. Prior to co-founding Artecon, Mr. Kammersgard was the director of software development at CALMA, a division of General Electric Company. Mr. Kammersgard holds a B.A. in Chemistry from the University of California, San Diego.

Preston S. Romm has served as our Chief Financial Officer, Vice President, Finance and Treasurer since November 1999. Mr. Romm has also served as our Secretary since April 2001. From January 1997 to November 1999, Mr. Romm was Vice President of Finance, Chief Financial Officer and Secretary of Verteq, Inc., a privately-held semiconductor equipment manufacturer. From November 1994 to January 1997, Mr. Romm was Vice President of Finance and Chief Financial Officer of STM

Wireless, Inc., a wireless data and voice equipment manufacturer. From July 1990 to November 1994, Mr. Romm was Vice President and Controller of MTI Technology Corporation, a provider of data storage systems. Mr. Romm holds a B.S. in Accounting from the University of Maryland and a M.B.A. from American University.

Charles F. Christ has served as Chairman of our Board of Directors since July 2000. Mr. Christ also serves as a director of Maxtor Corporation, a disk drive manufacturer, and Pioneer Standard Electronics, Inc., a broad-line distributor of computer products. From 1997 to 1998, Mr. Christ served as President, Chief Executive Officer and a director of Symbios, Inc. which was acquired by LSI Logic in 1998, a provider of storage systems and integrated circuits. He was Vice President and General Manager of the Components Division of Digital Equipment Corp., or DEC, where he launched and managed StorageWorks, DEC's storage division. Mr. Christ holds a B.S. in Industrial Engineering from General Motors Institute, now known as Kettering University, and a M.B.A. from Harvard Business School.

Benjamin Brussell has served as a director since August 1999, and was a director of Box Hill from November 1998 until August 1999. Since February 2001, Mr. Brussell has been President of General Management Company, which provides financial and strategic advisory services to technology companies. From March 1998 to December 2002, he served as Vice President of Corporate Development for Plantronics, a publicly traded company and a worldwide provider of communications products. From 1990 to 1998, Mr. Brussell was responsible for corporate development at Storage Technology Corporation, a manufacturer of storage systems, most recently serving as Vice President of Corporate Development. Mr. Brussell holds a B.A. in Math and Economics from Wesleyan University and a M.S. in Management from the M.I.T. Sloan School of Management.

Norman R. Farquhar has served as a director since August 1999. Since May 2003, Mr. Farquhar has served as Chief Financial Officer of 3E Company, a provider of environmental health and safety compliance services. He was a director of Artecon from April 1998 until August 1999. From January 2003 to May 2003, Mr. Farquhar served as a financial consultant to various privately held technology companies. From December 2001 to January 2003, Mr. Farquhar was Chief Financial Officer of Airprime, Inc., a leading provider of high-speed CDMA wireless data and voice products for the original equipment manufacturing market. From November 1999 to October 2001, Mr. Farquhar was Executive Vice President and Chief Financial Officer of Medibuy.com, a company that provides health care-related products exclusively over the Internet. Mr. Farquhar also held senior financial executive positions with Epicor Software Corporation, a provider of integrated eBusiness software solutions, Wonderware Corporation, an industrial automation software company, and MTI Technology Corporation, a provider of data storage solutions. Mr. Farquhar is also a member of the board of directors of nMetric, LLC, a privately held advanced scheduling software company. Mr. Farquhar holds a B.S. in Accounting from California State University, Fullerton and a M.B.A. from California State University, Long Beach.

Chong Sup Park has served as a director since August 1999. Since November 2002, Dr. Park has served as Managing Director at H&Q Asia Pacific, based in Palo Alto, California. He was a director of Artecon from 1996 until August 1999. From May 2002 to November 2002, Dr. Park served as a financial consultant. Dr. Park served as Chairman and CEO of Hynix Semiconductor, Inc., a semiconductor manufacturer, from March 2000 to May 2002, and as President and CEO of Hyundai Electrics America from September 1996 to February 2000. He is a member of the board of directors for ChipPAC, Inc., a provider of semiconductor packaging design, assembly, test and distribution services, and is the Chairman of the Board of Maxtor Corporation, a disk drive manufacturer. Dr. Park holds a B.A. in Management from Yonsei University, a M.A. in Management from Seoul National University, a M.B.A. from the University of Chicago and a Ph.D. in Management from Nova Southeastern

University.

William R. Sauey has served as a director since August 1999. From August 1999 until July 2000, Mr. Sauey served as Chairman of our Board of Directors. Mr. Sauey was a founder of Artecon and served as Chairman of its Board of Directors from Artecon's inception in 1984 until August 1999. Mr. Sauey founded and serves as Chairman of the Board of Directors of a number of manufacturing companies in the Nordic Group of Companies, a group of privately held independent companies of which Mr. Sauey is the principal shareholder. Mr. Sauey serves as a Trustee to the State of Wisconsin Investment Board and is a director of the Baraboo Bancorporation, a bank holding company. He is also a member of World Presidents Organization and serves on the board of directors of the National Association of Manufacturers. Mr. Sauey holds an honorary bachelor's degree from Northwestern University and a M.B.A. from the University of Chicago. Mr. Sauey is James Lambert's father-in-law.

Key Employees

Richard B. McGee has served as our Senior Vice President, Operations since April 2002. From 1990 to 2002, Mr. McGee served in various management positions at Qualcomm, Inc., including Vice President, Manufacturing/Engineering and Vice President, Operations. Mr. McGee holds an A.S. in Manufacturing Technology from San Diego City College and an Executive M.B.A. from Stanford University's AeA/Stanford Executive Institute.

Michael E. Munden has served as our Senior Vice President, Customer Satisfaction since April 2003. From August 1997 to April 2003, Mr. Munden served in various other management positions, including as our Vice President, Customer Service and Vice President, Operations. Mr. Munden served as Vice President, Operations at Falcon Systems, a storage product company, from September 1995 until the company was acquired by us in August 1997. From January 1995 to September 1995, Mr. Munden served as Manufacturing Manager for Grass Valley Group, a manufacturer and tester of printed circuit assemblies. From April 1993 to January 1995, Mr. Munden served as National Service Manager for Qualimetrics, a Dynatech Company, a manufacturer of automated weather systems and meteorological sensors. Mr. Munden hold an A.S. in Electronics from the College of San Mateo.

Kenneth W. Pitz has served as our Senior Vice President, Sales Operations since September 2000. From October 1992 to September 2000, Mr. Pitz served in various other management positions at our company and Box Hill Systems, including Vice President, Administration and Materials and General Manager. From 1977 to 1992, Mr. Pitz served in a variety of management positions at Lex/Schweber Electronics, subsequently Arrow Electronics, a distributor of wholesale electronic components and computer peripherals.

Lisa F. Gulliver has served as our Vice President, Sales OEM since January 2002. From May 1991 to January 2002, Ms. Gulliver served in various other sales and management positions at our company including Vice President, Strategic Accounts and Regional Sales Manager. From October 1987 to May 1991, Ms. Gulliver served as General Manager for Compu-Media, a retailer of specialty paper and films. Ms Gulliver holds an A.S. in Computer Engineering and a B.A. in Architecture from the University of New Mexico School of Architecture and Planning.

Board Committees and Meetings

Our board of directors has an Audit Committee, a Compensation Committee and a Governance and Nominating Committee.

Audit Committee

Our Audit Committee oversees our corporate accounting and financial reporting process. For this purpose, our Audit Committee performs several functions. Our Audit Committee evaluates the performance and assesses the qualifications of our independent auditors; determines the engagement of

our independent auditors; determines whether to retain or terminate our existing independent auditors or to appoint and engage new independent auditors; reviews and approves the retention of our independent auditors to perform any proposed permissible non-audit and audit-related services; monitors the rotation of partners of our independent auditors on our engagement team as required by law; reviews the financial statements to be included in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q; and discusses with management and our independent auditors the results of our annual audit and our quarterly financial results. Messrs. Farquhar, Chairman, Brussell and Christ are the members of our Audit Committee. All members of our Audit Committee are independent, as independence is currently defined by the Nasdaq National Market's listing standards. In addition, we adopted an audit committee charter that complies with the Nasdaq National Market. Our board of directors has determined that Mr. Farquhar is an audit committee financial expert.

Compensation Committee

Our Compensation Committee reviews and approves our overall compensation strategy and policies. Our Compensation Committee reviews and approves corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management; reviews and approves the compensation and other terms of employment of our Chief Executive Officer; and administers our stock option and purchase plans, deferred compensation plans and other similar programs. Messrs. Brussell, Chairman, Christ and Farquhar are the members of our Compensation Committee. Our board of directors believes our Compensation Committee members are independent within the meaning of the Nasdaq National Market's listing standards and free of any relationship that would interfere with their exercise of independent judgment as members of this committee.

Governance and Nominating Committee

Our Governance and Nominating Committee interviews, evaluates, nominates and recommends individuals for membership on our board of directors and its various committees, and nominates specific individuals to be elected as officers by our board of directors. No procedure has been established for the consideration of nominees recommended by stockholders. Messrs. Park, Chairman, Brussell and Farquhar are the members of our Governance and Nominating Committee. Our board of directors believes our Governance and Nominating Committee members are independent within the meaning of the Nasdaq National Market's listing standards and free of any relationship that would interfere with their exercise of independent judgment as members of this committee.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee consists of three outside directors, Messrs. Brussell, Farquhar and Christ, none of whom has ever been employed by us.

Compensation of Directors

Each non-employee director, excluding our Chairman, receives an annual fee of $16,000 plus an additional $2,000 for each scheduled regular meeting of our board of directors attended in person or an additional $1,000 for each scheduled regular meeting of our board of directors attended via telephone. Our Chairman receives an annual fee of $48,000 plus an additional $2,000 for each scheduled regular meeting of our board of directors attended in person or an additional $1,000 for each scheduled regular meeting of our board of directors attended via telephone. Members of our Audit, Compensation and Governance and Nominating Committees of our board of directors also receive additional fees for each committee meeting attended. For each committee meeting attended in person, the additional fee is $1,250 for our Committee Chairman and $1,000 for our other committee members. For each committee meeting attended via telephone, the additional fee is $750 for our Committee Chairman and $500 for our other committee members. During the fiscal year ended

December 31, 2002, the total compensation paid to our non-employee directors was $190,666. All members of our board of directors are also eligible for reimbursement for their expenses incurred in connection with attendance at board of directors and committee meetings in accordance with our policy.

Each of our non-employee directors also receives stock option grants under our 2000 Non-Employee Directors' Stock Option Plan, or our Directors' Plan. Only our non-employee directors or an affiliate of such directors, as defined in the Internal Revenue Code, are eligible to receive options under our Directors' Plan. Options granted under our Directors' Plan are intended by us not to qualify as incentive stock options under the Internal Revenue Code.

Option grants under our Directors' Plan are non-discretionary. Each person who is elected or appointed as a director and who, for at least one year preceding such election or appointment, has at no time served as a non-employee director, is automatically granted under our Directors' Plan, without further action by us, our board of directors or our stockholders, an option to purchase 50,000 shares of our common stock as of the date of such election or appointment. In addition, as of the date of our annual meeting each year, each member of our board of directors who is not employed by us and has served as a non-employee director for at least four months is automatically granted under our Directors' Plan, without further action by us, our board of directors or our stockholders, an option to purchase 10,000 shares of our common stock. No other options may be granted at any time under our Directors' Plan. The exercise price of options granted under our Directors' Plan may not be less than 100% of the fair market value of the common stock subject to the option on the date of the option grant. Options granted under our Directors' Plan vest as set out in our Directors' Plan during the optionholder's service as a director and any subsequent employment of the optionholder by, and/or service by the optionholder as a consultant to, us or our affiliates. Options granted under our Directors' Plan permit exercise prior to vesting, but in such event, the optionholder is required to enter into an early exercise stock purchase agreement that allows us to repurchase unvested shares, generally at their exercise price, if the optionholder's service is terminated. The term of options granted under our Directors' Plan is ten years. In the event of a merger with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving our company, the vesting of each option will accelerate and the option will terminate if not exercised prior to the consummation of the transaction.

During 2002, we granted options under our Directors' Plan covering 10,000 shares to each of the five non-employee directors as of our 2002 annual meeting, at an exercise price of $3.55 per share. The fair market value of our common stock based on the closing sales price reported on the New York Stock Exchange on the date of grant was $3.55 per share. As of June 30, 2003, no options had been exercised under our Directors' Plan.

Directors are also eligible to receive discretionary grants under our 2000 Amended and Restated Equity Incentive Plan, or Equity Incentive Plan. In recognition of his past and continuing significant contributions as our Chairman of the Board, effective January 1, 2003, we granted Charles Christ a non-statutory stock option under our Equity Incentive Plan to purchase 50,000 shares of our common stock at a price of $3.10 per share, based on the closing sales price reported on the American Stock Exchange on the date of grant. The option is subject to vesting over four years on the same terms as are applicable to options granted under the Directors' Plan.

Compensation of Executive Officers

The following table shows for the fiscal years ended December 31, 2000, 2001 and 2002, compensation paid, awarded or accrued by us for services rendered by our executive officers:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Awards
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Securities Underlying Options**
James L. Lambert	2002	$ 350,000	$	$	
Chief Executive Officer, President and Chief	2001	350,000	48,125		250,000
Operating Officer	2000	350,000	74,144		
Dana W. Kammersgard	2002	$ 264,423	$	$	
Chief Technical Officer	2001	250,000	56,250(1)		100,000
	2000	250,000	52,960		75,000
Preston S. Romm	2002	$ 185,500	$	$	
Chief Financial Officer, Vice President, Finance,	2001	185,971	23,188		100,000
Treasurer and Secretary	2000	174,832	25,950		75,000

(1) Includes forgiveness of indebtedness of Mr. Kammersgard in the amount of $25,000.

Stock Option Grants and Exercises

We grant options to our executive officers under our Equity Incentive Plan. As of June 30, 2003, options to purchase a total of 240,000 shares were outstanding under our Equity Incentive Plan and options to purchase 260,000 shares remained available for grant thereunder. For the fiscal year ended December 31, 2002, no options were granted to our executive officers.

The following table shows options exercised during 2002, and held as of December 31, 2002, by our executive officers.

FISCAL 2002 AGGREGATED OPTION EXERCISES AND VALUE OF OPTIONS

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)(2)(3)		Value of Unexercised In-the-Money Options at Fiscal Year-End ($)(2)(4)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James L. Lambert			117,041	148,959	64,280	117,220
Dana W. Kammersgard			86,042	98,958	42,855	78,145
Preston S. Romm			153,125	121,875	42,855	78,145

(1) Value realized is based on the fair market value of our common stock on the date of exercise minus the exercise price, or the actual sales price if the shares were sold by the optionee simultaneously with the exercise, without taking into account any taxes that may be payable in connection with the transaction.

(2) Reflects shares vested and unvested at December 31, 2002. Certain options granted under our Equity Incentive Plan and our Directors' Plan are immediately exercisable, but are subject to our right to repurchase unvested shares on termination of employment.

(3) Includes both in-the-money and out-of-the-money options.

(4) Calculated based on the fair market value of our common stock on December 31, 2002 less the exercise or base price. Excludes out-of-the-money options.

Employment, Severance and Change of Control Agreements

In August 1999, we entered into employment contracts with James L. Lambert and Dana W. Kammersgard that currently provide for base salaries in the amounts of $350,000 and $300,000, respectively. These employment contracts may be terminated at the option of either us or the employee "for cause" or, upon 30 days written notice, for convenience and "without cause." If we terminate for convenience, the employee is entitled to a severance payment equal to the employee's then-current annual base salary. In addition, following termination of employment other than due to death or disability, we may hire the employee as a consultant for a period of one year at a cost of 25% of the employee's then-current annual base salary, during which period the employee may not engage in any business activities that directly compete with our business. The agreements also provide for indemnification of the employees, non-disclosure of our confidential or proprietary information and health and dental insurance for the employee, his spouse and his children under the age of 21.

In November 1999, we executed an employment offer letter with Preston S. Romm pursuant to which Mr. Romm became our Chief Financial Officer. Mr. Romm's employment agreement currently provide for a base salary of $200,000. Mr. Romm's employment agreement may be terminated by us or Mr. Romm at will. The agreement also provides for non-disclosure of our confidential or proprietary information and health and dental insurance for Mr. Romm, his spouse and his children under the age of 21.

Effective August 23, 2001, we entered into change of control agreements with Messrs. Lambert, Kammersgard and Romm. Under Mr. Lambert's change of control agreement, in the event of an acquisition of our company or similar corporate event, Mr. Lambert's then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 150% of his annual base salary then in effect, reduced by any severance payments payable under his employment agreement. Mr. Kammersgard's change of control agreement provides that if Mr. Kammersgard's employment with us is terminated, other than for cause, in connection with an acquisition of our company or similar corporate event, Mr. Kammersgard's then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 125% of his annual base salary then in effect, reduced by any severance payments payable under his employment agreement. Mr. Romm's change of control agreement provides that, in the event of an acquisition of our company or similar corporate event, Mr. Romm's then remaining unvested stock and options will become fully vested and he will be entitled to a lump sum cash payment equal to 125% of his annual base salary then in effect.

In December 2002, our Compensation Committee adopted our 2003 Executive Compensation Plan, or 2003 Plan, applicable to Messrs. Lambert, Kammersgard and Romm for the year 2003. Our 2003 Plan provides for base salary in the amount of $350,000, $300,000 and $200,000, for Messrs. Lambert, Kammersgard and Romm, respectively. Except with respect to base salaries, the terms of our 2003 Plan are in addition to the terms of such officer's employment agreements. Our 2003 Plan provides for annual performance bonus potential of 75% of base salary for Mr. Lambert and 50% of base salary for Messrs. Kammersgard and Romm. The formula for the annual bonus calculation is as follows: 70% of the annual performance bonus potential is based on meeting revenue and net income goals. If we attain less than 85% of the revenue goals and net income goals for the year, no bonus is payable for the year. For each 1% increase above 85% of the revenue goal and, separately, the net income goal, a bonus equal to 3.3% of the annual target performance bonus will be paid, with no cap. 30% of the annual target performance bonus is subjective and may be tied to individual departmental goals and performance as determined by our Chief Executive Officer for Messrs. Kammersgard and Romm and our board of directors for Mr. Lambert.

SELLING STOCKHOLDERS

The table below presents information as of August 5, 2003 regarding the beneficial ownership of our common stock, as adjusted to reflect the shares of our common stock being offered hereby, by each stockholder who is selling shares in this offering.

Unless otherwise indicated, to our knowledge, all persons listed below have sole voting and investment power with respect to their shares of common stock. Share ownership in each case includes shares issuable upon exercise of outstanding options that are exercisable within 60 days after August 5, 2003.

Each selling stockholder is a director or officer, or an affiliate of a director, of Dot Hill Systems Corp. and is therefore prohibited from engaging in short sales pursuant to Section 16(c) of the Securities Exchange Act of 1934. None of the selling stockholders are, or are affiliated with, a registered broker-dealer.

	Shares Beneficially Owned Prior to Offering(1)			**Shares Beneficially Owned After Offering**	
Name	**Number of Shares**	**Percentage**	**Number of Shares Being Offered**	**Number of Shares**	**Percentage**
James L. Lambert(2)	1,573,828	4.8%	393,000	1,180,828	2.9%
Dana W. Kammersgard(3)	671,589	2.1%	135,000	536,589	1.3%
Preston S. Romm(4)	208,088	*	53,000	155,088	*
Charles F. Christ(5)	73,540	*	18,000	55,540	*
Benjamin L. Brussell(6)	91,457	*	23,000	68,457	*
Norman R. Farquhar(7)	91,665	*	23,000	68,665	*
Chong Sup Park(8)	91,665	*	23,000	68,665	*
William R. Sauey(9)	2,508,610	7.7%	627,000(11)	1,881,610	4.7%
Flambeau, Inc.(10) 15981 Valplast Road Middlefield, Ohio	1,049,494	2.0%	494,791	554,703	1.4%
Seats, Inc.(10) 1515 Industrial Street Reedsburg, Wisconsin	64,075	*	30,209	33,866	*

*
Less than 1%

Assumes no exercise of the underwriters' over-allotment option

(1)
This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission, or information certified to us by such officers, directors and principal stockholders. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 32,474,273 shares outstanding on August 5, 2003, adjusted as required by rules promulgated by the SEC.

(2)
Includes (i) 1,407,072 shares held jointly with Pamela Lambert, the spouse of James L. Lambert, our Chief Executive Officer, President and Chief Operating Officer, (ii) 1,440 shares held by Pamela Lambert, (iii) 66 shares held by Mr. Lambert's daughter, (iv) 1,332 shares held by the James Lambert IRA, and (v) options to purchase 163,918 shares exercisable within 60 days of August 5, 2003.

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(3)
Includes (i) 218 shares held by Lisa Kammersgard, the spouse of Dana Kammersgard, our Chief Technical Officer, as to which shares Mr. Kammersgard disclaims beneficial ownership, and (ii) options to purchase 118,855 shares exercisable within 60 days of August 5, 2003.

(4)
Includes (i) 400 shares held by Joseph and Neva Romm Family Trust, as to which Preston S. Romm, our Chief Financial Officer, Vice President, Finance, Treasurer and Secretary, is co-trustee and (ii) options to purchase 204,688 shares exercisable within 60 days of August 5, 2003.

(5)
Includes optittom"> 3,150

Guarantee deposits

549 3,004 503 3,030

Provision for lawsuits

6,548 6,209 6,439 6,549

Directors´ fees

6,876 6,862

Rebilled condominium expenses

408 368

Directors´ deposits

8 8

Sundry creditors

32 322

Fund administration	519		519	
Pending settlements for sales of plots	21		149	
Contributed leasehold improvements	212	637	212	690
Donations payable	2,410		3,029	
Present value other liabilities	(7)		(139)	
Trust account payable	283		282	
Other	635	12	598	12
	30,818	**9,863**	**30,593**	**10,150**

NOTE 13: **OTHER INCOME AND EXPENSES, NET**

The breakdown for this item is as follows:

	September 30, 2004	September 30, 2003
Other income:		
Gain from the sale of fixed assets and intangible assets	7	
Recovery of allowances	569	
Other	248	1,972
	824	**1,972**
Other expenses:		
Unrecoverable VAT	(85)	(160)
Donations	(48)	(156)
Contingencies for lawsuits	(243)	(37)
Debit and credit tax	(113)	(180)
Tax on personal assets	(953)	
Other	(73)	(111)
	(1,515)	**(644)**
Total other (expenses) income, net	**(691)**	**1,328**

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 14: **RESTRICTED ASSETS**

Puerto Retiro S.A.: extension of the bankruptcy

On April 18, 2000, Puerto Retiro S.A. was notified of a filing made by the National Government, through the Ministry of Defense, to extend the petition in bankruptcy of Inversora Dársena Norte S.A. (Indarsa) to Puerto Retiro S.A.. Concurrently with the complaint, at the request of plaintiff, the bankruptcy court granted an order restraining the ability of Puerto Retiro to sell or dispose in any manner the real estate property near Puerto Madero denominated *Planta 1* which had been acquired from Tandanor S.A. (Tandanor) in June 1993.

Indarsa had purchased 90% of the capital stock of Tandanor, a formerly state owned company privatized in 1991, engaged in the shipyard industry.

Indarsa did not comply with the payment of the outstanding price for the purchase of the stock of Tandanor, and therefore the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa were the shareholdings in Tandanor, the Ministry of Defense is pursuing to extend the bankruptcy to Puerto Retiro. The lawsuit is at its first stages and Puerto Retiro S.A. answered the claim and appealed the preventive measures ordered. This appeal was overruled on December 14, 2000.

Puerto Retiro S.A. believes, pursuant to the advice of its legal advisors, that the plaintiff s claim shall be rejected by the courts.

Hoteles Argentinos S.A.: mortgage loan

The Extraordinary Shareholders Meeting held on January 5, 2001, approved taking a long-term mortgage loan from Bank Boston N.A. for a total amount of US$ 12,000,000 to be used to refinance existing debts. The term of the loan was agreed at 60 months payable in 19 equal and quarterly installments of US$ 300,000 and one final payment of US$ 6,300,000. The agreement was signed on January 26, 2001.

Interest is paid quarterly in arrears at an annual interest rate equivalent to LIBOR for year loans plus the applicable mark-up per the contract, which consists in a variable interest rate that in the period ended September 30, 2004 ranged between 5.8700% and 6.0713%.

The guarantee granted was a senior mortgage on a Company property, which houses the Hotel Sheraton Libertador Buenos Aires.

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 14: (Continued)

As a result of the current economic situation, the lack of credit and the crisis of the Argentine financial system, principal installments of US$ 300 thousand falling due on January 26, April 29, July 29 and October 26, 2002; January 29, April 29, July 29 and October 29, 2003; January 29, April 29, July 29 and October 29, 2004 and the interest installments totaling US$ 1,514 thousand falling due on July 29 and October 26, 2002; January 29, April 29, July 29 and October 29, 2003; January 29, April 29, July 29, and October 29, 2004 were not paid. Although Hoteles Argentinos Management is renegotiating the debt with its creditors, as failure to pay the installments when due entitles the bank to require acceleration of principal and interest maturities, the loan has been classified and is shown under current financial loans. On March 5, 2004, BANKBOSTON N.A. formally notified Hoteles Argentinos S.A. that as from March 10, 2004 it assigned to Marathon Master Fund Ltd., domiciled at 461 Fifth Avenue, 10th floor, New York, NY 10017, USA, all the rights and obligations arising from the loan agreement entered into on January 26, 2001 between Hoteles Argentinos S.A. as borrower and BankBoston N.A., as lender, together with all the changes, guarantees and insurance policies related to that contract. Consequently, all pending obligations of Hoteles Argentinos S.A. must be fulfilled in favor of the assignee, Marathon Master Fund Ltd.

Alto Palermo S.A.- Restricted assets.

a) As of September 30, 2004, Shopping Neuquén S.A. includes Ps. 42 thousand in financial loans, corresponding to a mortgage set up on acquired land for Ps. 3,314 thousand.

b) On January 18, 2001, Shopping Alto Palermo S.A. issued negotiable obligations secured by all the shares representing its corporate capital transferred in trust in favor of their holders.

c) At September 30, 2004, the Company holds funds under other current receivables amounting to Ps. 107,922 attached by the National Labor Court of First Instance No. 40 in relation to the case Del Valle Soria, Delicia against New Shopping S.A. claiming unfair dismissal.

d) At September 30, 2004, there are Ps. 14,571 under non current investments related to shares of Emprendimiento Recoleta S.A. which are pledged.

e) At September 30, 2004 there is a balance of US$ 50 million in the caption other non-current receivables corresponding to funds guaranteeing derivative instruments transactions.

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 15: TARSHOP CREDIT CARD RECEIVABLE SECURITIZACION

Alto Palermo S.A. has ongoing revolving period securitization programs through which Tarshop, a majority-owned subsidiary of APSA, transfers a portion of its customer credit card receivable balances to a master trust (the Trust) that issues certificates to public and private investors.

To the extent the certificates are sold to third parties, the receivables transferred qualify as sales for financial statement purposes and are removed from the company balance sheet. The remaining receivables in the Trust which have not been sold to third parties are reflected on the company balance sheet as a retained interest in transferred credit card receivables. Under these programs, the company acts as the servicer on the accounts and receives a fee for its services.

Under the securitization programs, the Trust may issue two types of certificates representing undivided interests in the Trust - Títulos de Deuda Fiduciaria (TDF) and Certificados de Participación (CP), which represent debt, and equity certificates, respectively. Interest and principal services are paid periodically to the TDF holders throughout the life of the security. CPs are subordinated securities which entitle the CP holders to share pro rata in the cash flows of the securitized credit card receivables, after principal and interest on the TDFs and other fees and expenses have been paid. During the revolving period no payments are made to TDF and CP holders. Principal collections of the underlying financial assets are used by the Trust to acquire additional credit card receivables throughout the revolving period. Once the revolving period ends, a period of liquidation occurs during which: (i) no further assets are purchased and (ii) all cash collections are used to fulfill the TDF service requirements and (iii) the remaining proceeds are used to fulfill the CPs service requirements.

The Company entered into two-years revolving-period securitization programs, through which Tarshop sold an aggregate amount of Ps. 108.3 million of its customer credit card receivable. Under the securitization programs, the Trusts issued Ps. 16.1 million nominal value subordinated CPs, Ps. 33.1 million 9% fixed-rate interest TDFs, Ps. 11.1 million 10% fixed-rate interest TDFs, Ps. 4.1 million 13% fixed-rate interest TDFs, Ps. 11 million 14% fixed-rate interest TDFs, Ps. 0.9 million 15% fixed-rate interest TDFs, Ps. 20.0 million 18% fixed-rate interest TDFs, and Ps. 11.9 million variable-rate interest TDFs. Tarshop acquired all the CPs at an amount equal to their nominal value while the TDFs were sold to other investors through a public offering in Argentina except for Ps. 1.4 million, which were acquired by Tarshop S.A.. As a credit protection for investors, Tarshop has established cash reserves for losses amounting to Ps. 0.8 million.

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and subsidiaries

Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 16: INCREASE IN OWNERSHIP OF BANCO HIPOTECARIO S.A.

On December 30, 2003, the Company purchased 4,116,267 shares of Banco Hipotecario S.A. at US$ 2.3868 per share and 37,537 options at US$ 33.86 each, granting the later the right to purchase an additional total of 3,753,700 shares. This transaction implied a total disbursement of US$ 11.1 million.

Furthermore, on February 2, 2004, the Company and its subsidiary Ritelco exercised a substantial portion of the options acquired mentioned above, jointly with the options held before the end of the year. Accordingly, 4,774,000 shares for a total of Ps. 33.4 million were acquired.

During the last quarter of 2004, the Company sold a participation in Banco Hipotecario S.A. (2,487,571 shares) to the IFIS S.A. (indirect shareholder of the Company) at a unit price of Ps. 7.0, (market value), the total amount of the operation being US$ 6.1 million, generating a loss of Ps. 1.61 million.

Therefore, at the date of issuing these financial statements, the total holding amounted to 17,641,162 shares.

NOTE 17: INVESTMENT IN IRSA TELECOMUNICACIONES N.V.

In the fourth quarter of the year ended June 30, 2000, the Company had invested US$ 3.0 million, in the form of irrevocable capital contributions, into two unrelated companies, namely, Red Alternativa S.A., a provider of satellite capacity to Internet service providers, and Alternativa Gratis S.A., an Internet service provider (referred to herein as the Companies). At that date, the Companies were development stage companies with no significant operations.

Between July 2000 and August 2000, the Company, together with Dolphin Fund Plc, increased their respective investments in the above mentioned Companies, in exchange for shares of common stock. In a series of transactions, which occurred between August 2000 and December 2000, (i) the Company formed IRSA Telecomunicaciones N.V. (ITNV), a holding company organized under the laws of the Netherlands Antilles, for the purposes of completing a reorganization of the Companies (the Reorganization) and (ii) the Company, Dolphin Fund Plc and the previous majority shareholder of the Companies contributed their respective ownership interests in the Companies into ITNV in exchange for shares of common stock of ITNV.

In September and December 2000, the Company had made additional contributions to ITNV for US$ 3 million.

On December 27, 2000, the shareholders of ITNV entered into an agreement with Quantum Industrial Partners LDC (QIP) and SFM Domestic Investment LLC (SFM and together with QIP referred to herein as the Investors) (the Shareholders Agreement), under which the Investors contributed US$ 4.0 million in cash in exchange for 1,751,453 shares of Series A mandatorily redeemable convertible preferred stock and an option to purchase 2,627,179 additional shares of mandatorily redeemable convertible preferred

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 17: (Continued)

stock. Pursuant to the terms of the Shareholders Agreement, options were granted for a period up to five years and at an exercise price equal to the quotient of US$ 6.0 million by 2,627,179 preferred shares.

As a result of the Reorganization, the Companies are now wholly-owned subsidiaries of ITNV and the Company holds a 49.36% interest in ITNV. On or after December 27, 2005, ITNV might be required, at the written request of holders of the then outstanding Series A preferred stock to redeem such holders outstanding shares of series A preferred stock for cash at the greater of (i) 200% of the original issue price multiplied by the number of preferred stock to be redeemed, and (ii) the fair market value of the common shares each holder of Series A preferred stock would have been entitled to receive if such holder had converted the number of Series A preferred stock to be redeemed into common stock at the redemption date; plus in the case of (i) and (ii), any accrued or declared but unpaid dividends.

The investment in ITNV is valued at zero at the closing of the reported periods.

NOTE 18: MORTGAGE RECEIVABLE SECURITIZATION

The Board of Directors of IRSA, in the meeting held on November 2, 2001, authorized the setting up of a financial trust for the securitization of Company receivables. The trust program for issuing participation certificates, under the terms of Law No. 24.441, was approved by the National Securities Commission by means of Resolution No. 13.040, dated October 14, 1999, as regards the program and in particular as regards the Trust called IRSA I following a decision of the Board of Directors dated December 14, 2001.

On December 17, 2001, IRSA, Inversora Bolívar S.A. and Baldovinos S.A. (hereinafter the Trustors) and Banco Sudameris Argentina S.A. (hereinafter the Trustee) agreed to set up the IRSA I Financial Trust under the Global Program for the Issuance of FIDENS Trust Values, pursuant to the contract entered into on November 2, 2001.

Under the above program, the trustors have sold their personal and real estate credits, secured with mortgages or arising from bills of sale with the possession of the related properties, for the total amount of US$ 26,585,774 to the Trustee, in exchange for cash and the issuance by the Trustee of Participation Certificates for the same nominal value and in accordance with the following classes:

Class A Participation Certificates (CPA): Nominal value of US$ 13,300,000, with a 15% fixed annual nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following working day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPAs, and (b) an amortization.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 18: (Continued)

Class B Participation Certificates (CPB): Nominal value of US$ 1,000,000, with a 15.50% fixed annual, nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following working day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPAs, and (b) an amortization equivalent to the sums paid as from the Last Service Payment Date on which the total settlement of the CPA Certificates may have taken place, net of their fixed yield.

Class C Participation Certificates (CPC): Nominal value of US$ 1,600,000, with a 16% fixed annual nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following working day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPBs, and (b) an amortization equivalent to the sums paid as from the Last Service Payment Date on which the total settlement of the CPBs may have taken place, net of their fixed yield. The fixed yield will accrue as from the Cut-Off Date and will be capitalized on a monthly basis.

Class D Participation Certificates (CPD): Nominal Value of US$ 10,685,774. These grant the right to collect monthly the sums arising from the Cash Flows, net of the contributions made to the Expense Fund, once the remaining classes have been fully settled.

The period for placing the Participation Certificates was from December 27, 2001 to January 15, 2002. Pursuant to Decree No. 214/02, receivables and debts in U.S. dollars in the Argentine financial system as of January 6, 2002, were converted to pesos at the rate of exchange of Ps. 1 per US$ 1 or its equivalent in another currency and are adjusted by a reference stabilization index (CER) / coefficient of salary fluctuation (CVS).

On July 21, 2003 an amendment was signed to the trust contract by which a system of proportional adjustment to the Participation Certificates was established to recognize the CER and CVS, and also to modify the nominal value of the Participation Certificates Class D, with the new nominal value being Ps. 10,321,280.

At September 30, 2004, the value of Class D Participation Certificates amounted to Ps. 4,561 thousand in IRSA, Ps. 726 thousand in Inversora Bolívar S.A., and Ps. 187 thousand in Baldovinos S.A.. Class A, B, and C Certificates have been totally amortized at the end of the period.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 19: EXCHANGE AND OPTION CONTRACT

On September 7, 2004, Buenos Aires Trade & Finance Center S.A. and DYPSA, Desarrollos y Proyectos Sociedad Anónima signed an exchange and option contract whereby DYPSA proposed to acquire plots 1c) and 1e) belonging to the Company valued at US$ 8,030,000 and US$ 10,800,000, respectively, for the construction at its own expense and under its own responsibility of two housing buildings of 37 and 40 floors, parking lot and individual storage space. As consideration for the exchange of plot 1c), DYPSA agreed to deliver housing units, parking lots and storage spaces within a maximum term of 36 months, representing in the aggregate 28.50% of the housing unit area built in the first building.

Furthermore, DYPSA has an option to acquire plot 1e) mentioned above through an exchange, within a maximum term of 548 days counted as from the signing of the deed of conveyance of plot 1c) and subject to the progress of work agreed between the parties. In this case, DYPSA agreed to deliver within a maximum term of 36 months housing units, individual storage space and parking lots representing in the aggregate 31.50% of the housing unit area built in the second building.

These exchange transactions are subject to the approval of the project by Corporación Antiguo Puerto Madero (CAPM), which must be issued before December 6, 2004.

In guarantee of those operations, DYPSA set up a first mortgate in favor of the Company amounting to US$ 8,030,000 and US$ 10,800,000 on plots 1c) and 1e), respectively.

NOTE 20: DERIVATIVE INSTRUMENTS

Interest rate swaps

Alto Palermo S.A. (APSA) uses certain financial instruments to reduce its global financing costs. Furthermore, the Company has not used the financial instruments to hedge future operations or commitments. At September 30, 2004 and 2003, APSA held only one derivative financial instrument outstanding, an interest swap valued at estimated settlement cost. Differences generated by application of the mentioned valuation criteria were recognized in the results for the period.

In order to minimize its financing costs, APSA entered into an interest rate swap agreement to effectively convert a portion of its peso-denominated fixed-rate debt to peso-denominated floating rate debt. At March 31, 2001 the Company had an interest rate swap agreement outstanding with an aggregate notional amount of Ps. 85.0 million with maturity in April 2005. This swap agreement initially allowed APSA to reduce the net cost of its debt. However, subsequent to June 30, 2001, APSA modified the swap agreement due to an increase in interest rates as a result of the economic situation. Under the terms of the revised agreement, APSA converted its peso-denominated fixed rate debt to U.S. dollar-denominated floating rate debt for a notional amount of US$ 69.1 million with maturity in April 2005.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 20: (Continued)

As of September 30, 2004 the interest rate swap had an estimated settlement cost (fair value) of US$ 45.26 million. Any difference payable or receivable is accrued and recorded as an adjustment to disbursements for interest in the Statement of Income. During the three-month periods ended September 30, 2004 and 2003, APSA recognized gains of Ps. 1.1 million and of Ps. 4.6 million, respectively.

The inherent risk to Alto Palermo S.A. from the swap agreement is limited to the cost of replacing that contract at current market rates. Alto Palermo S.A. considers that such cost would increase in the event of a continuing devaluation of the peso.

- **Options contracts to purchase metals**

During the current quarter, Ritelco S.A. entered into future contracts for the purchase of silver; those operations were settled on September 30, 2004. In accordance with its risk administration policies, the Company enters into future metal contracts for speculative purposes.

The result generated during the three-month period ended September 30, 2004 corresponding to the silver futures transaction amounted to Ps. 859 (equivalent to U$S 295) which is recorded in the line Financial Results in the Statement of Income.

NOTE 21: ALTO PALERMO - ISSUANCE OF NEGOTIABLE OBLIGATIONS CONVERTIBLE FOR SHARES

On July 19, 2002, Alto Palermo S.A. issued Series I of Negotiable Obligations convertible for ordinary shares, par value of Ps. 0.10 each, for up to US$ 50,000,000.

After the end of the period granted to exercise the accretion right, the Negotiable Obligations convertible for Shares for US$ 50,000,000 were fully subscribed and paid-up.

This issuance was resolved at the Ordinary and Extraordinary Meeting of Shareholders held on December 4, 2001, approved by the National Securities Commission Resolution No. 14.196 dated March 15, 2002 and authorized to list for trading on the Buenos Aires Stock Exchange on July 8, 2002.

The main issue terms and conditions of the convertible Negotiable Obligations are as follows:

- Issue currency: US dollars.
- Due date: July 19, 2006.
- Interest: at a fixed nominal rate of 10% per annum. Interest is payable semi-annually.
- Payment currency: US dollars or its equivalent in pesos.
- Conversion right: the notes can be converted at any time at the option of each holder into ordinary shares at a conversion price equivalent to the higher of the result from dividing the nominal value of the Company s shares (Ps. 0.1) by the exchange rate and US$ 0.0324, which means that each Note is potentially exchangeable for 30.864 shares of Ps. 0.1 par value each.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 21: (Continued)

- Right to collect dividends: the shares underlying the conversion of the negotiable obligations will be entitled to the same right to collect any dividends to be declared after the conversion as the shares outstanding at the time of the conversion.

The Convertible Negotiable Obligations were paid in cash or by using liabilities due from APSA on the subscription date.

APSA applied the funds obtains from the offering of securities to payment of expenses and fees relating to issuing and placement of convertible negotiable obligations, payment of liabilities with shareholders and repurchase of negotiables obligations Class A-2 and B-2 the latter belong to its subsidiary Shopping Alto Palermo S.A., thus fulfilling the plan for allocation of funds duly presented to the National Securities Commission.

At September 30, 2004, third party holders of Convertible Negotiable Obligations have exercised their right to convert them for a total US$ 2.67 million, generating the issuing of 78,983,790 ordinary shares with a face value of Ps. 0.1 each. The total amount of Convertible Negotiable Obligations at September 30, 2004 was US$ 47.33 million.

NOTE 22: ALTO PALERMO - COMMITMENT TO MAKE CONTRIBUTIONS AND OPTIONS GRANTED TO ACQUIRE SHARES IN RELATED COMPANIES

APSA and Telefónica de Argentina S.A. have committed to make capital contributions in E-Commerce Latina S.A. for Ps. 10 million, payable during April 2001, according to their respective shareholdings, and, if approved by the Board of Directors of E-Commerce Latina S.A., to make an optional capital contribution for up Ps. 12 million for the development of new lines of business, of which Telefónica de Argentina S.A. would contribute 75% of that amount.

On April 30, 2001, Alto Palermo S.A. and Telefónica de Argentina S.A. made a contribution of Ps. 10 million, according to their respective shareholdings.

Additionally, E-Commerce Latina S.A. has granted Consultores Internet Managers Ltd., a special-purpose Cayman Islands´ corporation created to act on behalf of Altocity.com´s management and represented by an independent attorney-in-fact, an irrevocable option to purchase Class B shares of Altocity.com S.A. representing 15% of the latter´s capital, for an eight-year period beginning on February 26, 2000 at a price equial to the present and future contributions to Altocity.com S.A. plus a rate of 14% per year in dollars, capitalizable yearly.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 23: EARNINGS PER SHARE

Below is a reconciliation between the weighted-average number of ordinary shares outstanding and the diluted weighted-average number of ordinary shares. The latter has been determined considering the number of additional ordinary shares that would have been outstanding if the holders had exercised their right to convert the convertible negotiable obligations held by them into ordinary shares.

Weighted average outstanding shares total 248,803.

Conversion of negotiable obligations.

Weighted average diluted ordinary shares total 575,383.

Below is a reconciliation between net income used for calculation of the basic and diluted earnings per share.

	09.30.04	09.30.03
Result for calculation of basic earnings per share	17,190	(15,166)
Exchange difference	2,002	11,485
Interest	5,211	6,076
Result for calculation of diluted earnings per share	24,403	2,395
Net basic earnings per share	0.069	(0.071)
Net diluted earnings per share	0.042	0.004

NOTE 24: PROVISION FOR UNEXPIRED CLAIMS AGAINST LLAO LLAO HOLDING S.A.

The company Llao Llao Holding S.A. (in the process of dissolution due to merger with IRSA Inversiones y Representaciones S.A.), predecessor of Llao Llao Resorts S.A. in the operation of the hotel complex Hotel Llao Llao , which was awarded by Resolution No. 1/91 issued by the National Parks Administration, was sued in 1997 by that Administration to obtain collection of the unpaid balance of the additional sale price, in Argentine external debt securities amounting to US$ 2,870,000. A ruling of the court of original jurisdiction sustained the claim. That ruling was appealed, and the Court of Appeals confirmed the judgment of the court of original jurisdiction, demanding payment from the company of the mentioned amount in Argentine external debt securities available at the date of the ruling, plus interest accrued through payment, and compensatory and punitive interest and lawyers fees.

On March 2, 2004, the Company made a deposit of Ps. 7,191,115 in Banco de la Ciudad de Buenos Aires in favor of the National Parks Administration and a transfer of Argentine external debt securities class FRB - FRB L+13/16 2005 for a total nominal value of US$ 4,127,000, equivalent to Ps. 1,964,452. The total amount settled on that date was Ps. 9,155,567.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 24: (Continued)

The intervening court served notice to the plaintiff of payment made, and on June 30, 2004 the plaintiff presented a writing rejecting that payment, considering it partial settlement of the debt arising from the firm judgement filed in the records of the case, and requested the setting up of a time deposit with the funds paid, automatically renewable every thirty days, until final payment of the total debt.

The Court resolved the matter by considering notice to have been served; as regards the amount due, the plaintiff must conform the claim to current regulations. Until final resolution of the matter, Banco de la Ciudad de Buenos Aires was instructed to appropriate the funds to a renewable time deposit.

As a result of this situation, Management decided to increase the provision for unexpired claims to Ps. 4,643.

NOTE 25: **OPTION FOR THE ACQUISITION OF BENAVIDEZ**

On December 3, 2003, Inversora Bolívar S.A., and Desarrolladora El Encuentro S.A. (DEESA) signed a revocable option agreement for the acquisition of real property, whereby Inversora Bolívar S.A. granted an option to acquire land in Benavídez to DEESA.

In March 2004, DEESA notified Inversora Bolívar S.A. and the latter accepted exercise of the mentioned option. On May 21, 2004 an exchange deed was signed whereby DEESA agreed to pay US$ 3,980,000 to Inversora Bolívar S.A., of which US$ 979,537 were paid during the previous quarter and the balance of US$ 3,000,463 will be paid through the exchange of 110 residential plots already chosen and identified in the option contract mentioned in the first paragraph of this note. Furthermore, through the same act, DEESA set up a first mortgage in favor of Inversora Bolívar S.A. on real property amounting to US$ 3,000,463 in guarantee of compliance with the operation and delivered US$ 500,000 to Inversora Bolívar S.A. corresponding to a deposit in guarantee and a performance bonds on the obligations undertaken. This balance will not accrue interest in favor of DEESA, and will be returned as follows: 50% at the time of certification of the progress of work and the remaining 50% upon certification of 90% of work progress.

NOTE 26: **SUBSEQUENT EVENTS**

- Alto Palermo S.A. Shareholders   Ordinary Meeting:

The Shareholders Ordinary Meeting of APSA held on October 22, 2004 unanimously approved the distribution of cash dividends amounting to Ps. 17,895, of which the shareholders will collect approximately 80% as established by Section 69.1 of the Income Tax Law. The remaining balance of the result of APSA for the year ended June 30, 2004 was appropriated to legal reserve.

IRSA Inversiones y Representaciones Sociedad Anónima

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Notes to the Unaudited Consolidated Financial Statements (Contd.)

NOTE 26: (Continued)

- Inauguration of Alto Rosario Shopping:

On November 9, 2004 the Company inaugurated a new shopping mall, Alto Rosario Shopping, in the city of Rosario, Province of Santa Fe,.

Three stages have been planned for this project: first the inauguration of the shopping mall, second the opening of a hypermarket in December 2004, and third the inauguration of a cinema complex and Children s Museum in the first quarter of 2005.

The shopping mall will be opened with a 100% store occupancy rate.

IRSA Inversiones y Representaciones

Sociedad Anónima

Free translation of the

Unaudited Financial Statements

For the three-month period ended as of

September 30, 2004

In comparative format

Name of the Company:	IRSA Inversiones y Representaciones S.A.
Corporate domicile:	Bolívar 108 1º Floor Autonomous City of Buenos Aires
Principal activity:	Real estate investment and development

Unaudited Financial Statements at September 30, 2004

compared with the same period of the previous year

Stated in thousand of pesos

Fiscal year No. 62 beginning July 1º, 2004

DATE OF REGISTRATION WITH THE PUBLIC REGISTRY OF COMMERCE

Of the By-laws:	June 25, 1943
Of last amendment:	July 2, 1999
Registration number with the Superintendence of Corporations:	4,337
Duration of the Company:	Until April 5, 2043

Information related to subsidiary companies is shown in Exhibit C.

CAPITAL COMPOSITION (Note 9)

	Authorized for Public Offer of	**In thousand of pesos**	
Type of stock	**Shares**	**Subscribed**	**Paid up**
Common stock, 1 vote each	258,252,533	258,253	258,253

IRSA Inversiones y Representaciones Sociedad Anónima

Unaudited Balance Sheets as of September 30, 2004 and June 30, 2004

In thousand of pesos (Note 1)

	September 30, 2004	June 30, 2004
ASSETS		
CURRENT ASSETS		
Cash and banks (Exhibit G)	27,984	7,523
Investments (Exhibits C, D and G)	10,255	14,576
Mortgages and leases receivables, net (Note 2 and Exhibit G)	4,394	4,611
Other receivables (Note 3)	9,751	14,980
Inventories (Note 4)	8,002	5,430
Total Current Assets	**60,386**	**47,120**
NON-CURRENT ASSETS		
Mortgages and leases receivables, net (Note 2)	19	37
Other receivables (Note 3 and Exhibit G)	75,286	74,682
Inventories, net (Note 4)	260	233
Investments, net (Exhibits C, D and G)	1,111,026	1,077,696
Fixed assets, net (Exhibit A)	202,933	204,958
Total Non-Current Assets	**1,389,524**	**1,357,606**
Total Assets	**1,449,910**	**1,404,726**
LIABILITIES		
CURRENT LIABILITIES		
Trade accounts payable (Exhibit G)	2,139	2,055
Mortgages payable (Exhibit G)	2,236	2,218
Customer advances (Exhibit G)	1,388	1,040
Short term-debt (Note 5 and Exhibit G)	22,053	12,192
Salaries and social security payable	526	802
Taxes payable (Exhibit G)	889	2,177
Other liabilities (Note 6 and Exhibit G)	5,291	5,751
Total Current Liabilities	**34,522**	**26,235**
NON-CURRENT LIABILITIES		
Long term-debt (Note 5 and Exhibit G)	415,701	415,229
Customer advances	1,149	1,312
Taxes payable	2,060	817
Other liabilities (Note 6 and Exhibit G)	1,255	1,279
Total Non-Current Liabilities	420,165	418,637
Total Liabilities	454,687	444,872

SHAREHOLDERS´ EQUITY	995,223	959,854
Total Liabilities and Shareholders´ Equity	**1,449,910**	**1,404,726**

The accompanying notes and exhibits are an integral part of these unaudited financial statements.

Saúl Zang

Vicepresident acting as

President

IRSA Inversiones y Representaciones Sociedad Anónima

Unaudited Statements of Income

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos (Note 1)

	September 30, 2004	September 30, 2003
Sales, leases and services	3,871	8,018
Cost of sales, leases and services (Exhibit F)	(1,952)	(5,825)
Gross profit	**1,919**	**2,193**
Selling expenses (Exhibit H)	(292)	(547)
Administrative expenses (Exhibit H)	(2,474)	(1,715)
Operating loss	**(847)**	**(69)**
Financial results generated by assets:		
Interest income	2,430	2,759
Exchange gain generated by assets	1,064	10,368
Financial results	947	1,276
Interest on discount by assets	(24)	(64)
Subtotal	**4,417**	**14,339**
Financial results generated by liabilities:		
Exchange loss generated by liabilities	(3,392)	(19,014)
Interest on discount by liabilities	(5)	71
Financial expenses (Exhibit H)	(8,768)	(10,481)
Subtotal	**(12,165)**	**(29,424)**
Financial results, net	**(7,748)**	**(15,085)**
Net gain in related companies (Note 8.c.)	26,664	1,907
Other income (expenses), net (Note 7)	(186)	(498)
Income (loss) before tax	17,883	(13,745)
Income tax and asset tax (Notes 1.6.m., 1.6.n. and 12)	(693)	(1,421)
Income (loss) for the period	**17,190**	**(15,166)**

The accompanying notes and exhibits are an integral part of these unaudited financial statements.

Saúl Zang

Vicepresident acting as

President

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IRSA Inversiones y Representaciones Sociedad Anónima

Unaudited Statements of Changes in Shareholders Equity

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos (Note 1)

Items	Shareholders contributions				Reserved Earnings			
	Common Stock	Inflation adjustment of common stock	Additional paid-in-capital	Total	Legal reserve	Retained results	Total as of September 30, 2004	Total as of September 30, 2003
Balances as of beginning of year	248,803	274,387	595,505	1,118,695	19,447	(178,288)	959,854	809,186
Issuance of common stock	9,450		8,729	18,179			18,179	300
Income (loss) for the period						17,190	17,190	(15,166)
Balances as of September 30, 2004	258,253	274,387	604,234	1,136,874	19,447	(161,098)	995,223	
Balances as of September 30, 2003	212,212	274,387	569,590	1,056,189	19,447	(281,316)		794,320

The accompanying notes and exhibits are an integral part of these unaudited financial statements.

Saúl Zang

Vicepresident acting as

President

IRSA Inversiones y Representaciones Sociedad Anónima

Unaudited Statements of Cash Flows (1)

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos (Note 1)

	September 30, 2004	September 30, 2003
CHANGES IN CHASH AND CASH EQUIVALENTS		
Cash and cash equivalents as of beginning of year	9,864	120,292
Cash and cash equivalents as of end of period	28,282	93,801
Net increase (decrease) in cash and cash equivalents	**18,418**	**(26,491)**
CAUSES OF CHANGES IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES:		
- Income (loss) for the period	17,190	(15,166)
- Plus income tax and asset tax accrued for the period	693	1,421
- Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Equity in earnings of controlled and affiliated companies	(26,664)	(1,907)
Allowances and provisions	19	12
Amortization and depreciation	1,285	1,333
Financial results	(929)	11,652
- Changes in operating assets and liabilities:		
Decrease in current investments	6,005	3,858
Decrease in mortgages and leases receivables	227	243
Decrease (Increase) in other receivables	5,404	(1,912)
(Increase) Decrease in inventory	(1,574)	4,003
(Decrease) Increase in taxes payable, salaries and social security payable and customer advances	(1,398)	1,033
Increase in accounts payable	84	549
Increase in accrued interest	6,886	7,826
Decrease in other liabilities	(500)	(4,923)
Net cash provided by operating activities	**6,728**	**8,022**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease from equity interest in subsidiary companies	332	147
Increase interest in subsidiary companies	(483)	(2,687)
Purchase of subsidiary companies shares	(6,070)	
Loans granted to related parties		(1,460)
Purchase and improvements of undeveloped parcels of land	(99)	
Purchase and improvements of fixed assets	(169)	(49)
Net cash used in investing activities	**(6,489)**	**(4,049)**

CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of short-term and long-term debt		(30,464)
Issuance of common stock	18,179	
Net cash provided by (used in) financing activities	**18,179**	**(30,464)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**18,418**	**(26,491)**

(1) Includes cash and banks and investments with a realization term not exceeding three months.

The accompanying notes and exhibits are an integral part of these unaudited financial statements.

Saúl Zang

Vicepresident acting as

President

IRSA Inversiones y Representaciones Sociedad Anónima

Unaudited Statements of Cash Flows (Continued)

For the three-month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos (Note 1)

	September 30, 2004	September 30, 2003
Supplemental cash flow information:		
Interest paid	1,525	1,934
Income tax paid		
Non-cash activities:		
Increase in inventory through a decrease in fixed assets	1,028	2,606
Decrease in short - term and long - term through an increase in other liabilities		1,326
Decrease in non - current investments through an increase in other receivables		2,220
Conversion of unsecured convertible Notes into ordinary shares		300

Saúl Zang

Vicepresident acting as

President

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Below are the most relevant accounting standards used by the Company to prepare these unaudited financial statements:

1.1. Issuance of new technical pronouncements

The Professional Council in Economic Sciences of the Autonomous City of Buenos Aires approved Technical Pronouncements No. 16: Conceptual framework for professional accounting standards , No. 17: Professional accounting standards: development of some general application issues , No. 18 : Professional accounting standards: development of some particular application issues , No. 19: Amendments to Technical Pronouncements Nos. 4, 5, 6, 8, 9, 11 and 14 and 20: Derivatives and hedging transactions , through Resolutions C 238/01, C 243/01, C 261/01, C 262/01 and C 187/02, respectively; the Technical Pronouncements and subsequent amendments to them become effective to the Company for the fiscal year ended June 30, 2003, except for TR 20 which become effective on July 1, 2003.

The National Securities Commission adopted the mentioned Technical Pronouncements, incorporating certain amendments, which apply to fiscal years commencing on January 1, 2003, but admiting early application.

Furthermore, the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires approved Technical Pronouncement No. 21: Equity Method Value consolidation of financial statements information to disclose on related parties through Resolution M.D. No. 5/2003. This Technical Pronouncement and the modifications it amendments there to, became effective to the Company for the fiscal year ended June 30, 2004. Furthermore, the National Securities Commission has adopted that standard, making certain changes and establishing that it is applicable to fiscal years commenced as from April 1, 2004, admiting early application.

1.2. Preparation and presentation of financial statements

These unaudited financial statements are stated in Argentine pesos and were prepared in accordance with disclosure and valuation criteria contained in the Technical Pronouncements issued by the Argentine Federation of Professional Councils in Economic

Sciences, approved with certain amendments by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires, in accordance with the resolutions issued by the National Securities Commission.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.2. (Contd.)

The financial statements for the three-month periods ended September 30, 2004 and 2003 have not been audited. The Company s management considers that they include all the necessary adjustments to fairly present the results for the periods referred to.

The result for the period ended September 30, 2004 does not necessarily reflect proportionality the Company s results for the complete fiscal years.

1.3. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses for the period. Estimates are used when accounting for allowance for doubtful accounts, depreciation, amortization, impairment of long-lived assets, income taxes and contingencies. Future actual results could differ from the estimates and assumptions prepared at the date of these unaudited financial statements.

1.4. Recognition of the effects of inflation

The financial statements have been prepared in constant monetary units, reflecting the overall effects of inflation through August 31, 1995. As from that date, in accordance with professional accounting standards and the requirements of the control authorities, restatement of the financial statements was discontinued until December 31, 2001. As from January 1, 2002 in accordance with professional accounting standards, recognition of the effects of inflation in these unaudited financial statements was re-established, considering that the accounting measurements restated due to changes in the purchasing power of the currency until August 31, 1995 as well as those arising between that date and December 31, 2001 are stated in currency of the latter date.

On March 25, 2003, the National Executive Branch issued Decree No. 664 establishing that the financial statements for years ending as from that date must be stated in nominal currency. Consequently, in accordance with Resolution No. 441 issued by the National Securities Commission, the Company discontinued the restatement of its financial statements as from March 1, 2003. This criterion is not in line with current professional accounting standards, which establish that the financial statements must be restated through September 30, 2003. However, due to the low materiality of inflation rates during the period from March to September 2003, this deviation has not had a material effect on the financial statements taken as a whole.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.4. (Contd.)

The rate used for restatement of items in these unaudited financial statements until February 28, 2003 is the domestic wholesale price index published by the National Institute of Statistics and Census.

1.5. Comparative information

Balance sheet items at June 30, 2004 shown in these financial statements for comparative purposes arise from the audited annual financial statements corresponding to the year then ended.

Balances at September 30, 2004 shown in the Statement of Income, Changes in Shareholders Equity and Cash flows are shown on a comparative basis with those for the same period of the previous year.

1.6. Valuation criteria

a. Cash and banks

Cash on hand has been valued at face value.

b. Foreign currency assets and liabilities

Foreign currency assets and liabilities were valued at period-end exchange rates.

Operations denominated in foreign currency are converted into pesos at the rates of exchange in effect at the date of settlement of the operation. Operations in foreign currency are shown in the Statement of Income under Financial results, net .

In accordance with Decree 214/02, certain assets and liabilities denominated in US dollars or other foreign currencies existing at January 6, 2002 were converted into pesos at the parity of Ps. 1 per US$ 1 and adjusted through application of the reference stabilization index (CER).

c. Short-term investments

Time deposits were valued at placement value plus financial results accrued based on the internal rate of return determined at that moment.

Short-term investments in debt securities, shares and mutual funds were valued at their net realization value.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

d. Mortgages and leases receivables

Mortgages and leases receivables and accounts payable were valued at the price applicable to spot operations at the time of the transaction plus interest and implicit financial components accrued at the internal rate of return determined at that moment.

e. Financial receivables and payables

Financial receivables and payables were valued at the amount deposited and collected, respectively, net of operating costs, plus financial results accrued based on the rate estimated at that time.

f. Other receivables and payables

Sundry receivables and payables (Asset tax, deposits in guarantee and accounts receivable in trust) show in other non current receivables and liabilities were valued based on the best estimate of the amount receivable and payable, respectively, discounted at the interest rate applicable to freely available savings accounts published by the Argentine Central Bank in effect at the time of incorporation to assets and liabilities, respectively.

As established by the regulations of the National Securities Commission and as mentioned above, deferred tax assets and liabilities have not been discounted. This criterion is not in accordance with current accounting standards in effect in the Autonomous City of Buenos Aires, which require that those balances be discounted. The effect resulting from this difference has not had a material impact on the financial statements.

Credits in kind:

The Company records a receivable in kind corresponding to the right to receive units to be built in relation to the Edificio Cruceros property. This credit was valued according to the rules for accounting measurement of goods to be received, and is shown in the non-current portion of Other receivables .

Liabilities in kind:

The Company records a liability in kind corresponding to an obligation to deliver units to be built in relation to the San Martín de Tours property. This liability was valued at the higher of amounts received or the estimated cost of building of the units plus additional costs to transfer the assets to the creditor, and is shown as a current liability under Mortgages payable .

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

g. Balances corresponding to financial transactions and sundry receivables and payables with related parties

Receivables and payables with related parties generated by financial transactions and other sundry transactions were valued in accordance with the terms agreed by the parties.

h. Inventory

A property is classified as available for sale upon determination by the Board of Directors that the property is to be marketed for sale in the normal course of business over the next several years.

Residential, office and other non-retail properties completed or under construction are stated at cost, adjusted for inflation as mentioned in Note 1.4., or estimated net realizable value, whichever is lower. Costs include land and land improvements, direct construction costs, construction overhead costs, interest on indebtedness and real estate taxes. Selling costs are deferred and charged to expense in the period in which the related revenue is earned, as determined under the percentage-of-completion method. Total contract costs are charged to expense in the period in which the related revenue is earned, as determined under the percentage-of-completion method. No interest costs were capitalized during the three month period ended September 30, 2004 and the year ended June 30, 2004.

Properties held for sale are classified as current or non-current based on the estimated date of sale and the time at which the related receivable is expected to be collected by the Company.

At September 30, 2004, the Company maintains allowances for impairment of certain inventories, totaling Ps. 954 (identified as Avda. Madero 1020, Rivadavia 2768, Minetti D, Torres Jardín, Sarmiento 517 and parking lots in Dock 13).

The accounting value of inventories, net of allowances set up, does not exceed their estimated recoverable value.

i. Long -term investments

i.a. Investments in debt securities:

Investments in debt securities were valued based on the best estimate of the discounted amount receivable applying the corresponding rate of return estimated at the time of incorporation to assets, as the Company will hold them to maturity. The value thus obtained does not exceed the respective estimated recoverable value at the end of the period.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6.i. (Contdd.)

i.b. Investments in shares of subsidiaries and related companies:

The long-term investments in subsidiaries and related companies detailed in Exhibit C have been valued by using the equity method of accounting based on the financial statements at September 30, 2004 issued by them.

The accounting standards used by the subsidiaries to prepare their financial statements are the same as those used by the Company.

The accounting standards used by the related companies to prepare their financial statements are those currently in effect.

This item also includes the lower or higher value paid for the purchase of shares in subsidiaries and related companies which exceeds or is below the market value of the assets acquired, and goodwill related to Alto Palermo S.A. and Banco Hipotecario S.A.

As a result of the purchase of shares and the exercise of the options mentioned in Note 16 to the consolidated financial statements, the Company has reevaluated the accounting criterion to be used for valuation of its participation in Banco Hipotecario S.A. and subsidiaries (Banco de Crédito y Securitización S.A.), originally recognized at net realization value and restated acquisition cost, respectively. Taking into account the current participation of the Company in these entities, the exercise of significant influence on their decisions and the intention to maintain the participation as a long-term investment, the Company has valued its investment in these companies by the equity method of accounting. In accordance with the regulations of the BCRA and the contracts signed as a result of Banco Hipotecario S.A. s financial debt restructuring process, there are certain restrictions on the distribution of profits by Banco Hipotecario S.A. to the Company.

Certificates of participation in IRSA I financial trust:

The Class D certificates of participation in IRSA I financial trust have been valued at the amount resulting from apportioning the participation certificate holding to the trust assets.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6.i. (Contd.)

Undeveloped parcels of lands:

The Company acquires undeveloped land in order to provide an adequate and well-located supply for its residential and office building operations. The Company s strategy for land acquisition and development is dictated by specific market conditions where the Company conducts its operations.

Land held for development and sale and improvements are stated at cost adjusted for inflation mentioned in Note 1.4., or estimated net realizable value, whichever is lower. Land and land improvements are transferred to inventories when construction commences.

At September 30, 2004 the Company maintains allowances for impairment of certain parcels of undeveloped land totaling Ps. 8,253 (identified as Pilar, Torres Jardín IV, Constitución 1111and Terrenos Caballito).

The values thus obtained, net of the allowances recorded, do not exceed their respective estimated recoverable values at the end of period.

j. Fixed assets

Fixed assets, net comprise primarily of rental properties and other property and equipment held for use by the Company.

Fixed assets value, net of allowances set up, does not exceed estimated recoverable value at the end of the period.

Rental properties

Rental properties are carried at cost, adjusted for inflation as mentioned in Note 1.4., less accumulated depreciation. Costs incurred for the acquisition of the properties are capitalized. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 50 years for buildings. Expenditures for ordinary maintenance and repairs are charged to results in the period incurred. Significant renovations and improvements, which improve or extend the useful life of the asset are capitalized and depreciated over its estimated remaining useful life. At the time depreciable assets are retired or otherwise disposed of, the cost and the accumulated depreciation of the assets are eliminated from the accounts and the resulting gain or loss is disclosed in the statement of income.

The Company capitalizes interest on long-term construction projects. No interest costs were capitalized during the reported periods.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6.j. (Contd.)

At September 30, 2004 the company maintains allowances for impairment of certain rental property, totaling Ps. 9,290 (identified as Avda. Madero 1020, Reconquista 823, Avda. Madero 942 and Sarmiento 517, Suipacha 664, Av. de Mayo 595, Costitución 1111, Libertador 602, Maipú 1300, Libertador 498, Laminar Plaza and Costeros Dique IV).

Software obtained or developed for internal use

The Company capitalizes certain costs associated with the development of computer software for internal use. Costs capitalized during the period ended September 30, 2004 and the year ended June 30, 2004 were not material.

These costs are being amortized on a straight-line basis over a period of 3 years.

Other properties and equipment

Other property and equipment properties are carried at cost, adjusted for inflation as mentioned in Note 1.4., less accumulated depreciation. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

Asset	Estimated useful life (years)
Leasehold improvements	On contract basis
Furniture and fixtures	5
Computer equipment	3
Vehicles	5

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements are added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

k. Deferred Financing Cost

Expenses incurred in connection with the issuance of debt and proceeds of loans have been deferred and are being amortized using the interest method over the life of the related issuances. In the case of redemption of this notes, the related expenses are amortized using the proportional method.

Amortization has been recorded under Financial Results in the statements of income.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

l. Customer advances

Customer advances represent payments received in advance in connection with the sale and rent of properties.

m. Income tax

The Company has recognized the charge for income tax by the deferred tax liability method, recognizing timing differences between measurements of accounting and tax assets and liabilities (See Note 12).

To determine deferred assets and liabilities, the tax rate expected to be in effect at the time of reversal or use has been applied to timing differences identified and tax loss carryforwards, considering the legal regulations approved at the date of issuance of these unaudited financial statements.

Since it is unlikely that future taxable income will fully absorb tax loss carryforwards, the Company has recorded an impairment on a portion of that credit.

n. Asset Tax

The Company calculates Asset tax by applying the current 1% rate on computable assets at the end of the period. This tax complements income tax. The Company s tax obligation in each year will coincide with the higher of the two taxes. However, if Asset tax exceeds income tax in a given year, that amount in excess will be computable as payment on account of income tax arising in any of the following ten years.

At September 30, 2004, the Company has estimated the asset tax, recognizing under Other receivables (non-current) the amount estimated to be offset as payment on account of income tax in future years in accordance with current regulations, and expensing the remaining balance.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

o. Allowances and Provisions

Allowance for doubtful accounts: the Company provides for losses relating to mortgage, lease and other accounts receivable. The allowance for losses is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the terms of the agreements. The allowance is determined on a one-by-one basis considering the present value of expected future cash flows. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimations, and the unaudited financial statements reflect that consideration.

For impairment of assets: the Company regularly evaluates its non-current assets for recoverability. The Company considers that an impairment loss is recorded whenever the recoverable value is lower than book value. Impairment losses must be expensed against the result for the period. The recoverable value is mainly calculated using independent appraisals or projections of future cash flows. At the end of each year the Company estimated the recoverable value of its non-current assets, recording a charge due to impairment or reversing the provision.

For lawsuits: the Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor and other matters. The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company s estimates of the outcomes of these matters and the Company s lawyers experience in contesting, litigating and settling other matters.

As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs, which could have a material effect on the Company s future results of operations and financial condition or liquidity.

At the date of issuance of these unaudited financial statements, Management understands that there are no elements to foresee potential contingencies having a negative impact on these unaudited financial statements.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

p. Shareholders equity accounts

Movements in shareholders equity accounts have been restated following the guidelines detailed in Note 1.4. until February 28, 2003. Subsequent movements are stated in the currency of the month to which they correspond.

The Common stock account was stated at historical nominal value. The difference between value stated in constant currency, following the guidelines detailed in Note 1.4., and historical nominal value is shown under Inflation adjustment of common stock forming part of the shareholders equity.

q. Results for the period

The results for the period are shown as follows:

Income accounts are shown in currency of the month to which they correspond.

Charges for assets consumed (fixed asset depreciation, intangible asset amortization and cost of sales) were determined based on the values recorded for such assets.

Results from investments in controlled and affiliated companies was calculated under the equity method, by applying the percentage of the Company s equity interest to the results of such companies, with the adjustments for application of Technical Pronouncement 21.

r. Advertising expenses

The Company generally charges the advertising and publicity expenses to results when they are incurred. Advertising and promotion expenses were approximately Ps. 69 thousand and Ps. 118 thousand for the periods ended September 30, 2004 and 2003, respectively.

s. Pension information

The Company does not maintain any pension plans. Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed funds plan to which employees may elect to contribute.

t. Derivative financial instruments

In the past the Company used certain financial instruments to administer the risk related to its net investments in foreign activities and also as a complement to reduce its net financial costs. At present, the Company does not record operations with derivatives.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

1.6. (Contd.)

u. Revenue recognition

u.1. Sales of properties

The Company records revenue from the sale of properties classified as inventory when all of the following criteria are met:

the sale has been consummated;

there is sufficient evidence to demonstrate the buyer s ability and commitment to pay for the property;

the Company s receivable is not subject to future subordination; and

the Company has transferred the property to the buyer.

The Company uses the percentage-of-completion method of accounting with respect to sales of development properties under construction effected under fixed-price contracts. Under this method, revenue is recognized based on the ratio of costs incurred to total estimated costs applied to the total contract price. The Company does not commence revenue and cost recognition until such time as the decision to proceed with the project is made and construction activities have begun. The percentage-of-completion method of accounting requires the Company s management to prepare budgeted costs in connection with sales of properties/units. All changes to estimated costs of completion are incorporated into revised estimates during the contract period.

u.2. Leases

Revenues from leases are recognized on a straight line bases over the life of the related lease contracts.

v. Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less, consisting primarily in mutual funds.

w. Monetary assets and liabilities

Monetary assets and liabilities are stated at their face value plus or minus the related financial gain or loss.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: MORTGAGES AND LEASES RECEIVABLES

The breakdown for this item is as follows:

	September 30, 2004		June 30, 2004	
	Current	Non-current	Current	Non-current
Mortgages and leases receivable	544	19	405	37
Debtors under legal proceedings	2,054		2,024	
Related parties (Note 8 a.)	2,763		3,142	
Less:				
Allowance for doubtful accounts (Exhibit E)	(967)		(960)	
	4,394	19	4,611	37

As of September 30, 2004 and June 30, 2004, current and non-current receivables from the sale of real estate are secured by first degree mortgages in favor of the Company.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 3: OTHER RECEIVABLES

The breakdown for this item is as follows:

	September 30, 2004		June 30, 2004	
	Current	Non-current	Current	Non-current
Asset tax (Note 1.6.n.)		19,898		19,329
Value Added Tax (VAT)	2		8	
Related parties (Note 8 a.)	9,149	21	13,939	8
Guarantee deposits		33		33
Expenses to be recovered	243		242	
Gross sales tax	5		6	
Income tax prepayments and withholdings	17		16	
Trust accounts receivable		361		361
Credit Fiscal Certificates	104		563	
Present Value		(840)		(816)
FNM Options			59	
Deferred income tax (Note 12)		49,931		49,931
Credit from barter of Edificios Cruceros (1)		5,882		5,836
Tax on Personal Assets to be recovered			3,893	
Allowance for uncollectibility of tax on personal assets (Exhibit E)			(3,887)	
Pre-paid insurance	103			
Other	128		141	
	9,751	75,286	14,980	74,682

(1) Secured with first mortgage in favor of the Company.

NOTE 4: INVENTORIES

The breakdown for this item is as follows:

	September 30, 2004	June 30, 2004

	Current	Non-current	Current	Non-current
Real estate for sale	8,002	260	5,430	233
	8,002	260	5,430	233

The value recorded at September 30, 2004 and June 30, 2004 includes the valuation allowance, as mentioned in Note 1.6.o.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 5: SHORT AND LONG TERM DEBT

The breakdown for this item is as follows:

	September 30, 2004		June 30, 2004	
	Current	Non-current	Current	Non-current
Bank loans (2)	5,142	55,281	3,401	56,556
Bank loans - Accrued interest (2)	271	4,767	229	4,108
Negotiable Obligations 2009 principal amount (3)	8,357	89,844	5,528	91,915
Negotiable Obligations - 2009 -accrued interest (3)	440	7,765	402	6,728
Convertible Negotiable Obligations - 2007 (1)	7,843	258,044	2,632	255,922
	22,053	415,701	12,192	415,229

1. According to Note 11, these tally with the convertible negotiable obligations to stock (CNB) for a total amount of US$ 100 million which as of the current date amounts to US$ 87.1 million, net of issuance expenses.
2. Corresponds to an unsecured loan for a total of US$ 51 million, which falls due on 20 November 2009, with the principal being amortized in 20 quarterly installments with a two-year grace period. US$ 35 million of the principal accrue interest at the LIBO rate over three months plus 200 basis points, and US$ 16 million accrue interest at a fixed rate that is progressively increased. On July 25, 2003 the Company redeemed the mentioned US$ 16 million for US$ 10.9 million. In addition, on March 17, 2004, the Company redeemed US$ 12 million for a total amount of US$ 8.6 million. Consequently, at September 30, 2004, principal (net of interest to be accrued at a market rate of 8% p.a.) amounts to US$ 20.3 million.

The terms of the loan require the Company to maintain certain financial ratios and conditions, specific debt/equity ratios, moreover, they also restrict certain investments, the making of payments, the procurement of new loans and the sale of certain assets and other capital investments.

3. Corresponds to the Negotiable Bonds secured by the assets described in Note 10.b. for US$ 37.4 million, which mature on 20 November 2009, and have quarterly interest payments at the LIBO rate over three months plus 200 basis points. Consequently, at September 30, 2004 the Company recorded a total balance of US$ 32.9 million, which correspond to US$ 37.4 million discounted at a market rate equivalent to 8% p.a.

The terms of the loan require the Company to maintain certain financial ratios and conditions, specific debt/equity ratios; they also restrict certain investments, the making of payments, the procurement of new loans and the sale of certain assets and other capital investments.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 6: OTHER LIABILITIES

The breakdown for this item is as follows:

	September 30, 2004		June 30, 2004	
	Current	Non-current	Current	Non-current
Related parties (Note 8 a.)	20	5	24	
Guarantee deposits	380	1,249	377	1,286
Provision for lawsuits (Exhibit E)	268		284	
Directors´ fees (Note 8 a.)	4,325		4,325	
Directors deposits (Note 8 a.)		8		8
Fund administration	1		1	
Donations payable (Note 8 a.)			569	
Trust account payables	92			
Present Value		(7)		(15)
Other	205		171	
	5,291	1,255	5,751	1,279

NOTE 7: OTHER INCOME (EXPENSES), NET

The breakdown for this item is as follows:

	September 30, 2004	September 30, 2003
Other income:		
Results from sale of fixed assets	6	
Other	53	35
	59	35
Other expenses:		

Unrecoverable VAT	(68)	(140)
Donations	(45)	(156)
Debit and credit tax	(93)	(125)
Lawsuits	(11)	(1)
Other	(28)	(111)
	(245)	(533)
Total other income (expenses), net	(186)	(498)

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: BALANCES AND TRANSACTIONS WITH INTERCOMPANY

a. The balances as of September 30, 2004 and June 30, 2004 with controlled, equity investee, affiliated and related companies are as follows:

	September 30, 2004	June 30, 2004
Abril S.A. (1)		
Current mortgages and leases receivables	2	2
Alternativa Gratis S.A. (3)		
Current mortgages and leases receivables	28	16
Alto Palermo S.A. (1)		
Current mortgages and leases receivables	59	610
Other current receivables	2,099	2,025
Current Investments	1,770	4,185
Non Current Investments	88,481	91,487
Current accounts payable	27	88
Other current liabilities	20	19
Altocity.Com S.A. (3)		
Current mortgages and leases receivables	16	4
Other current receivables	2	
Baldovinos S.A. (1)		
Current mortgages and leases receivables	11	
Banco Hipotecario S.A. (3)		
Non-current investments	100,048	87,392
Banco de Crédito y Securitización S.A (3)		
Non-current investments	4,423	4,590
Cresud S.A.C.I.F. (2)		
Current mortgages and leases receivables	24	1
Current accounts payable	6	1
Short and Long term Debt -Negotiable Obligations-	135,019	132,942
Dolphin Fund Management S.A. (4)		
Other current receivables		4,915
Emprendimiento Recoleta S.A. (1)		
Current accounts payable		5

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

a. (Continued)

	September 30, 2004	June 30, 2004
Fibesa (1)		
Current mortgages and leases receivables	4	4
Current accounts payable	2	2
Fundación IRSA (4)		
Other current liabilities		569
Hoteles Argentinos S.A. (1)		
Current accounts payable	2	2
Inversora Bolívar S.A. (1)		
Current mortgages and leases receivables	2,552	2,455
Other current receivables		38
Current accounts payable	14	9
Llao Llao Resorts S.A. (1)		
Current mortgages and leases receivables	1	
Other current liabilities		5
Other non current liabilities	5	
Nuevas Fronteras S.A. (1)		
Current accounts payable	2	1
Palermo Invest S.A. (1)		
Other current receivables	4,084	4,084
Advances employees (4)		
Managers, Directors and other current Staff of the Company	91	104
Managers, Directors and other non- current Staff of the Company	21	8
Red Alternativa S.A. (3)		
Current mortgages and leases receivables	57	49
Other current receivables		
SAPSA (1)		
Other current receivables	2,875	2,773
Current accounts payable		9
Tarshop S.A. (1)		
Current mortgages and leases receivables	9	1
Estudio Zang, Bergel & Viñes (4)		
Current accounts payable		18
Directors (4)		
Other current liabilities	4,325	4,325
Other non current liabilities	8	8
Short and Long term Debt -Negotiable Obligations-	373	370

(1) Subsidiary
(2) Shareholder
(3) Equity investee
(4) Related party

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

b. Results on controlled, equity investee, affiliated and related companies during the periods ended September 30, 2004 and 2003 are as follows:

	Period	Sales and service fees	Leases earned	Holding results	Recovery of expenses	Cost of services	Leases lost	Interest Earned	Fees	Donations	Interest Lost
Related parties											
Alto Palermo S.A.	2004	240				52		3,026			
	2003	103						5,762			
Altocity.Com S.A.	2004	11	14								
	2003	5	19								
Alternativa Gratis S.A.	2004	10									
	2003	10									
Palermo Invest S.A.	2004				2						
	2003										
Cresud S.A	2004	54				41					2,782
	2003	34									3,038
Red Alternativa S.A.	2004	8	41								
	2003	3	30								
Tarshop S.A.	2004	23	18								
	2003	13	14								
Dolphin Found Management S.A.	2004			53							
	2003	2									
Abril S.A.	2004	6									
	2003	4									
Llao Llao Resorts S.A.	2004		16								
	2003										
Inversora Bolívar S.A.	2004	343	42		94		69				
	2003	294									
Shopping Alto Palermo S.A.	2004							102			
	2003							58			
Banco Hipotecario S.A.	2004										
	2003			936							
Ritelco S.A.	2004										
	2003							443			20
Personal loans	2004							1			
	2003							1			
Fundación IRSA	2004									11	
	2003									55	
Estudio Zang, Bergel y Viñes	2004								114		
	2003								52		
Total 2004		695	131	53	96	93	69	3,129	114	11	2,782
Total 2003		468	63	936				6,264	52	55	3,058

c. The composition of intercompany gain is as follows:

	Income	
	September 30, 2004	September 30, 2003
Equity in earnings of controlled and affiliated companies	26,195	1,606
Amortization of intangible assets and investments	469	301
	26,664	1,907

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 9: COMMON STOCK

a. Common stock

As of September 30, 2004, IRSA s capital stock was as follows:

		Approved by		
	Par Value	**Body**	**Date**	**Date of record with the Public Registry of Commerce**
Shares issued for cash		First Meeting for IRSA s Incorporation	04.05.1943	06.25.1943
Shares issued for cash	16,000	Extraordinary Shareholders´ Meeting	11.18.1991	04.28.1992
Shares issued for cash	16,000	Extraordinary Shareholders´ Meeting	04.29.1992	06.11.1993
Shares issued for cash	40,000	Extraordinary Shareholders´ Meeting	04.20.1993	10.13.1993
Shares issued for cash	41,905	Extraordinary Shareholders´ Meeting	10.14.1994	04.24.1995
Shares issued for cash	2,000	Extraordinary Shareholders´ Meeting	10.14.1994	06.17.1997
Shares issued for cash	74,951	Extraordinary Shareholders´ Meeting	10.30.1997	07.02.1999
Shares issued for cash	21,090	Extraordinary Shareholders´ Meeting	04.07.1998	04.24.2000
Shares issued for cash	54	Board of Directors´ Meeting	05.15.1998	07.02.1999
Shares issued for cash	9	Board of Directors´ Meeting (2)	04.15.2003	04.28.2003
Shares issued for cash	4	Board of Directors´ Meeting (2)	05.21.2003	05.29.2003
Shares issued for cash	172	Board of Directors´ Meeting (2)	08.22.2003	Pending
Shares issued for cash	27	Board of Directors´ Meeting (2)	08.22.2003	Pending
Shares issued for cash	918	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	22	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	92	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	6,742	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	662	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	46	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	26	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	77	Board of Directors´ Meeting (2)	12.31.2003	Pending
Shares issued for cash	8,493	Board of Directors´ Meeting (3)	12.31.2003	Pending
Shares issued for cash	23	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	6	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	1,224	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	999	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	1	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	968	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	4	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	1,193	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	512	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	20	Board of Directors´ Meeting (2)	03.31.2004	Pending
Shares issued for cash	4,013	Board of Directors´ Meeting (3)	03.31.2004	Pending
Shares issued for cash	275	Board of Directors´ Meeting (2)	06.30.2004	Pending
Shares issued for cash	9,175	Board of Directors´ Meeting (2)	06.30.2004	Pending
Shares issued for cash	550	Board of Directors´ Meeting (2)	06.30.2004	Pending
Shares issued for cash	550	Board of Directors´ Meeting (3)	06.30.2004	Pending
	9,450	Board of Directors´ Meeting (3)	09.30.2004	Pending

Shares issued for cash (1)	
	258,253

(1) The shares were issued after the date of closing of the unaudited financial statements.
(2) Conversion of negotiable obligations mentioned in Note 11.
(3) Exercise of options mentioned in Note 11.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 9: (Continued)

b. Treasury stock

The Company repurchases periodically outstanding ordinary shares when it considers that their price is undervalued on the market.

During the periods ended September 30, 2004 and 2003 no treasury shares were bought.

c. Restriction on the distribution of profits

In accordance with the Argentine Corporations Law and the Company s By-laws, 5% of the net and realized profit for the year calculated in accordance with Argentine GAAP plus (less) prior year adjustments must be appropriated by resolution of the shareholders to a legal reserve until such reserve equals 20% of the Company s outstanding capital. This legal reserve may be used only to absorb losses.

NOTE 10: RESTRICTED ASSETS

a. The Labor Court N° 55 decided the distress of units N° 14 and 20 located in Sarmiento 517, property of the Company, in connection with a lawsuit in which the Company is co-defendant.

b. The Company has mortgaged the following real estate: Dock 2 M10 (1l) buildings A and B, Torre Jardín IV, Dock IV, Reconquista 823, 9 activity units at Suipacha 652, 58 activity units at Madero 1020 and 14 plots of the land owned in the district of Caballito, in connection with the secured negotiable bonds referred to in Note 5.3. By means of Minutes No. 1445 dated August 14, 2003 of the Board of Directors´ Meeting, it was resolved to lift and release the mortgages on these properties, substituting them for new mortgages on the following properties: 13 functional units al Libertador 498, 71 supplementary units al Laminar Plaza and 19 supplementary units al Dique IV.

c. The Company has a first mortgage on the property identified as San Martín de Tours amounting to US$ 750,000, as performance bond for the construction of the building and transfer of title on the units to be exchanged in favor of Establecimientos Providence S.A.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 11: CONVERTIBLE NEGOTIABLE OBLIGATION

On March 8, 2002, the Ordinary and Extraordinary Meeting of Shareholders resolved:

a) Approving the issuance of Negotiable Obligations Convertible into Ordinary Shares of the company (ONC) for up to a face value of US$100,000,000 (one hundred million pesos), for a term of 5 (five) years, at a fixed interest rate of 6% to 12% per annum, payable half-periodly in arrears.

b) Approving a subscription option for the ONC holders to subscribe ordinary shares of the company at 1 (one) share per Ps.1 (one peso) of ONC face value, paying in cash Ps.1 (pesos one) as subscription price, during 15 (fifteen) days after the conversion term has expired, including the corresponding capital increase.

c) Suppressing the preferential subscription and accretion rights, or reducing the term to exercise the preference, as provided by section 12 of the Negotiable Obligations Law and other applicable regulations.

d) Amending article nine (9) of the bylaws to partially adapt its contents to the market circumstances arising from the amendment approved, by replacing 1) the 20% percentage referred to in the amendment to the bylaws, by the percentage indicated in Decree 677/01, i.e., 35%; and 2) eliminating the negotiable obligations or other convertible debt securities, as well as the warrants, from the calculation mentioned in Article Nine of the Bylaws.

The public offering and listing of the above-mentioned negotiable obligations was approved by Resolution No. 14316 of the National Securities Commission dated September 24, 2002 and the Buenos Aires Stock Exchange, authorizing the issuance for up to US$ 100,000,000 of securities consisting of negotiable obligations convertible for ordinary shares, bearing interest at an annual rate of 8% and falling due in 2007 and which, at the time of their conversion, provide the right to options to subscribe 100,000,000 ordinary shares. Furthermore, the conversion price and the price of Warrants have been set as follows:

a) The conversion price is 0.5571 shares (5.5713 GDS), while the price of the Warrant is 0.6686 shares (6.6856 GDS).

b) The holder is entitled to exchange each Negotiable Obligation issued by IRSA for 1.7949 shares (0.1795 GDS) and has an option to purchase the same number of shares at the exercise price set for the Warrant.

As a result of the distribution of 4,587,285 treasury stock, the Company has adjusted the conversion price of its Convertible Negotiable Bonds in accordance with the terms of the issue. Thus, the conversion price of the Negotiable Bonds fell from US$ 0.5571 to US$ 0.54505 and the price of execution of the warrants dropped from US$ 0.6686 to US$ 0.6541. Said adjustment came into force on 20 December 2002.

The Convertible Negotiable Obligations and options will fall due on November 14, 2007.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 11: (Continued)

The convertible negotiable bonds were underwritten in full and were paid in cash and assigned to restructure or partially settle the Company´s financial debt at the time of such subscription. Consequently, Note 5 of the financial statements shows the Company s financial debt after the restructuring and placement mentioned above.

On September 30, 2004, holders of Convertible Negotiable Obligations had exercised their right to convert them for a total of US$ 12.9 million, giving rise to the issuance of 23,746,919 ordinary shares of Ps. 1 face value each as disclosed in Note 9.

Furthermore, at September 30, 2004, options to subscribe Company shares amounting to US$ 14.7 million were exercised, giving rise to the issuance of 22,506,341 ordinary shares of Ps. 1 par value each, as mentioned in Note 9.

The total amount of Convertible Negotiable Obligations at September 30, 2004 is US$ 87,057,920.

NOTE 12: INCOME TAX DEFERRED TAX

The evolution and breakdown of deferred tax assets and liabilities are as follows:

Items	Balances at the beginning of year	Reclass. between def. tax and income tax Previous year	Changes for the period	Balances at period-end
Non-current deferred assets and liabilities				
Investments	(6,706)	(71)	710	(6,067)
Trade receivables	(53)		2	(51)
Other receivables	278		8	286
Inventories	740	7	(34)	713
Fixed assets	(674)		(6)	(680)
Intangible assets	8			8
Tax loss carryforwards	87,189		6,308	93,497
Financial debt	7,166		(3,816)	3,350
Other debt	142	344	(24)	462
Provisions	99		(5)	94
Allowances for deferred assets	(38,258)	(280)	(3,143)	(41,681)

Total non-current	49,931			49,931
Total net deferred assets	49,931			49,931

Net assets at the end of the period derived from the information included in the above table amount to Ps. 49,931 thousand.

Deferred assets have been provided for in the portion estimated not to be absorbed based on projections of results for future years.

Below is a reconciliation between income tax expensed and that resulting from application of the current tax rate to the accounting profit for the periods ended September 30, 2004 and 2003, respectively:

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Unaudited Financial Statements (Continued)

NOTE 12: (Continued)

Items	**09.30.04 Ps.**	**09.30.03 Ps.**
Result for the period (before income tax)	17,883	(13,745)
Current income tax rate	35%	35%
Result for the period at the tax rate	6,259	(4,811)
Permanent differences at the tax rate:		
- Restatement into uniform currency	(492)	(1,864)
- Donations	16	55
- Amortization of goodwill	(9)	3
- Equity in earnings of controlled and affiliated companies	(8,589)	1,312
- Holding result on Participation Certificates F.F.	(324)	(128)
- Directors´ Fees		(8)
- Allowance for uncollectibility of tax on personal assets	(4)	
Recovery of allowance for deferred assets.	3,143	5,441
Total income tax charge for the period (*)		
Difference		

(*) Difference with the income tax charge of the Statements of Results belongs to asset tax charge.

Unexpired income tax loss carryforward pending use at the end of the period amount to Ps. 267,134 thousand according to the following detail:

Generated in	**Amount Ps.**	**Year of expiration**
2002	211,160	2007
2004	37,951	2009
2005	18,023	2010
Total tax loss carryforward	267,134	

IRSA Inversiones y Representaciones Sociedad Anónima

Fixed Assets

For the three month period beginning on

July 1, 2004

and ended September 30, 2004

compared with the year ended June 30, 2004

In thousand of pesos

Exhibit A

Items	Value at beginning of year	Increases and transfers	Deductions and Transfers	Value as of end of The year/period	Depreciation: Accumulated as of beginning of year	Depreciation: For the period/year: Increase, deductions And Transfers	Depreciation: For the period/year: Rate %	Depreciation: For the period/year: Amount (1)	Depreciation: Accumulated as of the year/ period end	Net carrying Value as of September 30, 2004	Net carrying value as of June 30, 2004
Furniture and fixtures	1,516	5		1,521	1,512		20	1	1,513	8	4
Machinery, equipments and Computer equipment	4,445	23		4,468	4,222		33.33	48	4,270	198	223
Leasehold improvements	6,432	11		6,443	4,540		10	184	4,724	1,719	1,892
Vehicles		130		130			20	7	7	123	
Real Estate:											
Alsina 934	1,776			1,776	319			7	326	1,450	1,457
Av. de Mayo 595	5,982			5,982	1,563			25	1,588	4,394	4,419
Av. Madero 942	2,701			2,701	488			10	498	2,203	2,213
Constitución 1111	683			683	189			2	191	492	494
Costeros Dique IV	21,022			21,022	899			85	984	20,038	20,123
Dique 2 M10 (1I) Edif. A	21,160			21,160	1,434			91	1,525	19,635	19,726

Laminar Plaza	33,513			33,513	2,387			136	2,523	30,990	31,126
Libertador 498	49,274			49,274	6,595			195	6,790	42,484	42,679
Libertador 602	3,046			3,046	418			11	429	2,617	2,628
Madero 1020	4,919		(1,248)	3,671	872	(220)		14	666	3,005	4,047
Maipú 1300	52,632			52,632	7,200			213	7,413	45,219	45,432
Reconquista 823	21,771			21,771	4,038			81	4,119	17,652	17,733
Sarmiento 517	122			122	1			1	2	120	121
Suipacha 652	14,137			14,137	3,496			55	3,551	10,586	10,641
Total as of September 30, 2004	245,131	169	(1,248)	244,052	40,173	(220)		1,166	41,119	202,933	
Total as of June 30, 2004	222,630	25,808	(3,307)	245,131	36,776	(619)		4,016	40,173		204,958

(1) The accounting application of the depreciation for the period is set forth in Exhibit H.
(2) See comments in Note 1.j.

IRSA Inversiones y Representaciones Sociedad Anónima

Shares and other securities issued in series

Interest in other companies

Balance Sheets as of September 30, 2004 and June 30, 2004

In thousand of pesos

Exhibit C

Issuer and types of securities	Class	P.V.	Amount	Listing value	Value as of September 30, 2004	Value as of June 30, 2004	Issuer s information (1) Main Activity	Last financial statement Date	Capital stock (par value)	Income (loss) for the year	Shareholders´ equity	(1) Interest in capital stock
Current Investment												
Boden (2)	Ps.	0.001	5,225	0.0013	7	7						
Cedro (2)	Ps.	0.001	23,122	0.0010	23	67						
Total current investments as of September 30, 2004					30							
Total current investments as of June 30, 2004						74						

(1) Not inform because the equity interest is less than 5%.
(2) Not considered as cash for purposes of the statement of cash flows.

IRSA Inversiones y Representaciones Sociedad Anónima

Shares and other securities issued in series

Interest in other companies

Balance Sheets as of September 30, 2004 and June 30, 2004

In thousand of pesos

Exhibit C (Continued)

							Issuer s information					
									Last financial statement			
ier and es of securities	Class	P.V.	Amount	Listing value	Value Recorded at September 30, 2004	Value Recorded at June 30, 2004	Main Activity	Corporate domicile	Date	Capital stock (Par value)	Income(loss) for the period	Shareholders equity
n-current estments												
il S.A.	Common 1 vote Irrevoc. Contrib Higher Inv. Value	5.000	1,320		(39,059) 26,239 14,089	(38,753) 25,839 14,089	Building, development and administration of country club	Bolívar 108 1° floor Buenos Aires	09.30.2004	13,200	(4,063)	45.135
eiraola S.A. I.F.y A	Common 1 vote Irrevoc. Contrib. Higher Inv.Value	0.001	50,000		89 1,279 7,553	107 1,246 7,553	Real estate and financing	Bolívar 108 1° floor Buenos Airea	09.30.2004	100	(36)	2,736
dovinos S.A.	Common 1 vote Irrevoc. Contrib	0.001	6,000		(5,981) 11,564	(5,926) 11,564	Real estate and building	Bolívar 108 1° floor Buenos Aires	09.30.2004	12	(111)	11,279
ermo Invest .	Common 1 vote Lower Value P. expenses	0.001	52,170,000		131,351 (597) 505	131,116 (598) 506	Investment	Bolívar 108 1° floor Buenos Aires	09.30.2004	78,251	350	197,017
eles entinos S.A.	Common 1 vote Irrevoc. Contrib. Higher Inv. Value P. expenses	0.001	7,909,272		(1,197) 3,531 1,967 48	(912) 3,531 1,989 47	Hotel Libertador explotation	Av. Córdoba 680 Buenos Aires	09.30.2004	9,887	(356)	2,917
o Palermo S.A.	Common 1 vote Goodwill	0.001	44,243,481		441,859 (29,840)	426,162 (25,965)	Real estate investments	Moreno 877 22° Floor Buenos Aires	09.30.2004	77,898	2,464	777,968
nos Aires de and Finance ter S.A.	Common 1 vote Irrevoc. Contrib. P. expenses	0.001	12,000		5,653 21,691 143	5,658 21,641 143	Real estate investments	Bolívar 108 1° floor Buenos Aires	09.30.2004	12	(5)	27,343
o Llao Resort	Common 1 vote Irrevoc. Contrib. P. expenses	0.001	5,878,940		11,870 2,397 217	11,391 2,397 220	Hotel Llao-Llao explotation	Florida 537 Floor 18 Buenos Aires	09.30.2004	11,757	932	27,756

co de Crédito ecuritización .	Common 1 vote	0.001	3,187,500	4,423	4,590	Banking	Tte. Gral. Perón 655 Buenos Aires	09.30.2004	62,500	(4) (770)	(4) 107.889
lco S.A.	Common 1 vote Irrevoc. Contrib.	0.001	66,970,394	110,273 27,340	98,524 27,340	Investments	Zabala 1422, Montevideo	09.30.2004	66,970	11,749	137,613
co Hipotecario shares (3)	Common 1 vote Goodwill	0.001	9,805,122	102,969 (2,921)	90,351 (2,959)	Banking	Reconquista 151 Buenos Aires	09.30.2004	150,000	(4) 61.836	(4) 1.899.128
al as of tember 30, 4				847,455							
al as of June 2004					810,891						

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(1) These holdings do not include the effects on the equity method for conversion of irrevocable contributions into shares.

(2) Quotation price of APSA´s shares at September 30, 2004 is Ps. 3.85
Quotation price of APSA´s shares at June 30, 2004 is Ps. 3.50

(3) Quotation price of Banco Hipotecario´s shares at September 30, 2004 is Ps. 7.10
Quotation price of Banco Hipotecario´s shares at June 30, 2004 is Ps. 7.20

(4) Does not include adjustments for application on the equity method of valuating according to Technical Pronouncement 21.

IRSA Inversiones y Representaciones Sociedad Anónima

Other Investments

Balance Sheets as of September 30, 2004 and June 30, 2004

In thousand of pesos

Exhibit D

Items	**Value as of September 30, 2004**	**Value as of June 30, 2004**
Current Investments		
Time deposits		1,466
Mutual funds (1)	8,158	8,621
Convertible Bond APSA 2006 Accrued interest (2)	1,770	4,185
Other investments (2)	115	14
IRSA I Trust Exchangeable Certificates (2)	182	216
Total current investments as of September 30, 2004	**10,225**	
Total current investments as of June 30, 2004		**14,502**
Non-current investments		
Constitución 1111	1,261	1,261
Dique IV	6,160	6,160
Padilla 902	71	71
Pilar	3,408	3,408
Santa María del Plata	124,882	124,783
Terrenos de Caballito	19,898	19,898
Torres Jardín IV	2,568	2,568
Subtotal	**158,248**	**158,149**
IRSA I Trust Exchangeable Certificates	4,379	4,722
Convertible Bond APSA 2006	88,481	91,487
Other investments	12,426	12,410
Subtotal	**105,286**	**108,619**
Art work	37	37
Total non-current investments as of September 30, 2004	**263,571**	

Total non-current investments as of June 30, 2004	**266,805**

(1) Ps. 6,065 and Ps. 5,965 corresponding to the Dolphin Fund PLC trust at September 30, 2004 and June 30, 2004 not considered as cash for purposes of the statements of cash flows. Ps. 1,795 and Ps. 1,781 corresponding to the NCH Development Partner Fund at September 30, 2004 and June 30, 2004 not considered as cash for purposes of statements of cash flows.

(2) Not considered as cash for purposes of the statements of cash flows.

IRSA Inversiones y Representaciones Sociedad Anónima

Allowances and Provisions

For the three month period beginning on

July 1, 2004

and ended September 30, 2004 and the year ended June 30, 2004

In thousand of pesos

Exhibit E

Items	Balances as of beginning of year	Increases (1)	Decreases	Carrying value as of September 30, 2004	Carrying value as of June 30, 2004
Deducted from assets:					
Allowance for doubtful accounts	960	8	(1)	967	960
Impairment of inventory	444	510		954	444
Impairment of fixed assets	9,800		(510)	9,290	9,800
Impairment of undeveloped plots of land	8,253			8,253	8,253
Allowance for uncollectibility of tax on personal assets	3,887		(3,887)		3,887
From liabilities:					
Provisions for lawsuits	284	11	(27)	268	284
Total as of September 30, 2004	23,628	529	(4,425)	19,732	
Total as of June 30, 2004	54,071	6,199	(36,642)		23,628

(1)
The increase in the allowance for doubtful accounts is shown in Exhibit H.
The increase in the provision for lawsuits is shown in Note 7.
The increase in the impairment of inventory is through a decrease in impairment of fixed assets

IRSA Inversiones y Representaciones Sociedad Anónima

Cost of Sales, Leases and Services

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos

Exhibit F

	September 30, 2004	September 30, 2003
I. Cost of sales		
Stock as of beginning of year	5,663	11,554
Plus (less):		
Purchases for the period	1,605	197
Expenses (Exhibit H)	108	143
Transfers to fixed assets		
Transfers from fixed assets	1,028	2,606
Transfers to investments		
Less:		
Stock as of end of the period	(8,262)	(10,157)
Subtotal	**142**	**4,343**
Plus		
Cost of sales Abril S.A.	332	155
Results from operations and holding of real estate assets		
Cost of properties sold	**474**	**4,498**
II. Cost of leases		
Expenses (Exhibit H)	1,288	1,194
Cost of properties leased	**1,288**	**1,194**
III. Cost of fees for services		
Expenses (Exhibit H)	190	133
Cost of fees for services	**190**	**133**
Total costs of sales, leases and services	**1,952**	**5,825**

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IRSA Inversiones y Representaciones Sociedad Anónima

Foreign Currency Assets and Liabilities

Balance Sheets as of September 30, 2004 and June 30, 2004

In thousand of pesos

Exhibit G

Items	**Class**	**Amount**	**Prevailing exchange rate**	**Total as of September 30, 2004**	**Total as of June 30, 2004**
Assets					
Current Assets					
Cash and banks:					
Cash	US$	14,957	0.002941(1)	44	14
Banks	US$	29,689	0.002941(1)	87	3,299
Banks	EUR	45,795	0.003655(1)	167	162
Savings accounts	US$	9,295,563	0.002941(1)	27,338	3,712
Investments:					
Boden 2013	US$	536	0.002941(1)	2	1
Time Deposits	US$		0.002941(1)		1,466
Mutual Funds	US$	2,560,811	0.002941(1)	7,531	7,747
Mutual Funds	EUR	81,322	0.003655(1)	297	288
Convertible Bond APSA 2006 (interest)	US$	593,634	0.002981(1)	1,770	4,185
Banco Ciudad de Bs. As. Bond	EUR	27,500	0.003655(1)	101	
Interest Banco Ciudad de Bs. As. Bond	EUR	3,924	0.003655(1)	14	14
Receivables:					
Mortgages and leases receivables	US$	436,500	0.002941(1)	1,283	
Total Current Assets				38,634	20,888
Non-Current Assets					
Investments:					
Convertible Bond APSA 2006	US$	29,681,678	0.002981(1)	88,481	91,487
Banco Ciudad de Bs. As. Bond	EUR	222,500	0.003655(1)	813	887
Other Investments	US$	3,895,612	0.002981(1)	11,613	11,523
Other receivables:					
Credit from barter of Edificios Cruceros	US$	2,000,000	0.002941(1)	5,882	5,836
Total Non-current Assets				106,789	109,733
Total Assets as of September 30, 2004				145,423	
Total Assets as of June 30, 2004					130,621

Liabilities					
Current Liabilities					
Accounts payable	US$	119,282	0.002981(1)	356	510
Mortgages payables	US$	750,000	0.002981(1)	2,236	2,218
Customer Advances	US$	186,500	0.002941(1)	548	
Taxes payable	US$	22,940	0.002981(1)	68	60
Financial debts	US$	7,397,950	0.002981(1)	22,053	12,192
Other liabilities:					
Guarantee deposits	US$	5,618	0.002981(1)	17	10
Total Current Liabilities				25,278	14,990
Non-current Liabilities					
Financial debts	US$	139,945,280	0.002981(1)	417,177	416,823
Other liabilities:					
Other	US$		0.002981(1)		22
Guarantee deposits	US$	386,943	0.002981(1)	1,153	1,037
Total Non-current Liabilities				418,330	417,882
Total Liabilities as of September 30, 2004				443,608	
Total Liabilities as of June 30, 2004					432,872

(1) Official rate of exchange quoted by Banco Nación at September 30, 2004.

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Law 19.550, section 64, paragraph b)

For the three month periods beginning on

July 1, 2004 and 2003

and ended September 30, 2004 and 2003

In thousand of pesos

Exhibit H

Items	Total as of September 30, 2004	Cost of properties leased	Cost of properties sold	Cost of fees for services	Expenses: Administration	Expenses: Selling	Expenses: Financing	Total as of September 30, 2003
Fees and payments for services	475				475			174
Salaries, bonuses and social security charges	1,283				1,283			725
Other expenses of personnel administration	40				40			23
Depreciation and amortization	1,285	926			240		119	1,333
Maintenance of buildings	555	362	108		85			610
Utilities and postage	2				2			4
Travel expenses	51				51			10
Advertising and promotion	69				4	65		118
Fees and expenses for property sold	108					108		356
Local transportation and stationery	19				19			26
Taxes, rates and assessments								182
Subscriptions and dues	24				24			46
Interest and indexing adjustments	8,614						8,614	10,085
Bank charges	30						30	33
Safety box and stockbroking charges	137				132		5	37
Doubtful accounts	8					8		11
Insurance	13				13			116
Security								1
Courses	14				14			2
Results of trust								
Rents	62				62			59
Gross sales tax	111					111		95

Other	220			190	30			167
Total as of September 30, 2004	13,120	1,288	108	190	2,474	292	8,768	
Total as of September 30, 2003		1,194	143	133	1,715	547	10,481	14,213

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IRSA Inversiones y Representaciones Sociedad Anónima

Breakdown by maturity date of receivables and liabilities

as of September 30, 2004 and June 30, 2004

In thousand of pesos

Exhibit I

		With maturity date												Interest		
			To due												Accrue	
	Without term	**Falling due**	**Up to 3 months**	**From 3 to 6 months**	**From 6 to 9 months**	**From 9 to 12 months**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 years on**	**Total to due**	**Total with term**	**Total**	**No accrued**	**Fixed term**	**Va t**
09.30.2004																
Assets																
Investments	12,568		195	1,770			100,505	503			102,973	102,973	115,541	15,447	100,094	
Receivables	50,838	181	12,923	39	52	43	5,915	6		19,453	38,431	38,612	89,450	89,346		
Liabilities																
Loans			711	7,843	8,999	4,500	17,999	26,998	294,043	76,661	437,754	437,754	437,754	21,086	416,668	
Other liabilities	268	145	8,596	642	250	2,568	3,242	499	137	586	16,520	16,665	16,933	16,933		
06.30.2004																
Assets																
Investments	13,415		5,882				296	103,306	296		109,780	109,780	123,195	17,832	105,363	
Receivables	50,833	153	14,398	4,109	7	22	5,861	20		18,907	43,324	43,477	94,310	93,687	60	
Liabilities																
Loans			630	2,632		8,930	17,860	26,791	291,644	78,934	427,421	427,421	427,421	14,098	413,323	
Other liabilities	284	148	4,371	6,390	381	2,469	1,269	1,427	126	586	17,019	17,167	17,451	17,451		

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IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

1. None

2. None

3. Additional information on assets and liabilities

	Falling due (Point 3.a.)	**Without term**	**To be due (Point 3.c.)**			
Concept	**09.30.2004**	**Current**	**12.31.2004**	**03.31.2005**	**06.30.2005**	**09.30.2005**
Receivables						
Mortgages and leases receivables	181	907	3,273		16	17
Other receivables			9,650	39	36	26
Total	**181**	**907**	**12,923**	**39**	**52**	**43**
Liabilities						
Customer advances			867	193	164	164
Taxes payables			626	225	19	19
Trade accounts payable			2,139			
Mortgages payables						2,236
Other liabilities	145	268	4,744	31	67	36
Short and long term debts			711	7,843	8,999	4,500
Salaries and social securities payables			221	192		113
Total	**145**	**268**	**9,308**	**8,484**	**9,249**	**7,068**

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

3. (Continued)

	Without term	**To be due (Point 3.c.)**				
Concept	**Non Current**	**09.30.2006**	**09.30.2007**	**09.30.2008**	**09.30.2009**	**Total**
Receivables						
Mortgages and leases receivables		19				19
Other receivables	49,931	5,896	6		19,453	75,286
Total	**49,931**	**5,915**	**6**		**19,453**	**75,305**
Liabilities						
Customer advances		1,149				1,149
Taxes payables		1,345	65	70	580	2,060
Other liabilities		748	434	67	6	1,255
Short and long term debts		17,999	26,998	294,043	76,661	415,701
Total		21,241	27,497	294,180	77,247	420,165

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

The classification of receivables and liabilities is as follows:

4-a. Breakdown by currency and maturity

	Current			Non-current					Total in	
Items	**Local currency**	**Foreign currency**	**Total current**	**Local currency**	**Foreign currency**	**Total**	**Total**	**Total in local currency**	**foreign currency**	**Total**
Receivables										
Mortgages and leases receivables	3,111	1,283	4,394	19		19	4,413	3,130	1,283	4,413
Other receivables	9,751		9,751	69,404	5,882	75,286	85,037	79,155	5,882	85,037
Total	**12,862**	**1,283**	**14,145**	**69,423**	**5,882**	**75,305**	**89,450**	**82,285**	**7,165**	**89,450**
Liabilities										
Customer advances	840	548	1,388	1,149		1,149	2,537	1,989	548	2,537
Taxes payable	821	68	889	2,060		2,060	2,949	2,881	68	2,949
Trade accounts payable	1,783	356	2,139				2,139	1,783	356	2,139
Mortgages payables		2,236	2,236				2,236		2,236	2,236
Other liabilities	5,274	17	5,291	102	1,153	1,255	6,546	5,376	1,170	6,546
Short and long term debt		22,053	22,053	(1,476)	417,177	415,701	437,754	(1,476)	439,230	437,754
Salaries and social security payable	526		526				526	526		526
Total	**9,244**	**25,278**	**34,522**	**1,835**	**418,330**	**420,165**	**454,687**	**11,079**	**443,608**	**454,687**

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

4-b. Breakdown by adjustment clause

	Current			Non-current						
Items	**Without adjustment clause**	**With adjustment clause**	**Total**	**Without adjustment clause**	**With adjustment clause**	**Total**	**Total**	**Total without adjustment clause**	**Total with adjustment clause**	**Total**
Receivables										
Mortgages and leases receivables	4,394		4,394	19		19	4,413	4,413		4,413
Other receivables	9,751		9,751	75,286		75,286	85,037	85,037		85,037
Total	**14,145**		**14,145**	**75,305**		**75,305**	**89,450**	**89,450**		**89,450**
Liabilities										
Customer advances	1,388		1,388	1,149		1,149	2,537	2,537		2,537
Taxes payable	889		889	2,060		2,060	2,949	2,949		2,949
Trade accounts payable	2,139		2,139				2,139	2,139		2,139
Mortgages payables	2,236		2,236				2,236	2,236		2,236
Other liabilities	5,291		5,291	1,255		1,255	6,546	6,546		6,546
Short and long term debt	22,053		22,053	415,701		415,701	437,754	437,754		437,754
Salaries and social security payable	526		526				526	526		526
Total	**34,522**		**34,522**	**420,165**		**420,165**	**454,687**	**454,687**		**454,687**

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

4-c. Breakdown of accounts receivable and liabilities by interest clause

	Current				**Non-current**							
	Accruing interest				**Accruing interest**							
	Fixed rate	**Variable rate**	**Not-accruing interest**	**Total current**	**Fixed rate**	**Variable rate**	**Not-accruing interest**	**Total non-current**	**Total**	**Total accruing interest**	**Total not-accruing interest**	**Total**
Accounts receivables												
Receivables			4,394	4,394			19	19	4,413		4,413	4,413
Other receivables		104	9,647	9,751			75,286	75,286	85,037	104	84,933	85,037
Total		**104**	**14,041**	**14,145**			**75,305**	**75,305**	**89,450**	**104**	**89,346**	**89,450**
Liabilities												
Customer advances			1,388	1,388			1,149	1,149	2,537		2,537	2,537
Taxes payable			889	889			2,060	2,060	2,949		2,949	2,949
Trade accounts payable			2,139	2,139					2,139		2,139	2,139
Mortgages payables			2,236	2,236					2,236		2,236	2,236
Other liabilities			5,291	5,291			1,255	1,255	6,546		6,546	6,546
Short and long term debt	13,499		8,554	22,053	403,169		12,532	415,701	437,754	416,668	21,086	437,754
Salaries and social security payable			526	526					526		526	526
Total	**13,499**		**21,023**	**34,522**	**403,169**		**16,996**	**420,165**	**454,687**	**416,668**	**38,019**	**454,687**

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

5. Intercompany

a. Intercompany interest

See Exhibit C to the unaudited financial statements.

b. Related parties debit/credit balances (Note 8)

Current mortgages and leases receivables

	September 30, 2004
Related parties:	
Abril S.A.	2
Alternativa Gratis S.A.	28
Alto Palermo S.A.	59
Altocity.Com S.A.	16
Baldovinos S.A.	11
Cresud S.A.C.I.F.	24
Fibesa S.A.	4
Inversora Bolívar S.A.	2,552
Llao Llao Resorts S.A.	1
Red Alternativa S.A.	57
Tarshop S.A.	9

Other current receivables

	September 30, 2004
Related parties:	
Alto Palermo S.A.	2,099

Shopping Alto Palermo S.A.	2,875
Palermo Invest S.A	4,084
Advances employees	91

Other non current receivables

	September 30, 2004
Related parties:	
Advances employees	21

Current Investments

	September 30, 2004
Related parties:	
Alto Palermo S.A.	1,770

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

Non Current Investments

	September 30, 2004
Related parties:	
Alto Palermo S.A.	88,481
Banco Hipotecario S.A.	100,048
Banco de Crédito y Securitización S.A.	4,423

Current accounts payables

	September 30, 2004
Related parties:	
Alto Palermo S.A.	27
Cresud S.A.C.I.F.	6
Fibesa S.A.	2
Altocity.com s.A.	2
Nuevas Fronteras S.A.	2
Inversora Bolívar S.A.	14
Hoteles Argentinos S.A.	2

Short and long term debt Negotiable Obligations

	September 30, 2004
Related parties:	
Cresud S.A.C.I.F.	135,019
Directors	373

Other current liabilities

	September 30, 2004
Related parties:	
Alto Palermo S.A.	20
Directors	4,325

Other non current liabilities

	September 30, 2004
Related parties:	
Directors	8
Llao Llao Resorts S.A.	5

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

6. Note 8.

7. In view of the nature of the inventory, no physical inventories are performed and there are no frozen assets.

8. See Notes 1.6.h., 1.6.i. and 1.6.j. to the unaudited financial statements.

9. None.

10. None.

11. None.

12. See Notes 1.6.h., 1.6.i., 1.6.j. and 1.6.o. to the unaudited financial statements.

IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

13. Insured Assets.

	Insured amounts	Accounting values	Risk covered
ALSINA 934	3,000	1,450	Fire, explosion with additional coverage and debris removal
AV MAYO 595	4,400	4,394	Fire, explosion with additional coverage and debris removal
AV MAYO 595	370	4,394	Third party liability with additional coverage and minor risks.
AVDA. MADERO 942	1,500	2,203	Fire, explosion with additional coverage and debris removal
CONSTITUCION 1111	3,500	492	Fire, explosion with additional coverage and debris removal
CONSTITUCION 1111	370	492	Third party liability with additional coverage and minor risks.
COSTEROS DIQUE IV	14,000	20,038	Fire, explosion with additional coverage and debris removal
DIQUE 2 M10 (11) Edif. A	14,000	19,635	Fire, explosion with additional coverage and debris removal
DIQUE 2 M10 (11) Edif. A	370	19,635	Third party liability with additional coverage and minor risks.
DOCK 13	55	1,578	Fire, explosion with additional coverage and debris removal
DOCK 13	370	1,578	Third party liability with additional coverage and minor risks.
LAMINAR PLAZA	15,000	30,990	Fire, explosion with additional coverage and debris removal
LIBERTADOR 498	40,000	42,484	Fire, explosion with additional coverage and debris removal
LIBERTADOR 498	370	42,484	Third party liability with additional coverage and minor risks.
LIBERTADOR 602	1,500	2,617	Fire, explosion with additional coverage and debris removal
MADERO 1020	1,900	3,005	Fire, explosion with additional coverage and debris removal
MADERO 1020	370	3,005	Third party liability with additional coverage and minor risks.
MAIPU 1300	27,000	45,219	Fire, explosion with additional coverage and debris removal
MAIPU 1300	370	45,219	Third party liability with additional coverage and minor risks.
MINETTI D	100	33	Fire, explosion with additional coverage and debris removal
RECONQUISTA 823	11,500	17,652	Fire, explosion with additional coverage and debris removal
RECONQUISTA 823	370	17,652	Third party liability with additional coverage and minor risks.
RIVADAVIA 2768	350	124	Third party liability with additional coverage and minor risks.
SANTA MARIA DEL PLATA	100	124,882	Fire, explosion with additional coverage and debris removal
SANTA MARIA DEL PLATA	370	124,882	Third party liability with additional coverage and minor risks.
SARMIENTO 517	60	120	Third party liability with additional coverage and minor risks.
SUIPACHA 652	20,000	10,586	Fire, explosion with additional coverage and debris removal
SUIPACHA 652	370	10,586	Third party liability with additional coverage and minor risks.
SAN MARTIN DE TOURS	7,000	4,815	All risks, construction and assembly
TORRES JARDIN	750	245	Fire, explosion with additional coverage and debris removal

In our opinion, the above-described policies adequately cover current risks.

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IRSA Inversiones y Representaciones Sociedad Anónima

Information required by Section 68 of the

Buenos Aires Stock Exchange Regulations

Balance Sheet as of September 30, 2004

Stated in thousand of pesos

14. See Exhibit E.

15. Not applicable.

16. Not applicable.

17. None.

18. In accordance which was stipulated in loans agreements, the Company shall not distribute dividends until this obligations would be cancelled.

Buenos Aires, November 10, 2004.

IRSA Inversiones y Representaciones Sociedad Anónima

Business Overview

In thousand of pesos

1. **Brief comments on the Company s activities during the period, including references to significant events after the end of the period.**

See attached.

2. **Consolidated Shareholders equity structure as compared with the same period for the four previous years.**

	September 30, 2004	September 30, 2003	September 30, 2002	September 30, 2001	September 30, 2000
Current Assets	278,450	295,778	165,191	243,010	252,740
Non-Current Assets	1,938,325	1,766,683	1,789,380	1,385,889	1,616,159
Total	**2,216,775**	**2,062,461**	**1,954,571**	**1,628,899**	**1,868,899**
Current Liabilities	248,292	164,825	680,135	467,096	328,393
Non-Current Liabilities	521,668	652,033	233,971	39,571	223,630
Subtotal	769,960	816,858	914,106	506,667	552,023
Minority interest in subsidiaries	451,592	451,283	455,896	130,526	127,265
Shareholders Equity	995,223	794,320	584,569	991,706	1,189,611
Total	**2,216,775**	**2,062,461**	**1,954,571**	**1,628,899**	**1,868,899**

3. **Consolidated result structure as compared with the same period for the four previous years.**

	September 30, 2004	September 30, 2003	September 30, 2002	September 30, 2001	September 30, 2000
Operating income (loss)	19,140	10,473	(4,733)	15,628	16,505
Amortization of goodwill	(644)	(1,321)			
Financial results	(12,260)	(19,307)	83,261	(80,130)	(20,283)
Equity in(losses) earnings of affiliated companies	22,539	(223)	(55)	(14,519)	9,718
Other income (expenses)	(691)	1,328	9,519	(2,908)	(1,422)

Income (loss) before taxes	**28,084**	**(9,050)**	**87,992**	**(81,929)**	**4,518**
Income tax/ asset tax	(8,877)	(7,260)	(20,474)	(3,187)	(2,851)
Minority interest	(2,017)	1,144	(9,557)	(2,018)	(725)
Net income (loss)	**17,190**	**(15,166)**	**57,961**	**(87,134)**	**942**

IRSA Inversiones y Representaciones Sociedad Anónima

Business Overview

In thousand of pesos

4. Statistical data as compared with the same period of the four previous years.

Summary of properties sold in units and thousand of pesos.

Real Estate	**Accumulated as of September 30, 2004**	**Accumulated as of September 30, 2003**	**Accumulated as of September 30, 2002**	**Accumulated as of September 30, 2001**	**Accumulated as of September 30, 2000**
Apartments & Loft Buildings					
Torres Jardín			29	881	3,680
Torres de Abasto	11		411	2,551	6,009
Alcorta Palace			1		
Concepción Arenal and Dorrego 1916					1,801
Alto Palermo Park			814	3,306	
Alto Palermo Plaza				1,429	1,276
Other			213		
Residential Communities					
Abril / Baldovinos	1,148	921	3,946	3,473	4,337
Villa Celina I, II and III					(49)
Villa Celina IV and V		23		44	1,728
Undeveloped parcels of land					
Dique IV					12,310
Other					
Av. de Mayo 701					3,109
Dock 5			394		
Dock 6			140		
Constitución 1159			1,988		
Madero 1020		4,774	4,335		
Madero 940			1,649		
Other		233	204	58	
	1,159	**5,951**	**14,124**	**11,742**	**34,201**

IRSA Inversiones y Representaciones Sociedad Anónima

5. Key ratios as compared with the same period of the four previous years.

	September 30, 2004		September 30, 2003		September 30, 2002		September 30, 2001		September 30, 2000	
Liquidity ratio										
Current Assets	278,450		295.778		165.191		243.010		252.740	
		1,12		1,79		0,24		0,52		0,77
Current Liabilities	248,292		164.825		680.135		467.096		328.393	
Indebtedness ratio										
Total liabilities	769.960		816.858		914.106		506.667		552.023	
		0,77		1,03		1,56		0,51		0,46
Shareholders Equity	995.223		794.320		584.569		991.706		1.189.611	
Solvency										
Equity	995.223		794.320		584.569		991.706		1.189.611	
		1,29		0,97		0,64		1,96		2,16
Total liabilities	769.960		816.858		916.106		506.667		552.023	
Freezen Capital										
Non-Current Assets	1.938.325		1.766.683		1.789.380		1.385.889		1.616.159	
		0,87		0,86		0,92		0,85		0.86
Total Assets	2.216.775		2.062.461		1.954.571		1.628.899		1.868.899	

6. Brief comment on the outlook for the coming year.

See attached.

Comments on operations for the quarter ended September 30, 2004

The third quarter of the year seems to turn up as the one to experience the largest growth of 2004, bolstering an annual GDP increase close to 8%. The government s expansive currency and fiscal policies have spurred activity levels, albeit with a word of warning on the risk of acceleration of domestic prices as aggregate supply reaction is slower than the pace of demand.

During the first half of 2004, lower internal private saving gave way to a strong increase in consumption and investment, a trend that keeps gaining foothold towards the second half of the year. Higher peso-denominated lending to the private sector, which is expected to rise even higher by year end, also adds up to this upsurge.

Private sector consumption improved during the quarter, particularly as concerns sales in supermarkets and shopping centers, reverting the downward trend of consumer confidence rates. The construction industry experienced a slight deceleration that is customary for this time of the year due to weather causes, although the increase in cement dispatch allows to predict its immediate resurgence.

Also in this period there was a substantial reduction in capital outflows, which also contributed to the increase in activity levels. This trend might be further boosted by a successful sovereign debt restructuring.

From a fiscal standpoint, the lower consolidated primary surplus estimated for the second half of the year implies a release of resources from the public to the private sector, which could be another factor to encourage economic growth.

The fourth quarter of 2004 could also show a satisfactory performance, with a growth bottom line of around 1% and a cumulative annual growth in activity levels of around 8%.

In this context, net income for the three-month period ended September 30, 2004 stood at Ps.17.2 million as compared to a Ps.15.2 million loss recorded during the same period of fiscal year 2004. This income may be explained as follows:

Operating income increased by 83%, from Ps.10.5 million in the first three months of fiscal year 2004 to Ps.19.1 million in the same period of fiscal year 2005, mainly reflecting higher sales, which grew 26% reaching Ps.70.9 million as compared to Ps.56.3 million. Contribution of the various segments to net sales was as follows: sales and developments Ps.1.4 million, offices and other rental properties Ps.4.3 million, shopping centers Ps.45.3 million and hotels Ps.19.8 million.

Net financing effects also contributed to the increase in net income, as they decreased from a Ps.19.3 million loss during the three-month period ended September 30, 2003 to a Ps.12.3 million loss during the three-month period ended September 30, 2004. The main cause of this increase was the lower depreciation of local currency against the dollar in the first quarter of fiscal year 2005 (-1%), as compared to the same period of 2004 (-4%), which had a smaller adverse impact on our liabilities, resulting in negative net exchange differences of Ps.2.5 million (loss) against Ps.14.0 million (loss). Contrastingly, results from financial operations decreased from Ps.10.0 million to Ps.3.2 million in the same quarter of the year 2005.

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In addition, income from subsidiaries recorded a substantial increase, from a loss of Ps.0.2 million to an income of Ps.22.5 million in the periods considered, mainly due to the income recognized in the last quarter due to the equity valuation criterion of Banco Hipotecario S.A.

First quarter of fiscal year 2005 highlights, including significant operations occurred after the end of the period.

I. Offices and Other Rental Properties

During the first quarter of fiscal year 2005, income from rental properties totaled Ps.4.3 million as compared to Ps.3.7 million in the same period of fiscal year 2004, mainly reflecting the increase in occupancy levels of our buildings.

Occupancy of our office buildings continues to recover, reaching 83% during the first three months of fiscal year 2005 as compared to 70% in the previous period.

The sustained rise in demand for rental space has led to a recovery in prices. Although we are still far from our historical highs of US\$/m^2 28.0 (for class A spaces recorded in 2000), there is a clear upward trend. We are thus analyzing the possibility of adding new spaces to our portfolio, by either building new projects or purchasing built areas with secure returns in top-quality areas.

Below is information on our office space as of September 30, 2004.

Offices and Other Rental Properties

	Date of Acquisition	Leasable Area m^2 (1)	Occupancy rate (2)	Monthly Rental Income Ps./000 (3)	Total rental income for the period ended September 30 of fiscal year Ps./000 (4)			Book Value Ps.000 (5)
					2005	2004	2003	
Office								
Intercontinental Plaza (6)	11/18/97	22,535	84%	422	1,326	1,078	2,236	64,793
Libertador 498	12/20/95	10,533	82%	241	720	547	635	42,484
Maipú 1300	09/28/95	10,325	92%	211	584	483	567	45,219
Laminar Plaza	03/25/99	6,521	95%	197	590	586	781	30,990
Madero 1020	12/21/95	787	27%	3	11	77	202	3,005
Reconquista 823	11/12/93	6,100	0%					17,652
Suipacha 652	11/22/91	11,453	45%	48	117	113	148	10,586
Edificios Costeros (Dique II)	03/20/97	6,389	100%	102	295	151	97	19,635

Costeros Dique IV	08/29/01	5,437	91%	117	199	149	289	20,038
Other (7)		3,403	100%	66	194	151	205	9,334
Subtotal		**83,483**	**76%**	**1,407**	**4,036**	**3,335**	**5,160**	**263,736**
Other Rental Properties								
Commercial Properties (8)		4,062	97%	14	42	33	80	1,942
Other Properties (9)		33,329	100%	42	111	126	247	3,579
Subtotal		37,391	100%	56	153	159	327	5,521
Management fees					128	170	171	
TOTAL OFFICES AND OTHER (10)		120,874	83%	1,463	4,317	3,664	5,658	269,257

Notes:

(1) Total leaseable area for each property. Excludes common areas and parking.
(2) Calculated dividing occupied square meters by leaseable area.
(3) Agreements in force as of 09/30/04 were computed.
(4) Total consolidated leases, according to the RT21 method.
(5) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation until 02/28/03, less allowance for impairment in value.
(6) Through Inversora Bolívar S.A.
(7) Includes the following properties: Av. Madero 942, Av. de Mayo 595, Av. Libertador 602 and Sarmiento 517 (through IRSA).
(8) Includes the following properties: Constitución 1111 and Alsina 934 (through IRSA).
(9) Includes the following properties: Thames and one unit in Alto Palermo Park (through Inversora Bolívar S.A). Cumulative revenues additionally include: In fiscal years 2003, the revenues from Alto Palermo Plaza (fully sold).
(10) Corresponds to the Offices and Other Rental Properties business unit mentioned in Note 4 to the Consolidated Financial Statements.

II. Shopping Centers Alto Palermo S.A. (APSA)

The information below corresponds to data included in the balance sheet of our shopping center operator subsidiary, Alto Palermo S.A., in which as of September 30, 2004 we had a 56.8% participation.

APSA s net income for the three-month period was Ps.2.5 million, compared to the Ps.3.9 million loss recorded in the same period of the previous year. The results for the first quarter of fiscal year 2004 were adversely affected by the depreciation of the local currency against the U.S. dollar, which went from Ps.2.80 per US$ 1.00 to Ps.2.915 per US$ 1.00, generating negative exchange rate differences of Ps.5.2 million mainly on our dollar denominated debt then outstanding. Results for the first quarter of fiscal year 2005 reflect the higher net revenues recorded by the company.

Total revenues as of September 30, 2004 were Ps.45.4 million, 45.6% higher than for the same period of the previous year. This increase mainly reflects the excellent sales momentum of our shopping centers, which allows us to adjust renewed leases and increase basic rental charges to lessees, along with the increase in revenues from our subsidiary Tarjeta Shopping.

Gross profit for the period achieved a significant increase of 86.2%, from Ps.14.3 million in the first quarter of fiscal year 2004 to Ps.26.5 million during the first quarter of fiscal year 2005. Approximately 90% of the company s costs are depreciation of fixed assets. Thus, consolidated operating results for the period reported a profit of Ps.17.8 million compared to Ps.8.1 million in the same period of the previous year, an increase of 120.8%.

EBITDA[1] (consolidated net income before interest, taxes, depreciation and amortization) for the three-month period totaled Ps.33.0 million, a 34.3% increase as compared to the EBITDA for the same period of the previous year.

[1] EBITDA represents net income plus accrued interest charges, income tax, depreciation and amortization charges, results from permanent investments, third-party interests in controlled companies and all items that do not imply movements of funds, and any extraordinary or non-recurrent loss or income. EBITDA is not regarded as a generally accepted accounting measure and should not be used as an indicator of financial or operating performance.

Tenant s sales continued to increase, reaching Ps.377.2 million in the three-month period ended September 30, 2004, a 31% nominal increase from those in the same period of the previous year.

The business success of our tenants continues to increase demand for space at our shopping centers. In this way, we have increased occupancy to 99%, even surpassing pre-crisis figures. The evolution of this variable not only shows an improvement in the business, but also the excellent quality of our shopping centers portfolio.

The current bonanza in the retail sector allows us to enter into new lease agreements under better conditions, increasing the goodwill charge (also known as key money) required for the renewal or execution of new agreements at our shopping centers.

Moreover, the allowance for bad debts was zero during the quarter, and there was a Ps.0.6 million recovery of charges previously recorded.

Tarjeta Shopping

Tarshop S.A. is a credit card company in which APSA holds an 80% interest.

The favorable context and successful performance of the credit card business unit caused Tarshop S.A. to record an income of Ps.1.3 million for the first quarter of fiscal year 2005, a 171% increase compared to an income of Ps.0.5 million recorded in the same period of the previous year.

Net revenues had a significant increase of 71%, from Ps.6.5 million during the first quarter of fiscal year 2004 to Ps.11.2 million during this quarter. In addition, operating results increased 20% to Ps.1.0 million.

The credit portfolio including securitized coupons as of September 30, 2004 was Ps.106.0 million, 102% higher than the Ps.52.5 million portfolio as of September 30, 2003.

In the area of collections, short-term delinquency at September 30, 2004 continued its steady downward trend, reaching figures even lower than before the crisis. Three-month arrears was as low as 1.8% as of September 30, 2004.

Increase in interest in Mendoza Plaza Shopping

On September 29, 2004, our subsidiary APSA entered into an agreement for the purchase of 49.9% of the capital stock of Perez Cuesta S.A.C.I., a company mainly engaged in the operation of the Mendoza Plaza Shopping center in the City of Mendoza. Through this purchase APSA s equity interest will increase to 68.8%.

The shopping center has 37,152 square meters of gross leaseable area, 140 retail stores, sales per square meter of US$ 135 and an occupancy rate of 97%.

Notice of the transaction was given to the Antitrust Authorities. The transaction and the agreement are conditioned to the consent to be granted by such agency. After its approval, Mendoza Plaza Shopping will be the ninth shopping center managed by the company.

Opening of Alto Rosario Shopping

On Tuesday, November 9, 2004 we successfully opened Alto Rosario Shopping, with 99% of the units already leased.

The project involves three stages. The first stage is the construction of the mall, which features 123 retail stores, 40 stands with the best and most diverse offerings in the market and 14 fast food stores, restaurants and cafes, totaling 19,297 square meters of gross leaseable area. The second stage will involve the opening of the Coto hypermarket, which is expected to occur in December 2004, and the third one includes the extension of the mall, the opening of Showcase cinemas (with 3,400 seats and 14 state-of-the-art movie screens) and the Museo de Los Niños children attraction, expected to open during the first quarter of 2005.

The shopping center offers diversified proposals according to the needs of the public, top-quality entertainment areas, first-line services and spaces. As in our other shopping centers, we will seek customer identification with our product.

The first stage required an investment of approximately Ps.55 million, that was fully financed with internally generated funds.

Below is information on our shopping centers as of September 30, 2004, according to IRSA s financial statements.

Shopping Centers

	Date of Acquisition	Leasable area m^2 (1)	Occupancy rate (2)	Total rental income for the three-month period ended September 30, of fiscal year Ps./000 (3)			Book Value as of 09/30/04 Ps./000 (4)
				2005	2004	2003	
Shopping centers (5)							
Alto Palermo	12/23/97	17,900	100%	8,146	6,558	6,235	224,523
Abasto	07/17/94	39,325	99%	7,806	6,074	4,905	208,678
Alto Avellaneda	12/23/97	27,451	99%	4,313	3,156	2,548	105,156
Paseo Alcorta	06/06/97	14,829	99%	4,328	3,461	2,599	68,122
Patio Bullrich	10/01/98	10,882	100%	3,797	2,796	2,527	120,073
Nuevo NOA Shopping	03/29/95	18,818	97%	806	587	488	29,181
Buenos Aires Design	11/18/97	14,488	98%	1,658	1,318	448	22,765
Fibesa and others (6)				3,366	1,065	658	18,566
Revenues Tarjeta Shopping				11,127	6,137	3,440	
TOTAL SHOPPING CENTERS		143,693	99%	45,347	31,152	23,848	797,064
Projects in progress (5) (7)		20,000	N/A	N/A	N/A	N/A	64,917

TOTAL (8)	163,693	99%	45,347	31,152	23,848	861,981

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Notes:

(1) Total leaseable area in each property. Excludes common areas and parking spaces.
(2) Calculated dividing occupied square meters by leaseable area.
(3) Total consolidated rents, according to RT21 method.
(4) Cost of acquisition plus improvements, less accumulated depreciation, plus adjustment for inflation until 02/28/03, less allowance for impairment in value, plus/less lesser/lower value generated by successive acquisitions of APSA.
(5) Through Alto Palermo S.A.
(6) Includes revenues from Fibesa S.A. and Alto Invest S.A.
(7) Corresponds to the Rosario Project. On November 9, 2004 opened Rosario Shopping with an estimated leaseable area of 20,000 m2.
(8) Corresponds to the Shopping Centers business unit mentioned in Note 4 to the Consolidated Financial Statements.

III. Sales and Developments

For the three-month period ended September 30, 2004, the sales and developments segment recorded revenues of Ps.1.4 million, compared to Ps.6.0 million in the same period of the previous year.

This difference mainly reflects the lower availability of units for sale, as we expect to launch sales in our new projects during the next months.

Edificios Dique 3. In September 2004 we executed a swap and option agreement with DYPSA (Desarrollos y Proyectos Sociedad Anónima) in connection with lots 1c and 1e of Dique III in Puerto Madero to build under their sole responsibility two residential buildings of 37 and 40 floors. Under this agreement, lot 1c was exchanged for 28.50% of the total square meters to be built in the first tower, and a swap option was granted with respect to a second lot for 31.50% of the square meters to be built in the second tower. These transactions are secured by mortgages for US$ 8.03 million and US$ 10.8 million, respectively. Swaps are conditioned to the approval of the CAPM (Corporación Antiguo Puerto Madero). The second transaction will be also conditioned to meeting the deadlines set for the work Exhibit of the first tower.

Cruceros, Dique 2. This unique project in Puerto Madero, which targets the high-income residential market segment, has achieved 55% of progress. Pre-sale is expected to start by the close of November.

San Martín de Tours. Works in this project, which involves the construction of a top-quality house style residential complex, have already reached 11% of progress. The first stage of foundations and concrete structures of the ground floor has been completed. Pre-sale is expected to start by mid-November.

El Encuentro, Benavídez. As predicted, infrastructure works for this project have started.

Abril, Hudson, Province of Buenos Aires. During the quarter ended September 30, 2004, 4 lots of Abril Country Club were sold. All projected neighborhoods are being marketed and 95% of the lots have already been sold, with 5% remaining available for sale. There are 651 completed houses and 124 houses are under construction.

Below is a detail of property being developed by IRSA as of September 30, 2004.

Development Properties

	Date of Acquisition	Estimated cost/ Real cost (Ps.000) (1)	Area Intended for sale (m^2) (2)	Total Units or lots (3)	Percentage constructed	Percentage sold (4)	Accumulated sales (Ps.000) (5)	Accumulated sales as of September 30 of fiscal year (6) (Ps.000) 05	04	03	Book Value (Ps.000) (7)
Residential Apartments											
Torres Jardín	7/18/96	56,579	32,339	490	100%	98%	70,028			29	245
Torres de Abasto (8)	7/17/94	74,810	35,630	545	100%	100%	109,256	11		411	540
Torres Rosario (15)											15,414
Palacio Alcorta	5/20/93	75,811	25,555	191	100%	100%	76,582			1	
Concepción Arenal	12/20/96	15,069	6,913	70	100%	99%	11,626				33
Alto Palermo Park (9)	11/18/97	35,956	10,488	72	100%	100%	47,467			814	
Other (10)		50,196	23,900	184	N/A	99%	57,325			213	13
Subtotal		**308,421**	**134,825**	**1,552**	**N/A**	**N/A**	**372,284**	**11**		**1,468**	**16,245**
Residential Communities											
Abril/Baldovinos (11)	1/3/95	130,955	1,408,905	1,273	100%	94%	210,702	1,148	921	3,946	7,745
Villa Celina I, II y III	5/26/92	4,742	75,970	219	100%	99%	13,952				43
Villa Celina IV y V	12/17/97	2,450	58,373	181	100%	100%	9,505		23		
Other properties					0%	0%					
Subtotal		**138,147**	**1,543,248**	**1,673**	**N/A**	**N/A**	**234,159**	**1,148**	**944**	**3,946**	**7,788**
Land Reserve											
Puerto Retiro (9)	5/18/97		82,051		0%						46,381
Caballito	11/3/97		20,968		0%						19,898
Santa María del Plata	7/10/97		715,952		0%						124,882
Pereiraola (11)	12/16/96		1,299,630		0%						21,875
Dique 4 (ex Soc. del Dique)	12/2/97		4,653		0%	50%	12,310				6,160
Benavidez	11/18/97		989,423			100%	11,830				
Other (13)			3,527,493								77,935
Subtotal			**6,640,170**		**N/A**	**N/A**	**24,140**				**297,131**
Other											
Hotel Piscis	9/30/02	5,231		1	100%	100%	9,912				
Santa Fe 1588	11/2/94	8,341	2,713	20	100%	100%	8,166				
Rivadavia 2243/65	5/2/94	8,166	2,070	4	100%	100%	3,660				

Libertador 498	12/20/95	7,452	2,191	3	100%	100%	5,931				
Constitución 1159	6/16/94	2,314	2,430	1	100%	100%	1,988			1,988	
Madero 1020	12/21/95	16,008	5,056	8	100%	100%	12,928		4,774	4,335	1,025
Madero 940	8/31/94	2,867	772	1	100%	100%	1,649			1,649	
Dique 3 (12)	9/9/99		10,474		0%						25,979
Other Properties (14)		83,963	40,412	263	100%	91%	102,427		233	738	8,030
Subtotal		**134,342**	**66,118**	**301**	**N/A**	**N/A**	**146,661**		**5,007**	**8,710**	**35,034**
Subtotal		**580,910**	**8,384,361**	**3,526**	**N/A**	**N/A**	**777,244**	**1,159**	**5,951**	**14,124**	**356,168**
Management fees								251	33	147	
TOTAL (16)		**580,910**	**8,384,361**	**3,526**	**N/A**	**N/A**	**777,244**	**1,410**	**5,984**	**14,271**	**356,168**

Notes:

(1) Cost of acquisition plus total investment made and/or planned if the project has not been completed, adjusted for inflation until 02/28/03.
(2) Total area devoted to sales upon completion of the development or acquisition and before the sale of any of the units (including parking and storage spaces, but excluding common areas). In the case of Land Reserves the land area was considered.
(3) Represents the total units or plots upon completion of the development or acquisition (excluding parking and storage spaces).
(4) The percentage sold is calculated dividing the square meters sold by the total saleable square meters.
(5) Includes only the cumulative sales consolidated by the RT21 method adjusted for inflation until 02/28/03.
(6) Corresponds to the company s sales consolidated by the RT21 method adjusted for inflation until 02/28/03. Excludes turnover tax deduction.
(7) Cost of acquisition plus improvement plus activated interest of properties consolidated in portfolio at March 31, 2003, adjusted for inflation until 02/28/03.
(8) Through APSA.
(9) Through Inversora Bolívar S.A.
(10) Includes the following properties: Dorrego 1916 through IRSA, República de la India 2785 (fully sold), Arcos 2343, Fco. Lacroze 1732 (fully sold), Yerbal 855, Pampa 2966 and J.M. Moreno 285 (fully sold) through Baldovinos and Alto Palermo Plaza (fully sold) through Inversora Bolívar.
(11) Directly through IRSA and indirectly through Inversora Bolívar.
(12) Through Bs. As. Trade & Finance S.A.
(13) Includes the following land reserves: Torre Jardín IV, Constitución 1159, Padilla 902 and Terreno Pilar (through IRSA), Pontevedra, Mariano Acosta, Merlo, Intercontinental Plaza II (through Inversora Bolívar S.A.) and Terrenos Alcorta, Neuquén, Caballito, and the Coto project (through APSA S.A.).
(14) Includes the following properties: Sarmiento 517, Jerónimo Salguero 3133 (through IRSA), Montevideo 1975 (Rosario), Puerto Madero Dock 13, Puerto Madero Dock 5, Puerto Madero Dock 6, Av. de Mayo 701, Rivadavia 2768 and Serrano 250 (fully sold through IRSA).
(15) Through Alto Palermo S.A.
(16) Corresponds to the Sales and Developments business unit mentioned in Note 4 to the Consolidated Financial Statements.

IV. Hotels

Income from the hotel segment for the first three months of fiscal year 2005 was Ps.19.8 million, compared to Ps.15.5 million in the same period of the previous fiscal year.

During the first three months of fiscal year 2005 accumulated average occupancy rates in our hotels increased notably, reaching 70.6% as compared to 58.0% in the same period of the previous year. Rates also improved, with an average price per room of Ps.273.4 in this period as compared to Ps.266.0 in the previous period.

Below is information on our hotels for the three-month period ended September 30, 2004.

Hotels

Hotel	Date of acquisition	Number of Rooms	Average occupancy % (1)	Avg. price per room	Accumulated sales as of September 30, of fiscal year (Ps.000) (3)	Book value as of Sept. 30,

				Ps.(2)	2005	2004	2003	2004 (Ps.000)
Inter-Continental (4)	11/97	312	65	243	6,748	5,277	4,811	56,760
Sheraton Libertador (5)	3/98	200	82	212	4,387	3,061	2,505	37,362
Llao Llao (6)	6/97	157	67	412	8,663	7,201	6,338	30,882
Total		**669**	**70.6**	**273.4**	**19,798**	**15,539**	**13,654**	**125,004**

Notes:
(1) Accumulated average in the period.
(2) Accumulated average in the period.
(3) Corresponds to our total sales consolidated by the R21 method adjusted for inflation up to 02/28/03.
(4) Through Nuevas Fronteras S.A. (subsidiary of Inversora Bolívar S.A.)
(5) Through Hoteles Argentinos S.A.
(6) Through Llao Llao Resorts S.A.

V. Financial and other transactions

Exercise of warrants. On September 30, 2004, warrants issued by our company were exercised for a total of US$ 5.15 million par value, with US$ 5.0 million par value being exercised by Cresud, resulting in the issue of 9.45 million shares. Total proceeds from this transaction were US$ 6.18 million.

As of September 30, 2004, the amount of outstanding Convertible Bonds and warrants was US$ 87.1 million and US$ 87.7 million, respectively, while the number of outstanding shares totalled 258,252,533.

Below is a detail of the past, current and potential situation of the Convertible Bonds issued on November 14, 2002 under the laws of the state of New York, at a rate of 8% (payable every six months) and maturing on November 14, 2007, convertible at a price of US$ 0.545 per share of Ps.1.00 par value (1.8349 shares per Convertible Bond). The Convertible Bonds also have a warrant attached that allows its holder to purchase 1.8349 shares of Ps.1.00 par value at a price of US$ 0.654 each per Convertible Bond.

APSA: Conversion of Convertible Bonds. During this quarter the holders of APSA s Convertible Bonds exercised their conversion rights. A total of 1,735,659 units of US$ 1 par value each was converted, giving rise to a reduction in debt for an identical amount, while 51,301,534 common shares of Ps.0.1 each were delivered in this regard.

Conversion amounts include conversions made by IRSA for a total of 1.2 million units, in line with its strategy of maintaining its interest in APSA, following dilution of its holding as a consequence of the conversions made by third parties.

Therefore, the amount of outstanding convertible bonds was reduced to US$ 47,329,751 while the number of shares of stock is now 778,983,790 and the corporate stock capital amounts to 77,898,379.

APSA: Improvement in the risk rating of structured debt. In October 2004, Fitch Argentina Calificadora de Riesgo S.A. further upgraded APSA s Ps.85.0 million Notes to raBBB+. In this opportunity, the upgrading was based on the cash flow generation capacity shown by the growth of its performance indicators, along with a conservative capital structure , as some of the reasons explained by the rating agency in its report. On the other hand, Fitch Argentina Calificadora de Riesgo S.A. confirmed Alto Palermo S.A. s common shares in Category 2.

APSA: Distribution of Dividends. On October 22, 2004, the General Ordinary and Extraordinary Shareholders Meeting of Alto Palermo S.A. (APSA) approved the distribution of Ps.17.9 million as cash dividends (Ps.0.22964 per share of Ps.1.00 par value or Ps.0.9186 per ADR) which will be made available as from November 17, 2004.

VI. Brief comment on prospects for the coming quarter

In the light of the favorable economic environment, we are already developing significant projects and planning interesting proposals for the future in all our business segments.

We expect to enlarge our office segment, taking advantage of the recovery in demand and prices. We intend to continue expanding our hotel business hand in hand with the growth of this industry, and are evaluating the purchase of new assets. The recent upsurge of the shopping center segment, which we expect will continue, makes it a very attractive proposal that adds even more value to our fine asset portfolio, and we thus plan to expand in this segment. We also continue making efforts to improve the quality of our existing offerings and to strictly meet the deadlines set for the Rosario project, and are considering the possibility of new investments. We are also evaluating several projects in our land reserves and the acquisition of new lands for development at attractive prices to add value to our portfolio.

Free translation from the original prepared in Spanish for publication in Argentina

Limited Review Report

To the Shareholders, President and Board of Directors of

IRSA Inversiones y Representaciones Sociedad Anónima

1. We have reviewed the balance sheet of IRSA Inversiones y Representaciones Sociedad Anónima at September 30, 2004, and the related statements of income, of changes in shareholders equity and of cash flows for the three-month periods ended September 30, 2004 and 2003 and the complementary notes 1 to 12 and exhibits A, C, D, E, F, G, H and I. Furthermore, we have reviewed the consolidated financial statements of IRSA Inversiones y Representaciones Sociedad Anónima with its subsidiaries for the three-month periods ended September 30, 2004 and 2003, which are presented as supplementary information. These financial statements are the responsibility of the Company s management.

2. We conducted our review in accordance with standards established by Technical Resolution No. 7 of the Argentine Federation of Professional Councils of Economic Sciences for limited reviews of financial statements. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. As described in Note 1.6.i.) to the financial statements, as a result of the Company s purchase of Banco Hipotecario S.A. and subsidiaries (BHSA) shares and the exercise of options (as further discussed in Note 16 to the consolidated financial statements), the Company changed its method of accounting for its investments in BHSA. Under the new accounting method, adopted as of June 30, 2004, the investments in BHSA are accounted for under the equity method of accounting. The limited review report on the financial statements of BHSA as of September 30, 2004, dated November 8, 2004, includes an explanatory paragraph describing uncertainties which might affect BHSA. These uncertainties relate to the National government s fulfillment of its obligations with BHSA represented by securities and other financing, and further the corresponding recoverable value of these assets held by BHSA, 99% of which are represented by government securities not included in the Argentine sovereign debt restructuring process. As of September 30, 2004, the investment in BHSA accounts for approximately 8% of the total assets of IRSA Inversiones y Representaciones Sociedad Anónima. The future outcome of the uncertainties described before could have an adverse effect in the valuation of these investments.

4. Based on our work and our examinations of the financial statements of this Company and the consolidated financial statements for the years ended June 30, 2004 and 2003, on which we issued a qualified report on September 7, 2004 regarding the circumstances indicated in point 3. of this report, we report that:

   a) The financial statements of IRSA Inversiones y Representaciones Sociedad Anónima at September 30, 2004 and 2003 and its consolidated financial statements at those dates, set out in point 1, prepared in accordance with accounting standards prevailing in the Autonomous City of Buenos Aires include all significant facts and circumstances of which we are aware, and we have no observations to make on them other than those indicated in point 3 above.

Limited Review Report (Continued)

b) The comparative information included in the basic and consolidated balance sheets and the supplementary notes and exhibits to the attached financial statements arise from the Company s financial statements at June 30, 2004.

5. In accordance with current regulations we report that:

a) the financial statements of IRSA Inversiones y Representaciones Sociedad Anónima and its consolidated financial statements have been transcribed to the Inventory and Balance Sheet Book and comply with the Corporations Law and pertinent resolutions of the National Securities Commission;

b) the financial statements of IRSA Inversiones y Representaciones Sociedad Anónima arise from official accounting records carried in all formal respects in accordance with legal requirements;

c) we have read the business highlights and the additional information to the notes to the financial statements required by sect. 68 of the Buenos Aires Stock Exchange Regulations, on which, as regards those matters that are within our competence, we have no observations to make;

d) at September 30, 2004, the debt accrued in favor of the Integrated Pension and Survivors Benefit System according to the accounting records amounted to Ps. 103 thousand, none of which was claimable at that date.

Autonomous City of Buenos Aires, November 10, 2004

PRICE WATERHOUSE & Co. S.R.L.	ABELOVICH, POLANO & ASOCIADOS
(Partner)	(Partner)
C.P.C.E.C.A.B.A. Tº 1 Fº 17	José Daniel Abelovich
Andrés Suarez	Public Accountant (U.B.A.)
Public Accountant (U.B.A.)	C.P.C.E.C.A.B.A. Tº 102 Fº 191
C.P.C.E.C.A.B.A. Tº 245 Fº 61	Professional Registration of the Firm
	C.P.C.E.C.A.B.A. Tº 1 Fº 240

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Buenos Aires, Argentina.

IRSA Inversiones y Representaciones Sociedad Anónima

By:	/S/ Saúl Zang
Name:	Saúl Zang
Title:	Second Vice Chairman of the Board of Directors

Dated: November 19, 2004