TELEFONOS DE MEXICO S A DE C V
Form 20-F
June 25, 2003
Table of Contents

As filed with the Securities and Exchange Commission on June 25, 2003.

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File Number: 1-10749

Teléfonos de México, S.A. de C.V.

(Exact name of registrant as specified in its charter)

Telephones of Mexico

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Parque Vía 190, Colonia Cuauhtémoc, 06599 México, D.F., México

(Address of principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 20 Series L Shares, without par value (L Share ADSs)	New York Stock Exchange
Series L Shares, without par value (L Shares)	New York Stock Exchange (for listing purposes only)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

American Depositary Shares, each representing 20 Series A Shares, without par value (A Share ADSs)

Series A Shares, without par value (A Shares)

SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(d) OF THE ACT: None

The number of outstanding shares of each class of capital or common stock as of December 31, 2002 was:

4,136 million	AA Shares
289 million	A Shares
8,352 million	L Shares

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Item 17 ¨ Item 18 x

Table of Contents

TABLE OF CONTENTS

Table of Contents

Item 3. Key Information

Selected Financial Data

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the years in the five-year period ended December 31, 2002, which have been reported on by Mancera, S.C., a member of Ernst & Young Global, independent public accountants. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and notes thereto included elsewhere in this Annual Report.

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Mexico, or Mexican GAAP, which differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 18 to our audited consolidated financial statements provides a description of the principal differences between Mexican GAAP and U.S. GAAP, as they relate to us; a reconciliation to U.S. GAAP of operating income, net income and total stockholders equity; and a condensed statement of cash flows under U.S. GAAP.

Pursuant to Mexican GAAP, in the consolidated financial statements and the selected consolidated financial data set forth below:

- nonmonetary assets (including plant, property and equipment of Mexican origin) and stockholders equity are restated for inflation based on the Mexican National Consumer Price Index; plant, property and equipment of non-Mexican origin are restated based on the rate of inflation in the country of origin and converted into Mexican pesos using the prevailing exchange rate at the balance sheet date,
- gains and losses in purchasing power from holding monetary assets and liabilities are recognized in income, and
- all financial statements are restated in constant pesos as of December 31, 2002.

We have not reversed the effect of inflation accounting under Mexican GAAP in the reconciliation to U.S. GAAP of our net income and stockholders equity, except with respect to the methodology for restatement of plant, property and equipment of non-Mexican origin. See Note 18 to the consolidated financial statements.

Table of Contents

	Year ended December 31,				
	2002	2001	2000	1999	1998
	(in millions of constant pesos as of December 31, 2002, except per share data)				
Income Statement Data:					
Mexican GAAP:					
Operating revenues	P. 112,860	P. 117,292	P. 112,630	P. 102,402	P. 96,576
Operating costs and expenses	73,243	72,273	68,817	61,462	58,685
Operating income	39,617	45,019	43,813	40,940	37,891
Income from continuing operations	19,568	24,833	27,585	25,065	17,312
Income from discontinued operations(1)			1,626	5,147	4,837
Net income	19,568	24,833	29,211	30,212	22,149
Income per share from continuing operations Basic(2)	1.507	1.834	1.880	1.661	1.096
Income per share from continuing operations Diluted(2)	1.482	1.721	1.779	1.621	1.096
Net income per share Basic(2)	1.507	1.834	1.991	2.002	1.401
Net income per share Diluted(2)	1.482	1.721	1.885	1.957	1.401
Dividends per share(2)(3)	0.545	0.490	0.445	0.388	0.350
U.S. GAAP:					
Operating revenues	P. 112,860	P. 117,292	P. 112,630	P. 102,402	P. 96,576
Operating costs and expenses	78,652	80,109	75,360	68,371	64,847
Operating income	34,208	37,183	37,270	34,031	31,729
Income from continuing operations	17,760	21,378	25,531	23,880	16,891
Income from discontinued operations(1)			1,376	4,304	4,220
Net income	17,760	21,378	26,907	28,184	21,111
Income per share from continuing operations Basic(2)	1.368	1.579	1.740	1.582	1.069
Income per share from continuing operations Diluted(2)	1.349	1.478	1.645	1.544	1.069
Net income per share Basic(2)	1.368	1.579	1.834	1.868	1.336
Net income per share Diluted(2)	1.349	1.478	1.735	1.825	1.336
Dividends per share(2)(3)	0.545	0.490	0.445	0.388	0.350

	December 31,				
	2002	2001	2000	1999	1998
	(in millions of constant pesos as of December 31, 2002)				
Balance Sheet Data:					
Mexican GAAP:					
Plant, property and equipment, net	P. 122,956	P. 120,978	P. 117,544	P. 117,759	P. 136,516
Total assets of continuing operations	168,792	165,855	173,125	164,241	175,503
Total assets of discontinued operations(1)				73,629	58,020
Total assets	168,792	165,855	173,125	237,870	233,523
Total debt	66,134	73,717	82,116	58,771	65,495
Total stockholders equity(4)	61,164	53,656	54,569	147,048	143,016
U.S. GAAP:					
Plant, property and equipment, net	P. 133,771	P. 143,096	P. 136,111	P. 138,231	P. 150,023
Total assets of continuing operations	180,960	189,356	193,817	187,187	192,076
Total assets of discontinued operations(1)				74,377	58,847
Total assets	180,960	189,356	193,817	261,564	250,923

Total debt	66,134	73,717	82,116	58,771	65,495
Total stockholders equity(4)	57,800	55,917	53,451	136,031	125,412

(1) In 1998, 1999 and 2000 the businesses we spun off to América Móvil in September 2000 are presented as discontinued operations. See Telmex History under Item 4.

(2) We have not presented net income or dividends on a per ADS basis. Each L Share ADS represents twenty L Shares and each A Share ADS represents twenty A Shares.

(3) Nominal amounts.

(4) The decrease in 2000 was due to the spin-off of América Móvil.

Table of Contents

EXCHANGE RATES

Mexico has a free market for foreign exchange, and the Mexican government allows the peso to float freely against the U.S. dollar. For much of 1998, the foreign exchange markets were volatile as a result of financial crises in Asia and Russia and financial turmoil in certain Latin American countries, including Brazil and Venezuela. The peso declined during this period, but was relatively stable from 1999 until 2001. In 2002 and early 2003 the peso declined significantly, but in March 2003, it began to rise in value. There can be no assurance that the government will maintain its current policies with regard to the peso or that the peso will not further depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar. The rates have not been restated in constant currency units.

Period	High	Low	Average(1)	Period End
1998	P. 8.04	P. 10.63	P. 9.24	P. 9.90
1999	9.24	10.60	9.56	9.48
2000	9.18	10.09	9.47	9.62
2001	8.95	9.97	9.33	9.16
2002	9.00	10.43	9.66	10.43
2002:				
December	10.10	10.43	10.23	10.43
2003:				
January	10.32	10.98	10.62	10.90
February	10.06	10.77	10.95	11.03
March	10.66	11.24	10.91	10.78
April	10.31	10.77	10.59	10.31
May	10.11	10.42	10.25	10.34

(1) In the case of annual periods, average of month-end rates.

On June 24, 2003 the noon buying rate was P.10.5320 to U.S.$1.00.

We will pay any cash dividends in pesos, and exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion by the depositary of cash dividends on the shares represented by such ADSs. Fluctuations in the exchange rate between the peso and the U.S. dollar have affected the U.S. dollar equivalent of the peso price of our shares on the Mexican Stock Exchange and, as a result, have also affected the market price of the ADSs.

Table of Contents

RISK FACTORS

Risks Relating to Our Business Generally

Increasing Competition Could Adversely Affect Our Revenues and Profitability

Our results of operations have been affected by the opening of the Mexican market for long distance services to competition beginning in August 1996 and the availability of interconnection to our network beginning January 1, 1997. Competing carriers have won a share of the long distance market, and prices have fallen steadily as real rates have fallen and customer discounts have increased. The effects of increased competition have been particularly severe in international long distance service, where our revenues declined from 1996 through 1998 and again in 2000 through 2002. We believe the decline in our international traffic volume has been adversely affected by an unauthorized practice referred to as illegal bypass, which occurs when an incoming international call is routed into Mexico through private circuits or other channels and then handled as a domestic call. We estimate that illegal bypass represented a loss of revenues of approximately P.1,157 million in 2002, an amount equal to 12.2% of our total international long distance revenue for that year. The practice is difficult to prevent and is likely to arise whenever there is a substantial price advantage to be gained by competing carriers.

Competition in local service, principally from wireless service providers, has been developing since 1999. In December 2002, there were approximately 26.2 million cellular lines in service compared with approximately 15.4 million fixed lines in service (14.4 million of which are part of our network). At present, 19 competitive fixed-line local operators have been granted licenses, primarily in Mexico City, Guadalajara, Monterrey, Puebla and other large cities.

The effects of increased competition on our business are highly uncertain and will depend on a variety of factors, including Mexican economic conditions, regulatory developments including the lowering of interconnection fees, the behavior of our customers and competitors and the effectiveness of measures we take.

Dominant Carrier Regulations and Other Regulatory Developments Could Hurt Our Business by Limiting Our Ability to Pursue Competitive and Profitable Strategies

Our business is subject to extensive regulation, and it can be adversely affected by changes in law, regulation or regulatory policy. The Mexican Competition Commission has determined that we are a dominant provider of certain telecommunications services, and Mexican law provides for the regulatory authorities to impose additional regulations on a dominant provider. In September 2000, the Mexican Federal Telecommunications Commission *(Comisión Federal de Telecomunicaciones,* or Cofetel) adopted regulations that apply specifically to us as a dominant carrier. In 2001, a Mexican court held that the determination that we are a dominant carrier was procedurally defective, but the Mexican Competition Commission promptly addressed the defect and issued a second resolution with the same findings. We have brought legal proceedings challenging the validity of the Competition Commission s second resolution. In May 2002, a federal court nullified several resolutions issued by the Competition Commission and Cofetel, including the September 2000 resolution adopting the dominant carrier regulations. We cannot predict the outcome of the proceedings regarding the Competition Commission or whether Cofetel will issue new regulations that are substantially similar to the prior dominant carrier regulations. We believe that if dominant carrier regulations are eventually implemented, the new rules and the related regulatory procedures will reduce our flexibility to adopt competitive tariff policies.

Table of Contents

The United States has initiated World Trade Organization (WTO) dispute settlement with Mexico regarding alleged illegal barriers to competition in the Mexican telecommunications market. The United States claims that Mexico has not complied with its WTO commitments, alleging in particular that (i) Mexico has not ensured that we provide international termination to U.S. telecommunications carriers at cost-based and reasonable rates, (ii) Mexico has failed to ensure that U.S. companies can route their calls into and out of Mexico over leased lines and (iii) Mexico s rules authorizing the Mexican carrier with the largest market share to negotiate rates on behalf of all Mexican carriers are anticompetitive. An adverse decision by the WTO could lead to trade sanctions against Mexico and could prompt changes in regulation affecting our business.

Shifting Usage Patterns Could Adversely Affect Our Revenues

Our fixed-line network services face increasing competition due to shifting usage patterns resulting from the adoption of popular new technologies, including wireless devices for voice and other communications, and the subsequent substitution of these technologies for fixed-line phones. For example, we estimate that an increasing proportion of calls that previously would have been made over our fixed network are now being made on wireless telephones outside our network. There can be no assurance that this process will not adversely affect our traffic volume and our results of operations.

Risks Relating to Our Controlling Shareholder and Capital Structure

We Are Controlled by One Shareholder

A majority of the voting shares of our company (68.9% as of April 30, 2003) is indirectly controlled by Carso Global Telecom, S.A. de C.V., which is controlled by Carlos Slim Helú and members of his immediate family. Carso Global Telecom has the effective power to designate a majority of the members of our Board of Directors and to determine the outcome of other actions requiring a vote of the shareholders, except in very limited cases that require a vote of the holders of L Shares.

The Protections Afforded to Minority Shareholders in Mexico Are Different from Those in the United States

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions or shareholder derivative actions and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice it may be more difficult for minority shareholders of Telmex to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company.

We Engage in Transactions with Affiliates That May Create the Potential for Conflicts of Interest

We engage in transactions with certain subsidiaries of Grupo Carso, S.A. de C.V. and Grupo Financiero Inbursa, S.A., both of which are under common control with Carso Global Telecom. Transactions with subsidiaries of Grupo Carso include the purchase of network construction services and materials, and transactions with Grupo Financiero Inbursa include banking services and insurance. We alsont-size:10.0pt;">(346

)

$

(4,878

)

$

260

$

(7,057

)

Impact of discontinued operations

(232

)

(258

)

(286

)

(6,277

)

(7,053

)

Net Income (Loss) from continuing operations

(2,325

)

(604

)

(5,164

)

(6,017

)

(14,110

)

Interest expense, net

2,775

3,471

3,913

4,036

14,195

Income tax (benefit) expense

77

36

101

(299

)

(85

)

Amortization of stock based compensation

165

182

269

321

937

Depreciation and amortization

1,288

1,586

1,923

2,053

6,850

Acquisition costs

293

524

342

853

2,012

Derivative (gain) loss

(410

)

(352

)

2,105

399

1,742

Gain/Loss on Disposal of Assets

(2

)

0

0

0

(2

)

Other non-routine Adjustments

0

0

(281

)

(278

)

(559

)

Salary retirement and continuation costs

0

0

38

5

	43
Adjusted EBITDA from continuing operations	
	1,861
	4,843
	3,246
	1,073
	11,023
Facility rent expense	
	1,914
	1,900
	1,930
	1,946
	7,690
Adjusted EBITDAR from continuing operations	

$	3,775
$	6,743
$	5,176
$	3,019
$	18,713

ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Amounts in 000s)

		12/31/2012 (Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$	16,201
Restricted cash and cash equivalents		1,816
Accounts receivable, net		28,020
Prepaid expenses and other		526
Assets of disposal group held for sale		5,634
Total current assets		52,197
Restricted cash and investments		7,141
Property and equipment, net		161,746
Intangible assets - bed licenses, net		2,471
Intangible assets - lease rights, net		6,845
Goodwill		6,145
Lease deposits		1,721
Deferred loan costs, net		6,665
Other assets		3,611
Total assets	$	248,542
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of notes payable and other debt	$	9,942
Current portion of convertible debt, net of discounts		10,947
Revolving credit facilities and lines of credit		2,143
Accounts payable		20,803
Accrued expenses		13,992
Liabilities of disposal group held for sale		3,662
Total current liabilities		61,489
Notes payable and other debt, net of current portion:		
Senior debt, net of discounts		137,640
Convertible debt, net of discounts		12,009
Revolving credit facilities		7,706
Other debt		864
Derivative liability		3,630
Other liabilities		1,395
Deferred tax liability		32
Total liabilities		224,765
Preferred stock, no par value; 1,000 shares authorized; 450 shares issued and outstanding at December 31, 2012, redemption amount $11,250		9,159
Stockholders equity		
Common stock and additional paid-in-capital, no par value; 29,000 shares authorized; 15,108 shares issued and outstanding at December 31, 2012		41,382
Accumulated deficit		(23,911)
Total stockholders equity		26,630
Noncontrolling interest in subsidiaries		(2,853)
Total equity		23,777
Total liabilities, preferred stock, and stockholders equity	$	248,542