GRUPO IUSACELL SA DE CV
Form 20-F
June 25, 2003

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

Form 20-F

[ ] **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2002

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from __________ to __________

COMMISSION FILE NUMBER 1-14938

Grupo Iusacell, S.A. de C.V.

(Exact name of Registrant as specified in its charter)

Iusacell Group
(Translation of Registrant s name into English)

United Mexican States
(Jurisdiction of incorporation or organization)

Prolongación Paseo de la Reforma 1236
Colonia Santa Fe
Delegación Cuajimalpa
05348 Mexico, D.F.
(Address of principal executive offices)

Securities registered or to be 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 100 series V shares	New York Stock Exchange
Series V shares	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American depositary shares, pursuant to the requirements of the United States Securities and Exchange Commission.

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

None

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

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

Series A Capital Stock	961,292,484 shares
Series V Capital Stock	900,732,310 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]

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FORWARD-LOOKING INFORMATION

This Annual Report contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), including statements regarding, among other things, the financial performance and operating plans for *Grupo Iusacell, S.A. de C.V.* These statements are based upon the current beliefs of our management, as well as on assumptions made by management based upon information currently available to it. The words believe, expect, likely and anticipate and similar expressions identify some of these forward-looking statements. These statements are subject to various risks and uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Should management s assumptions prove incorrect, actual results may vary materially and adversely from those anticipated or projected. Readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of their respective dates. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors described in this Annual Report under Item 3, Key Information Risk Factors, could cause actual results to differ materially from such forward-looking statements.

Iusacell means *Grupo Iusacell, S.A. de C.V.* This company was formerly known as *Nuevo Grupo Iusacell, S.A. de C.V.* Unless the context otherwise requires, we , our or us refers to Iusacell.

Iusacell Celular means *Grupo Iusacell Celular, S.A. de C.V.* This company was formerly known as *Grupo Iusacell, S.A. de C.V.* Iusacell owns 100% of the capital stock of Iusacell Celular.

Under Item 4, Information on the Company , we , our or us refers to Iusacell and its subsidiaries, unless the context otherwise requires.

Certain terms are defined the first time they are used in this Annual Report. The Glossary of Telecommunications Terms that begins immediately following Item 19, Exhibits provides definitions of certain technical terms used herein.

On June 30, 2000, Bell Atlantic Corporation, Iusacell s principal shareholder, which holds its interest in Iusacell through various subsidiaries, acquired GTE Corporation in a merger of equals, renaming itself as Verizon Communications Inc. The names of the subsidiaries which hold Iusacell capital stock directly remained unchanged. The term Verizon in this Annual Report refers to Verizon Communications Inc. or its subsidiaries, as the context requires. We continue to use the term Bell Atlantic in this Annual Report to refer to Bell Atlantic Corporation and its subsidiaries in connection with events prior to June 30, 2000.

The term Vodafone in this Annual Report refers to Vodafone Group Plc or its subsidiaries, as the context requires.

Iusacell s equity securities trade on the New York and Mexican stock exchanges. Both Iusacell and Iusacell Celular have publicly-traded debt securities.

Unless otherwise specified, all references to U.S. dollars , U.S. Dollars , dollars , U.S.$ or $ are to United States dollars, and references to and pesos are to Mexican pesos. We publish our financial statements in pesos that are adjusted to reflect changes in purchasing power due to inflation. Thus, unless otherwise specified, our financial data is presented in constant pesos with purchasing power as of December 31, 2002. Actual amounts may vary from amounts presented in this Annual Report due to rounding.

We will provide without charge to each person to whom this Annual Report is delivered, upon written or oral request, a copy of any or all of the documents incorporated by reference into this Annual Report (not including the exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents). Written requests for such copies should be directed to *Grupo Iusacell, S.A. de C.V.*, Prolongación Paseo de la Reforma 1236, Colonia Santa Fe, Delegación Cuajimalpa, 05348 Mexico, D.F., Attention: Carlos Moctezuma, Investor Relations Manager. E-mail requests may be directed to investor.relations@iusacell.com.mx. Telephone requests may be directed to 011-52-55-5109-5759.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. DIRECTORS AND SENIOR MANAGEMENT

Not applicable.

B. ADVISERS

Not applicable.

C. AUDITORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following tables present selected consolidated financial data of Iusacell and its consolidated subsidiaries. We have derived this data from the audited consolidated financial statements of Iusacell as of December 31, 2002, 2001, 2000, 1999 and 1998. The financial information presented for fiscal years ended December 31, 2002, 2001 and 2000 was derived from our audited consolidated financial statements, which we refer to as the Consolidated Financial Statements, appearing elsewhere in this Annual Report, and you should read this information in conjunction with the Consolidated Financial Statements.

Prior to August 10, 1999, when Iusacell completed a corporate restructuring, Iusacell had minimal assets and liabilities and no operations or contingent liabilities. For accounting purposes, Iusacell is the successor business to *Grupo Iusacell, S.A. de C.V.*, the holding and operating company prior to the restructuring. Iusacell owns 100% of the capital stock of Iusacell Celular.

The Consolidated Financial Statements have been prepared in accordance with Mexican generally accepted accounting principles, which we refer to as Mexican GAAP, which differs in certain significant respects from United States generally accepted accounting principles, which we refer to as U.S. GAAP. Pursuant to Mexican GAAP, we have prepared the Consolidated Financial Statements and the selected financial data presented below in accordance with Bulletin B-10 of the Mexican Institute of Public Accountants (MIPA), which provides for the recognition of certain effects of inflation.

Throughout the periods presented in this Annual Report, Bulletin B-10 has required Iusacell to restate non-monetary assets (other than inventory) using the National Consumer Price Index (*Indice Nacional de Precios al Consumidor*), also referred to as the INPC. Throughout the periods presented in this Annual Report, Bulletin B-10 has also required Iusacell to restate the components of shareholders equity using the INPC and to record gains or losses in purchasing power from holding monetary liabilities or assets.

In addition, Bulletin B-10 requires restatement of all financial statements to constant pesos as of the date of the most recent balance sheet presented. Accordingly, we have restated all data in the Consolidated Financial Statements and in the selected financial data set forth below in constant pesos with purchasing power as of December 31, 2002. We have not reversed the effect of these inflation accounting principles in the reconciliation of Iusacell s net profit (loss) and stockholders equity to U.S. GAAP.

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Note 23 to the Consolidated Financial Statements presents the principal differences, other than inflation accounting, between Mexican GAAP and U.S. GAAP applicable to us and contains a reconciliation of Iusacell s net profit (loss) and stockholders equity to U.S. GAAP.

	As of and for the Year Ended December 31,					
	1998	1999	2000	2001	2002	2002
	(Thousands of constant pesos as of December 31, 2002, except per share and operating data)[1]					(Thousands of U.S. dollars, except per share and operating data)[2]
Income Statement Data:						
Mexican GAAP:						
Revenues:						
Services	3,307,589	4,530,207	5,497,454	5,955,461	4,933,603	473,247
Telephone equipment sales and other	506,844	525,393	558,850	641,737	593,353	56,916
Total revenues	3,814,433	5,055,600	6,056,304	6,597,198	5,526,956	530,163
Cost of sales:						
Cost of services	1,035,036	1,291,588	1,547,575	1,619,711	1,533,026	147,053
Cost of telephone equipment sales and other	271,194	324,031	376,288	399,644	488,093	46,819
Total cost of sales	1,306,230	1,615,619	1,923,863	2,019,355	2,021,119	193,872
Gross profit	2,508,203	3,439,981	4,132,441	4,577,843	3,505,837	336,291
Operating expenses	1,455,532	1,737,201	2,033,599	2,195,070	1,817,063	174,299
Depreciation and amortization	1,073,547	1,713,421	2,546,289	2,768,521	2,247,065	215,546
450 project write-down	1,325,508	0	0	0	0	0
Other operating income	0	0	0	325,436	100,979	9,686
Operating loss	(1,346,384)	(10,641)	(447,447)	(60,312)	(457,312)	(43,868)
Other income (expense), net	179,211	(27,720)	0	0	0	0
Integral financing cost (gain):						
Interest expense, net	301,645	350,394	1,038,462	854,773	900,075	86,338
Foreign exchange loss (gain), net	1,129,607	(191,267)	17,740	(237,606)	1,028,698	98,676
Gain from monetary position	(916,914)	(795,818)	(476,396)	(281,823)	(415,625)	(39,868)
Total	514,338	(636,691)	579,806	335,344	1,513,148	145,146
Equity participation in net profit (loss) of associated companies	33,573	(57,247)	(20,767)	6,890	(9,741)	(934)
(Loss) income before assets tax, income tax, minority interest and extraordinary item	(1,647,938)	541,083	(1,048,020)	(388,766)	(1,980,201)	(189,948)
Provisions for:						
Asset tax	86,725	159,490	165,246	154,749	111,220	10,669
Income tax	0	486,737	0	0	9,250	887
Total	86,725	646,227	165,246	154,749	120,470	11,556
Loss from continuing operations before minority interest and extraordinary item	(1,734,663)	(105,144)	(1,213,266)	(543,515)	(2,100,671)	(201,504)
Minority interest	7,625	21,563	17,399	21,874	16,634	1,596
Loss from continuing operations before extraordinary item	(1,727,038)	(83,581)	(1,195,867)	(521,641)	(2,084,037)	(199,908)

Extraordinary item[3]	0	486,737	0	0	0	0
Cumulative effect of the adoption of the new accounting pronouncement	0	0	0	6,847	0	0
(Loss) gain from discontinued operations[4]	(24,908)	(1,846)	9,370	0	0	0
Net (loss) profit	(1,751,946)	401,310	(1,186,497)	(528,488)	(2,084,037)	(199,908)
(Loss) per share from continuing operations	(1.54)	(0.06)	(0.86)	(0.35)	(1.12)	(0.11)
Net (loss) profit per share	(1.56)	0.31	(0.85)	(0.35)	(1.12)	(0.11)
Weighted-average number of shares outstanding	1,121,396	1,286,844	1,396,672	1,495,140	1,862,025	1,862,025
U.S. GAAP: [5]						
Total revenues	3,838,776	5,055,600	6,056,304	6,451,970	5,352,569	513,436
Operating (loss) profit	(1,139,268)	(93,639)	(458,259)	(497,496)	(384,404)	(36,873)
Net (loss) profit	(1,740,479)	288,189	(1,200,451)	(855,206)	(1,913,649)	(183,563)
Basic and diluted (loss) profit per share[6]	(1.55)	0.22	(0.86)	(0.57)	(1.03)	(0.10)

	As of and for the Year Ended December 31,					
	1998	1999	2000	2001	2002	2002
	(Thousands of constant pesos as of December 31, 2002, except per share and operating data)(1)					(Thousands of U.S. dollars, except per share and operating data)(2)
Balance Sheet Data:						
Mexican GAAP:						
Working capital	(1,622,976)	973,333	(719,683)	368,695	(91,594)	(8,786)
Property and equipment, net	7,168,516	8,141,460	9,038,005	10,008,780	9,367,325	898,544
Total assets	13,408,186	17,836,583	17,413,837	17,516,280	15,122,628	1,450,612
Total debt	6,014,462	9,518,509	8,437,040	7,767,133	8,396,019	805,374
Total stockholders equity	4,951,734	6,304,525	7,008,863	7,571,196	5,365,102	514,638
Capital stock	11,660,034	5,684,848	6,154,059	7,139,558	7,139,558	684,850
U.S. GAAP:(5)						
Working capital	(1,824,083)	728,262	(1,013,877)	156,350	(249,638)	(23,920)
Property and equipment, net	6,943,307	8,141,872	8,812,798	9,762,699	9,178,121	880,395
Total assets	13,946,144	18,362,913	17,969,622	18,050,527	16,082,478	1,542,684
Total debt	6,028,962	9,524,775	8,437,040	7,767,133	8,396,019	805,374
Minority interest	1,096	39,759	26,893	123,888	581	56
Total stockholders equity	4,954,609	6,172,640	6,674,618	6,610,079	4,890,052	469,070
Other Financial Data:						
Mexican GAAP:						
EBITDA(7)	1,052,671	1,702,780	2,098,842	2,708,209	1,789,753	171,678
EBITDA margin(8)	28%	34%	35%	41%	32%	
Capital expenditures(9)	4,371,247	2,060,787	2,273,021	2,094,888	850,942	81,625
Interest expense, net	301,645	350,394	1,038,462	854,773	900,075	86,338
Ratio of earnings to fixed charges(10)		2.59				
Cash Flow Data:(11)						
Mexican GAAP:						
Net resources (used) provided by operating activities	920,314	1,379,664	1,573,557	2,176,691	(488,970)	(46,904)
Net resources used in investing activities	(4,655,078)	(4,756,110)	(3,054,597)	(2,860,735)	(419,066)	(40,198)
Net resources provided by financing activities	3,891,235	4,416,863	822,231	396,940	628,886	60,325
U.S. GAAP:(5)						
Net cash provided by operating activities	2,302,994	913,583	1,280,846	1,148,985	80,026	7,676
Net used in investing activities	(4,429,872)	(3,148,416)	(3,362,591)	(2,974,864)	(829,146)	(79,534)
Net cash provided by financing activities	2,283,348	3,316,755	1,536,134	1,587,495	495,004	47,482
Operating Data:						
Covered POPs(12)	66,712,645	67,591,791	68,376,034	89,917,967	91,356,654	91,356,654
Subscribers(13)						
Postpaid	277,014	352,289	442,594	404,075	356,014	356,014
Prepaid	478,361	970,509	1,238,625	1,451,091	1,725,186	1,725,186
Total subscribers	755,375	1,322,798	1,681,219	1,855,166	2,081,200	2,081,200
Gross subscriber additions	747,720	788,438	1,092,895	1,051,089	1,122,024	1,122,024

Average subscribers[(14)]	742,601	1,290,558	1,637,481	1,721,072	2,091,765	2,091,765
Average monthly postpaid churn[(15)]	2.58%	2.96%	3.51%	3.76%	3.55%	3.55%
Penetration[(16)]	1.13%	1.96%	2.46%	2.10%	2.28%	2.28%
Average monthly MOUs per subscriber[(17)]	87	85	78	84	63	63
Nominal average monthly mobile wireless revenue per subscriber[(18)]	361	311	267	267	191	18.32
Nominal cost to acquire a new subscriber[(19)]	3,477	3,277	3,270	2,677	2,419	232.04

(1) In accordance with Mexican GAAP, financial data for all periods covered by the Consolidated Financial Statements, as well as the other financial data presented in this Annual Report, unless otherwise indicated, has been restated in constant pesos with purchasing power as of December 31, 2002. Restatement of peso amounts is made by multiplying the relevant nominal peso amount for the relevant period by the inflation index for the period from the end of the period to which such nominal peso amount relates through December 31, 2002. The inflation indices used in this Annual Report are 1.3505 for 1998, 1.2024 for 1999, 1.1036 for 2000 and 1.0570 for 2001.

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(2) Peso amounts were converted to U.S. dollars at the noon buying rate reported by the Federal Reserve Bank of New York for December 31, 2002, which was Ps.10.425 per U.S.$1.00. Such conversions should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at all.

In determining the peso amounts of our U.S. dollar-denominated obligations at December 31, 2002 in the Consolidated Financial Statements under Mexican GAAP, however, we applied the exchange rate published by *Banco de México* (the Mexican Central Bank) on December 31, 2002, which was Ps.10.439 per U.S.$1.00. The difference between the noon buying rate reported by the Federal Reserve Bank of New York and the *Banco de México* exchange rate causes certain inconsistencies between references to U.S. dollar amounts in this Annual Report and the actual outstanding U.S. dollar amounts of our U.S. dollar-denominated obligations. For example, our actual total debt outstanding, excluding trade notes payable, at December 31, 2002 was U.S.$804.3 million. In preparing the Consolidated Financial Statements, we multiplied this dollar amount by Ps.10.439 (the *Banco de México* exchange rate at December 31, 2002) to arrive at Ps.8,396.0 million of total debt, excluding trade notes payable. For purposes of this Annual Report, we have converted this peso amount to U.S. dollars for the convenience of the reader by dividing it by Ps.10.425 (the noon buying rate reported by the Federal Reserve Bank of New York at December 31, 2002) to arrive at U.S.$805.4 million of total debt, excluding trade notes payable.

As a result of the combined effect of the restatement of the financial data in constant pesos with purchasing power as of December 31, 2002 and the translation of peso amounts into U.S. dollars, the amounts shown for certain balance sheet items are not equal to the actual amounts outstanding.

(3) For 1999, the extraordinary item represents the utilization of tax loss carryforwards available to us which, under Mexican GAAP in effect at the time, was required to be classified as an extraordinary item. Under U.S. GAAP, the utilization of tax loss carryforwards is recorded as a component of tax expense.

(4) In December 1998, we discontinued the operations of our subsidiary *Cellular Solutions de México, S.A. de C.V.*, which sold cellular handset accessories. This subsidiary transferred all of its existing inventories as of December 31, 1998 to another one of our subsidiaries and terminated all of its employees during January and February 1999. See Note 19 to the Consolidated Financial Statements. Under U.S. GAAP, the closing of this subsidiary does not constitute a discontinued operation under Accounting Principles Board Opinion (APB Opinion) No. 30. Accordingly, the gain (loss) from discontinued operations is recorded as operating income (expense).

(5) See Note 23 to the Consolidated Financial Statements.

(6) Diluted (loss) profit per share for the years ended December 31, 1998, 2000, 2001 and 2002 is equal to basic (loss) profit per share as the potential drawdowns and conversions under the subordinated convertible facility with Bell Atlantic and the shares outstanding under the executive employee stock purchase plan are excluded from the computation of diluted (loss) profit per share because to include them would have been antidilutive for the periods presented. For the year ended December 31, 1998, the number of potentially antidilutive shares that were excluded from the computation of diluted (loss) profit per share to account for the drawdowns and conversions under the facility with Bell Atlantic were 69,285,714 shares, and for the year ended December 31, 1999, the shares outstanding under the executive employee stock purchase plan were 7,695,235, and 6,485,124, for each of the years ended December 31, 2000, 2001 and 2002.

Diluted (loss) profit per share for the year ended December 31, 1999 is equal to basic (loss) profit per share.

We have never paid dividends, nor do we contemplate paying dividends in the foreseeable future. Accordingly, we have not included in these tables a line item for dividends declared per share.

(7) EBITDA as used in this Annual Report is operating profit (loss) plus the sum of depreciation and amortization and is presented because we believe that EBITDA provides useful information regarding our debt service ability. EBITDA should not be considered in isolation or as a substitute for our consolidated income statements or the consolidated statements of changes in financial position prepared in accordance with Mexican GAAP or as a measure of profitability or liquidity. EBITDA as presented in this Annual Report (under both Mexican GAAP and U.S. GAAP) differs from EBITDA as defined in the instruments governing Iusacell s 14 1/4% senior notes due 2006 and Iusacell Celular s 10% senior notes due 2004 and Iusacell Celular s senior refinancing secured loan (as defined herein). In particular, EBITDA in this Annual Report has not been reduced to reflect the additional expenses that Iusacell Celular would have incurred had it expensed the cost of cellular telephones it gives to its postpaid customers rather than amortized such cost over 12 months, in accordance with its current practice under Mexican GAAP. EBITDA is not (i) a measure determined under U.S. GAAP, (ii) an alternative to U.S. GAAP operating income (loss) or net income (loss), or (iii) a measure of liquidity or cash flows as determined under U.S. GAAP. EBITDA does not represent discretionary funds. EBITDA, as calculated by us, may not be comparable to similarly titled measures reported by other companies.

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Our reconciliation of EBITDA to consolidated net profit (loss) under Mexican GAAP as of December 31, 2002, 2001 and 2000, is as follows:

	Years ended December 31,		
	2002	**2001**	**2000**
EBITDA	Ps. 1,789,753	Ps. 2,708,209	Ps. 2,098,842
Depreciation and amortization	(2,247,065)	(2,768,521)	(2,546,289)
Integral financing cost	(1,513,148)	(335,344)	(579,806)
Equity participation in net (loss) gain of associated companies and net (loss) gain on sale of equity investments	(9,741)	6,890	(20,767)
Assets tax and income tax	(120,470)	(154,749)	(165,246)
Minority interest	16,634	21,874	17,399
Profit from discontinued operations			9,370
Cumulative effect of the adoption of the new accounting pronouncements		(6,847)	
Net loss for the year	(Ps. 2,084,037)	(Ps. 528,488)	(Ps. 1,186,497)

(8) EBITDA margin is calculated by dividing EBITDA by the total revenues for the respective period.

(9) Capital expenditures include fixed asset purchases, capitalized labor costs, the capitalization of interest costs related to long-term debt incurred in connection with the acquisition of property, plant and equipment, trade-in credits received from Lucent Technologies for exchanging our previous analog network for a digital and analog network supplied by Lucent Technologies and, in some cases, the net value of long distance fiber acquired in swaps for Iusacell long distance fiber. In 1999 and 2000, pursuant to a waiver from its bank lenders, and beginning in 2001, pursuant to the terms of its senior refinancing secured loan, Iusacell Celular excluded capitalized interest cost from capital expenditures in determining its compliance with capital expenditure limitations set forth in its debt covenants. Pursuant to waivers from its lenders, Iusacell Celular excluded Lucent trade-in credits from capital expenditures in determining its compliance with the capital expenditures limitations set forth in its debt covenants. See Item 5, Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures.

(10) The ratio of earnings to fixed charges covers continuing operations. For this purpose, earnings are calculated as income or loss before taxes plus (i) integral financing cost, including amortization of capitalized interest, (ii) the interest portion of annual rent expense and (iii) losses from less than 50%-owned affiliates. Fixed charges include the expensed and capitalized portions of integral financing cost. Earnings were insufficient to cover fixed charges in 1998, 2000, 2001 and 2002. The fixed charge coverage deficiency for the years ended December 31, 1998, 2000, 2001 and 2002 amounted to Ps.2,736.0 million (U.S.$262.5 million), Ps.966.1 million (U.S.$92.7 million), Ps.295.5 million (U.S.$28.3 million), and Ps.2,945.9 million (U.S.$282.6 million) respectively.

(11) Under Mexican GAAP, the cash flow data represents changes in financial position and has been adjusted for inflation and includes certain non-cash items, such as monetary gains and losses and foreign exchange gains and losses and, as a result, is not comparable to U.S. GAAP cash flow data. Under U.S. GAAP, the effect of inflation adjustments has been included in the separate line item Gain on net monetary position and foreign exchange losses in Note 23 to the Consolidated Financial Statements.

(12) Covered POPs is the aggregate number of POPs in the geographic regions in which we have concessions for wireless services and whom we therefore have the potential to serve. POPs means points of presence, or population, for a given area based on census data published by Mexico s National Institute of Statistics, Geography and Information Processing (*Instituto Nacional de Estadística, Geografía e Informática*).

(13) Unless otherwise indicated, subscribers refers to the total number of mobile wireless customers included in our subscriber base in the geographic regions we cover at the end of the respective periods. Mobile wireless subscribers for the periods presented includes cellular subscribers and PCS subscribers. In December 2001, we began providing limited commercial PCS services in Monterey and Tijuana and in 2002 in other cities of regions 1 and 4. A prepaid customer is included as a subscriber if, at the end of the period, such customer s telephone number has not yet been deactivated. See Item 4, Information on the Company Business Overview Mobile Wireless Services Prepaid Customers.

(14) Average subscribers represents the rolling monthly average number of subscribers for the respective periods.

(15) Average monthly postpaid churn for a given period is calculated by dividing the sum of all postpaid subscribers disconnected during such period by the sum of the beginning-of-month postpaid subscribers for each of the months in such period, expressed as a percentage. See Item 4, Information on the Company Business Overview Mobile Wireless Services Postpaid Customers and Item 5, Operating and Financial Review and Prospects Results of Operations.

(16) Penetration represents the end-of-period subscribers divided by the end-of-period population in the geographic regions we cover, expressed as a percentage.

(17) Effective January 1, 2000, we changed the methodology by which we determine average monthly minutes of use (MOUs). Under the current methodology, average monthly MOUs per subscriber for a given period are calculated by dividing total MOUs (which includes minutes of use from incoming calls to postpaid customers, which had previously been excluded) for the period by the sum of the monthly average number of subscribers for each of the months in such period. Average monthly MOUs for 1999, which were 77 under the methodology used in 1998 and 1999, have been restated under the current methodology. See Item 5, Operating and Financial Review and Prospects Results of Operations. When reporting average monthly MOUs per subscriber, we include incoming calls only prepaid subscribers and the MOUs they generate.

(18) Effective January 1, 2000, we changed the methodology by which we determine nominal average monthly mobile wireless revenue per subscriber (ARPU). Under the current methodology, ARPU for a given period is calculated by dividing the sum of the nominal monthly revenues and other cellular revenues (excluding revenues generated from the sale of handsets and accessories to postpaid customers) for each of the months in the period by the sum of the monthly average mobile wireless subscribers for each of the months in such period. ARPU for 1999, which was Ps.346.0 under the methodology effective in 1998, has been restated under the current methodology. See Item 5, Operating and Financial Review and Prospects Results of Operations. When reporting ARPU, we include incoming calls only prepaid subscribers and the revenue they generate.

(19) Through December 31, 1999, nominal cost to acquire a new subscriber represented sales, marketing and advertising costs associated with postpaid plans, plus the costs of cellular phones we gave to postpaid customers, for the respective period (in nominal pesos) divided by the gross postpaid customer additions for such period. Effective January 1, 2000, we changed the methodology by which we determine nominal cost to acquire a new subscriber and more accurately reflect postpaid customer acquisition costs. The new methodology includes only handset subsidies and sales commissions and excludes allocations of advertising and overhead costs. Nominal cost to acquire a new subscriber for 1999, which was Ps.3,527.0 under the old methodology, has been restated under the new methodology. Nominal cost to acquire a new subscriber for 1998 has not been restated under the new methodology.

Exchange Rates

Unless otherwise specified, this Annual Report contains translations of peso amounts into U.S. dollars solely for the convenience of the reader based on the exchange rate reported by the Federal Reserve Bank of New York as its noon buying rate for pesos, which we refer to as the Noon Buying Rate. At December 31, 2002, the Noon Buying Rate was Ps.10.425 per U.S.$1.00. These currency conversions should not be construed as representations that the peso amounts actually represent such dollar amounts. Additionally, these conversions should not be construed as representations that these peso amounts have been, could have been or could be converted into U.S. dollars at those or any other rates of exchange.

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The following table sets forth the high, low and average Noon Buying Rates expressed in nominal pesos per U.S. dollar for each of the years ended December 31, 1998, 1999, 2000, 2001 and 2002. The Noon Buying Rate on June 24, 2003 was Ps.10.532 per U.S.$1.00.

	Noon Buying Rate(1)		
Year ended December 31,	**High**	**Low**	**Average(2)**
1998	10.630	8.040	9.245
1999	10.600	9.240	9.562
2000	10.087	9.183	9.459
2001	9.972	8.946	9.337
2002	10.425	9.000	9.664

(1) *Source:* Federal Reserve Bank of New York

(2) Average of month-end rates for annual data.

The following table sets forth the high and low Noon Buying Rates expressed in nominal pesos per U.S. dollar for each of the previous six months.

	Noon Buying Rate(1)	
Month end	**High**	**Low**
December 31, 2002	10.425	10.103
January 31, 2003	10.978	10.321
February 28, 2003	11.064	10.774
March 31, 2003	11.235	10.661
April 30, 2003	10.770	10.308
May 31, 2003	10.424	10.113

(1) *Source:* Federal Reserve Bank of New York.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risk Factors Relating to Iusacell

We are a holding company and can pay our liabilities only through the cash flow from our subsidiaries or out of the proceeds of our financings. Our obligations, including under Iusacell s 14 1/4% senior notes due 2006 are structurally subordinated to those of our subsidiaries creditors.

Iusacell is a holding company with no significant assets other than the stock of our subsidiaries.

In order to pay our obligations, we must rely on income from dividends and other cash flow from our subsidiaries or debt or equity financings. Because we are a holding company, the claims of our creditors are structurally subordinated to the claims of our subsidiaries creditors with respect to the assets of such subsidiaries. At December 31, 2002, our consolidated subsidiaries total indebtedness, including trade notes payable, was Ps.4,851.2 million (U.S.$465.3 million) and may increase in the future. For a description of some of our obligations and liabilities, see Item 5, Operating and Financial Review and Prospects Liquidity and Capital Resources.

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Our current debt agreements prevent our subsidiaries from paying distributions or dividends or making cash available to us until at least December 2006, except for those payments of dividends or loans or advances at such times and in such amounts as shall be necessary to permit Iusacell to pay scheduled interest (including any tax gross-up) and principal payments as and when due in respect of our 14 1/4% senior notes due 2006, which we refer to as the Iusacell senior notes, so long as (i) no event of default has occurred and is continuing, scheduled interest (including any tax gross-up) as and when due in respect of any notes issued to refinance the Iusacell senior notes and (ii) no event of default has occurred and is continuing in an aggregate amount of up to U.S.$5.0 million to discharge our liabilities incurred in the ordinary course of business. On April 28, 2003, Iusacell Celular s senior refinancing secured loan was amended, and a temporary waiver and consent was granted by the lenders. As part of such amendment, Iusacell Celular temporarily agreed not to make any restricted payment, loan or advance to, or repay any loan or advance from any affiliate, including Iusacell. Dividends and cash flow from our subsidiaries are therefore severely restricted by the terms of the outstanding debt of our subsidiaries and the restrictive covenants that govern the debt.

Furthermore, the ability of our subsidiaries to pay dividends or distributions is subject to Mexican legal requirements, which in general terms provide that a Mexican corporation may declare and pay dividends or distributions only out of the profits reflected in its year-end financial statements, if such payment is approved by its stockholders and after the creation of required legal reserves and the absorption or satisfaction of losses suffered in previous fiscal years.

Unless we are able to successfully restructure our consolidated indebtedness, our ability to access the debt and equity capital markets or obtain third party financing will be significantly reduced or eliminated. As described below, Iusacell Celular is in default under its senior refinancing secured loan and we did not make the interest payment due on the Iusacell senior notes which was due on June 1, 2003 and an event of default would exist upon the expiration of the grace period on July 1, 2003. Consequently, our foreign and local currency corporate credit rating has been lowered to default levels**.** Our principal shareholders are under no obligation to provide financial resources to us, and have not indicated that they are prepared to do so. Therefore, unless we can successfully restructure our consolidated debt, we believe that we will be unable to satisfy our liabilities. A material unsatisfied liability at the holding company level could lead us to bankruptcy or reorganization.

We are in default of our obligations under the Iusacell senior notes which will enable the holders of such notes to accelerate our repayment obligations after the expiration of a grace period.

We did not generate sufficient cash flows from our operations to make the June 1, 2003 U.S.$25.0 million interest payment on the Iusacell senior notes and, as a result, we did not make that payment. We have a 30-day grace period to make the payment before an event of default will occur. Since we do not anticipate making the June 1, 2003 interest payment within the grace period, an event of default under the indenture governing the Iusacell senior notes, which we refer to as the Iusacell indenture, will occur and the holders of the Iusacell senior notes will have the right to declare our indebtedness under the Iusacell senior notes immediately due and payable. In addition, the right of such holders to accelerate our repayment obligations under the Iusacell senior notes will cause an event of default under the terms of Iusacell Celular s senior refinancing secured loan and the lenders could declare the indebtedness due thereunder immediately due and payable. If the lenders under the senior refinancing secured loan decide to accelerate the indebtedness, this will result in an event of default under the indenture (the Iusacell Celular indenture) governing the 10% senior notes due 2004 issued by Iusacell Celular (the Iusacell Celular senior notes), which will permit the holders of such notes to accelerate Iusacell Celular s repayment obligations under the Iusacell Celular senior notes. Also, should the foregoing defaults occur, the cross-default provisions contained in our various other credit agreements may also be triggered.

In the event that the holders of the Iusacell senior notes or the lenders under the senior refinancing secured loan choose to accelerate the maturity of their debt, neither we nor Iusacell Celular would have the cash resources to repay such amounts. Due to the depressed state of the value of telecommunication assets and the structural subordination of the claims of the holders of the Iusacell senior notes to those of our subsidiaries creditors, it is unlikely that the value of the assets held by our subsidiaries will be sufficient to first satisfy their creditors and then the claims of our creditors, including the holders of the Iusacell senior notes, which could lead us to bankruptcy or reorganization. For a further description of our status as a holding company, see the risk factor entitled We are a holding company and can pay our liabilities only through the cash flow from our subsidiaries or out of the proceeds of our financings. Our obligations, including under the Iusacell senior notes, are structurally subordinated to those of our subsidiaries creditors. For a further description of some of our obligations and liabilities, see Item 5, Operating and Financial Review and Prospects Liquidity and Capital Resources. If an acceleration of the Iusacell senior notes and the senior refinancing secured loan occurs, the value and market price of our equity would be significantly adversely affected and our equity holders could lose their entire investment.

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If Iusacell Celular does not receive an extension of the temporary amendment and waiver to Iusacell Celular s senior refinancing secured loan, the lenders under that loan will be able to accelerate Iusacell Celular s repayment obligations.

During the first half of 2003, Iusacell Celular exceeded the permitted leverage ratio (as defined in the senior refinancing secured loan) of 2.50. On April 28, 2003 Iusacell Celular and the lenders entered into a temporary amendment and waiver to the senior refinancing secured loan , which we refer to as the second amendment and waiver, to increase the permitted leverage ratio under the senior refinancing secured loan from 2.50 to 2.70. On May 22, 2003, the second amendment and waiver was extended until June 13, 2003. Most recently, on June 12, 2003, the second amendment and waiver was further extended until June 26, 2003. See Item 5, Operating Financial Review and Prospects Liquidity and Capital Resources Iusacell Celular Long-Term Indebtedness Loan Covenant Waivers and Modifications.

We cannot assure you that Iusacell Celular will be able to obtain another extension of the second amendment and waiver on the expiration date. On June 26, 2003, if the second amendment and waiver is not further extended, Iusacell Celular will be in default of a financial ratio covenant under the senior refinancing secured loan, which will constitute an event of default under that loan as if the second amendment and waiver had never been executed. As a result, the lenders under the senior refinancing secured loan could declare the indebtedness under that loan immediately due and payable. In addition, if the second amendment and waiver is not further extended and the lenders thereunder accelerate the loan, defaults would occur under the Iusacell indenture and the Iusacell Celular indenture, which would permit the holders of the Iusacell senior notes and the Iusacell Celular senior notes to accelerate Iusacell s repayment obligations and Iusacell Celular s repayment obligations.

There is substantial doubt as to our ability to continue as a going concern due to our high level of leverage and recurring losses.

In its Report of Independent Accountants dated June 13, 2003, PricewaterhouseCoopers, S.C. stated that we are highly leveraged and have suffered recurring losses from operations that raise substantial doubt as to our ability to continue as a going concern. We believe that if our financial situation does not improve, we will be unable to service our debt and operate as a viable company.

In 2002, our accumulated losses were nearly the equivalent of two-thirds of our capital stock. According to the Mexican Companies Law (*Ley General de Sociedades Mercantiles*), an interested party may file a claim for dissolution and force us into a liquidation process (*Proceso de Concurso Mercantíl*) of our assets if the accumulated losses exceed two-thirds of our contributed capital during any fiscal year.

If we are unable to service our indebtedness, we also face a substantial risk of Mexican reorganization-related proceedings and the suspension or termination of all or a portion of our business under our concessions.

If we default on our obligations, including the Iusacell senior notes, some or all of our creditors will have the option of taking legal action against us, including instituting a reorganization proceeding in Mexico. Further, we may choose to institute a voluntary reorganization proceeding under Mexican law. If any such proceedings were to be instituted, we could not predict their duration. We are not aware of any regulated company of our size that has successfully completed a restructuring under the new Mexican reorganization law since it was passed in May 2000. A reorganization proceeding is likely to result in significant changes to our existing obligations which could include the cancellation or rescheduling of all or part of those obligations. During any such proceeding, our ability to operate or manage our business, to retain employees, to maintain existing or create new client relationships, to continue to collect payments for our services or to obtain any type of funding or financing would likely be materially adversely affected. Moreover, in the event of our bankruptcy, our operating concessions which are critical to our business, may be subject to termination. There can be no assurance that the holders of the Iusacell senior notes would receive any meaningful recovery from a bankruptcy proceeding.

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Mexican reorganization laws may not be as favorable to the holders of the Iusacell senior notes as U.S. insolvency and bankruptcy laws.

The current Mexican reorganization law is based on the largely untested *Ley de Concursos Mercantiles* enacted in May 2000 (Law of Commercial Reorganizations), which we refer to as the LCR, which provides for two different and separate proceedings: conciliation and bankruptcy. The conciliation phase lasts up to 185 days, absent protracted litigation. This initial term is subject to extension for two 90-day periods. The objective of the conciliation phase is to reach an agreement between the debtor and its creditors to restructure the indebtedness of the debtor. The bankruptcy phase does not have a specific term within which it must be concluded. It is expected that both proceedings are likely to require significantly more time and be significantly more unpredictable than a reorganization or bankruptcy proceeding under U.S. laws. If we were to be declared subject to reorganization under the LCR, the holders of the Iusacell senior notes would have to file a claim in Spanish against the estate of Iusacell in Federal District Court in Mexico City, Mexico. Upon the court s recognition of a holder of an Iusacell senior note as a creditor of Iusacell, that holder s claim would be unsecured and would rank equally with all other unsecured claims filed against our estate.

We may be unable to fund our capital expenditure programs, or pursue business opportunities because our subsidiaries are highly leveraged, have insufficient cash flow and have limited or no access to additional capital.

Historically, our cash generated from operating activities has not been sufficient to meet our debt service, working capital and capital expenditure requirements. We have relied on the capital markets for new equity and debt financing, vendor financing, borrowings and equity contributions from our principal shareholders to meet such funding needs.

As of December 31, 2002, our total consolidated indebtedness, including trade notes payable, was Ps.8,586.3 million (U.S.$823.6 million), or approximately 61.6% of our total capitalization.

For the years ended December 31, 2001 and December 31, 2002, our earnings were insufficient to cover our fixed charges by Ps.295.5 million (U.S.$28.3 million) and Ps.2,945.9 million (U.S.$282.6 million), respectively.

In order to implement our operating strategy through 2004, we will have to incur significant capital expenditures. We expect our aggregate capital expenditures for 2003, 2004 and 2005, not including capitalized interest, to total approximately U.S.$435.0 million. We anticipate that approximately U.S.$85.0 million of such capital expenditures will be invested during 2003, including capital expenditures to increase the quality and coverage of our cellular network.

We will need additional external funding in 2003 in order to acquire, build out and operate our PCS network in northern Mexico, as well as to make additional investments in the central regions and expand the advance data network capabilities into other key cities. As we make additional investments in our cellular network and pursue long distance and data opportunities, we will also need additional external funding in 2004 and beyond. Furthermore, the investments required to keep pace with technological change, such as extended coverage on third-generation wireless telecommunication equipment, will require additional capital resources. We cannot assure you that we will be able to obtain such additional funds.

Our declining revenues throughout 2002, the degree to which we are leveraged and our inability to obtain additional capital may adversely affect our ability to finance future operations, to finance necessary capital expenditures, to compete effectively against better capitalized competitors and to withstand downturns in our business or the Mexican economy generally. Our high level of indebtedness could limit our ability to pursue business opportunities that may be in our interest and in the interest of the holders of our securities.

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Depreciation or devaluation of the peso relative to the U.S. dollar may adversely affect our financial condition and results of operations.

While our sales are almost entirely denominated in pesos, the vast majority of our obligations are denominated in U.S. dollars. As a result, unless we enter into hedging arrangements, we are exposed to the risk of devaluation of the peso relative to the U.S. dollar. The peso appreciated by 4.8% relative to the U.S. dollar during 2001, but depreciated by 13.9% during 2002. In the past, the peso has depreciated substantially against the U.S. dollar and may depreciate significantly in the future.

Declines in the value of the peso relative to the U.S. dollar could adversely affect our financial condition and results of operations and our ability to meet U.S. dollar-denominated obligations, including those under our debt securities. In addition, any devaluation of the peso may negatively affect the value of the securities of a Mexican company with sales in pesos and debt denominated in U.S. dollars, such as our company.

We face increasing competition which may reduce our operating margins.

We face significant competition in our core mobile wireless services business in each region in which we operate from *Radiomóvil Dipsa, S.A. de C.V.*, commonly known as Telcel. As a subsidiary of *América Móvil, S.A. de C.V.*, a company spun off from *Teléfonos de México, S.A. de C.V.*, the former state telephone monopoly known as Telmex, Telcel has significantly greater internal financial and operational resources than those available to us, nationwide cellular and personal communications services (PCS) concessions, a nationwide cellular network and the ability to use Telmex s installed telecommunications systems. Competition in the Mexican wireless industry is substantial and we, like Telcel, bear significant promotional expenses, including the cost of providing cellular telephones to postpaid subscribers free of charge or at substantial discounts. In addition, competition from Telcel has not always allowed us to implement price increases to keep pace with inflation and has occasionally caused us to implement price rollbacks and reductions. We also face competition from *Telefónica Móviles Mexico, S.A. de C.V.*, which we refer to as Telefónica, a subsidiary of *Telefónica Móviles, S.A.*, a Spanish telecommunications service provider, that concluded in 2002 the acquisition of *Pegaso Comunicaciones y Sistemas, S.A. de C.V.*, which we refer to as Pegaso, and from *Servicios Profesionales de Comunicación, S.A. de C.V.*, which we refer to as Unefón, an affiliate of *TV Azteca, S.A. de C.V.* and *Elektra, S.A. de C.V.* Both these service providers own concessions in all nine wireless service regions in Mexico and have begun to provide service in Mexico s principal cities.

We also face increasing competition in certain cities from *Nextel de México, S.A. de C.V.*, a provider of enhanced specialized mobile radio services and satellite telephony.

In addition, we face increasing competition in providing long distance, wireless local telephony and data transmission services. Competition may lead to increases in advertising and promotional spending, along with increased demands on access to distribution channels. These factors may lead to smaller operating margins, greater choices for customers and increasing movement of customers between competitors, which may make it difficult for us to retain customers or add new customers.

The Mexican government may grant additional concessions to other companies to provide services similar to or the same as those that we provide. In addition to Telcel and Telefónica, other competitors may also have greater financial, corporate and other resources, which may limit our ability to compete effectively.

The technology we use may be made obsolete by advancements in technology.

All companies in the global telecommunications industry must adapt to rapid and significant changes in technology. The technology that we have selected in our wireless business become obsolete by market demand for new or improved digital technologies supporting wireless service or other services in the near future. Technological changes may adversely affect our competitive position, require substantial new capital expenditures and/or require write-downs of obsolete technology.

A significant portion of our accounts receivable is represented by a small number of distributors.

Our three largest distributors accounted for 52% and 44% of our net trade accounts receivable as of December 31, 2002 and 2001, respectively. We have established certain measures to reduce the risk associated with this concentration, such as certain guarantees and liens. As a result, the absolute number of accounts to which these receivables are attributable has decreased. Although we believe that this distributor concentration will be reduced over time, our results of operations could be negatively affected, at least in the short-term, if any payment defaults occur with respect to these distributors.

Risk Factors Relating to Our Shareholders

Verizon and Vodafone, our principal shareholders, announced that they have agreed to sell all of their interest in us and, as a result, Verizon will lose management control over our operations and Vodafone will no longer provide us with other support services.

Since Verizon (formerly known as Bell Atlantic) assumed management control of Iusacell s Board of Directors and management, Verizon consultants and Verizon personnel provided on a secondment basis to Iusacell have been integrally involved in managing our day-to-day operations and defining and implementing our long-term strategy. Verizon currently has the right and power to elect a majority of the members of Iusacell s Board of Directors and, with certain exceptions, to unilaterally determine Iusacell s policies and strategy.

Vodafone, our other principal shareholder, provides us with management, marketing, legal and other consulting services.

On June 13, 2003, *Movil Access, S.A. de C.V.* (Movil Access), a Mexican telecommunications service provider and a subsidiary of *Biper, S.A. de C.V.*, which is a part of *Grupo Salinas*, announced that it would commence a public tender offer in Mexico and the United States to buy all of Iusacell s outstanding capital stock. Verizon and Vodafone have announced that they have agreed to tender all of their Iusacell shares to Movil Access. See Item 4, Information on the Company History and Development of the Company.

If the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) approves the tender offer and Verizon tenders all of its Iusacell shares, Verizon will lose its ability to manage us. Verizon will then no longer be in a position to determine our policies and strategies, provide personnel to us on a secondment or consulting basis, manage our operations or provide the technical support, as well as operating synergies that we have historically relied on. We cannot predict the strategy that we will implement following any such management change. In addition, if Vodafone tenders all of its Iusacell shares, Vodafone will no longer provide us with management and other services.

The sale of Verizon s interest and Vodafone s interest in us will constitute a change of control and, as a result, we may be required to repurchase all or part of the Iusacell senior notes and Iusacell Celular s senior notes and we may be in default of our obligations under Iusacell Celular s senior refinancing secured loan.

The sale of our shares by Verizon and Vodafone will constitute a change of control under the Iusacell Celular indenture and the Iusacell indenture. As a result, each holder of the Iusacell Celular senior notes may require Iusacell Celular to repurchase, in whole or in part, that holder s Iusacell Celular senior notes and each holder of the Iusacell senior notes may require Iusacell to repurchase, in whole or in part, that holder s Iusacell senior notes. We cannot assure you that Iusacell or Iusacell Celular will have sufficient funds or the ability to obtain sufficient funds on a timely basis to pay for any or all of the debt that each may have to repurchase as a result of this change of control.

In addition, under Iusacell Celular s senior refinancing secured loan, the sale of our shares by Verizon and Vodafone will constitute a change of control, which would constitute a default and, unless the default is waived, the lenders under that loan would have the right to declare all amounts outstanding under that loan immediately due and payable. If the lenders accelerate amounts due under that loan, we cannot assure you that Iusacell Celular will have sufficient funds or the ability to obtain sufficient funds on a timely basis to pay for those amounts due under that loan, and the value and market price of our securities would be significantly adversely affected.

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Risk Factors Relating to Doing Business in Mexico

The Mexican government may impose additional conditions on our concessions or may take them away.

We provide our services pursuant to concessions granted by the Mexican government. Our activities are subject to significant government regulation and supervision. The concessions may be subject to additional conditions or may not be renewed when they expire. The conditions for renewal, however, are not fully defined. The Mexican government also reserves the right to revoke, temporarily seize or expropriate concessions or assets related to a concession for reasons, among others, of public interest, such as war, national disaster or significant public disturbances. Moreover, the Mexican government may grant additional concessions to potential competitors to provide services similar to those that we provide. Any of these developments or other government action could reduce the value of Iusacell s concessions and adversely affect our financial condition and results of operations.

Our financial statements may not give you the same information as financial statements prepared under U.S. generally accepted accounting principles.

Mexican companies listed on the Mexican Stock Exchange, including Iusacell, must prepare their financial statements in accordance with Mexican GAAP. Mexican GAAP differs in certain significant respects from U.S. GAAP, including, but not limited to, the treatment of minority interest, purchase accounting, deferred income taxes, capitalization of pre-operating costs, accounting for derivative financial instruments, gains from the exchange of non-monetary assets, the provisioning for the consolidation of facilities and sale-leaseback transactions. In particular, all such Mexican companies must incorporate the effects of inflation directly in their accounting records and in published financial statements. The effects of inflation accounting under Mexican GAAP are not eliminated in the reconciliation to U.S. GAAP, as these inflation-adjusted figures are considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes. For this and other reasons, the presentation of Mexican financial statements and reported earnings may differ from that of companies in other countries. See Note 23 to our Consolidated Financial Statements.

The general political and economic conditions in Mexico may adversely affect our business, financial condition and results of operations.

We are a Mexican company, and most of our operations are in Mexico. As a result, our business, financial condition and results of operations may be significantly affected by the general condition of the Mexican economy, by devaluation of the peso, by inflation and high interest rates in Mexico, or by political or economic developments in Mexico. The Mexican economy contracted at a rate of 0.3% in 2001 and grew at an annual rate of only 0.9% in 2002.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and on us in particular, and on market conditions, prices and returns on Mexican securities, including our securities.

In the past, Mexico has experienced economic crises, caused by internal and external factors, characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector, disparity of wealth and high unemployment. These economic conditions substantially reduced the purchasing power of the Mexican population and, as a result, the demand for telephony services.

Crises such as these could adversely affect our financial condition and results of operations and the market value of our securities.

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If the Mexican government imposes exchange controls, we may not be able to purchase imported goods or make dividend, principal and interest payments in U.S. dollars.

In the past, the Mexican economy has experienced balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos to foreign currencies generally, and U.S. dollars in particular, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not institute a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict access to U.S. dollars or other foreign currencies to purchase imported goods and to meet our U.S. dollar obligations, such as the payment of dividends or principal and interest under our debt securities.

Payment of judgments entered against us will be in pesos, which may expose holders of our debt securities to exchange rate risks.

If a proceeding to enforce our obligations under any debt securities is brought in Mexico, Mexican law permits us to pay a resulting judgment in pesos. Under the Mexican Monetary Law, an obligation payable in Mexico in a currency other than pesos may be satisfied in pesos at the exchange rate in effect on the date when payment is made.

If a Mexican court declares us to be in *concurso mercantil*, our obligations under any debt securities:

- would be converted into pesos at the exchange rate prevailing at the time of the court s declaration of *concurso mercantil* and then to *Unidades de Inversión*, which are denominated in pesos and adjusted periodically for inflation by the Bank of Mexico, and payment would occur at the time claims of the court-recognized creditors are satisfied subject to the priority established by law; and

- would not be otherwise adjusted to take into account devaluation of the peso against the U.S. dollar occurring after the court s declaration.

The additional 10% tax on telecommunications services approved by the Mexican Congress may adversely affect the ability of wireless companies, including Iusacell, to attract new customers.

On January 1, 2002, the Mexican Congress approved a surcharge that assesses an additional 10% federal excise tax on certain wireless telecommunications services. The tax resulted in a 10% increase in the monthly bills of postpaid mobile wireless customers and in the cost of prepaid cards in denominations of Ps.200.0 (U.S.$19.18) or more for the year 2002. In February 2002, we filed an injunctive action (*amparo*) challenging the Mexican government s implementation of the tax. In October 2002, we received a preliminary ruling in our favor by a Federal Judge, and the Mexican government subsequently filed an appeal. In June 2003, Mexico s Supreme Court rejected the appeal and affirmed the ruling in favor of Iusacell.

In 2003, the Mexican government implemented a modified version of the additional 10% excise tax on certain wireless telecommunications services, which was approved by the Mexican Congress. In March 2003, we filed an injunctive action challenging this implementation. Until this injunctive action is resolved, we will continue to pay the full modified additional 10% excise tax to the Finance Ministry. In the prepaid segment, the modified version of the additional 10% excise tax is being applied to every prepaid plan with an airtime per-minute rate of more than Ps.3.50 (U.S.$0.34), which differs from the 2002 initiative that taxed prepaid cards with a face value equal to or in excess of Ps.200.0 (U.S.$19.18).

High inflation rates in Mexico may decrease demand for our services while increasing our costs.

In recent years, Mexico has experienced high levels of inflation. The annual rate of inflation, as measured by the Mexican National Consumer Price Index, was 9.0%, 4.4% and 5.7% in 2000, 2001, 2002, respectively, and was 1.3% for the three-month period ended March 31, 2003. High inflation rates can adversely affect our business and results of operations in the following ways:

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Inflation can adversely affect consumer purchasing power, thereby adversely affecting consumer demand for our services and products; and

To the extent inflation exceeds our price increases, our prices and revenues will be adversely affected in real terms.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Grupo Iusacell, S.A. de C.V., which was known as *Nuevo Grupo Iusacell, S.A. de C.V.* until February 29, 2000, is a *sociedad anónima de capital variable* with indefinite life organized under the laws of Mexico on August 6, 1998. Iusacell was formed for the purpose of acquiring and holding the shares of *Grupo Iusacell Celular, S.A. de C.V.*, which was known as *Grupo Iusacell, S.A. de C.V.* until February 29, 2000, a *sociedad anónima de capital variable* with indefinite life organized under the laws of Mexico on October 6, 1992.

Iusacell s commercial name is Grupo Iusacell, but our operating subsidiaries market their products under the single *Iusacell* brand name. Iusacell currently operates primarily in Mexico under Mexican legislation, including, among others, the 1995 Telecommunications Law (*Ley Federal de Telecomunicaciones*), the 1993 Foreign Investment Law (*Ley de Inversión Extranjera*), the Mexican Securities Market Law (*Ley del Mercado de Valores*) and the Mexican Companies Law (*Ley General de Sociedades Mercantiles*). Our participation in the U.S. capital markets also makes us subject to certain securities laws of the United States. See Business Overview Government Regulation for a discussion of certain of the regulations to which we are subject.

Iusacell Celular was formed in 1992 to hold the principal telecommunications interests of the Peralta Group, which was primarily comprised of securities and entities controlled by Mr. Carlos Peralta. Iusacell Celular s subsidiaries are primarily engaged in the wireless telecommunications business and hold concessions to operate cellular telephone systems in five contiguous market regions in central and southern Mexico. Mexico is divided into nine geographic regions for the provision of mobile wireless service. Iusacell Celular, through one of its subsidiaries, was granted an authorization to provide cellular service in Region 9 (which includes Mexico City) in 1989 and, in a series of transactions from 1990 to 2002, purchased the companies holding concessions to provide cellular service in Region 5 (which includes the city of Guadalajara), Region 6 (which includes the city of León), Region 7 (which includes the city of Puebla) and Region 8 (which includes the cities of Cancún and Mérida). In October 1995, an Iusacell Celular subsidiary received a concession to provide long distance service and began providing such service in August 1996.

In May 1998, a separate subsidiary of Iusacell acquired, in an auction, concessions for frequencies to provide PCS services in Region 1 (which includes the city of Tijuana) and Region 4 (which includes the city of Monterrey) in northern Mexico for approximately Ps.493.2 million (in nominal terms) (U.S.$49.8 million, using the applicable exchange rate as of the date of the purchase). Iusacell started to offer commercial services in those two cities in December 2001. During 2002, Iusacell expanded its PCS network in Regions 1 and 4 to the main cities and connecting roads covering approximately 65% of the total POPs in these regions.

In November 1993 and August 1994, Bell Atlantic acquired a 42.0% equity interest in Iusacell Celular for U.S.$1.04 billion. In June 1994, Iusacell Celular completed an initial public offering of two of its four series of ordinary shares and of American depositary shares representing two series of its shares.

In February 1997, Bell Atlantic assumed management control of Iusacell Celular. This change of control was implemented when Bell Atlantic and the Peralta Group effected certain conversions of shares from one series into another that gave Bell Atlantic a majority of the Iusacell Celular series A shares and control over the Iusacell Celular Board of Directors. All these conversions were effected on a one-for-one basis. In August 1997, Bell Atlantic acquired NYNEX Corporation in a merger of equals to form a new Bell Atlantic.

In September 1997, in order to focus exclusively on its core Mexican market, Iusacell Celular sold its direct and indirect interests in Ecuadorian cellular and paging companies for approximately U.S.$31.4 million, net of taxes.

In December 1997, Iusacell Celular entered into an agreement with subsidiaries of Lucent Technologies, Inc. pursuant to which Iusacell Celular agreed (i) to replace its existing analog wireless cellular network with a new Lucent Technologies digital and analog network for a minimum consideration of U.S.$188.0 million which was completed in August 1999 and (ii) to continue acquiring network equipment and services under the agreement in order to improve its digital and analog network. Through December 31, 2002, Iusacell Celular has purchased approximately U.S.$433.1 million of network equipment and services under this agreement.

On July 6, 1999, Iusacell launched an offer to exchange two classes of Iusacell voting ordinary shares for the four classes of Iusacell Celular ordinary shares then outstanding on a one-for-one basis. Iusacell completed this offer on August 10, 1999 and, as a result, Iusacell acquired 99.5% of the outstanding Iusacell Celular shares. On January 31, 2000, Iusacell launched a second exchange offer for the purpose of exchanging American depositary shares representing Iusacell s series V shares for the balance of American depositary shares representing Iusacell Celular s series D and series L shares on a one-for-one basis. Iusacell completed this offer on February 29, 2000 and, as a result, Iusacell held 99.9% of the outstanding Iusacell Celular shares. In May 2001, Iusacell Celular effected a reverse stock split of 1 new Iusacell Celular share for every 30,000 old Iusacell Celular shares. As a result of this reverse split, Iusacell now holds 100% of the capital stock of Iusacell Celular.

On December 29, 1999, Iusacell Celular entered into a series of agreements with *MATC Celular, S. de R.L. de C.V.*, the Mexican subsidiary of American Tower Corporation, which we refer to as MATC Celular, with respect to Iusacell Celular s existing towers and future tower needs. Under these agreements, which were amended in May 2002, MATC Celular, among other things, is required to build towers or find space on existing towers, which Iusacell Celular s subsidiaries lease. The term of the lease is 10 years with two five-year renewal periods. As of May 30, 2003, Iusacell Celular s subsidiaries lease from MATC Celular 715 sites, including 320 transfer sites and a number of built-to-suit sites and co-locations.

On June 30, 2000, Bell Atlantic acquired GTE Corporation, one of the world s largest telecommunications companies, in a merger of equals, renaming itself as Verizon Communications Inc. The names of the subsidiaries which hold Iusacell capital stock directly remained unchanged. In April 2001, Vodafone acquired the Peralta Group s 34.5% equity interest in Iusacell for U.S.$973.4 million.

On October 19, 2001, Iusacell Celular completed the acquisition of a 78.3% ownership interest in Portatel for Ps.595.3 million (U.S.$57.1 million). Iusacell Celular reached an agreement to acquire the remaining 21.7% ownership interest in Portatel for Ps.168.9 million (U.S.$16.2 million) and closed the acquisition of this remaining ownership interest on February 8, 2002. Portatel is engaged in the wireless communications business and holds the concession to provide cellular services in Region 8, which covers the states of Yucatan, Campeche, Quintana Roo, Chiapas and Tabasco in southern Mexico. On November 2001, Iusacell completed a rights offering to holders of its outstanding Series A and V shares and Series V American Depositary Shares (ADSs) for the aggregate amount of U.S.$100.0 million. The proceeds were used to finance the acquisition of Region 8 and the PCS deployment in Regions 1 and 4.

Over the last three full fiscal years, excluding the effects of inflaTTOM: 2px">

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Balance as of September 30, 2010
$
17,176,250

There were no significant transfers into and out of Level 1 and Level 2 during the nine months ended September 30, 2010.

The cost basis of investments for federal income tax purposes at September 30, 2010 was as follows*:

Cost of investments	$98,837,305
Gross unrealized appreciation	5,170,695
Gross unrealized depreciation	(352,153)
Net unrealized appreciation	$4,818,542

*Because tax adjustments are calculated annually, the above table reflects the tax adjustments outstanding at the Fund's previous fiscal year end. For the previous fiscal year's federal income tax information, please refer to the Notes to Financial Statements section in the Fund's most recent semi-annual or annual report.

Item 2. Controls and Procedures.

(a) The Registrant's President and Chief Financial Officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "1940 Act")) (17 CFR 270.30a-3(c)) are effective as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(d)).

(b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) (17 CFR 270.30a-3(d)) that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 3. Exhibits.

Separate certifications for each principal executive officer and principal financial officer of the Registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)). Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Special Opportunities Fund, Inc.

By (Signature and Title) /s/ Andrew Dakos
Andrew Dakos, President

Date November 24, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Andrew Dakos
Andrew Dakos, President

Date November 24, 2010

By (Signature and Title) /s/ Gerald Hellerman
Gerald Hellerman, Chief Financial Officer

Date November 22, 2010